

UNDERSTANDING THE IMPLICATIONS
FOR AUSTRALIA
OF HONG KONG'S REVERSION TO CHINA:

An analysis of
Australian Trade, Investment and Immigration
with China, Hong Kong and Taiwan

1960-1995

JOSEPH CAMILLERI

**UNDERSTANDING THE IMPLICATIONS
FOR AUSTRALIA
OF HONG KONG'S REVERSION TO CHINA:**

**An analysis of
Australian Trade, Investment and Immigration
with China, Hong Kong and Taiwan**

1960-1995

By

Joseph Camilleri

**Thesis
submitted for the
degree of Doctor of Philosophy
Centre for Strategic Economic Studies
Faculty of Business
Victoria University
Melbourne**

31 August, 1997

SYNOPSIS

Over the 1960-1995 period, patterns of Australian global trade, investment and immigration shifted considerably, especially in relation to Asia and most notably in relation to China, Hong Kong and Taiwan. Changes within the North East Asian Region propelled Australia to respond in order to maintain its economic standards and its international obligations. Greater emphasis was placed by successive Australian governments on establishing closer ties with Asia, most notably China. However, Australia's attention (and the world) on Hong Kong emerged with the commencement of the Sino-British talks in 1983. This thesis is intended to contribute to an understanding of the past and future impacts of the reversion of Hong Kong on trade, investment and migration flows involving Australia, by a detailed study of those flows between Australia and Hong Kong, China and Taiwan over the period 1960-1995. Twelve main themes emerge from this study, as follows:

Integration of the Economies of Hong Kong, China and Taiwan A central trend over the past fifteen years has been the growing economic integration of the region consisting of Southern China, Hong Kong and Taiwan. After the Chinese reforms of 1979, a closely integrated network of production and service activities has developed in the region, underpinned by extensive cross-regional investment and ownership. This development has been spurred by the announcement of the reversion of Hong Kong and by further reform in China, including the development of the Special Economic Zones, and is driven by the economic complementarity between the three regions.

Hong Kong's Role as an Intermediary for Trade with China Partly as a result of the increasing regional integration, Hong Kong's role as an intermediary for global trade with China has increased strongly from 1979 to the mid 1990s. In the decade or more prior to the reversion of Hong Kong to China, a growing proportion of China's exports from, and imports to, the world passed through Hong Kong, and trade with or on behalf of China made up a dominant share of Hong Kong's trade.

Australia - China Trade Through Hong Kong Consistent with Hong Kong's growing intermediary role in China trade, and in spite of Australia's history of direct trade with China, the importance of Hong Kong's role as an intermediary in Australia - China trade has also increased substantially since the early 1980s. This is so in respect of both Australia's imports from and exports to China.

Relative Importance of China in Australian Trade with the Greater China Region In spite of high expectations for the China market, Australia's trade performance has been better with Hong Kong and Taiwan than with China. In relation to these two countries over the period 1980-1995, Australia has had strong export growth, stable market shares and (for much of the period) trade surpluses, whereas in relation to China it has had more subdued export growth, a falling market share and (since 1989) an increasing trade deficit.

The Decline of Agriculture in Australian Exports to China, Hong Kong and Taiwan Over the period since 1980 Australian agricultural exports to China, Hong Kong and Taiwan have been very weak, in spite of strong policy focus on these countries as a market for Australian agricultural products. One important factor here appears to have been the US Export Enhancement Program, and the resulting dominance by the US of a number of key product markets in these countries.

ETMs in Australia's Trade With the Greater China Region The most rapid growth in Australian exports to these countries between 1980/81 and 1994/95 occurred in elaborately transformed manufactures (ETMs), although this growth was from a very low base, particularly in the case of China and Taiwan. ETM imports from these countries also grew rapidly, especially imports from China and Hong Kong, and Australia continues to have a large and growing deficit on ETM trade with each of the three countries.

Growth in Exports of Services to China, Hong Kong and Taiwan The three countries are modest markets for Australian services. Over the 1984-1995 period Australian service exports to each of China, Hong Kong and Taiwan grew rapidly, although again starting from a small base, and Australia's share of service imports in each country increased. Educational and tourism services play a key role, although commercial services are increasing in importance. For much of the period Australia had a surplus on services trade with China and Taiwan, but a deficit with Hong Kong.

The Changing Pattern of Immigration and Trade Trends in migration between Australia and the Greater China region need to be seen in the context of the broader patterns of Australia's immigration and trade. By the mid 1990s 48% of Australia's total trade was with countries in Asia, and about 40% of Australia's gross settler intake came from Asian countries. While many factors influenced the changing regional composition of Australia's migration intake, the reorientation of trade made changes in immigration composition inevitable.

The Impact of the 1983 Announcement on Migration Flows Subsequent to the 1983 announcement of Sino-British talks on the reversion of Hong Kong, many individuals and families in Hong Kong sought to emigrate, the main destinations being USA, Canada and Australia. A rising share of the total settled in Australia, with the Business Migration Program being an important vehicle for entry, although there is evidence that a significant

proportion subsequently returned to Hong Kong to carry on their business activities. By the mid 1990s the bulk of migration from the three countries was from China, even before accounting for the number of individuals granted permanent residency as a result of the pledge to students in Australia at the time of the Tiananmen incident.

Investment from the Greater China Region in Australia From a modest level of about \$2.5 billion at the end of 1983-84, the stock of investment by Hong Kong residents in Australia has grown almost sixfold, to stand at \$14.5 billion at the end of 1994-95. However, a high proportion of this investment is in real estate and property, and has involved acquisitions of existing assets rather than the creation of new assets. There has been some increase in investment from China, but investment in Australia from Taiwan has remained low over this period.

The Pattern of Australian Outward Investment In spite of the growing integration of Australia's trade and migration with Asia, the focus of Australia's growing outward foreign investment has been to the US and Europe rather than to Asia. By 1993/94, 76% of Australia's outward FDI stock was in the US, United Kingdom or New Zealand, by comparison with 54% in 1984/85. This in part reflected global trends since the upsurge in global foreign investment since 1985, which have been for increased concentration of FDI flows within the developed countries, rather than from the developed to the less developed countries.

Australian Investment in Greater China In the context of the reversion of Hong Kong to China and other factors, the stock of Australian investment in Hong Kong has been sharply reduced, both as a share of Australia's total outward investment stock and absolutely. Direct Australian investment in China and Taiwan remains small, but Australia's commitments in China through contracting arrangements appear to have become substantial.

The most striking conclusion of this study is the extent of the adjustment to the impending reversion of Hong Kong which took place before the fact. Hong Kong firms have shifted their manufacturing activities very heavily into China, and invested in many other ventures as well. The entrepôt role of Hong Kong in trade with China, for Australia and other nations, has increased rather than declined. Many Hong Kong migrants have come to Australia, and also to the United States and Canada. The stock of Australian investment in Hong Kong has been reduced sharply as a share of Australia's total investment abroad, but investment from Hong Kong in Australia, especially, in acquisitions in the area of property and real estate, has increased sharply. Thus, the major economic adjustments between China, Hong Kong and Taiwan may have taken place well before Hong Kong's reversion to China on 1 July 1997. Nevertheless, economic and political relations within the Greater China Region continue to be in a state of flux, and further large scale change cannot be ruled out.

ACKNOWLEDGEMENTS

I thank Professor PJ Sheehan for supervising this work.

Special gratitude goes to Professor Bruce Bueno de Mesquita, Hoover Institute, Stanford University and Professor Murray Goot, Macquarie University who were available to discuss ideas and offered both support and constructive criticism.

I would also like to thank the staff at the Australian Bureau of Statistics, Bureau of Immigration, Multiculturalism and Population Research library, Melbourne, for allowing me to use their facilities and in the enormous help they gave. Recognition of appreciation goes to the Australian Department of Foreign Affairs, Canberra; Australian Immigration Department, Canberra; the Canadian Embassy, Canberra; Statistique Canada, Ottawa; Hong Kong Government Census and Statistics Department, and Hong Kong Industries Department, Hong Kong; US Department of Justice, Washington DC; and US Agricultural Department, Washington, DC.

Recognition of appreciation also goes to the staff at the following libraries - Melbourne University, Bailleau library; Monash University, Clayton Campus library; National Library of Australia, Canberra; Royal Melbourne Institute of Technology Central library; and Victoria University, City Campus library.

Lastly, but not the least, I would like to thank all those who directly or indirectly assisted me in the completion of this work.

DECLARATION

This thesis is submitted in accordance with the regulations for the Degree of Doctor of Philosophy of Victoria University, Melbourne, Australia. It reports the research undertaken within the Centre for Strategic Economic Studies, Faculty of Business at Victoria University of Technology between 1995 and 1997.

I declare that, to the best of my knowledge and belief, the research work described herein is original, except where otherwise indicated and acknowledged, and this thesis has not, either in whole or in part, been submitted for a higher degree to other Universities.

Joseph Camilleri

31 August 1997
31 August, 1997

TABLE OF CONTENTS

1. CHAPTER 1 HISTORICAL PERSPECTIVE OF AUSTRALIA'S GLOBAL TRADE, INVESTMENT AND IMMIGRATION	1
1.1 Introduction	1
1.2 Global Effects on Australian Economy	2
1.3 Australian Economy and Political Effects	7
1.4 Australian Exports.....	16
1.4.1 Policies and Strategies	19
1.4.2 Rural Exports	26
1.4.2.1 Agricultural Produce Exports and Markets	26
1.4.2.1.1 Wheat	26
1.4.2.1.2 Wool	30
1.4.2.1.3 Meat	32
1.4.2.1.4 Sugar, Dairy products and Fruit	33
1.4.2.2 Fuels and Minerals Exports and Markets	34
1.4.2.2.1 Fuels	34
1.4.2.2.2 Minerals	36
1.4.3 Manufactured Exports and Markets	39
1.4.3.1 Simple Transformed Manufactures (STMs)	41
1.4.3.2 Elaborately Transformed Manufactures (ETMs)	43
1.4.3.3 Markets	47
1.5 Outline of Thesis Chapters.....	49
2. CHAPTER 2 HISTORICAL OVERVIEW OF THE THREE NORTH EAST ASIAN ECONOMIES	50
2.1 Introduction	50
2.2 The People's Republic of China (PRC) Economy	51
2.3 Economic Policy and Structure 1949-78	51
2.3.1 Trade	53
2.4 Post-1978 Policy Changes	55
2.4.1 Conceptual Framework	55
2.4.2 Investment Strategies	61
2.4.3 Special Economic Zones (SEZs).....	62
2.4.4 Foreign Exchange	63
2.4.5 Trade Liberalisation.....	64
2.5 The Republic of China (ROC) - Taiwan Economy	66
2.5.1 Strategies and Outcomes	66
2.5.1.1 The 1950s and 1960s Decades.....	67
2.5.1.2 The 1970s and 1980s Decades.....	69
2.5.1.3 The 1990s	73
2.6 Hong Kong Economy.....	77
2.6.1 The 1950-1990 decades	77
2.6.2 The Hong Kong Dollar & Monetary Management	82
2.6.3 Industrialisation and Exports	84
2.6.4 Hong Kong Economic Transformation and China's Outward Policy	85

3. CHAPTER 3 TRADE WITH CHINA, TAIWAN AND HONG KONG 1960-1983	84
3.1 Introduction	84
3.2 Australian Strategies towards Mainland China, Taiwan and Hong Kong.....	85
3.3 Australian Political Outlook Towards The People's Republic of China.....	86
3.4 Australia's Policies Towards North East Asia	89
3.4.1 Mainland China	89
3.4.1.1 China Preferential Treatment.....	90
3.4.1.1.1 The Strategic List.....	91
3.4.1.1.2 The Non-Strategic List.....	91
3.4.1.2 China's Approach and Bilateral Relationships	92
3.4.2 Republic of China - Taiwan.....	93
3.4.3 Hong Kong	95
3.5 Australian Trade With Mainland China	95
3.5.1 Australian Exports to China.....	96
3.5.1.1 Exports Composition	98
3.5.2 Imports from China.....	104
3.6 Australian Trade with Taiwan	106
3.6.1 Australian Exports to Taiwan: Composition And Value.....	106
3.6.2 Australian Imports from Taiwan: Composition and Value	109
3.7 Australia-Hong Kong Trade.....	110
3.7.1 Australian Exports to Hong Kong: Composition And Value	110
3.7.2 Australian Imports From Hong Kong: Composition and Value.....	112
3.8 Conclusion.....	114
 4. CHAPTER 4 AUSTRALIA'S IMMIGRATION FROM NORTH EAST ASIA 1960-1983.....	 118
4.1 Introduction	118
4.2 Attitudes, Legislation And Policies.....	119
4.2.1 The Immigration Restrictive Act of 1901	119
4.2.2 The 1950s	120
4.2.3 The 1960s	121
4.2.4 The 1970s	123
4.2.5 The mid-1980s.....	125
4.3 Reasons For Change.....	127
4.3.1 Diplomatic Credibility	127
4.3.2 Trade.....	128
4.3.3 Security	129
4.4 Immigration Inflows 1960 to the mid-1980s.....	130
4.4.1 Sources	130
4.4.2 Inflows From The People's Republic of China (PRC).....	131
4.4.3 From Hong Kong.....	132
4.4.4 From The Republic of China on Taiwan (ROC).....	134
4.5 Immigrants' Economic Conditions 1960 - 1983	135
4.5.1 Economic Conditions 1960 - 1970 Period.....	135
4.5.2 Prevailing Economic Conditions 1970 - 1983 Period.....	135
4.6 Immigrants' Occupations 1966 - 1983	137
4.6.1 Professionals	137
4.6.2 Self-Employed and Entrepreneurs	137

4.6.3 Industry Patterns	138
4.7 Trends	140
4.7.1 Statistics	140
4.7.2 Net Settler Gains	145
4.8 Impacts	147
4.8.1 Social Impact	147
4.8.2 Political Impact	148
4.8.3 Economic Impact	149
4.8.4 Of Brain Drains and Brain Gains	151
4.9 Investments Flows 1960 - 1983	152
4.9.1 Investments Outflows - Hong Kong, China and Taiwan	152
4.9.2 Investments Outflows - Australia	158
4.10 Conclusion	163
 5. CHAPTER 5 AUSTRALIAN TRADE WITH CHINA, HONG KONG AND TAIWAN 1983-1994	 167
5.1 Introduction	167
5.2 Overview of Australian Global Trade Patterns	169
5.3 Australian Merchandise Trade With China	174
5.3.1 Overview	174
5.3.2 Direct and Indirect Trade With China	176
5.3.3 Australian Merchandise Exports to China	181
5.3.4 Australian Merchandise Imports from China	191
5.4 Australian Merchandise Trade With Hong Kong Trade	197
5.4.1 Overview	197
5.4.2 Australian Merchandise Exports to Hong Kong	204
5.4.3 Australian Merchandise Imports from Hong Kong	214
5.5 Australian Merchandise Trade With Taiwan (ROC) TRADE	222
5.5.1 Overview	222
5.5.2 Australian Merchandise Exports to Taiwan	225
5.5.3 Australian Merchandise Imports from Taiwan (ROC)	236
5.6 Conclusion	243
 6. CHAPTER 6 AUSTRALIAN SERVICES TRADE WITH CHINA, HONG KONG AND TAIWAN 1983-1994	 253
6.1 Introduction	253
6.2 Agreements in Trade in Services	255
6.2.1 Limitations of data	257
6.3 Definitions	257
6.3.1 General Agreement on Trade in Services (GATS) Definition	258
6.3.2 Australian Bureau of Statistics Services Definition	258
6.3.2.1 Data Sources	258
6.4 Australian Services Trade	260
6.4.1 Trends	262
6.4.1.1 Travel Services	263
6.4.1.2 Shipment Services	265
6.4.1.3 Other Transportation Services	267

