

IN THE WAKE OF THE BOOM

AUSTRALIA'S RESOURCES
BOOM PUSHED EXPORTS OF
GOODS AND SERVICES TO A
RECORD HIGH LAST YEAR.
THE HOUSE OF
REPRESENTATIVES
ECONOMICS COMMITTEE IS
INVESTIGATING WHAT
HAPPENS WHEN THE BOOM
INEVITABLY ENDS.
STORY: GEOFFREY MASLEN



The giant mine we call Australia has never experienced anything like the mass of minerals that was dug up and exported last year. The amounts are staggering and make you wonder if anything will be left in the ground for future generations.

Equally staggering is the mountain of money earned by shipping Australia's mineral resources overseas. A few examples: coal exports rose 63 per cent in 2005 to generate almost \$22 billion while iron ore sales leapt by 79 per cent for a tidy \$11 billion. Then there was black gold, crude petroleum, whose overseas revenues increased by 27 per cent to bring in \$6 billion, and natural gas which rose by 43 per cent for a return of nearly \$4 billion.

As a result of all the excavating and drilling, Australia is now the world's leading producer of lead, bauxite, diamonds, rutile, zircon and tantalum. It is the second largest supplier of uranium, zinc and nickel; the third biggest provider of iron ore, lignite, silver, manganese and gold; and the fourth largest producer of black coal and copper.

Of course, not all exports are rocks and minerals. The nation's manufacturing sector also performed well in 2005, increasing export revenues by nine per cent for a return of \$37 billion. Exports of services did not grow as strongly although they still went up by four per cent to earn another \$37 billion.

The latter includes tourism and education, both contributing increasingly to Australia's budget bottom line. Tourism is the largest service export industry and a key economic driver for the national economy. It directly employs just under 6 per cent of the workforce, contributes nearly \$75 billion in expenditure a year and is worth around 11 per cent of total exports.

In education, a multitude of institutions now market Australian courses in more than 100 countries and they attract nearly 400,000 students to Australia each year. Education exports were up 8 per cent in 2005, placing the sector fourth after iron ore, while foreign students contributed \$7.2 billion to the national economy.

Although the value of Australia's total exports jumped 15 per cent to \$177 billion last year, imports of goods and services were even higher. Statisticians say "robust domestic consumption underpinned higher imports" in describing how Australians spent close to a mind-numbing \$200 billion buying things from overseas in 2005.

That is, we outlaid more than we earned, as has been the case for many years. The question is

how long can that go on and what will it mean if the commodities boom begins to falter?

Concerned by what might happen when the boom ends, the House of Representatives Economics Committee has launched two investigations into the future of the manufacturing and services industries. The committee has called for submissions on both issues.

80 per cent of manufacturers surveyed were concerned about the sector's future and a third wondered if they would even be there in three year's time.

The focus in the services industries is on tourism and education, and the future global opportunities for exports. But education exports are already facing the prospect of a decline: the number of foreign students in schools fell by 8 per cent last year while those arriving in Australia to undertake university courses levelled out and could even begin to fall.

A collapse in the higher education market would knock a hole in the national budget and leave many of the country's universities with a massive fall in revenues that could threaten their survival.

In manufacturing, the committee is looking for submissions on Australia's dominant position in commodities exports and the impacts on the economy if and when the boom deflates. As well, the committee wants comments on the state of the manufacturing sector, including opportunities and challenges from the expansion in global trade, notably by China.

Even before the committee started its investigations, it was clear the challenges facing Australia are highlighted by those confronting the manufacturing industry. In April, the Australian Industry Group released a report that revealed one in three companies in the sector believed their future was so bleak they might not see out the next three years.

The report, titled 'Manufacturing Futures', called for a range of government measures to build skills and capacity. But it also said companies would have to shift more production to cheap labour countries in order to survive—a claim that had the unions and academic experts declaring such a strategy could spell disaster.

Based on surveys and interviews with leaders from hundreds of manufacturing firms, the report presented grim stories about the collapse of local markets such as clothing and footwear,

Photo: Jupiterimages Continued page 26 ►

◀ Continued from page 25

along with gloomy facts that included the loss of 30,000 manufacturing jobs last year.

The Australian Industry Group represents 10,000 employers in manufacturing, construction, automotive, telecommunications, information technology, transport, labour hire and other industries. Ai Group's members operate businesses of all sizes throughout Australia and represent a broad and expanding range of fields.

