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Economic policy and security of Australia in the short term until 2025

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Economic policy and security of Australia in the short term until 2025

Abstract

According to the predictions, the scale and rate of economic processes that are about to come in the next decades of the 21st century will be substantial. A further growth of Australia's importance is to be expected in the long term. The whole region of Asia, including Australia, has become interesting for politicians, entrepreneurs and researchers. In the 21st century, Australia has grown to be a significant player in the global economic policy. It seems that the economic future of the world will depend on the development of the countries in Asia. The economic situation in Australia will arguably change as some countries in that region have reached a satisfactory level of production and share in their developed economy. Economic presumptions delineate an optimistic view of the income's growth in the next decade in Australia. The statistics published by reliable both national and international institutions are helpful in unraveling economic issues, which allow to portray the bright future of Australia until 2025. It seems that the regional economic development will lead to a significant economic revival. The following issues concerning the economic policy and its results have been chosen in order to conduct an analysis: GDP per capita, economic growth, demography, the input of nations and regions in the world's production and the contribution of Australia in the world's trade. The substantial number of inhabitants (over a half of the globe's population) in this region is at the same time a serious proportion of consumers. The ongoing transformation in the life of those countries is the effect of education, communication and technology development. Thereupon, due to the economic and social development of the region, Australia will become its beneficiary and solidify its economic position.

Keywords: Australia, Asia, economy, development, safety, income, consumers, trade.

Polityka gospodarcza i bezpieczeństwo ekonomiczne Australii w najbliższej perspektywie do roku 2025

Streszczenie

Według przewidywań skala i prędkość procesów ekonomicznych mających nadejść w następnych dekadach XXI wieku będzie znacząca. W dłuższej perspektywie czasowej należy spodziewać się dalszego wzrostu znaczenia Australii. Cały region Azji łącznie z Australią stał się interesujący dla polityków, przedsiębiorców i naukowców. Australia stała się w XXI wieku szczególnym podmiotem w globalnej polityce gospodarczej. Wydaje się, że od rozwoju państw położonych w Azji będzie zależała ekonomiczna przyszłość świata. Sytuacja gospodarcza w Australii będzie się zmieniała. Niektóre państwa w tym regionie osiągnęły zadowalający poziom produkcji i cieszą się już rozwiniętą gospodarką. Przesłanki ekonomiczne rysują optymistyczny obraz wzrostu dochodów dla Australii w następnej dekadzie.

W rozwikłaniu zagadnień ekonomicznych pomocne są statystyki opublikowane przez wiarygodne instytucje krajowe i międzynarodowe. Upoważniają one do określenia pozytywnego trendu dotyczącego przyszłości Australii do 2025 r. Zapowiada się, że regionalny rozwój gospodarczy doprowadzi do znacznego ożywienia gospodarczego. W artykule analizie poddane zostały wybrane zagadnienia polityki gospodarczej i ich rezultaty: PKB na osobę, wzrost gospodarczy, demografia, udział państw i regionów w produkcji światowej i udział Australii w światowym handlu. Mieszkająca w regionie Azji znaczna liczba ludzi (ponad połowa populacji globu) stanowi jednocześnie poważny odsetek konsumentów. Dokonujące się przeobrażenia w życiu społeczeństw wspomnianych państw są efektem rozwoju edukacji, komunikacji i technologii. Australia w związku z dokonującym się rozwojem ekonomicznym i społecznym regionu stanie się jego beneficjentem i wzmocni się gospodarczo.

Słowa kluczowe: Australia, Azja, gospodarka, rozwój, bezpieczeństwo, dochody, konsumenci, handel.

Australian economy is one of the most stable in the contemporary world. For many years a multicultural society has contributed to the creative development of the Commonwealth of Australia. The development of the country has been affected significantly by the demand of Asian markets for Australian sources of energy, food and minerals. It is connected with the improvement of living standards of the Asian population. The middle-class incomes have increased substantially which has resulted in changes in eating habits, dress and leisure activities. The wealthier Asians have increased their tourist and consumer expectations. The demand for education, entertainment, services and other modern civilization goods has grown in Asia.

The desire for these goods which inhabitants of Asian countries need makes them go to Australia as there are plenty of them. In this regard, Australia is particularly concerned to maintain good relations with Asian countries and to develop such an economic policy that would strengthen these positive trends.