6.5 Australia's Structure of Services Trade	267
6.5.1 Australian Services Exports	267
6.5.2 Australian Services Imports	268
6.6 Australian Services Trade With China.....	270
6.6.1 Overview of Services Trade with China	270
6.6.1.1 Australian Services Exports to China	271
6.6.1.2 Australian Services Imports from China.....	272
6.6.2 Detailed Analysis of Australian Services Trade with China	273
6.6.2.1 Australian Services Exports to China	273
6.6.2.2 Australian Services Imports from China, P.R.	281
6.6.3 Landing Rights and Bilateral Aviation Relations China, P.R.	282
6.6.3.1 Reciprocity of the Agreement with China, P.R.	282
6.6.3.2 Country Rights Distribution within Australia's Airlines	283
6.6.3.3 Country Rights Distribution within China P.R. Airlines	283
6.7 Australian Services Trade With Hong Kong.....	284
6.7.1 Overview of Services Trade With Hong Kong	284
6.7.2 Overview of Services Trade with Hong Kong	285
6.7.2.1 Australian Services Exports to Hong Kong	285
6.7.2.2 Australian Services Imports from Hong Kong	286
6.7.3 Detailed Analysis of Australian Services Trade with Hong Kong	287
6.7.3.1 Australian Services Exports to Hong Kong	287
6.7.3.2 Australian Services Imports from Hong Kong	294
6.7.4 Landing Rights and Bilateral Aviation Relations with Hong Kong	296
6.7.4.1 Reciprocity of the Agreement with Hong Kong	297
6.7.4.2 Country Rights Distribution within Australian Airlines	297
6.7.4.3 Country Rights Distribution within Hong Kong Airlines.....	297
6.8 Australian Services Trade With Taiwan	298
6.8.1 Overview of the Services Market in Taiwan.....	298
6.8.1.1 Sectoral Restrictions	298
6.8.1.1.1 Insurance.....	299
6.8.1.1.2 Securities	300
6.8.1.2 Taiwan's Role as an Asia-Pacific Operations Centre.....	301
6.8.2 Outline of Australian Services Trade with Taiwan	301
6.8.2.1 Australians Services Exports to Taiwan	305
6.8.2.2 Australian Services Imports from Taiwan.....	306
6.8.3 Detailed Analysis of Australian Services Trade with Taiwan.....	307
6.8.3.1 Australian Services Exports to Taiwan.....	307
6.8.3.2 Australian Services Imports from Taiwan.....	311
6.8.4 Landing Rights and Bilateral Aviation Relations Taiwan, ROC.....	314
6.8.4.1 Reciprocity of the Agreement with Taiwan, ROC	314
6.8.4.2 Reciprocity of the Agreement with Taiwan	314
6.8.4.3 Country Rights Distribution within Australian Airlines	314
6.8.4.4 Country Rights Distribution within Taiwan Airlines	314
6.9 Conclusion	315
 7. CHAPTER 7 AUSTRALIA'S IMMIGRATION FROM	
 NORTH EAST ASIA 1980-1995.....	320
7.1 Introduction	320
7.2 Attitudes, Legislation and Policies, and Impacts of External Factors on Australia's	
 Migration Programmes.....	322
7.2.1 Attitudes.....	322
7.2.1.1 Asian Immigration and Public Opinion	323

7.2.2 Legislative and Policy.....	327
7.2.2.1 Overview.....	327
7.2.2.2 Immigration Inquiries	330
7.2.2.3 Business, Independent and Economic Criteria.....	331
7.2.2.4 Concessional and Preferential Criteria.....	332
7.2.3 Impacts of External Factors	334
7.2.3.1 Diplomatic Credibility and International Relations	334
7.2.3.2 Instability in Indochina	335
7.3 Immigration Flows, Trends and Analysis 1980-1996.....	336
7.3.1 Globally	336
7.3.2 Asian Region	339
7.3.2.1 Hong Kong	340
7.3.2.2 People's Republic of China (PRC)	344
7.3.2.3 Republic of China (ROC)	344
7.3.3 Trends and Analysis.....	345
7.3.3.1 Australian Migrant Intake from Hong Kong.....	348
7.3.3.2 People's Republic of China	352
7.3.3.3 Republic of China.....	353
7.3.3.4 Business Migration Program.....	354
7.3.3.4.1 The MSJ Keys Young Planners study.....	354
7.3.3.4.2 DILGEA's BMP monitoring survey	356
7.3.3.5 Net Settler Gains.....	359
7.3.3.6 Category Jumping	364
7.4 Immigrants Occupations and Economic Conditions 1980 - 1995	365
7.4.1 Overview.....	365
7.4.1.1 People's Republic of China-born.....	368
7.4.1.1.1 PRC-born Occupations	369
7.4.1.2 From Hong Kong (HK).....	372
7.4.1.2.1 Hong Kong Born Occupations.....	374
7.4.1.3 Taiwanese-born Migrants Occupations.....	376
7.5 Impacts	377
7.5.1 Social Impact	377
7.5.1.1 Mainland Chinese	377
7.5.1.2 Hong Kong	379
7.5.2 Political Impact.....	384
7.5.3 Economic Impact	385
7.6 Conclusion	388
8. CHAPTER 8 AUSTRALIA'S INVESTMENTS OUTFLOWS AND	
 INFLOWS 1980-1995	393
8.1 Introduction	393
8.2 Foreign Direct Investments.....	394
8.2.1 Overview.....	394
8.2.1.1 FDI Destinations.....	399
8.2.1.2 Developing Countries	401
8.2.1.3 Asia Regional Trends.....	402
8.2.1.3.1 Inward FDI trends.....	402
8.2.1.3.2 Australian Inward FDI trends	407
8.3 Hong Kong Investment in Australia	408
8.3.1 The 1980s	408
8.3.2 The 1990-1994 period	410
8.3.3 Foreign Investment Review Board Data.....	412

8.3.3.1 Statistical Qualifications	412
8.3.4 Analysis of FIRB Data By Industry	413
8.3.5 Types of Investments	416
8.3.5.1 Acquisitions and Greenfield Investments.....	416
8.3.5.2 Real Estate And Property Investments.....	417
8.3.6 Australia-Hong Kong Agreements.....	418
8.4 People's Republic of China (PRC)	418
8.4.1 The 1980-1995 Period	418
8.4.2 Types of Investments	420
8.4.3 Australia-China, P.R. Investments' Agreements.....	420
8.5 Taiwanese Investments in Australia.....	421
8.5.1 The 1980-1995 Period	421
8.5.2 Reasons for Investing in Australia	422
8.5.3 Australia-Taiwan Agreements.....	422
8.5.4 Taiwanese Interests in Australia	423
8.6 Australian Investment Abroad	423
8.6.1 Regional And Worldwide	423
8.6.1.1 Factors	426
8.6.1.2 Historical And Commercial Variables	427
8.7 Hong Kong	428
8.7.1 Australian Investment in Hong Kong.....	428
8.7.1.1 Official Statistics And Data	430
8.7.2 Australia's Investments By Industry Sector	431
8.7.2.1 Manufacturing.....	431
8.7.2.1.1 Trends And Comparisons: Australia, US And UK Investments	431
8.7.2.1.2 Enterprises Size (Based on Number of Employees)	432
8.7.3 Analysis of Investment Performance	433
8.7.4 Types of Investments	435
8.7.5 Hong Kong Regional Headquarters And Offices.....	436
8.8 People's Republic of China (PRC)	438
8.8.1 The 1980-1995 Period	438
8.8.2 Australian Investments in China	440
8.8.2.1 Australian Out-sourcing (Processing And Assembling).....	440
8.8.2.2 Australian Joint Ventures.....	442
8.8.3 Australia's Investment in China: By Region And Location	443
8.8.3.1 Austrade Beijing Post Area.....	443
8.8.3.2 Shanghai	444
8.8.3.3 Jiangsu Province	445
8.8.3.4 Zhejiang Province.....	445
8.8.3.5 South China: Guangdong And Hainan.....	445
8.9 Australian Investments in Taiwan	446
8.9.1 Australian Presence in Taiwan.....	447
8.9.1.1 Australian Representative Offices.....	447
8.9.1.2 Australian International Companies.....	447
8.9.1.3 Australian Joint-Ventures	447
8.9.2 Evaluation of Australian Firms Exposures.....	448
8.10 Conclusion	448

9. CHAPTER 9 THEMES AND CONCLUSIONS	450
9.1 Integration of the Economies of Hong Kong, China and Taiwan.....	454
9.2 Hong Kong's Role as an Intermediary for Trade with China	455
9.3 Australia-China Trade Through Hong Kong.....	456
9.4 Relative Importance of China in Australian Trade with the Greater China Region.....	457
9.5 The Decline of Agriculture in Australian Exports to China, Hong Kong and Taiwan.....	460
9.6 ETMs in Australia's Trade With the Greater China Region.....	461
9.7 Growth in Exports of Services to China, Hong Kong and Taiwan	463
9.8 The Changing Pattern of Immigration and Trade.....	465
9.9 The Impact of the 1983 Announcement on Migration Flows.....	466
9.10 Hong Kong's Investment Flows to Australia.....	469
9.11 The Pattern of Australian Outward Investment.....	471
9.12 Australian Investment in the Greater China Region	473
10. REFERENCES.....	474
APPENDIX - A BMP PROGRAM	509
APPENDIX - B CHINA'S SPECIAL ECONOMIC ZONES	513
APPENDIX - C TAIWAN'S INVESTMENT CLIMATE.....	473

LIST OF FIGURES

Figure 1.1 Selected Commodity Prices Indices 1955 to 1995	4
Figure 1.2 Selective Australian Economic Indicators 1969/70 to 1994/95	9
Figure 1.3 Selective Australian Exports Indicators: 1949/50 to 1994/95	18
Figure 1.4 Agriculture, Manufactures and Minerals and Fuels As Share of Australian Total Exports 1951 - 1995.....	27
Figure 2.5 Selective People's Republic of China Economic Indicators 1975 to 1995	58
Figure 2.6 Selective Economic Indicators: Republic of China on Taiwan, 1975 to 1995	72
Figure 2.7 Selective Indicators of Hong Kong's Economy 1975 to 1995	81
Figure 3.1 Australian Exports And Imports: China 1959/60 to 1982/83 (\$Am Current Figures)	97
Figure 3.2 Australian Major Commodity Exports to China: Wheat, Wool, & Metals Others, Percentage (%) 1959/60-1982/83	98
Figure 3.3 Australian Wheat (\$A/t): Cost of Production, Export Prices to China & Rest of the World 1955/56-1972/73	103
Figure 3.4 Australian Exports and Imports: Taiwan, (\$Am) 1959/60 to 1982/83.....	106
Figure 3.5 Australian Exports, Imports & Total Trade With Hong Kong (\$Am) 1959/60 to 1983/84.....	110
Figure 4.1 Settler Movements By Country of Birth - Selected Asian Countries, (Five Yearly Totals)	130
Figure 4.2 Australia Settler Intake By Country As A Percentage (Five Year Average) Share of Total Asian Settlers Intake 1959 - 1985	131
Figure 4.3 Australia's Immigration Intake - By Regions 1960 - 1984	140
Figure 4.4 Settler Arrivals By Country of Birth - China, Hong Kong and Taiwan 1960/61 to 1984/85	140
Figure 4.5 Australia's Stocks of FDI: Major Countries, 1984/85 (\$Am, Current Prices)	162
Figure 5.1 Australia's Merchandise Exports and Imports: Percentage of Australia's GDP, 1972/73 to 1994/95	169
Figure 5.2 Australia's Merchandise Trade with China As Percentage of Australia's GDP 1979/80 to 1994/95.....	174
Figure 5.3 Australian Merchandise Exports to China: Share of Australia's Global Merchandise Exports & As a Share of China's Market, 1960 to 1994/95.....	175
Figure 5.4 China's Exports: Direct and Indirect (via Hong Kong) To Australia (\$USm)	180