The group's chief executive, Heather Ridout, detailed the report's findings in an address to the National Press Club. Ms Ridout said some 80 per cent of manufacturers surveyed for the report were concerned about the sector's future and a third wondered if they would even be there in three year's time.

She said about half the firms surveyed were looking to increase their use of global supply chains by bringing more imports into the manufacturing process. Nearly a third expected to make greater use of offshore sourcing.

"Even though we have the tremendous windfall of a once-in-a-generation peak in our terms of trade, Gross Domestic Product has not been able to break through an annualised rate of 3 per cent for five successive quarters," Ms Ridout said. "We have to go back to the recession of the early 1990s to find a longer period of lower than 3 per cent growth."

She warned there was a slowdown in the rate of increase in productivity as the positive effects of earlier reforms subsided, as the capacity of important areas of infrastructure were tested, and as lesser-skilled labour was absorbed into the system.

But while the report suggested the future for Australia was as a knowledge centre of manufacturing, with manual labour located offshore where wages are low, not everyone agreed.

Dr Phil Toner, a senior research fellow with the Australian Expert Group in Industry Studies at the University of Western Sydney, told ABC Radio the strategy the industry was adopting could turn China and



The Minerals Council has warned of a 'shrinking national minerals inventory'. Photo: Jupiterimages

India into manufacturing powerhouses —at Australia's expense.

"The idea behind the AiG strategy that somehow you can shift manufacturing offshore but leave behind so-called high value-added activities such as design and R&D, to divorce innovation from the actual manufacturing process, might succeed in the short-term but is unlikely to be tenable in the long-term," Dr Toner said.

"You simply can't divorce over the space of many thousands of kilometres those two activities. When you shift manufacturing production offshore those contract suppliers [and] manufacturers in turn develop their own R&D and design capacity, and they end up turning from contingent suppliers into competitors."

Australian Manufacturing Workers Union president Julius Rowe also questioned the strategy. Mr Rowe said it had not worked in any developed country.

"The view that the way to achieve global competitiveness is to make it easier for companies to export their jobs offshore to increase their profits is a recipe for disaster," Mr Rowe said. "And it hasn't worked in any developed country with a strong manufacturing industry because you need a properly vertically-integrated, strong manufacturing domestic industry if you're going to keep the high value-added production."

In her address, Ms Ridout referred to a report by the Boston Consulting Group which described a massive shift in the world's economic centre of

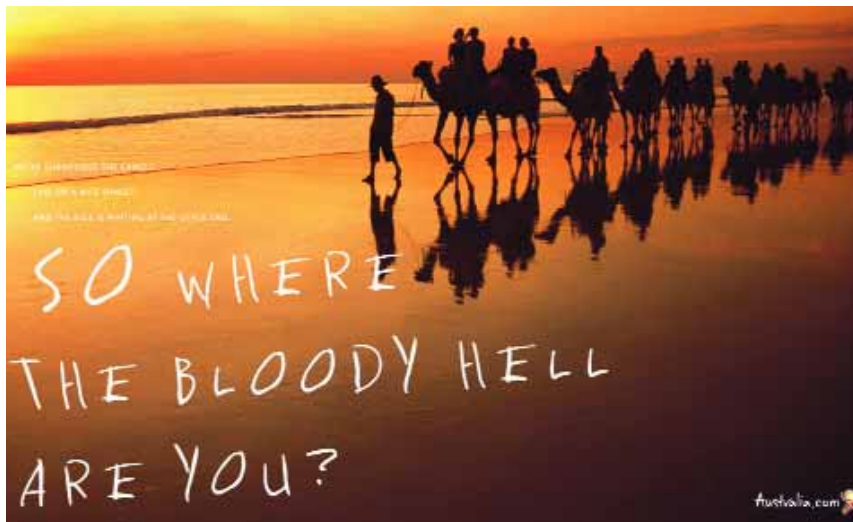
gravity. The report said the rapidly developing economies of China, India, Central and Eastern Europe, and Latin America were set to provide 40 per cent of the world's GDP growth over the next decade.

It pointed out that the OECD as a whole had lost considerable global export share of goods and services as China had surged. Australia's loss of market share since 2000 was three times that of the OECD.