Over the last years of the first decade of the 21st century the position of Australia has changed in a positive way as far as GDP per capita is concerned, and so in 2007 Australia was in the 17th and in 2011 in the 11th place in the world. A good economic position, the low unemployment rate and stable public finances have characterized Australia for many years. It has often been emphasized that Australia is based on strong economic fundamentals and during the recent economic crisis it has fared better than other advanced economies in the world. In addition, the Commonwealth of Australia has an established and open economy as well as a stable and sensibly pursued by successive governments economic policy.

It appears that three factors will be of great importance for the Australian economy to at least 2025. The events taking place in the world, in particular with regard to the economy and the direction of ongoing changes – transformation in Asia are the first factor. The second issue will be Australia's aging population and the challenges associated with it. And the third one is the care and protection of the environment in Australia. It is difficult to precisely determine what the economy and the life of Australian society will look like but a permanent improvement in the field of economic and social development can be predicted. Today an increase in income per capita is presumed while in 2012 average per capita income amounted to 62,000 AUD and in 2025 is to account for 70,000 or even 72,000 AUD. However, due to the expected reduction in trade and in the participation of people in the labour market as a result of an aging society, it is stressed that a per capita income will make progress more slowly. As for the standard of living, it is believed that in 2025, Australia will be in the top ten countries of the world¹. Demographic forecasts say that approximately 27 million people will be living in Australia by 2025. At the same time in this period Australia is expected to create nearly 2 million new jobs. The growing population together with a well-planned and managed immigration will have the potential to increase the income per capita in Australia. In the past, Australian history showed that immigration had a positive impact on the economic development of the state. In the situation when Australia increasingly integrates with the region, the number of inhabitants with Asian origin will probably grow. It's fair to say that the countries such as China, India, Malaysia and Thailand will become travel destinations and at

¹ Treasury projections based, in: Australian Bureau of Statistics, *Australian national accounts, national income, expenditure and product*, cat. No. 5206.0, ABS Canberra. on ABS, Sydney 2012.

the same time the countries of origin of lots of migrants. It should be added that Australia is one of the most urbanized societies in the world. As much as 75% of the population lives in cities. The cities are growing even more due to the inflowing population seeking employment opportunities and using the services and amenities of civilization² there.

In the first decade of the 21st century trade, boosted by strong sales of coal, gas, iron ore and other minerals, contributed the most substantially to the economic growth. Australia has also access to goods manufactured at low costs coming from Asia. Recently Australian trade has increased significantly. Since mid-2012 a fall in commodity prices with a strong Australian dollar has resulted in favourable conditions for certain business projects³.

The Australian government has taken up the challenge which intends to strengthen its state position in the following areas: acquiring professional qualifications, education, innovation and tax reforms. The most anticipated is the fact that through innovation and individual actions of managers it will be possible to raise productivity. Furthermore, the understanding of the Asian countries culture will have a positive impact on the growth of the economic exchange. It will be constantly possible through education to train new employees, and therefore the education sector will clearly contribute to the development of the state and will play an important role.

As already mentioned, mining had great significance for the development of Australia in the past and contributed to considerable economic growth, however paradoxical it may sound. The high level of the terms of trade and the high exchange rate of the Australian dollar against the US currency have led to a good economic situation of the state. In mid-2012 the value of trade in Australia was higher by 40% than in 1983⁴. Since 1983 the value of the Australian dollar has never been so high. The high level of the Australian currency exchange rate and the cooperation between capital and labour with the mining industry has had a big impact on the size and structure of the Australian economy.

In Australia, there are also other important sectors which play an essential role in trade and are not necessarily connected with the mining industry, one of them is the service sector. In the past decade the changes in this sector were particularly greatly influenced by the economic growth in Asia. This influence will probably be

² Australian Government, *Intergenerational report 2010: Australia to 2050, future challenges*, Australian Treasury, Canberra 2010.

³ Bureau of Resources and Energy Economics (BREE), *Mining industry major projects*, Canberra 2012.

⁴ Reserve Bank of Australia (RBA), *Index – real trade weighted – real exchange rate indices – Quarterly*, *RBA Statistical Tables*, RBA, Sydney 2012.

continued in the future and will require the Australian economy to be flexible. Individual sectors will be mutually supportive. Logistics will face a significant task. It should be emphasized that broadband network has opened up new opportunities for the Australian economy and a global network of transfer of the economic data. Further development of the service sector as well as a wider range of services are expected.