Figure 5.5 Australia's Exports: Direct and Indirect (via Hong Kong) To China (\$USm) 1981 - 1995	180
Figure 5.6 Australia's Trade with China (via Hong Kong) Percentage of Total Trade 1990-1994	180
Figure 5.7 Australia's Merchandise Exports to China, People's Republic: 1966/67 to 1994/95	185
Figure 5.8 Australia's Merchandise Exports to China, People's Republic: 1966/67 to 1994/95	188
Figure 5.9 Australia's Merchandise Imports from China, People's Republic: 1966/67 to 1994/95	190
Figure 5.10 Australia's Merchandise Imports from China, People's Republic: 1966/67 to 1994/95	194
Figure 5.11 Australian Trade with Hong Kong as A Percentage of Australia's GDP 1979/80 to 1994/95	197
Figure 5.12 Hong Kong's Exports: Direct Exports and Re-exports To Australia (\$USm) 1981 - 1995.....	198
Figure 5.13 Value & Share of Total Regional ³ Exports to Australia, via Hong Kong (US\$m & %) 1981 - 1995	199
Figure 5.14 Australia's Merchandise Exports to Hong Kong: 1979/80 to 1994/95	207
Figure 5.15 Australia's Merchandise Exports to Hong Kong: 1979/80 to 1994/95	210
Figure 5.16 Australia's Merchandise Imports from Hong Kong: 1979/80 to 1994/95.....	217
Figure 5.17 Australia's Merchandise Imports from Hong Kong: 1979/80 to 1994/95.....	219
Figure 5.18 Australia's Trade with Taiwan (ROC) As a Percentage of Australia's GDP	222
Figure 5.19 Australia's Merchandise Exports to Taiwan, ROC: 1979/80 to 1994/95	230
Figure 5.20 Australia's Merchandise Exports to Taiwan, ROC: 1979/80 to 1994/95	232
Figure 5.21 Australia's Merchandise Imports from Taiwan, ROC: 1979/80 to 1994/95.....	239
Figure 5.22 Australia's Merchandise Imports from Taiwan, ROC: 1979/80 to 1994/95.....	240
Figure 5.23 Australian Balance of Trade (\$Abn) and As a Proportion of Australian GDP 1979/80 - 1994/95	244
Figure 5.24 Australian Balance of Trade with the Greater China Region: China, Hong Kong and Taiwan, (\$Am) 1979/80-1994/95	245
Figure 6.1 Australian Services Imports, Exports, And Balance Of Trade: Percentages Of Total Service Trade 1979 - 1995	262
Figure 6.2 Australian Services Trade With China As a Percentage of Australia's GDP, 1983/84 to 1993/94 ¹	270
Figure 6.3 Australian Services Trade As A Percentage of China's Total Services Exports And Imports 1984-85 to 1993-94 ¹	271
Figure 6.4 Australia's Services Exports to the People's Republic of China 1983/84 to 1993/94.....	275
Figure 6.5 Australia's Services Imports From China, P.R. 1983/84 to 1993/94	280
Figure 6.6 Australia's Services Trade With Hong Kong As a Percentage of Australia's GDP, 1983/84 to 1993/94 ¹	284
Figure 6.7 Australia's Services Trade As Percentage of Hong Kong Total Exports And Imports 1983-84 to 1993-94 ¹	284
Figure 6.8 Australia's Services Exports to Hong Kong 1983/84 to 1993/94.....	290
Figure 6.9 Australia's Services Imports from Hong Kong 1983/84 to 1993/94	293
Figure 6.10 Australian Services Trade With Taiwan As a Proportion of Australia's GDP, 1983/84 to 1993/94 ¹	301
Figure 6.11 Australian Services Trade As Percentage of Taiwan's Total Services Exports And Imports 1984 to 1994 ¹	302
Figure 6.12 Australia's Services Exports to Taiwan, Republic of China: 1983/84 to 1993/94	308
Figure 6.13 Australian Services Imports from Taiwan, Republic of China: 1983/84 to 1993/94.....	312
Figure 7.1 Gross Intake of Australian Settler Intake (Percentages) - By Region 1980/1-1995/6	336
Figure 7.2 Australia's Immigration Intakes (Percentages) By Regions: 1960/61 to 1995/96.....	337
Figure 7.3 Australian Immigration Intake from the Asian Region, By Country: Five Year Average % Shares of Total Asian Intake 1975/76-1995/96	339
Figure 7.4 Australian Settler Arrivals: By Country of Birth of Selected Asian Countries, Five Year Totals (Numbers) 1975-1995 ¹	339
Figure 7.5 Settler Arrivals By Country of Birth - China, Hong Kong and Taiwan 1980/81-1995/6.....	340
Figure 7.6 Australia's Settlers Intake (Numbers) - By Region 1980-1996	345
Figure 7.7 Business Migrant Program Settler Arrivals - Total ^{1,2} : 1982/83 - 1995/96 ³	347
Figure 7.8 BMP Settler Arrivals Comparison: Asia ¹ and East Asia ² - Percentage Shares of Total ^{3,4} 1982/83 - 1995/96	347
Figure 7.9 BMP Settlers Arrivals ^{1,2} , HK, ROC, and PRC: 1982/83 -1995/96 ^{3,4}	347
Figure 8.1 World-wide Foreign Direct Investment (FDI) Outflows And Inflows from Developed and Developing Countries Selected Years 1983-1995 (Percentages)	394
Figure 8.2 Distribution of FDI Outward Stock from Major Source Countries: 1960-1995 (Selected Years) (Percentages)	397
Figure 8.3 Comparison: Main Source Countries of Australia's Inward Investment (FDI & Portfolio) Stock: Percentages 1984/85-1993/94 (Selected Years)	409
Figure 8.4 Australia's Outward FDI Stocks: Major Countries, 1979/80, 1987/88 and 1994/95 (\$Am, Current Prices).....	425
Figure 8.5 Australia's FDI Outward Flows (%): By Major Regions 1984/85 to 1993/94 (Selected Years).....	425

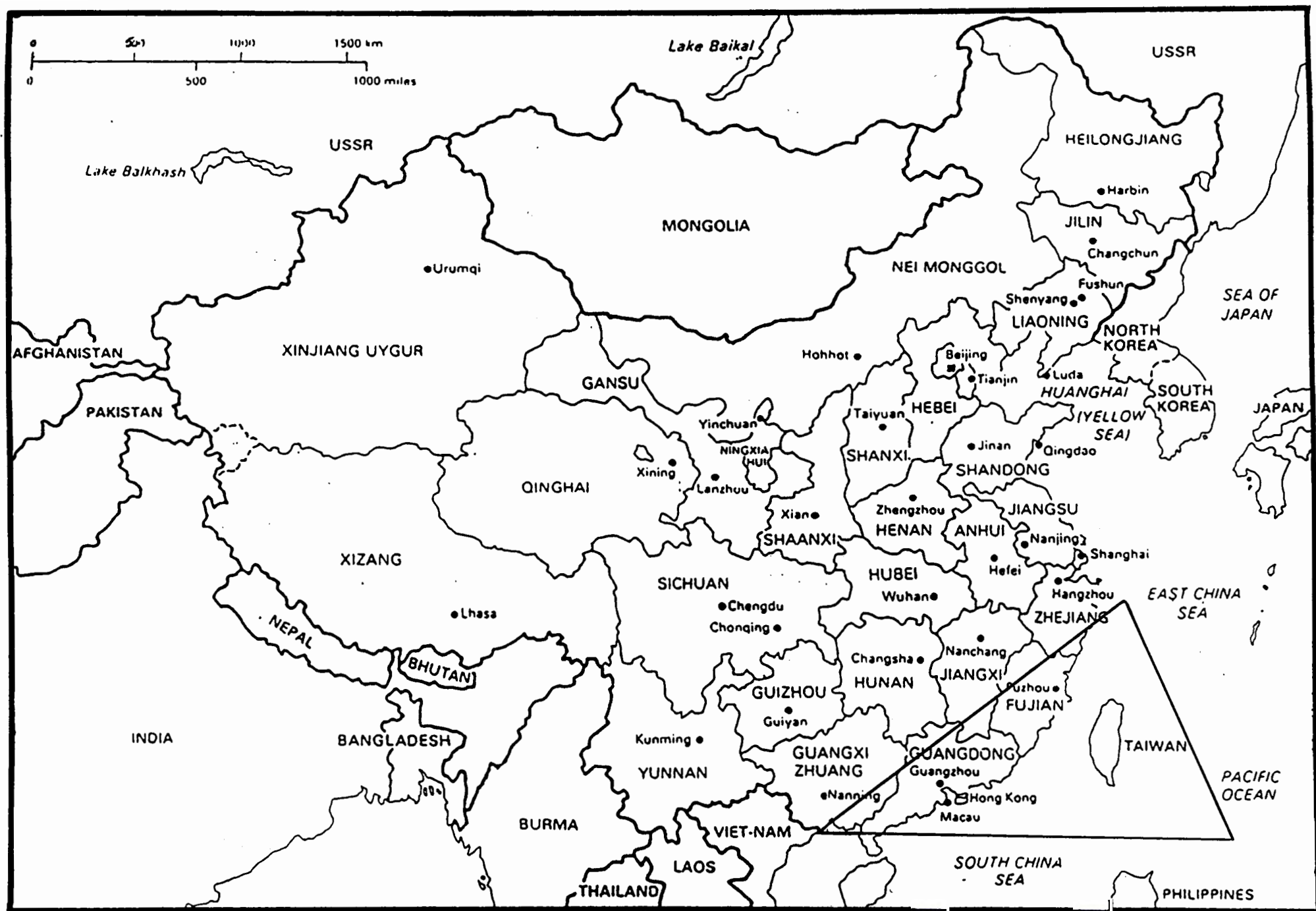
Figure 8.6 Australia's FDI Outward Stock: By Major Host Countries (Percentages) 1984/85 to 1993/94 (Selected Years).....	426
Figure 8.7 Australia's Investment (FDI And Portfolio) Stock Levels (\$Am) in Hong Kong 1983-1994.....	429
Figure 8.8 People's Republic of China: Cumulative Foreign Direct Investment (\$USbn), 1989 - 1994.....	439

LIST OF TABLES

Table 1.1 Australian Agricultural Exports By Major Commodities (\$Am & Percentages) 1951/52-1994/95 (Selected Years)	27
Table 1.2 Australian Exports Commodity Composition (\$Am and %) 1951-1995	42
Table 1.3 Australian Exports Distribution (%) ^a : By Region/Country 1940/41 to 1994/95 (Selected Years) ^b	45
Table 2.1 China's Foreign Trade Growth (%) - in Current & Constant (1970) Prices (US\$ Bn) 1953 - 1977	52
Table 2.2 China: Sectoral Shares of Goods Exports and As a Share of National Income 1955 - 1994	54
Table 2.3 Indicators of Growth and Structural Adjustment, Taiwan 1960 to 1995	68
Table 2.4 Taiwan's Proposed Spending on the SYP ¹ Projects: 1992-1997 (Financial Years)	74
Table 2.5 Republic of China Main Economic Indicators: As Forecasted in Six Year Plan and Actual Outcome 1991 & 1996	74
Table 2.6 Hong Kong's GDP Average Annual Growth Rates 1961-1994 (At Constant Prices, 1980=100)	79
Table 2.7 Hong Kong Inflation: Changes in the Composite Consumer Price Indices 1976 to 1996	82
Table 2.8 Hong Kong's GDP By Economic Activity Percentages (%) 1961-62 to 1995	84
Table 3.1 Australia-China Trade: Prices (\$Am) & Annual Growth Rates (%) in Current & Constant (1979-80) Figures	96
Table 3.2 Australia-China, P.R. Trade (Current Prices - \$Am) 1958-59 to 1982-83	98
Table 3.3 Australian Wheat Prices & Normal Values ¹ (\$A/ton): China & Rest of The World 1955/56-1972/73	101
Table 3.4 The Extent of Subsidisation of Australian Wheat Exports to China 1955/56-1972/73	102
Table 3.5 Australia's Major Imports From China - Commodity Composition (%) 1959 to 1982	104
Table 3.6 Australian Exports, Imports & Balance of Trade: Taiwan (\$Am) 1959/60 to 1982/83	107
Table 3.7 Australian Exports, Imports & Balance of Trade: Hong Kong 1959/60 to 1983/84	111
Table 3.8 Australia's Imports From Hong Kong (\$Am) 1959/60 to 1983/84	112
Table 4.1 Australia's Ten Most Important Settler Source Countries	131
Table 4.2 Australian Residents from Mainland China Residents - Highest Qualification Obtained, <i>Australian Census 1981</i>	136
Table 4.3 China-Born Residents Occupations ¹ : By State and Persons - Census 1981	139
Table 4.4 Comparison of Birthplace and Place of Last Residence Statistics on the Origin of Hong Kong Settlers to Australia, 1959 - 1985	142
Table 4.5 Official Hong Kong Government Estimates of Emigration 1980 - 1984	143
Table 4.6 Settler Arrivals By Region/Country of Birth According to Eligibility Criteria 1982/83 to 1983/84	144
Table 4.7 Permanent Arrivals and Departures of the Asian-born By Occupation, 1982/83 to 1989/90	145
Table 4.8 Australian Population By Selected Birthplace 1981 Census (No. and Percentages)	146
Table 4.9 Australian Residents from Non-English Speaking Countries - by Country of Birth Australia's Census 1986	147
Table 4.10 Country of Investor: Total Expected Investment (\$Am), By Industry Sector 1 July 1982 to June 1983	153
Table 4.11 Country of Investor: Total Expected Investment (\$Am), By Industry Sector 1 July 1983 to June 1984	154
Table 4.12 Investor Country: Acquisitions and New Businesses Total Expected Investment (\$Am), By Industry Sector 1 July 1982 to June 1983	154
Table 4.13 Investor Country: Acquisitions and New Businesses Total Expected Investment (\$Am), By Industry Sector 1 July 1983 to June 1984	155
Table 4.14 Hong Kong - Australia Investments 1982-83 to 1983-84 (\$Am)	157
Table 4.15 China - Australia Investments 1982-83 to 1983-84 (\$Am)	157
Table 4.16 Taiwan - Australia Investments 1982-83 to 1983-84 (\$Am)	158
Table 4.17 Hong Kong's Number of Establishments and Total Investments Owed by Major Overseas Countries - 1983	159
Table 4.18 Distribution of Hong Kong Factories with O/S Investment By Source Country and Decade in Which Operations Commenced	159
Table 4.19 Australia's Number of Establishments And Total Investments in Hong Kong By Major Industries - 1983	160
Table 4.20 Level of Australian Foreign Direct Investment: Country Shares: 30 June 1970 And 1979 Percentage (%) of Total	161
Table 4.21 Stocks of Australian Outward FDI (\$Am Current Prices) Major Countries Comparison :June 1980 ^a And 1985 ^b	161
Table 5.1 Australia's Global Merchandise Exports By Major Categories Percentage (%) of Total 1970/71 to 1994/95 (Selected Years)	170
Table 5.2 Australia's Global Merchandise Imports By Major Categories Percentage (%) of Total 1970/71 to 1994/95 (Selected Years)	172
Table 5.3 China's Exports: Direct and Indirect (via Hong Kong) - By Destination (US\$m)	178
Table 5.4 Australian Merchandise Exports to China: By Major Categories Percentage (%) 1970/71 to 1994/94 (Selected Years)	181
Table 5.5 Australian Merchandise Imports from China: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years)	191
Table 5.6 Hong Kong Domestic Exports By Principal Commodity	202