Ms Ridout said the intense pressures stemming from the twin forces of China and Australia's high-value currency were felt more acutely in the Australian manufacturing sector than almost anywhere else. These factors were behind the emergence of more productive manufacturers who were taking advantage of domestic and global opportunities to forge new growth paths.

Mitch Hook, chief executive of the Minerals Council of Australia, said an ongoing threat to his industry's capacity for expansion was the "shrinking national minerals inventory". While investment in existing production was growing strongly, Australia continued to fall behind other nations in identifying new base metal and gold resources.

"In 2005, Australia's share of global exploration expenditure [fell further], continuing a downward trend since 2001," Mr Hook said. "Given there is typically a lag of as much as 10 years between the initial discovery of a deposit and the commencement of production... the



The new tourism marketing campaign is having a powerful impact. Photo: Tourism Australia; AAP

Australian government should commit to additional funding for pre-competitive geo-scientific mapping as part of a strategy to reinvigorate minerals exploration.”

Ms Ridout said few would argue with the proposition that a reduction in current minerals prices would occur as miners around the world increased supply. As prices fell, the economy would have to rebalance and sectors not currently booming would be called on to lift their contribution.

One of these is tourism, yet it too has faced uncertain times in recent years. Shocks arising from events overseas such as terrorism, international conflict and SARS have limited the export potential of the Australian tourism industry. But according to Tourism Australia—the federal government statutory authority responsible for marketing the nation’s attractions at home and overseas—a new international marketing campaign is already having a powerful impact.

The “uniquely Australian invitation” campaign featuring the ‘So Where the Bloody Hell Are You?’ tagline is attracting the attention of potential tourists around the globe. The new advertisement is designed to get more travellers serious about visiting Australia and, despite only recently going to air in China, has resulted in more downloads in China than in any other country. Since the campaign started in South Korea and China, visits to the australia.com website have increased more than tenfold.

Some 700,000 people in nearly 200 countries had downloaded and

The economy would have to rebalance and sectors not currently booming would be called on to lift their contribution.

played the advertisement online. Tourism Australia estimated this translated to more than three million online viewers and such activity was generating “a real buzz” again about Australia as a destination as well as building additional momentum around the campaign. A \$22 million deal with the National Geographic and Discovery channels would make the Australian campaign available to a potential worldwide audience of 150 million people.

“Australia’s best international tourism prospects are the group of global consumers known as ‘experience seekers’—tourists who travel more widely, spend more, see more and stay longer, and they are also regular viewers of the two channels,” Tourism Australia said.

Finally, the big question facing exports of education is whether the spectacular growth in recruiting overseas students is coming to an end. On the positive side, enrolments of overseas students undertaking university award courses on campus in Australia jumped by more than 40 per cent to hit almost 160,000 for the first time during the four years to 2005.

But annual enrolment increases fell successively from 17 per cent to 12 per cent to 8 per cent. Last year,

the number of new students starting courses on-shore rose by a mere 0.8 per cent and there were fears that university enrolments could start to fall as they had in schools.

Tony Pollock, chief executive of the university-owned IDP Education Australia—the nation’s biggest recruiter of foreign students—said the “reservoir of unmet demand” from Asia in particular was nearly empty. This was in part due to increasing competition from institutions in Britain and America while many European universities were now offering courses in English aimed at the overseas market.

As well, countries that had been major importers of higher education such as China, Singapore and Malaysia were rapidly improving the number and quality of their own universities. Not only were they starting to meet the rising demand from their students, especially China, but they were also competing with Australia to attract foreign students, Mr Pollock said.

Nevertheless, China, India and the newer markets of the Middle East and Latin America still contained a large pool of potential students. He said there was no doubt that Australia had the potential to retain its present market share.

“To do so, though, we have to be aware of the changed competition,” Mr Pollock said. “It is no longer as simple to attract people when there are so many options available to them. But Australia is well positioned and it is still thought of as offering a secure, friendly environment where the quality of education is increasingly appreciated.”

But Mr Pollock said universities, schools and colleges needed to ensure they continued to prepare graduates who were well-prepared for employment opportunities. Graduates need to have the right content skills, the right language and cultural skills to be competitive in the global employment market—and that was a particular challenge for a system as large and complex as Australia’s. ■

For more information on the investigations by the House of Economics Committee visit www.aph.gov.au/house/committee/efpa or email efpa.reps@aph.gov.au or phone (02) 6277 4567