When it comes to the employment growth, it can be stressed that it will mirror the existing situation in a particular sector and a state of Australia. Currently, Western Australia, Queensland and Northern Territory are the fastest growing states in terms of increasing population between 2006 and 2011⁵. It is expected that people will still be looking for jobs in the mining sector related to gas, iron ore, coal and other sources of energy. However, most jobs will be available in the service sector. The stable and rational public policy in both areas contribute to the fact that healthcare and education will possibly provide a great number of jobs.

The pattern of foreign trade of Australia is changing. It is now one of the most involved countries in trade with Asia. A process of mutual complementarity of needs begins. Eliminating trade barriers and technological developments exerts a positive influence on the trade. A large share of mining and agriculture in exports is expected. However, the share of industrial products falls. Although Australia was in the past far from the main centres of the world, its involvement in trade with Asia made it come closer to the world and sparked a significant improvement in the trade activity. Proximity to Asia is a big advantage for the export of goods which can be relatively cheaply exported.

A relationship with Australia's long term partner, Japan, is noteworthy. It should be stressed that Japan's economic leaders have moved a significant part of their labour-intensive assembly operations of finished products to other Asian countries where labour is much cheaper. In turn, Japan in the 80s channelled its foreign direct investments to South Korea, Taiwan and other industrially developing countries. With time, however, they moved these labour-intensive assembly operations of finished products to China and the ASEAN group. As a result, business relationships in Asia have become more "triangular relationships" rather than bilateral relations. It also appears that the position of countries in specific time zones will also be crucial in the coming decades. As for the exchange of electronic information and services, it is important that Australia is in a similar time zone with other Asian countries. This is particularly beneficial for the service sectors such as finance, legal services and consulting.

When trade between Australia and Asia increased, it boosted two-way investments as well. Australian investors in the future will benefit from the emerging

⁵ Ibidem.

investment opportunities in Asia. It is predicted that capital investments in Asian countries currently amounting to USD 10 billion per year, will have increased by 2030 to 20 billion per year⁶. Although a lot of prices for the products decreased compared with the high prices in the past, the Australian investments will continue to be the engine of production growth and, in consequence, of the export of minerals and energy raw materials. Natural gas is likely to be the primary source of energy and it will replace coal. Australia is conveniently located and will participate in a large number of projects of delivering these sources. Currently, Australia is the world's fourth largest gas exporter⁷. Besides, the Commonwealth of Australia possesses rich resources of other precious minerals, such as lead, zirconium, nickel, gold, silver and zinc. Australia is in the fourth place in the world in terms of resources of iron ore, bauxite and the elements of tantalum, tungsten and ilmenite⁸. Political stability and reducing the costs of shipping goods to Asia have been essential for the development of investments in recent years in Australia. Asian demand will still support other industrial sectors in Australia, such as e.g. construction of permanent structures of different nature and purpose.

Australia exports high volumes of machinery and equipment used in mines. The export of services and equipment increased since 1996 from AUD 470 million to 2.5 billion in 2009⁹. The export of these devices and their service to Asia brings substantial profits for Australia. In recent years, this type of export has been higher to India and Indonesia than to China and Australia has lately become a competitive country in terms of the services provided for mining. The following aspects give Australia a significant competitive advantage: Australia has clients with high requirements, it has also a rich base of natural resources and has developed an efficient management system as well as a strong legal system needed to continue operations. In short, it has specialized in acquiring a variety of skills that are its strength in exports.

Despite the expanded resource base, production will play an important role for the Australian future as well. Special committees appointed by the Prime Minister form a common map of the future vision concerning the manufacturing sector and changes in regional economies. The committees stress that the manufacturing sector should seize opportunities that arise in the Asian market. Besides, the existing reports suggest that, in fact, the Australian industry responded to the recommendations of

⁶ Boston Consulting Group (BCG), *Imagining Australia in the Asian Century: how Australian businesses are capturing the Asian opportunity*, Sydney 2012.

⁷ US Energy Information Administration (EIA), *Country analysis brief: Australia*, US Department of Energy, Washington 2011.