Table 5.7 Australian Merchandise Exports to Hong Kong: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years).....	204
Table 5.8 Australian Merchandise Imports from Hong Kong: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years).....	214
Table 5.9 Australian Merchandise Exports to Taiwan: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years).....	225
Table 5.10 Australian Merchandise Imports from Taiwan: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years).....	236
Table 5.11 Australian ETM ¹ Exports to & Imports from China, Hong Kong and Taiwan (%) 1980/81-1994/95 (Selected Years)	251
Table 6.1 Australian Services Imports, Exports, & Balance of Trade: % of Total Service Trade 1979-1995	263
Table 6.2 Australian Services Exports: By Main Categories 1984/85 to 1994/95 (\$Am - Current Prices).....	263
Table 6.3 Australian Services Imports: By Main Categories 1984/85 to 1994/95 (\$Am - Current Prices).....	264
Table 6.4 Distribution of Australian Services Exports: By Categories, (Percentages (%) of Australian Total) 1983/84 to 1993/94 (Selected Years).....	268
Table 6.5 Distribution of Australian Services' Imports: By Categories, Percentages (%) of Australian Total 1983/84 to 1993/94 - Selected Years	269
Table 6.6 Distribution of Australian Services Exports to China By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years)	271
Table 6.7 Share of Australian Services Imports Provided By China (% of Total by Category) 1983/84 to 1993/94 (Selected Years).....	272
Table 6.8 Distribution of Australian Services Exports to Hong Kong By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years)	285
Table 6.9 Share of Australian Services Imports Provided By Hong Kong (% of Total by Category) 1983/84 to 1993/94 (Selected Years).....	286
Table 6.10 Distribution of Australian Services Exports to Taiwan By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years).....	305
Table 6.11 Share of Australian Services Imports Provided By Taiwan (% of Total by Category) 1983/84 to 1993/94 (Selected Years).....	306
Table 7.1 Whether the Number of Immigrants Entering Australia is Too Many, Too Few or About Right: Comparable Opinion Polls, 1961-1996 (Percentages)	324
Table 7.2 Attitudes to 'Current Level of Immigration' [circa 100,000] By Voting Intention & Residence [City/Country]:	325
Table 7.3 Eligibility Category of Settler Arrivals (Percentage) ¹ in Australia, 1983 to 1996.....	332
Table 7.4 Hong Kong Immigration to Canada: By Category 1983-1996 (Selected Years) ^{1,2}	341
Table 7.5 Hong Kong Arrivals in Australia by Eligibility Criteria 1982/83-1995/6 (Selected Years).....	342
Table 7.6 Comparison: HK-Born and HK as Place of Last Residence Statistics, Settlers to Australia, 1959 - 1995 (Total 5 Yr Period)	348
Table 7.7 Hong Kong Government Estimates of Emigration.....	348
Table 7.8 United States, Canada & Australia: Average Annual Settler Intake ¹ For Periods Shown 1970-1996	349
Table 7.9 Settler Arrivals By Country of Birth and Eligibility Category, Selected Years: 1982/83-1995/96	350
Table 7.10 Migrants' Transfers and The Current Account 1981/82-1995/96	355
Table 7.11 Potential Funds transferred to Australia By Immigrants, By Eligibility Criteria 1983/84-1996/97 (\$Am).....	355
Table 7.12 Recorded Permanent Departures By Country of Birth: Australia 1984 to 1995 ¹	361
Table 7.13 Comparison of Australia's Net Settler Gain: Hong Kong, UK And Ireland 1984 to 1995 ¹	361
Table 7.14 HK Born Population by Year of Arrival in Australia 1986-1996.....	363
Table 7.15 China (PRC) Residents - Highest Qualification Obtained Census 1991.....	368
Table 7.16 China-Born Residents Occupations ¹ : By State and Persons- <i>Australia Census 1991</i>	371
Table 7.17 Hong Kong Residents, Highest Qualification Obtained <i>Australia Census 1991</i>	372
Table 7.18 Hong Kong Born: Comparison Between <i>Australia Censuses</i> : ^a 1986 & 1991	373
Table 7.19 Hong Kong-Born Residents Occupation ¹ : By State and Persons - <i>Australia Census 1991</i>	375
Table 7.20 PRC Chinese: Comparison Between <i>Australia Censuses</i> : ^a 1986 & 1991.....	378
Table 7.21 Australia's Non-English Speaking Residents by Country of Birth - <i>Australia's Census 1991</i>	379
Table 7.22 Hong Kong Born: Comparison Between <i>Australian Censuses</i> : ^a 1986 & 1991	380
Table 8.1 Global Foreign Direct Investment Inflows And Outflows, 1983-1995 (\$US Billions).....	394
Table 8.2 Outward FDI Stocks From the Leading Developed & Developing Countries By Major Source Country And Region 1960 - 1995 (Selected Years) (\$US Billions - Current Prices).....	395
Table 8.3 Foreign Direct Investment Outflows, By Home Region And Economy (Selected), 1984-1995 (\$US Millions - Current Prices)	397
Table 8.4 Foreign Direct Investment Inflows, By Host Region And Economy (Selected), 1984-1995 (\$US Millions - Current Prices)	398
Table 8.5 Percentage Shares of Outward FDI Stocks of Ten Major Investor Countries: By Host Country And Region 1990.....	399
Table 8.6 FDI Inflows, Annual Averages in NIEs And China 1975-1995 (Selected Years) (Millions of Domestic Currency Units).....	403
Table 8.7 The Distribution of FDI Inward Stock: NIEs And China, 1975-1989 (Various Years) (Percentage).....	404
Table 8.8 The Importance of Foreign Direct Investment in China, 1991-1995.....	406
Table 8.9 Australia's Inward Foreign Direct Investment (FDI) Stock: Country's Percentages 1984-1993 (Selected Years).....	407
Table 8.10 Hong Kong Investments in Australia (\$Am) 1982/83 to 1995/96	408

Table 8.11 Country of Investor: Total Expected Investment (\$Am), By Industry Sector 1 July 1982 to June 1995	415
Table 8.12 Investor Country: Acquisitions And New Businesses Total Expected Investment (\$Am), By Industry Sector 1 July 1982 to June 1995.....	415
Table 8.13 PRC's Investments in Australia (\$Am) 1982/83 to 1995/96	418
Table 8.14 Taiwan Investments in Australia (\$Am) 1982/83 to 1995/96	421
Table 8.15 Australian Investments in Hong Kong (\$Am) 1982/83 to 1995/96	428
Table 8.16 Australian Investment in Hong Kong's Manufacturing Industries: By Industries 1989 to 1991 (Selected Years) \$Am	430
Table 8.17 Australian, American And British Companies Investments in Hong Kong's Manufacturing Industries 1984 to 1991 (Selected Years) \$Am.....	431
Table 8.18 Number of Hong Kong Companies with Australian & American Interests: By Employment Size 1989 to 1991 (Selected Years)	432
Table 8.19 List of Australian Manufacturing Companies With Investment in Hong Kong 1994	433
Table 8.20 Hong Kong External Investment 1994: Value & Source Country (\$Am)	434
Table 8.21 Hong Kong's Number of Establishments And Total Investments Owed By Major Overseas Countries - 1994	434
Table 8.22 Australian & American Enterprises in Hong Kong Comparison: Product Sales (\$Am) By Markets 1984-1991 (Selected Years)	435
Table 8.23 List of Regional Headquarters set up by Australian Companies in Hong Kong (As at December 1995) ¹	436
Table 8.24 Australian Investments in China (\$Am) 1982/83 to 1995/96	438
Table 8.25 Australian Investments in Taiwan (\$Am) 1982/83 to 1995/96	446
Table 9.1 Growing Intermediary Role: Share of Hong Kong Total Trade Undertaken with China 1979-1993 (Selected Years)	455
Table 9.2 Australian ETM ¹ Exports to & Imports from China, Hong Kong and Taiwan (%) 1980/81-1994/95 (Selected Years)	462



Map of the People's Republic of China (PRC) & the Greater China Region of Guangdong, Fujian, Hong Kong & Taiwan

Legend

△ Greater China Region

PART I

HISTORICAL PERSPECTIVE



1. CHAPTER 1 HISTORICAL PERSPECTIVE OF AUSTRALIA'S GLOBAL TRADE, INVESTMENT AND IMMIGRATION

1.1 Introduction

On 30 June 1997, Hong Kong will revert to the People's Republic of China. This event, first foreshadowed in the talks between the British and Chinese Governments in 1982 and agreed in a protocol in the Sino-British Joint Declaration of 1985, has cast its shadow over the region for the intervening fifteen years. Thus the anticipated reversion has already had a substantial impact on trade, investment and migration flows throughout the Asia Pacific region, including those between Australia and Hong Kong, China and Taiwan. Its future impact will be equally profound, although impossible to predict with any assurance.

This thesis is intended to contribute to an understanding of the past and future impacts of the reversion of Hong Kong on trade, investment and migration flows involving Australia, by a detailed study of those flows between Australia and Hong Kong, China and Taiwan over the period 1960-1995. In Part I, the broad historical background of Australia's trade, investment and immigration, and of the economies of China, Hong Kong and Taiwan is reviewed. Part II examines key trends in trade and migration in the two decades or so prior to the completion of the Sino-British negotiations on the Question of Hong Kong, in 1984. The heart of this thesis, in Part III, consists of a detailed analysis of Australia's goods and services trade, migration and investment flows with China, Hong Kong and Taiwan from 1983 to 1995. The conclusions of the analysis are presented in Part IV.

This chapter reviews, inevitably in a brief and schematic fashion, the prevailing global and Australian economic conditions from the Second World War to 1995. Chapter 1 is composed of five sections: with Section 1.1 is the introduction; Section 1.2 will review the main global economic conditions and the effects these had on Australian trade and investment performance; Section 1.3 will focus on the Australian economy, outlining the major changes which have taken place with respect to trade, investment and immigration; and Section 1.4 will look broadly at Australian exports in general, the impact that Australian policies and strategies had on the rural, mineral and manufacturing sectors, and the markets that exporters in these sectors targeted. Section 1.5 will conclude with an outline of the thesis chapters.

1.2 Global Effects on Australian Economy

After World War Two, Australia's economic development was greatly influenced by external factors which triggered major shifts in its economic expansion, most notably, the result of the oil-price shock which took place in the early 1970s. From the 1950-1973 period, Australia not only continued to implement an internally oriented strategy of economic development, but also marked a turning point: away from Britain towards the Pacific Region.

Up till the Second World War, the Australian economy was to a substantial degree a functional component of the British-centred world economy. The share of Australia's total exports going to United Kingdom market continued to be highly significant, though declining from 56% in 1940 to 39% in 1950 (ABS, *Foreign Trade Australia*).¹ However, after 1950, the United Kingdom share of Australian total exports continued to decline so that by 1970, it stood at 12%, and contracted further to 3.4% by 1994/95.

During the 1950s and 1960s, wheat and wool were the two most important Australian export commodities. However, a number of complex factors came together to produce an unstable international market for wheat and wool, namely the behaviour of relative exchange rates and commodity prices (Figure 1.1, *Panel ii*) and, as the 1960s progressed, a significant increase of political intervention in global trade.

From 1953-1973, two important trends in the structure of world trade became evident: developed countries continued to increase their trade domination, as well as their trade with each other (United Nations, 1982, 1994), and the share of world trade accounted for by manufactures increased from 44% in 1953 to 66% in 1973. At the same time, the share of world exports provided by foodstuffs and raw materials contracted from 23% and 22% respectively in 1953 to 13% and 10% respectively in 1973.

After World War II, the British Government followed policies which benefited their own manufacturing industries, by releasing large quantities of Australian wool in order to suppress the commodity price. However, from 1948/49, the global demand for wool increased substantially, with France, Italy, the USSR, Japan and Germany purchasing large quantities of wool. Consequently, wool prices increased by 27% on the previous high prices achieved in early-1948, and continued on their upward movement until April 1951. Until April 1951, the Korean War promoted wool prices, to a level ten times those

¹ Previously *Overseas Trade* ABS Cat. No. 815, first issued in 1903. ABS Cat. No. 5409, with final issue in 1984/85. Replaced by microfiche, *Foreign Trade Australia: Exports*, ABS Cat. No. 5436.0 and *Foreign Trade Australia: Imports*, ABS Cat. No. 5437.0.

prevalent before the Second World War, as there was alarm that American wool demands would cause shortages pushed wool prices even higher. However, when the American buyers pulled out of the wool market, on 2nd April 1951, international wool prices collapsed.

Australia's insularity in the formulation of its trade policies effectively kept it from non-participating in the establishment of an open world trading system, in the twenty five years after the signing of GATT in 1947. During this period Australia, along with New Zealand, distanced itself from the trade liberalisation undertaken by the other high-income countries.² Rather incongruously identifying with Third World primary produce exporters, Australia demanded separate treatment, refusing to reduce its trade barriers, protecting its manufacturing sector on the grounds that other GATT members were excluding agricultural trade barriers from the negotiations. Although Australian import quotas were dismantled by the early 1960s, they were generally replaced by equally protective tariffs. It was only from 1973 that Australia shifted dramatically its trade policy.

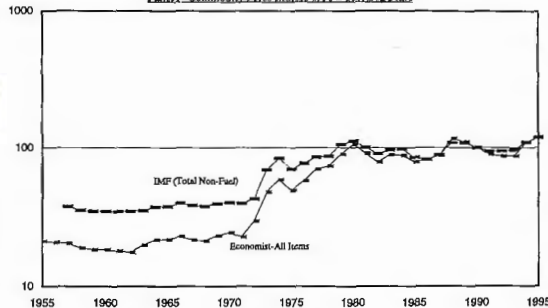
During the 1960s, the Australian government faced a major dilemma in its relations with China and Taiwan. In an effort to propitiate both countries, and in order not to lose the China wheat market, Australia formulated the 'Two-China Policy.' In the process, Australia's trade with China became intertwined in politics, as a consequence of which wheat sales to China declined, until they ceased altogether in 1971/72. It was only when Australia recognised the People's Republic of China on 22 December 1972 that wheat sales recommenced.

In the early 1970s, a strong and simultaneous expansion in the economies of the United States and Japan resulted in a rapid increase in the global demand for primary commodities which, in combination with rising inflation, low profits and low interest rates, encouraged speculation in commodities. As a consequence of speculation, commodity prices increased significantly (Figure 1.1, *Panel ii to iv*). But, by 1974, the world's major economies were experiencing a shared set of economic problems: workers demanding large increases in wages, reduced rates of productivity growth and profit shares were under challenge.

² Australia was a founding member of GATT and active participant in the 1955 GATT review, but refused to participate in subsequent rounds of multinational negotiations to reduce tariffs. This attitude contrasted with the position of other high-income exporters of agricultural products such as Canada or Denmark, who did cut trade barriers.

Figure 1.1 Selected Commodity Price Indices 1955 to 1995

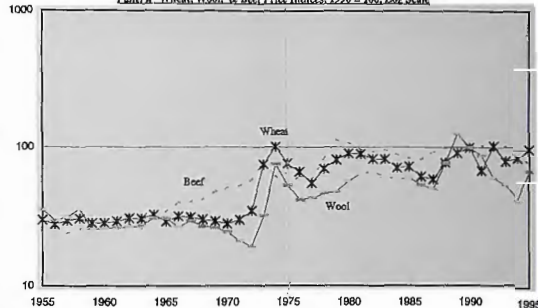
Panel I. Commodity Price Indices 1990 = 100, Log Scale



Notes: Economist - All Items Commodity Price Index is published by the Economist, expressed in US dollars, with weights based on imports into industrial countries. Petroleum, coal and precious metals are not included in the index. Weights are revised periodically. Prior to 1970, commodity prices in the index were expressed in a subunit of sterling and dollar prices. The series prior to 1983 has been updated and revised from estimates using earlier base periods. DMF Total Non-Fuel Commodity price indices are published by the International Monetary Fund (IMF), expressed in dollars, with weights based on the average export earnings in 1973 countries for the commodities selected for the period 1987 to 1989.

Sources: The Economist, The Economist Newspaper Ltd, London, weekly; International Monetary Fund, International Financial Statistics, IMF, Washington, DC, monthly; BHA, Reserve Bank of Australia, Bulletin, Reserve Bank of Australia, Sydney, monthly.

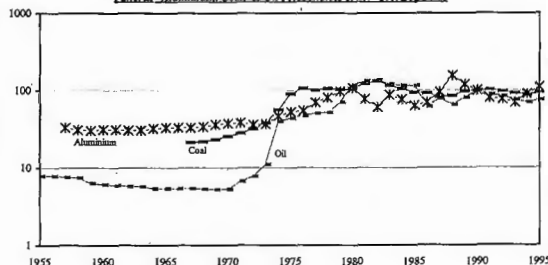
Panel II. Wheat, Wool, & Beef Price Indices 1990 = 100, Log Scale



Notes: Beef - US imported frozen boneless beef from Australia and New Zealand, 85 per cent visible lean meat (prior to 1975, 90 per cent), Lb, US part of carcase. Wheat - Australian Wheat based on spot price for Australian standard white. Wool - Average of monthly quotes for Australia-New Zealand 64s UK Densitex, 64's clean, dry, combed bests, bestified grade.

Source: IMF, International Financial Statistics, International Monetary Fund, Washington, DC, monthly.

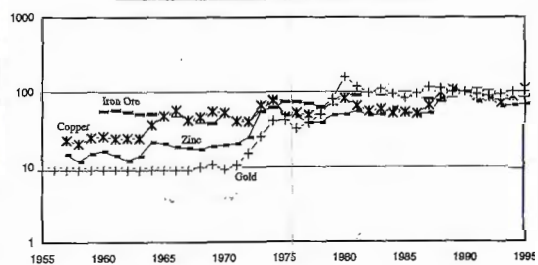
Panel III. Aluminium, Coal, & Oil Price Indices 1990 = 100, Log Scale



Notes: Aluminium - London Metals Exchange standard grade cash spot price, c.i.f. UK ports. Prior to 1979, UK producer price. Coal - Average export unit value of Australian coal, Indonesian and similar soft fields from coal. Oil - Oil price data up until 1964 inclusive, refer to the price of Saudi Arabia light crude (34 degrees), quoted prices until 1974 and state sales prices from 1974 to 1984 inclusive. From 1985 inclusive, data refer to the price of West Texas Intermediate sold on the spot market.

Source: IMF, International Financial Statistics, International Monetary Fund, Washington DC, monthly.

Panel IV. Copper, Gold, Iron Ore & Zinc Price Indices 1990 = 100, Log Scale



Notes: Copper - London Metals Exchange, grade A cathodes, settlement spot price, c.i.f. European ports. Gold - From 1968 inclusive, London Metals Exchange gold price. Prior to 1968, the official par rate of \$35.5 per fine ounce is given. Iron-Ore - Price of Brazilian Itabira standard sintered, 61.5 per cent iron, c.i.f. German ports. Zinc - London Metals Exchange high grade (up to 1966, standard grade) cash spot price, c.i.f. United Kingdom ports.

Source: IMF, International Financial Statistics, International Monetary Fund, Washington, DC, monthly.

The underlying problems in the global economy were exposed over 1973-74 when, on top of an international boom in commodity prices, OPEC dramatically increased the price of crude oil (Figure 1.1, *Panel iii*), which sent a highly destabilising wave of inflation throughout the global economy in 1974. Prior to the oil-price shock of 1973, there had been relative stability in global commodity prices (Figure 1.1, *Panels i-iv*). However, from 1972 onwards, there was more variability in commodity prices. By 1975, uncertainty, combined with restrictive economic policies in the main western industrialised economies led to a significant recession in global economic activity.

During the 1980s, global economic performance continued to be affected by a series of constraints, which resulted in slow growth in world trade over the first half of the decade (1980-1985). Nevertheless prices for most traded items remained depressed from 1980 onwards (Figure 1.1, *Panels i to iv*). In addition, economic growth in the developed market economies was moderate over the decade. The 1980s uncertainties had been reflected in the global adoption of floating exchange rates, with international monetary conditions remaining volatile. However, the outstanding feature of the 1980s decade was the growing dependence of the United States on capital flows from the rest of the world, resulting in the United States investment position to shift from a credit to a debit. At the same time, the large international flows which characterised the 1980s tended to destabilise international exchange rates, with central banks in the major industrial countries being forced to intervene. By 1985, global central banks reached a consensus that the world's most important currency, the American dollar, was overvalued by around 40% on a trade-weighted basis. The stock market crash of October 1987 indicated the extent to which unregulated market forces can develop into a self-destructive force.

International trade continued to be restrained during the first half of the 1980s, with stronger growth being experienced during the second half of the decade. During the 1980s, OECD's GDP grew at an average annual rate of 2.9% while the average annual value of merchandise exports grew by 4.5%. However, it was the East Asian economies which registered outstanding success, with the volume of exports from the region growing at an annual average rate of more than 12.5% over 1980s.

Just as Australia was embracing the GATT principles of liberal multilateral trade, the system became under threat, most notably from United States' actions (Pomfret, 1995). The threat came in part from a growing tendency of the major trading nations to by-pass GATT principles by unilateral actions such as anti-dumping, countervailing duties, or voluntary export restraints (VERs) agreements. GATT also became under pressure from the United States and the European Community, when these countries reached bilateral

agreements with Japan and other Asian countries for market access. Furthermore, bilateralism became more evident with the proliferation and strengthening of preferential trading arrangements, especially NAFTA and the '1992' program to complete the European Community's internal market.

The multilateral trading system was fragmented because membership of several key GATT agreements - and indeed of the General Agreement itself - was not universal (WTO, 1996). Trade in services was largely outside the scope of multilateral disciplines. Intellectual property rights, while governed by international standard-setting conventions, were not subject to any treaty for enforcement of these standards. This provided a fertile ground for the rise of unilateralism and bilateralism in trade relations (WTO, 1996). The dispute settlement machinery of GATT had become less effective because of the opportunities that existed for blockages.

Australia continued its active participation within GATT, leading to a well defined leadership role for Australia, in the late-1980s (Pomfret, 1995). Australia's reaction to these developments was to emphasise its commitment to GATT, which provided the best protection of the rights of small trading nations. Though Australia had been a signatory to a number of international agreements in order to safeguard its primary exports, as a small exporting nation, it did not have much force. Australia also became apprehensive in being left out of any regional blocks that were being implemented but its approach was a precautionary one (Pomfret, 1995). Australia promoted the widely defined Asia Pacific Economic Cooperation (APEC), in part to forestall more restrictive groupings such as the Malaysian proposal for an East Asian Economic Caucus, which included only the ASEAN and North East Asian countries. The idea of using APEC as a forum that also included the United States was embraced by Japan and, under Australian and Japanese leadership, it has become a vehicle for promoting open regionalism.³ Thus, the Asia-Pacific countries will cooperate on areas of mutual interest but will not form an exclusive trading bloc.

Australia was a founding member of APEC which was formed in November 1989 in response to the growing interdependence among Asia-Pacific economies (APEC, 1996).⁴ APEC's aim was in liberalising trade, both merchandise and services, in the Asia-Pacific region. Trade in air transport services has received complementary process in the Pacific

³ Although Australian policy makers emphasise that APEC is committed to non-discrimination, the membership of APEC suggests a regional limit to Australia's Asian orientation since APEC's western boundary cuts out much of Asia, including the fellow members of the Commonwealth in South Asia and the ten Islamic countries in the Economic Cooperation Organisation.

⁴ As of 1996, APEC was composed of the following members: Australia, ASEAN countries, Canada, Chile, Chinese Taipei, Hong Kong, Japan, Mexico (since November 1993), New Zealand, People's Republic of China, Republic of Korea, Republic of the Philippines and the US,

Economic Cooperation Council (PECC). Air transport is mentioned in the General Agreement in Trade in Services (GATS) but only with respect to ground and other complementary services, and not in relation to landing rights (Findlay, 1995). On several occasions, opposition from the United States proved to be an insuperable barrier, e.g., the failure of the United States to ratify the International Wheat Agreement in the late 1940s. International trade in wheat was also undermined, from 1985 onwards, when in retaliation against European Community (EC) agricultural policies, the United States began its Export Enhancement Program under which wheat exports were heavily subsidised. Australian wheat was one of the major casualties of the trade war.

1.3 Australian Economy and Political Effects

Australia, a country with a small open economy, relies heavily on the expansion and diversification of its exports. Over the long run, Australia's capacity to import foreign producer and consumer goods, which are essential to the realisation of higher living standards, is constrained largely by its ability to generate foreign income through exports, or by attracting foreign investment. However, this has to be seen from a broader perspective; for over time, one of the prime strategies of Australian governments has been to expand the domestic economy by increasing the Australian population through immigration (Davidson, 1981; Butlin, 1985; Collins, 1988). In effect, this shaped many of Australian policies, including trade policies.

The historical development of Australia's export industries have been determined by a hierarchy of elements ranging from the essentially exogenous circumstances of world economic and political history, down through a range of domestic variables as diverse as economic, social, political, ideological and institutional factors. An account of Australia's export trade, even such a brief one as is possible here, requires three levels of historical inquiry: a historical perspective of the global economy after World War Two, an analysis of the political economy of Australian economic growth and a broad overview of Australia's major export industries.

The Australian economy, over the 1953-73 period, grew strongly, achieving real rates of growth in goods and services output not experienced since the late 19th century. In the interim, unemployment remained low despite rapid population growth and the inflation rate remained moderate.

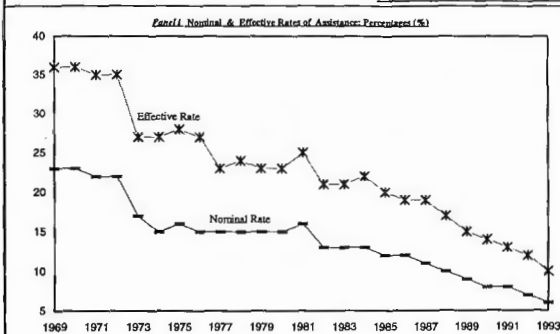
Australian policymakers continued to achieve economic growth by extending population growth. Extensive economic growth rather than growth per capita continued to be the central objective of Australian policies over the 1950-1973 period, as immigration promoted population growth. The role of trade in Australian policies was for trade to generate a demand for labour while the government would supply the required manpower through immigration. As in the 1920s, immigration found support from a manufacturing sector. Over the 1947-1961 period, immigration contributed 73% of the total workforce growth (Collins, 1978).

Adhering to the 'White Australian Policy,' the Minister for Immigration, Arthur Calwell promoted the idea of British and European immigration, by exploiting fears about the proximity of Asia - fears which had been reinforced by World War II. Immigrants continued to be sought from the United Kingdom and Ireland, but as these sources began to close up, new sources had to be found.

Displacing the British influence was possible through, initially, an increase in links with the United States and later, through an extensive redirection of trade towards Japan and other North East Asian countries. At the same time, the shift in trade partners made the 'White Australia' approach to immigration increasingly anachronistic and untenable. From the early 1960s, when the supply of immigrants from Britain and later from other parts of Western Europe began to decline, Australia sought migrants from southern Europe and then the Middle East, South America and subsequently Asia.

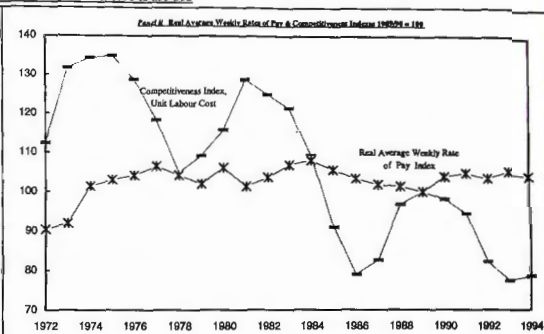
It was during the 1970s, through the intake of Vietnamese refugees, that Australia increased substantially the number of Asian settlers. Australia's Asian migrants intake continued to increase over the 1980s and early 1990s period. However, it was a policy change within the Family Reunion Program which precipitated a significant increase in the intake of Asian immigrants. Asian migrants' chances of settling in Australia were greatly improved by the introduction of new schemes, such as the Business Migration Program (BMP), which were highly marketed in North East Asia. From the 1980s onwards, not only were many of the new Asian settlers well-educated and professionals, but many also had substantial funds to transfer to Australia.

Figure 1.2 Selective Australian Economic Indicators 1969/70 to 1994/95



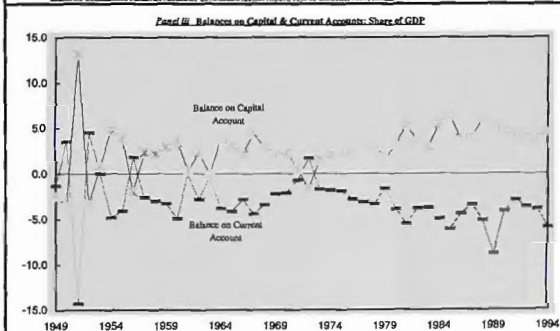
Notes: Rates of assistance are the average rates of assistance to manufacturing industries in Australia as estimated by the Industry Commission (formerly the Industries Assistance Commission). The rate is the sum of the expenditures expressed as a percentage of the value of output. The forms of assistance considered include cash grants, concessional loans, interest subsidies, tax concessions, export rebates, etc. Expenditures on research and development are excluded. Forces of assistance not taken into account include government purchasing practices. Series was re-based and averaged weights from 1974/75 production levels based on the pattern of purchases in 1970/71 (yearweight 1971/72). From 1986/86 inclusive, series based on 1986/86 prices of production, with constant weights of 1986/86. Effective assistance refers to the gross expenditure provided to an activity, industry, etc., and can cover any set of forms of assistance. Effective assistance in the last assistance provided to an activity, industry, etc., after allowing for the effects of tariffs and other forms of protection which cause the effective rate of assistance to differ from the nominal rate.

SOURCE: ABS, *Australian Economic Indicators*, ABS Cat. No. 1350.0, AGPS, Canberra, ACT, monthly; ABS, *Economic Round-Up*, AGPS, Canberra, ACT, monthly; Industries Commission, *Industries Assistance Commission Annual Report*, AGPS, Canberra, ACT, annual.

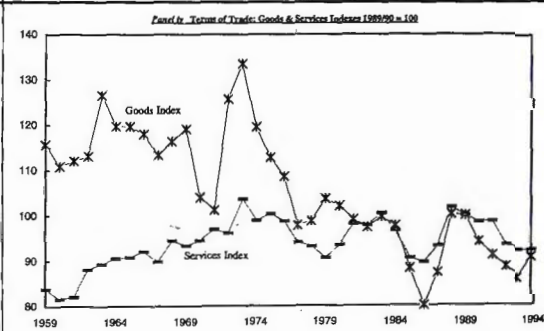


Notes: Estimates are the average weekly earnings for a specified pay work. The survey covers all employees, excluding those in the defense forces, agriculture, employers in private households employing staff, and employees on workers' compensation. Weekly outlays are before tax and other deductions, and include award and once-a-week payments, penalty rates, overtime earnings, allowances, bonuses and incentive payments. Compensation (Unit Labor Cost) are calculated as the ratio of the Australian price of cost measures to the average of the unit labor cost of the comparable range of paid jobs and cost measures of Australia's four major trading partners as indexed with 1989/90=100. The last column in the index compares the unit labor cost of Australia's four major trading partners, after adjusting for exchange rates. The Unit Labor Cost uses the ratio of non-durable, market and replacement to gross non-durable product.

Sources: ABS, *Average Earnings and Hours of Employees, Australia*, ABS Cat. No. 5304.0, AGPS, Canberra, ACT, annual; ABS, *Average Weekly Earnings Australia*, ABS Cat. No. 5301.0, AGPS, Canberra, ACT, quarterly; ABS, *Labour Report*, AGPS, Canberra, ACT; ABS, *Consumer Price Index*, ABS Cat. No. 6401.0, AGPS, Canberra, ACT.



SOURCE: Australian Bureau of Statistics, *Balance of Payments*, ABS Cat. No. 3302.0, Australian Government Publishing Service, Canberra, ACT, quarterly; ABS, *Balance of Payments*, ABS Cat. No. 3303.0, AGPS, Canberra, ACT, annual.



Notes: Terms of trade is defined as the ratio of export prices to import prices; in this case obtained by dividing the implicit price deflator for exports (of goods and services) by the implicit price deflator for imports.

Sources: ABS, *Balance of Payments*, ABS Cat. No. 3302.0, AGPS, Canberra, ACT, quarterly, ABS, *Balance of Payments*, ABS Cat. No. 3301.0, AGPS, Canberra, ACT, annual, ABS, *Australian Economic Indicators*, ABS Cat. No. 1350.0, AGPS, Canberra, ACT, monthly, ABS, *Economic Round-Up*, AGPS.