⁸ Geoscience Australia 2012, *Australia's identified mineral resources 2011*, Canberra 2012.

⁹ L. Tedesco, C. Haseltine, *An economic survey of companies in the Australian mining technology services and equipment sector, 2006/2007–2008/2009*, ABARE – BRS research report 10.07, Canberra 2010.

the report on industry and innovation. A present, the largest export is now of pharmaceutical products and industrial machinery. The increasing openness to trade and investment in the region will make cooperating with well-educated groups of specialists from Asia easier. Thus now, business models' task is to improve their orientation to the market and innovation efficiency, in cooperation with research institutions. This will increase the demand for Australian luxury goods among the wealthier classes of particular Asian countries.

It should be emphasized that the development of new technologies due to the introduction of a CO₂ tax in Australia will create opportunities for companies developing new technologies that can be used worldwide. The sun and wind energy are of vital importance. It is Australia's technological future in obtaining energy. Even today a large number of inhabitants produces and uses electricity from solar panels installed on their houses.

In turn, the fact that Australia is a manufacturer of nutritious low fat food products such as seafood and beef of high quality is very significant as well. Australia's participation in the production of high-quality food will be growing in the world, due to the fact that the demand for this type of food has increased on the Asian market¹⁰. It is expected that by 2025 Australia will continue to increase beef exports, followed by wheat, dairy, mutton and sugar¹¹.

While discussing the development of Australia until 2025, it is extremely important to highlight the role of institutions supporting economic process and thus economic security. These are as follows – The Commonwealth Scientific and Industrial Research Organisation (CSIRO)¹², the Australian Agency for International Development (AusAID) and the Australian Centre for International Agricultural Research. It is emphasized that thanks to these organizations Australia can influence not only the level of efficiency in its economy, but also in the entire Asian region. In this way, it creates opportunities to develop partnerships with the countries that belong to the ASEAN and the ANZFTA.

Another issue connected with the development of Australia is a matter of treating education as “an important commodity¹³”. Education is one of the largest services that Australia currently provides. The number of students from Asia, especially from China, India and ASEAN-5 studying in Australia increased from about 170 000 in 2002

¹⁰ Boston Consulting Group (BCG), op.cit.

¹¹ Linehan et al., *Food demand to 2050: opportunities for Australian agriculture*, (ABARES) Outlook conference paper no. 12.4, Canberra 2012.

¹² For example, CSIRO's Food Futures Flagship is a long-term project to improve and monitor food from seawater. Vietnam and Australia benefit from this project in the first place.

¹³ Department of Foreign Affairs and Trade (DFAT), *Composition of trade Australia 2011*, Canberra 2012.

to over 320 000 in 2011 which is a considerable contribution to the income generated by students studying here. It is commonly believed that education spurs Australia to increase opportunities for building closer ties in the region. Australia has earned a good reputation in the international education market and for the recruitment of international students. The increasing number of students from abroad has resulted in raising the level of education in Australia as well. About 80% of all foreign students comes from Asia and Oceania. The five most important countries where students studying in Australia come from are: China – 29%, India – 13%, South Korea – 5%, Vietnam – 4% and Malaysia – 4%. There was a significant increase in students between 2006 and 2009, but after 2010 this number has decreased¹⁴. Nowadays there has been observed a substantial increase in the number of students after a decline over the last years¹⁵. It should be emphasized that the international brand of Australian education is recognized in the world and is supported by the state.

Tourism is another important pillar of Australia which will also be vital in the future. In 2010/2011, the value of this sector amounted to 24 billion AUD¹⁶. The expected increase in income from tourists from Asia and the Pacific is expected to deliver 531 million AUD¹⁷ up to 2030. Australia is in the 7th place among 10 Asian countries where tourists come from to Australia¹⁸. A lot of tourists have come to Australia from China for several years. Yet in 1999 there was a very small number of them, but in 2014 their number reached almost one million, while by 2020 it will have exceeded one million tourists. An increase in tourism from India and Indonesia and a slight increase in tourists from Vietnam can be observed. To sum up, by 2020 a constant growth in the number of tourists from Asia is expected. Asian tourists show great interest in the northern parts of Australia where they can find a coral reef. Cairns and Brisbane cities are the destinations in which tourists from Asia arrive en masse and visit the Queensland. This state is famous for its unique flora and fauna and in this region there are plenty of mineral resources as well. It is forecasted that by the year 2021 tourism growth will have increased from 41% to 45%¹⁹. This trend of increased tourism will be beneficial for the Australian tourism industry and for indigenous Australia involved in tourist services.