From an international trade perspective, migrants' skill and rates are important for the Australian economy. With time, there was a shift in Australia's trade which resulted in an increase in trade links with Asia. In fact, Australia's immigration pattern has historically been linked with its commercial ties. In the 1990s, however, the immigration issue was not one of the number and composition of intakes, but whether there should be an intake at all, in view of the high unemployment and trade liberalisation.

Australia experienced periodic balance of payments crisis as trade deficits developed in 1951/52, 1960/61, and in the mid-1960s (Figure 1.2, *Panel iii*). In these years, exports stagnated while imports continued to expand. A number of factors came together to sustain the inward-looking industry policy which was previously developed, and in consolidating the position of Australia's resource-based export industries. The decline in the share of manufactured goods exports was due to their comparative disadvantage relative to rural goods, as there continued to be a strong demand for primary products in the world economy. In the early 1950s, a boom in commodity prices provided a supply-side shock to the Australian economy; drawing investment away from manufacturing and back into the rural sector (Gruen, 1963; Campbell, 1963). The high investment which went into the rural sector was used to raise the capital intensity of production. For manufacturing the reverse occurred. These events consequently set the stage for the process of economic development in Australia over the next three decades.

The continued deficits on the current account were partly indicative of Australia's need for investment in internationally competitive industries, to sustain its economic growth. During the 1960s, Federal and State government policies favoured foreign investment in mining as the most reliable means of achieving increased export earnings to relieve balance of payments deficits, and in diversifying Australian commodities' exports and markets. The late 1960s mineral boom involved a considerable degree of foreign investment and control (McKern, 1976). In effect, during the late 1960s and early 1970s, the mining sector rate of growth was so fast that it contributed to an overvalued exchange rate, domestic inflation and rising wage costs (Gregory, 1976). This reflected the relatively weak structure of Australian corporate capital and a shortage of Australian companies with expertise in large-scale mining.

The high infrastructure costs of mining were mainly met by the mining companies themselves, though in some instances direct government assistance was provided, such as for nickel in Western Australia. In return, the mining industry operated in an easy tax environment where most of the developmental costs could be written off against income tax and royalty payments (Bambrick, 1979). The level of foreign investment and the

various tax concessions gave rise to public disquiet which resulted in government assistance being reduced, as of 1974 (Fitzgerald, 1974). Australia's servicing of its foreign debt doubled between 1950s and mid 1960s, increasing from 6% to 12% of Australian total export earnings, peaked to 15% at the end of the 1960s as a result of the foreign capital which was associated with the mineral boom and then declined as Australia's exports earnings rose in the inflationary commodity boom of the early 1970s (ABS, 1989a, 1989b).

The relative stability in Australia's terms of trade was attributed to continued strong demand for primary products in the global economy and a widening of Australia's export mix to encompass a greater level of manufactured goods and minerals (Figure 1.2, *Panel iv*). In effect, the major influence on Australia's balance of payments was the domestic growth cycle in an economy which was always close to full employment.

In the early 1970s, the Australian economy was strongly in surplus on the balance of merchandise trade. However, by mid-1972, the McMahon government, in a vain attempt to avoid electoral defeat, relaxed its fiscal policy (Garnaut, 1980a). The Whitlam government, over the 1972-1974 period, as an anti-inflation measure, revalued the Australian dollar and, in July 1973, implemented tariff cuts to raise imports and thus place downward pressure on domestic prices. As a result, over the 1972-1974 period, the trade-weighted exchange rate for the Australian dollar appreciated by 17 per cent (ABARE, 1988). A general cut in tariffs of 25 per cent was introduced in July 1973, which resulted in an increase of 27% in import volumes during 1973/74. This anti-inflationary strategy reduced the competitiveness of Australian industries at a precarious moment, when it was facing a mounting challenge from Japan and the Asian NICs - domestically and internationally.

Prior to 1983, Australian manufacturers lack of initiative in pursuing export opportunities might be attributed to insufficient government encouragement, foreign ownership dominance and control and a protected and prosperous home market. Multinational companies operating in Australia did not want to relinquish their control and were reluctant to transfer R&D tasks from their home country to Australia (Rattigan, 1986). This resulted in local industries having little chance of developing any significant technical activity. Throughout the oil-shock period, Australian governments funded industry-specific R&D for firms operating in the resource sector, while the manufacturing sector received assistance in the form of high levels of tariff protection, by world standards. By 1975, Australia was still highly protectionist by the standards of industrialised countries. Its barriers were discriminatory to the most important manufactured exports of developing countries, namely textiles, clothing and footwear (TCFs).

Australia's effective rates of tariff protection, which were gradually perceived from the early 1970s as having contributed to Australia's relatively poor economic performance, began to change. In 1973, the government cut all tariffs by 25%, and in the subsequent two decades tariffs were reduced further (Figure 1.2, *Panel i*). Two industry groups, motor vehicles and parts, and textiles, clothing and footwear - persuaded the government to give them extra protection in the form of import quotas for a time, but since 1985 even that protection has been phased down. As a consequence, the effective rate of protection to manufacturing was more than halved from the early-1970s to the mid-1980s, and was reduced by a further two thirds during the 1990s, bringing it close to the average for other industrialised countries (Figure 1.2, *Panel i*). This one factor led to imports growing faster than exports, with an accompanying deterioration in the balance of trade.

When the international economic boom in trade ended in 1974 and a period of volatile commodity prices ensued, the strategy of economic growth which relied on low value-added, resource-based exports had to be re-evaluated. After 1983, the government continued dismantling protectionism and moved towards the development of an externally oriented industry policy for manufacturing. At the same time, during the 1980s, the Australian government implemented a series of industry policies to diversify Australian export sectors. Many of the deregulatory reforms which were instituted during the 1980s had implications for Australia's economic development well into the 1990s decade.

The market liberalisation process of the Australian economy continued into the 1980s by, in 1983, floating the Australian dollar and the dismantling of exchange controls. It was followed shortly after by the deregulation of the financial system and the reduction of capital controls, which integrated the Australian financial and capital markets into the world market. Subsequently, structural changes were undertaken in the still regulated goods and labour markets. Since the late-1980s, microeconomic reform became a central aspect of Australian economic policy, with the aim of improving the efficiency with which resources are used in the production of goods and services (Filmer & Dao, 1994).

In 1983, through the Prices and Income Accord, the Hawke government set the framework for some adjustments in the labour markets. Further reforms were introduced in the late 1980s, by means of the Industrial Relations Act of 1988, to support a move towards enterprise-based agreements and improve the skills and flexibility of the workforce. Furthermore, in favourable economic circumstances, the government continued with its program of tariff reductions and in controlling inflation.

The labour and goods markets adjustments were brought about by means of the Accord process and the general thrust to implement microeconomic reform. The need for microeconomic reforms was exposed by the program of tariff reduction, which aimed to have average effective rates of protection for the manufacturing sector down to 5% by the year 2000.⁵ At the same time, the Accord process moved progressively to tie wage increases more closely to productivity and to allow some decentralisation of the wage-setting process in the form of enterprise bargaining.

At a critical point in the process of structural adjustment, macroeconomic instability increased significantly and threatened to undermine continued support for the process of market liberalisation. Various factors contributed to the turbulence in the macroeconomic environment in the late-1980s. In particular, Australia's inflation rate remained in excess of that of the OECD average; foreign debt increased dramatically after liberalisation of the money and capital markets; the terms of trade behaved erratically over the period 1985-1987 (Figure 1.2, *Panel iv*); the stock market crash of October 1987 and subsequent asset-price inflation, all had the potential to destabilise the macroeconomic environment.

Large inflows of foreign capital,⁶ mainly from Japan, the United States and the United Kingdom, were attracted to Australia; stimulating a rise in imports and encouraging speculations in equity⁷ and property markets. Over the 1983/84 to 1994/95 period, while net debt⁸ as a percentage of GDP rose by 193.4%: from 13.6% in 1983/84 to 39.9% in 1994/95, the level of investment in new plant and equipment rose by only 6.8%: from 7.2% in 1983/84 to 7.7% in 1994/95. Investments in manufacturing, as a share of GDP, remained small; with a number of small innovative manufacturing exporters being unable to get the required financial support from Australian banks. Several of the most successful firms were forced to move overseas in order to get access to reasonably priced venture and development capital, e.g., in late-1989, MetaLaser,[®] a company producing a new laser-based system for use in cosmetic surgery, made it publicly known that it was forced to go to the United States because it could not obtain support from the local banking system (Pappas *et al.*, 1989). Moreover, by the end of the 1980s decade, government attempts to use tax incentives to develop a private venture capital market had produced few results.

⁵ In 5 June 1997, in a joint statement by the Prime Minister, John Howard, the Treasurer, Peter Costello and the Minister for Industry, it was revealed that the Automotive Industry would benefit from the following tariffs arrangements: that the current schedule for PMV tariff phasing will continue through to the year 2000; from 1 January 2000 the tariff will be at 15% and will remain at that level for the next 5 years; there will be no differentiation for micro/light vehicles and four wheel drive vehicles, with light commercial vehicles remaining at 5%; and that forthwith the tariff will be reduced to 10% on 1 January 2005. *Joint Statement: Automotive Industry*, Prime Minister's Office, Treasurer's Office and Minister for Industry, Science and Tourism, Press Release 198/97 CMR 663, 5 June 1997, Canberra, ACT.

⁶ All levels of foreign investment in Australia, that is, non-official borrowings, direct investment and equity, official borrowings and equity.

⁷ Based on the share prices on the Joint Trading Floors of equities listed on the Melbourne Stock Exchange for the period 1962/63 to 1968/69 inclusive, to shares listed on the Sydney Stock Exchange from 1969/70 to 1988/89, and on the Australian Stock Exchange thereafter.

⁸ Includes those liabilities to non-residents which carry an obligation to pay interest and/or repay principal. Debt is denominated in Australian dollars, short-term debt and debt of a direct investment nature are included in this definition. Investment in corporate equities, net equity in branches and accounts payable/prepayments received are excluded.

Even though commodity prices were favourable and the terms of trade had improved over 1987 to 1989 period, the economic outlook was surprisingly difficult. Australia faced a deteriorating balance of trade and current account and the burden of foreign debt servicing, as a percentage of exports, had reached dangerously high levels. When commodity prices began to falter in 1989/90, the dilemma was exacerbated. In response to an asset price inflation, monetary policy was tightened significantly, and the economy slipped into recession in 1990, from which it only started making a recovery in 1994.⁹

The significant increase in unemployment initiated pressure to halt or slow the process of structural adjustment in the goods and labour markets. With unemployment a major macroeconomic priority over the remainder of the 1990s, there continued to be pressure to slow tariff reductions to save jobs. Similarly, microeconomic reform, to the extent that it revealed over-staffing and inefficient work practices, involved labour shedding and was met with resistance at a time when unemployment was unacceptably high.

In the Australian context it can be argued that the pre-condition of macroeconomic stability was not met in the 1980s and 1990s, and consequently the costs of trade liberalisation have been higher than was necessary (Rogers, 1995). In addition, the sequencing of reforms, particularly as they relate to the capital and current accounts, increased the costs of adjustment and placed additional downward pressure on real wages. The general conclusion from the literature (Krueger, 1986; Edwards, 1986; Michaely, 1986; Neary & Ruane, 1988) on the stabilisation policy and the sequencing of reforms is that stabilisation should proceed first, with current account liberalisation followed by capital account liberalisation last. But as Barry (1992) argues, Australian economic policy proceeded in precisely the opposite sequence in the 1980s. The capital market was liberalised and the exchange rate floated before tariff reform was complete. Australian inflation was reduced to world levels in 1991, but only as a result of the excessive use of monetary policy aimed at the current account deficit and the growth of foreign debt. It is also likely that liberalisation of the capital account increased resistance to further trade reform.

Despite the fact that most costs have been borne, further trade reform in the 1990s remains at risk. The major threat would appear to come from unemployment in the face of real wage rigidity in the labour market. As Forsyth (1993) has pointed out, the difficulty is compounded by expanded trade with labour intensive economies, e.g., with South East Asia. The same is true if the terms of trade for primary products remains

⁹ Based on rate of unemployment figures, as sourced from: ABS 1995, *The Labour Force, Australia*, ABS Cat. No. 6204, ABS, Canberra, ACT, annual; ABS 1995, *Labour Statistics, Australia*, ABS Cat. No. 6101.0, ABS, Canberra, ACT, annual.

under downward pressure in the 1990s. Both of these trends will place additional downward pressure on real wages, particularly unskilled wages, in the 1990s. Real wage resistance will compound the unemployment problem and might well induce increased resistance to further trade reforms.

The deregulation of the financial markets and the floating of the Australian dollar in the early-1980s facilitated Australian investment outflows, which increased from approximately 0.5% in 1980 to 1.5% in 1994 of total global investments. The gap between Australian inflows and outflows declined as outward FDI grew rapidly in the 1980s, with outflows exceeding inflows in 1987/88, a once off occurrence. At the same time, Australia's outward FDI industrial composition was broadly in line with world trends, where, by the late-1980s, 55-60% of global FDI outflows was directed to the services sector (BIE, 1995a).

Australian investments became more oriented towards the United Kingdom and the United States and to a lesser extent to New Zealand, rather than to neighbouring ASEAN countries. By 1994/95, the United Kingdom and United States were recipients of 64% of Australia's global FDI. This shift was largely at the expense of investment shares formerly held by Hong Kong, ASEAN countries, and Papua New Guinea.

Australian firms decision regarding their potential host countries for their investments were influenced by the size of each country's market and its growth potential, policy settings and a wide range of factors which condition the risk environment for investment: from historical ties to cultural and commercial familiarity (BIE, 1995b).

The pattern around the world, especially in North East Asia, is increasingly for investment to drive trade (Bradford, 1994). Yet Australian investment in North East Asia is still small relative to both the share of Australia's trade with the region and the strategic importance of establishing closer links with its economies. The Australian government approach in increasing the country's economic relations with the Northeast Asian countries of China, Hong Kong and Taiwan did not take place, in terms of Australian investment. In effect, from a financial point of view, the reverse occurred, with Australian corporations shifting their investments away from Northeast Asia and ASEAN regions, towards the European Union and North America. Taiwan proved to be highly protective while China resulted in disappointing returns and significant losses on investments. However, Australian firms made greater use of out-sourcing as a means of investing in China.

1.4 Australian Exports

Australia's trade patterns and performance were inevitably susceptible to and influenced by the state of the world economy. Australian exports benefited from the long boom of the 1950s and 1960s, as well as from increases in the prices of primary produce, during the early-1950s and 1970s (Figure 1.1, *Panels i-iv*). The critical role played by the export sector in the process of Australian economic growth is demonstrated by Australian exports' contribution to GDP, with periods of economic difficulty - the recessions of the early 1950s, the mid-1970s, the early- and late- 1980s - being all associated with collapsing export receipts, while some periods of recovery, such as the Korean War boom in 1950/51 and the early-1970s minerals boom, being linked to improvements attained in the export sector.

However, over time, the ratio of exports plus imports to Australian GDP fell steadily: from 35 per cent during the interwar period, 30 per cent in the mid-1980s to 29% in 1992 (ABS, ABS Cat. Nos 5204.0 & 5302.0).¹⁰ It was only in 1994 that the ratio of exports plus imports to Australian GDP surpassed, at 31%, the mid-1980s ratio. This trend stood in contrast to the majority of other industrial countries: they moved in the opposite direction, with an increasing orientation toward foreign trade. After World War II, the decline in Australia's trade is mostly attributable to its import-substitution policy. However, during the 1980s, Australia's exports decline was primarily due to the conservative economic policies followed by the government; to the high value of the Australian dollar and in exports being composed of low value-added resource-based products, which were subject to erratic movements in international prices - making Australian exports less competitive (DFAT, 1995c).

Australia's merchandise exports and imports, as a share of Australia's GDP, continued to vary over time: in 1949/50, merchandise exports and imports accounted for 22.8% and 19.8% each respectively; in 1959/60, 12.4% and 13.5%; in 1969/70, 12.1% and 10.8%; in 1979/80, 15.1% and 12.8% each respectively (Figure 1.3, *Panel i*). Over the 1990/91 to 1994/95 period, merchandise exports and imports accounted for 14.6% and 14.5%, each respectively, of Australia's GDP.

¹⁰ Australian Bureau of Statistics (ABS) 1995, *Australian National Accounts, National Income and Expenditure*, ABS Cat. No. 5204.0, AGPS Canberra, ACT, various issues; ABS 1995 *Balance of Payments*, ABS Cat. No. 5302.0, AGPS, Canberra, ACT, various issues.

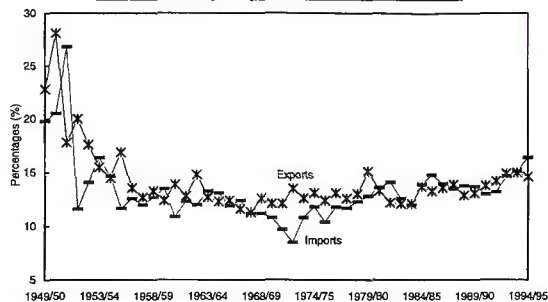
Periods of recovery in Australia's GDP tended to be associated with an improvement in the contribution made by the export sector. However, decline in Australia's GDP growth rate occurred mainly after long boom periods and reflected renewed emphasis on growth, based on population expansion which took place following peaks of strong export activity (Boehm, 1979; Tsokhas, 1984; Edelstein, 1988). Failure to expand and significantly diversify the Australian export sector in the post-World War Two period meant, that by the late twentieth century, Australian exports' share was falling as a percentage of world exports. Australian total merchandise exports as a percentage of global exports continued to decrease over the 1955-1993 period: from 2.1% in 1955, 1.8% in 1965, 1.6% in 1971, 1.3% in 1977, 1.1 in 1986 and 0.9% in 1993 (GATT, 1994; WTO, 1996).

From the early 1950s to the early 1970s (long boom), high international demand sustained Australia's rural sector and new markets for Australian wool, wheat, meat and minerals were developed in the Pacific Rim region. Substantial contracts for wheat delivery were signed with China. During the same decades, strong growth in demand for raw materials by industries in Japan and later in the North East Asian countries of Hong Kong, Taiwan and Singapore, forced the development rate in unprocessed mineral export, making Australia become more dependent on the volatile exports of mineral resources.

Over the 1950/51-1968/69 period, Australian services exports share of Australia's total goods and services exports grew from 5.4% in 1950/51 to 16.6% in 1968/69, before declining to 15.8% in 1970/71 (Figure 1.3, *Panel iv*). From the early 1970s to the early 1980s, world trade in services increased at the annual rate of 15.7%, while Australian services trade only grew at 9% per annum. This resulted in Australia's share in global trade in services to fall from 1.3% in 1973/74 to 0.9%, a decade later (DFAT, 1989a). This means that over 1973-1983 period, Australian services exports had performed poorly. However, while services exports grew at a modest rate over the 1980-1985 period, they improved strongly from the mid-1980s to the mid-1990s, that by 1994/95, they constituted 21.6% of Australia's total goods and services exports (Figure 1.3, *Panel iv*). This was partly the result of the Australian government implementation of a series of policies to improve the performance of Australia's services industry. This change in Australian services exports' performance was mainly attributable to a strong growth in the 'travel' and 'transportation' categories.

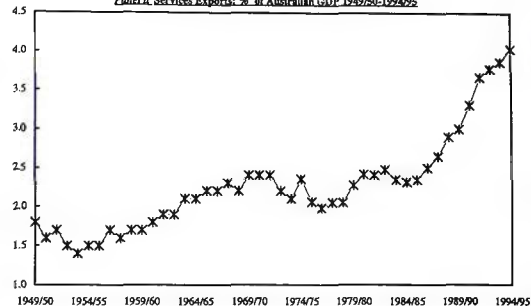
Figure 1.3 Selective Australian Exports Indicators: 1949/50 to 1994/95

Panel i: Merchandise Exps & Imps: % of Australia's GDP, 1949/50 to 1994/95



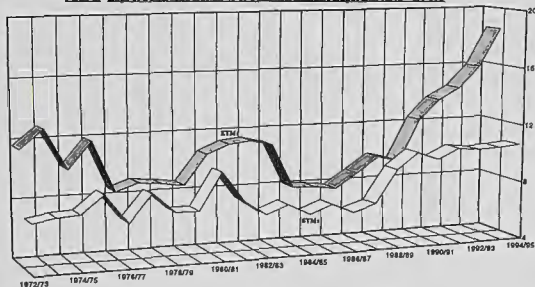
Sources: Australian Bureau of Statistics (ABS), *Foreign Trade, Australia, Comparative and Summary Tables*, Catalogue No. 5410.0, Australian Government Publishing Service (AGPS), Canberra, ACT, various issues; ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Australia*, ABS Cat. No. 5417.0, AGPS, Canberra, ACT, various issues; ABS, *Australian Merchandise Trade*, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues; Reserve Bank of Australia 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

Panel ii: Services Exports: % of Australian GDP 1949/50-1994/95



Sources: Australian Bureau of Statistics (ABS), *Balance of Payments, Australia, 1994/95*, ABS Cat. No. 5303.0, Australian Government Publishing Service, Canberra, ACT, previous issues; Australian Bureau of Statistics, *Balance of Payments Australia, December Quarter 1995*, ABS Cat. No. 5303.0, Australian Government Publishing Service, Canberra, ACT, previous issues.

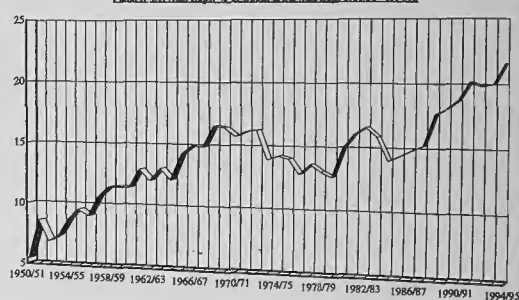
Panel iii: Exps of STMs And ETMs: % of Total Merchandise Exports 1972/73 - 1994/95



Notes: STMs and ETMs are defined according to the Trade Related Export Classification Index (TRECI), which categorises exports according to their degree of processing. TRECI has been developed by the former Department of Trade and is now used extensively by the Department of Foreign Affairs and Trade (DFAT). STMs, Simple Transformed Manufactures, which are basically mineral manufactures of ferrous and non-ferrous metal products, with a small component made up of mineral consumption materials. ETMs, Elaborately Transformed Manufactures.

Sources: Department of Foreign Affairs and Trade (DFAT), *Exports, Primary and Manufactured Products, Australia*, Central Statistical Section, DFAT, Canberra, ACT, various issues.

Panel iv: Services Exps: % of Goods & Services Exps 1950/51 - 1994/95



Sources: Australian Bureau of Statistics (ABS), *Balance of Payments, Australia, 1994/95*, ABS Cat. No. 5303.0, Australian Government Publishing Service, Canberra, ACT, previous issues; Australian Bureau of Statistics, *Balance of Payments Australia, December Quarter 1995*, ABS Cat. No. 5303.0, Australian Government Publishing Service, Canberra, ACT, previous issues.

Despite a shift in the composition of exports towards manufactures and services from the mid to late 1980s, by 1990, 60% of Australia's exports were still principally low value-added products of the resource-based industries, which are subject to erratic movements in international prices. A strong economy, facilitated by rapid increase in export receipts during the late 1980s and by easy access to foreign-capital, stimulated an import boom in the last two years of the decade, producing trade deficits in the 1988/89 and 1989/90 financial years. Yet, while an increasingly tight fiscal and monetary policy had failed to reduce imports significantly by early 1990, high interest rates were undermining the export sector by discouraging investments in exporting sectors' capacity and by appreciating the Australian dollar, thus making Australian exports dearer in overseas markets.

1.4.1 Policies and Strategies

Immediately after the Second World War, there was a greater international demand for the type of mineral resources and foodstuffs produced by Australia's traditional export industries than there was for manufactured products. The capacity of Australian export industries to expand their output, in response to higher postwar prices, was limited initially, by both seasonal conditions and the impact of an official bias against exports in the Australian government reconstruction policy, which restricted access to labour and material inputs for many industries (Blainey, 1978; Tsokhas, 1986). Thus, from the late 1940s, strong growth in the Australian economy diverted output from rural, mining and manufacturing export industries to local consumption, thus reducing the surplus available for export.

Forecasting that the postwar period would see a collapse of commodity prices, the Australian government entered into agreement, with only limited provision for renegotiating prices, with the United Kingdom to sell it all its surplus foodstuff until 1948. Thus, while international prices for foodstuffs rose significantly, Australia was committed by contract, to supply these products at well below market values (Davidson, 1981).

By the early 1950s, booming commodity prices had induced a complete change of policy towards rural exports. The Australian optimistic vision of relying on exports of low value-added primary products continued to predominate.

During 1953-1976 period, not only did Australian manufactures' exports increase quite rapidly as a proportion of Australian total exports, but also represented the most important diversification within the Australian export structure. This was mainly due to: the strong growth of the manufacturing industry in Australia during the postboom period and also as a result of rapid expansion of world trade in manufactures, particularly from the mid-1960s, when international trade in manufactures was liberalised by the Kennedy Round of the GATT (Perkins, 1979; GATT, 1993).

However, Australian government policy discouraged export diversification and structural change. Specifically, by maintaining a highly protectionist tariff policy, even after import quotas and exchange controls were lifted in 1960, the Federal government in effect created a climate in which Australian firms could easily fail to become internationally competitive. Moreover, the Federal government did not give the manufacturing industry the infrastructural support, such as subsidies, R&D grants, marketing assistance, export incentives, to the extent it provided to the primary sector and to the mining industry (Perkins, 1979).

During the 1950s and 1960s, Australia's economic growth was constrained by the balance of payments. The Australian government showed concerns that if its goals of full employment, economic growth and industrialisation were to be attained, an increase in the imports of capital equipment was necessary. To pay for these imports, export earnings had to be similarly increased. Foreign investment policy was also pursued to ease the balance of payments problems (Commonwealth of Australia, 1965). However, while world trade was growing rapidly, oversupply of primary products weakened commodity prices. In response to weakened prices, Australia increased its export earnings by greatly increasing agricultural production. Australia's emphasis in export promotion during the 1950s was on producing more wheat, sugar, beef, wool, and other agricultural produce, with government assistance being provided in, e.g., the development of large scale irrigation projects, road, rail and harbour improvements, marketing boards, agricultural research through CSIRO, together with various forms of price support and income protection schemes.

The Australian government also tried to assist the manufacturing sector through the granting of generous concessions to trans-national corporations, in the hope that they would provide an increase of new capital and technology for Australian manufacturing. This, the multinational companies did, but only to the extent necessary to keep their subsidiaries competitive within the protected Australian market. The multinational firms preferred to centralise their R&D facilities in their home country.

The assisted industries within the Australian manufacturing sector were composed of: small and medium firms which dominated the labour-intensive TCF industries, a few medium to large industries such as BHP in heavy industry, while the most capital intensive and technologically advanced firms were often foreign-owned and involved principally in the motor vehicle and chemicals industries.

In the 1960s, as the share of manufactured exports became more noticeable, the government took the initiative to encourage manufacturers to be more export-oriented. Three main areas were addressed: overseas marketing costs were made tax deductible; a financial incentive by which payroll tax was reduced in proportion to export earnings was introduced; and efforts were made to instil an 'export mentality' amongst Australian manufacturers (Crawford, 1968).

Australia's reaction to Britain's announcement in 1961 that it would seek entry to the European Community was to intensify its efforts to reach beneficial bilateral trading agreements with other countries. Australia started reorienting its trade more towards the Asia Pacific Region. China was perceived to hold the greatest potential for Australia's mineral resources and agricultural produce exports. The policy was controversial in that on the one hand, it was helping feed and clothe a Communist state, while on the other hand, it was claimed that China was a threat to Australia's security (Dept of Foreign Affairs, 1958). The North East Asian markets of Hong Kong and Taiwan were considered to be of secondary importance.

With time, Australia's trade with the North East Asian countries of the People's Republic of China, the Republic of China on Taiwan, and Hong Kong became more complementary. But Australia-China trade got intertwined in politics, which directly involved Taiwan. Australia's dependence on the United States for its security meant that it chose to follow United States' policies, as well as those imposed by its allies, even though Britain and some other nations had formally recognised the People's Republic of China in the 1950s. In addition, Australia placed an embargo on the export of strategic goods to China. However, in an attempt to satisfy both China and Taiwan, Australia followed the 'Two China Policy.' The Australian government's recognition of the People's Republic of China in 1972 had long term implications for Taiwan (Kennedy, 1968). Bilateral agreements between Australia and China resulted in the steady expansion of trade between the two countries. Meanwhile, from 1960, Australian commercial interests in Taiwan began to emerge. Although Taiwan was on a par with China as a trading partner in 1970/71 and 1971/72, the trend thereafter favoured China, though only marginally.

In 1963, Australia revised its trade agreement with Japan. By the time Britain gained entry into the European Community in 1 January 1973, Japan had replaced the United Kingdom as Australia's principal export market. However, in establishing the Australia-Japan trade relationship, two major obstacles had to be overcome: the alarm that the Australian market would be flooded with low-priced Japanese manufactured products which would adversely affect Australian manufacturers and retard the Government's plans for industrial expansion, and the widespread anti-Japanese feeling among the Australian public arising from still-fresh memories of Japanese conduct during the Second World War (Rix, 1986). These problems were overcome by enclosing safeguards in Australian agreements with Japan, under the import licensing arrangements, and by laying great stress on the economic benefits and necessity of concluding trade relations with Australia's rapidly expanding northern neighbour (Crawford, 1968).

From the early 1970s onwards, the share of manufactured goods in global exports continued to increase steadily. This provided a favourable international environment for Australian manufactured exports, without too much governmental stimulation. The apparent urgency to stimulate Australian manufactured exports was removed, as the mineral boom unfolded from the late 1960s into the 1970s. While these favourable conditions prevailed, it did not seem necessary to take any further measures to expand specifically manufactured exports. However, when these conditions ceased to prevail, after 1973, the fragility of Australia's manufactured exports was revealed as they quickly lost a high proportion of their share of Australian total exports (Figure 1.4). By the mid-1970s, the 1960s trade policies regarding manufactured exports appeared to have been dangerously complacent (SSCIST, 1988).