¹⁴ Australian Education International (AEI), *International student data*, Canberra 2012.

¹⁵ Boston Consulting Group (BCG), *op.cit.*

¹⁶ Australian Bureau of Statistics (ABS), *Australian national accounts: tourism satellite account, 2010–2011*, cat. no. 5249.0, Canberra 2011.

¹⁷ UN World Tourism Organization (UNWTO), *Tourism towards 2030*, Madrid 2012.

¹⁸ Tourism research Australia (TRA), *Tourism industry facts and figures at a glance*, Department of Resources, Energy and Tourism, Canberra 2012.

¹⁹ Tourism research Australia (TRA), *Forecast 2012*, issue 1, Department of Resources, Energy and Tourism, Canberra 2012.

An increase in the number of people traveling between Asia and Australia has at the same time made the involvement of the airlines in passenger traffic bigger. This is particularly true for: Air India, China Southern, China Eastern and Jetstar. Therefore, Australia needs to build proper infrastructure for tourism development. Perhaps by 2020 from 40,000 to 70,000 more hotel rooms²⁰ will be needed in addition to the existing ones. Safety and proper medical care create favourable conditions for having a holiday in Australia and tourism is the driving force behind the development of other sectors.

In the period to 2025 the service sector including construction will be growing significantly. The service sector covers a wide scale of economic activity in Australia. This scale ranges from the financial sector to transport, construction and logistics. Finance and insurance are important service sectors. The expected increase in exports of energy sources, tourism and education which will lead to the expansion of the service sector has been emphasized. It should also be stressed that the various Australian companies have developed cooperation with law firms. Moreover, it should be noted that the finance and insurance are important sectors of the country's economy. Four out of ten banks in the world with an AA rating are situated in Australia. Furthermore, technological improvements in the flow of information and communication broadens and facilitates contacts with Australian partners. It is also pointed out that Australia has always had highly and well educated staff that knows how to cope with the changes taking place in the world²¹. Among other things, the banks in India which started using biometrics instead of personal identification numbers are a good example here. The new banking system became available, especially in rural areas in that way. Such technological innovations help to overcome barriers caused by illiteracy and lack of identification documents.

A large number of Australian service companies cooperate with the Asian business and want to make use of the intellectual achievements of the initial phase of the Australian market development. Development and improvement of information and communication technologies, especially the development of wide-band networks will make trade and cooperation in a lot of service sectors easier and more stable with new partners²².

²⁰ Organisation for Economic Co-operation and Development (OECD), *OECD tourism trends and policies 2010*, Paris 2010.

²¹ Australian Bureau of Statistics (ABS), *Australian national accounts: national income, expenditure and product, cat. no. 5206.0*, Canberra 2012; Boston Consulting Group (BCG), op.cit.

²² One of the interesting multidisciplinary projects, which was built in the Asia-Pacific region, is noteworthy. The purposes of this project include, among others, spatial planning, interior design, architectural projects and expertise and planning of green areas in the city. The project HASSELL was launched in 1991 when it attracted the ECB company from Hong Kong. After winning the tender for the

Australian growth in the Asian region depends on political stability, interconnected economic policy and taking advantage of opportunities by the private sector. If these both factors occur at the same time, Australia might exceed the planned economic growth and income per capita. There is a little risk that it will fail to boost productivity and benefit from the existing growth opportunities. When it comes to a long-term forecast for Asia, it must be emphasized that it is positive, but if there was a sharp decline in Asian economic growth, it could cause a decline in product prices and, consequently, in the short term have negative consequences for the Australian trade and gross domestic product (GDP). In this context, it should be understood that Australia must be strongly involved in economic development aiming to become a part of the Asian region. This task is not only the responsibility of the government and its economic and especially trade policy, but also of the effectively growing and cooperating private sector.

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main and urban planning in China, it expanded its practice also to operate in Australia. Today HASSELL is a company employing over 250 people and operating despite the crisis in the 90s of the 20th century. Thanks to the discipline, cooperation and using technology the company has persisted and stressed that cooperation is an element of a long lasting operation of the company during tough economic times.

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