With the commencement of the 1970s, Australia's perception of the North East Asian region as consisting of low-income, economically backward and non-industrial countries persisted even though this was out of date. Australia's trade promotion efforts did not yet reflect a real recognition of the far-reaching economic changes which were occurring on its doorstep (Drysdale & Rix, 1979).

Australia had a strong foreign policy interest in cooperative relations with the countries producing most of these manufactured imports, namely its neighbours in Asia. Australia's interests were both strategic and economic. It had an obvious foreign policy interest in a politically stable and peaceful Western Pacific region. Strong export-led economic growth in East Asia, facilitated by market access into the United States, Europe and elsewhere (including Australia), could have been expected to favour stability. As to economic interests, rapid industrialisation and an absence of trade barriers in Asia would

have ensured strong growth prospects for Australia's exports of industrial raw materials and foodstuffs. The openness of these markets to Australian exporters was unlikely to be independent of Australian reciprocity to these countries' labour-intensive manufactures.

Trade policy measures, especially in the form of assistance, through tariffs, to import-competing industries, in effect, were used to attract immigrants and jobs to Australia. The strategy of stimulating an expansion in the size of the Australian population and economy, even at the expense of a lower standard of living than would otherwise be the case, was widely regarded as successful, especially during the 'long boom' of the 1950s and 1960s (Collins, 1978; Ewer, *et al.*, 1987). However, from the early-1970s, both the developmental objective of securing and retaining a larger population, as well as the means used - an inward-looking trade policy - had been thrown into serious doubt. Prevailing Australian opinion shifted towards an Australian economy which is more open, outward-looking and internationally competitive.

In 1979, the Harries Committee concluded that Australia's foreign policy interests required it to 'set out, deliberately and energetically, to facilitate the transition to a more outward-looking Australian industrial structure' (CARTW, 1979). A subsequent report by the Senate Standing Committee on Foreign Affairs and Defence (1980) saw liberal import policies in relation to labour-intensive manufactures as critical in maintaining satisfactory relations with Southeast Asia. In the 1980s, the Australian government began a reassessment of its economic strategy, which had long been biased towards the expansion of the domestic economy.

Bilateral trade between Australia and China, Hong Kong and Taiwan continued to grow steadily. While Australia continued to be pre-occupied with the Chinese market although, from 1971/72 onwards, Australia's total trade with Taiwan and Hong Kong surpassed that with China. However, Australia continued to see itself as poised to fuel China's modernisation with rural and mineral resources in ever expanding quantities, as well as provide China with industrial and technical assistance and cooperation through reciprocal investments in large-scale resource projects. Prime Minister Hawke said, in 1986:

that it is his aim to tie the Australian economy to the locomotive of China's modernisation. Cooperation between China and Australia would make both countries richer (AFAR, 1986, pp. 373-374, 378).

Looking at the policy revisions over the 1983-1993 period, a number of reforms can be cited as major contributors to a much more dynamic, efficient and outward looking Australian economy in the 1990s (Filmer & Dao, 1994):

- The deregulation of financial markets, the abolition of interest rates and exchange controls, and opening of banking for new entrants.
- Reduction of tariffs and other forms of protection and artificial support, both through across-the-board programs and such industry-specific initiatives as the Passenger Motor Vehicle Plan, the Steel Plan, the TCF Industry Plan, and the Metal-Based Engineering Program. In tandem with this has been the greater emphasis on industry R&D, particularly through the R&D tax concession, and the adoption of new technology and related generic supports. From July 1985, the R&D tax concession of 150% produced an increase in the share of R&D expenditure accounted for by business enterprise from 30% in 1984/85 to 37% in 1987/88 (ABS, 1989a).
- Broad ranging reforms in the transport and communication industries, including road transport, the railways (through the establishment of the National Rail Corporation), airlines (through the abolition of the Two Airline policy, telecommunications (through the introduction of domestic competition), coastal shipping and the waterfront. Improvements in shipping services by means of bounties to Australian flagships did not give the expected results.
- Rationalisation of business regulation with the introduction of unified and updated corporations law and the reform of policies and practices in areas such as rural marketing, import and export controls, customs procedures, and mutual recognition of standards among States. An important initiative involved in establishing the Australian Trade Commission (Austrade) in 1986, as the principal authority responsible for the promotion of exports and the delivery of export services such as export finance and insurance.
- Efforts to reduce overlap among the three levels of government, particularly the State and Federal. These included the establishment of the Council of Australian Governments, and national initiatives in transport, energy and telecommunications. Recognition of the lack of support for Australian firms led the Government, through the Department of Industry, Technology and Commerce (DITAC) to create a National Industry Extension Service (NIES) in 1987, as a cooperative venture between the Commonwealth and State Governments.

- Tax reform, including reductions in the company tax rate, removal of the additional tax on retained earnings of private companies, and the introduction of full dividend imputation. In addition the income tax base has been broadened.
- Labour market reforms were introduced, including the Industrial Relations Act of 1988, to support a move towards enterprise-based agreements, and to improve the skills and flexibility of the workforce. The Price and Incomes Accord has provided a framework for these and related developments.
- The introduction of reforms to the education system. In the 1980s, the government implemented a series of policies to improve the performance of Australia's tertiary education sector. Policies promoting education services exports were put in place, whereby Australian institutions were permitted by the government to accept full fee-paying overseas students.

The benefits of these reforms may at times have been less than expected, and in other cases the benefits may have yet to be fully realised because of their long-term nature and the complexity of the changes. In some instance adverse side-effects have been experienced. By the late 1980s, the effort which had been put into restructuring Australian manufacturing industry to make it more internationally competitive appeared to have produced results, with high rates of growth in exports being achieved in a small number of industries, most of which had benefited from government support of one form or another.

Between 1983/84 and 1994/95, exports of manufactures and services rose from 34% in 1983/84 to 58.0% in 1994/95, of Australian total exports (Figure 1.3, *Panel iii & iv*). The shift was partly the result of exogenous factors: growth in the volume of rural exports was slowing, as environmental limits on expansion took effect; fortuitous events encouraged exports of tourist services, and a worldwide change in the political and economic circumstances favoured further processing of raw materials (STMs) in Australia (Hilly, 1989; ABARE, 1992; DFAT, 1995b, 1995c). The point that is reinforced is that Australia could produce almost any manufactured good if the country is unconcerned about the opportunity costs.

1.4.2 Rural Exports

1.4.2.1 Agricultural Produce Exports and Markets

Over the 1950-1995 period, the rural sector share of Australian total goods exports was substantial, though its share continued to decline throughout the period. This is reflected in the combined share of the seven major pastoral commodities in Australian total merchandise exports which declined from 86.2% in 1951 to 46.2% in 1970/71, and to 21.6% by 1994/95 (Table 1.1 and Figure 1.4). This can be attributed to three factors, among others: international market supply and demand pressures were depressing prices for agricultural commodities (refer to Figure 1.1 *Panel ii*); the high levels of protection of domestic agricultural in many advanced countries, much in a non-tariff form, which resulted in sluggish world trade growth in foodstuffs when compared to manufactured goods, and the important emergence of Australia's mineral resources sector and later the manufactured goods sector as a substantial foreign exchange earner. In respect of the later point, it is worth noting that in 1951 agricultural products accounted for about 86% of Australia's merchandise exports, with minerals, fuels and manufactures providing only about 12%. By 1995, manufacturing was the most important of the three and exports of minerals and fuels also exceeded agricultural exports. Nevertheless, agricultural exports have been, for most of the period, the prime focus of Australia trade with China, Taiwan and Hong Kong.

1.4.2.1.1 Wheat

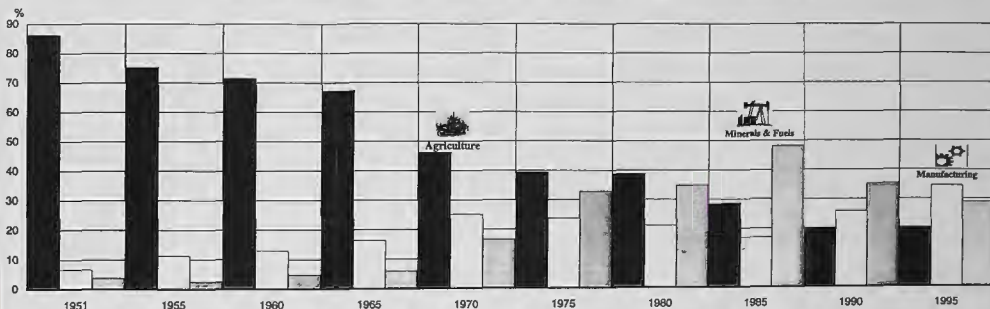
Wheat had long been one of Australia's main agricultural export commodity and was second to wool when compared to the other primary commodities exported (Table 1.1). Despite wheat's position as a leading export staple, wheat exports did not increase in value as fast as total exports, with the result that its share in Australia's export mix declined. Over the 1950s, 1960s and 1970s, the expansion of Australian wheat production remained an important policy objective. To facilitate and aid this expansion, from the early 1950s, the government introduced a variety of incentives to assist farmers, such as easier access to credit.

Table 1.1 Australian Agricultural Exports By Major Commodities (\$Am & Percentages) 1951/52-1994/95 (Selected Years)

Year	Wool		Meat		Hides and Skins		Wheat and Flour		Dairy		Sugar		Fruit		Total Exports
End 30/6	\$Am	% Share	\$Am	% Share	\$Am	% Share	\$Am	% Share	\$Am	% Share	\$Am	% Share	\$Am	% Share	
1951	1,266.7	64.5	34.4	1.8	54.4	2.8	214.1	10.9	59.2	3.0	29.6	1.5	33.7	1.7	1,963.6
1955	706.2	45.6	78.8	5.1	39.4	2.6	132.8	8.6	76.9	4.9	62.3	4.0	67.0	4.3	1,548.3
1960	772.3	41.2	144.9	7.7	63.6	3.4	154.9	8.3	87.3	4.7	53.3	2.8	63.2	3.4	1,875.4
1965	805.9	30.4	260.7	9.8	80.1	3.0	336.3	12.7	101.5	3.8	112.7	4.3	84.0	3.2	2,651.5
1970	761.3	18.4	400.6	9.7	89.9	2.2	358.8	8.7	94.9	2.3	116.1	2.8	87.8	2.1	4,137.2
1975	754.0	9.1	431.0	5.2	102.0	1.2	1,077.0	12.9	157.0	1.9	644.0	7.8	100.0	1.2	8,290.0
1980	1,587.0	8.8	1,761.0	9.7	355.0	1.9	2,189.0	12.1	246.0	1.4	667.0	3.7	206.0	1.1	18,088.0
1985	2,443.0	8.4	1,504.0	5.2	288.0	1.0	2,871.0	9.9	351.0	1.2	574.0	1.9	244.0	0.8	28,973.0
1990	2,887.0	5.5	2,969.0	5.7	291.0	0.6	1,696.0	3.2	621.0	1.2	888.0	1.7	379.0	0.7	52,398.0
1994	4,216.0	6.3	3,661.0	5.5	487.0	0.7	2,522.0	3.8	1,413.0	2.1	1,316.0	1.9	873.0	1.3	67,048.0

Sources: ABS, *Overseas Trade*, ABS, Australian Government Publishing Service (AGPS), Canberra, ACT, various issues; ABS, *International Merchandise Trade Australia*, AGPS, Canberra, ACT, various issues; DFAT, *Exports of Primary and Manufactured Products Australia 1995*, DFAT, Canberra, ACT, various issues; DFAT *Composition of Trade Australia 1995*, Australian Government Publishing Service, Canberra, ACT, various issues.

Figure 1.4 Agriculture, Manufactures and Minerals and Fuels As Share of Australian Total Exports 1951 - 1995



Note: This graphical representation should be viewed with caution as the series on which it is based has been broken four times over the 1951-1995 period. In addition, the Australian Bureau of Statistics data on which this series is based, have undergone several reclassifications over the same period. Year refers to financial year. Percentages do not add to 100.0 as series excludes commodities which are subject to confidentiality restrictions.

Sources: ABS, *Overseas Trade*, ABS, Australian Government Publishing Service (AGPS), Canberra, ACT, various issues; ABS, *International Merchandise Trade Australia*, AGPS, Canberra, ACT, various issues; DFAT, *Exports of Primary and Manufactured Products Australia 1995*, DFAT, Canberra, ACT, various issues; DFAT *Composition of Trade Australia 1995*, Australian Government Publishing Service, Canberra, ACT, various issues.

After World War II, wheatgrowers supported the Commonwealth Wheat Stabilisation Plan which was introduced in 1946 and enacted by legislation in 1948. The price of wheat had been stabilised but wheat production had been allowed to fluctuate inversely with the price of wool. Australia had been left with a rural economy half-regulated and half-free. The result was that farmers received two sets of signals, one reflecting market conditions and the other not reflecting these conditions (Campbell, 1950). The unclear and fluctuating policies of Australian governments resulted not only in great inefficiencies but also in that the country was burdened with the associated costs, to the benefit of the acquiring countries, e.g., China.

Towards the late 1960s, however, there were signs of a renewed governmental concern with the possibility of a persistent tendency towards overproduction. No action was taken to correct this trend, as governments were fully aware of the ensuing political backlash that this would entice. Politics, rather than economic principles guided the formulation of Australian agricultural policies. The long-term consequence of the pricing provisions of the wheat schemes was to encourage increased production, irrespective of the nature of international demand.

In 1951, wheat and flour accounted for 13.1% of Australia's total goods exports, establishing it as the second most important commodity export after wool in the early postwar period (Table 1.1) (*Australia Year Book*, 1954). Over the 1947/48 to 1951/52 period, most of the flour went to eastern Asia markets. This trend was to prove a temporary phenomenon, however, since flour milling was one of the first simple manufacturing industries that underdeveloped countries could undertake.

Australian wheat exports discovered a new market in the People's Republic of China, when it purchased a significant amount of wheat in 1960/61. By 1964/65 China accounted for 41% of Australia's total value of wheat exports (BAE, 1972). China's wheat purchases peaked in 1965/66. In effect, as shown in Chapter 3, Australia had been dumping its wheat on China's market, over the 1960-1971 period. An occasional market was also developed in the Soviet Union in the mid-1960s and again in the early 1970s.

Wheat continued to be one of Australia's main rural exports and was second only to wool, until overtaken by iron ore in the drought-affected year of 1972/73. Potentially, the Soviet Union and China represented major market opportunities for Australian wheat exports; with this potential being realised in some years. Chinese demand for Australian wheat was erratic. Fluctuations in demand from the Soviet Union and China tended to be related to conditions in their own domestic rural sector. Yet, both markets proved to be

unreliable in the medium term, and by the early 1970s a satisfactory solution in securing stable markets for Australian wheat exports had not been found. During the early 1970s, total world demand for wheat was boosted by rising incomes in the NICs, combined with large-scale purchases by the Soviet Union and China (ABARE 1989). In 1973/74, Australian wheat exports to the United Kingdom ceased, as a consequence of the United Kingdom inclusion in the European Community. Japan accounted for 17% of total wheat exports in 1972/73 and markets in South East Asia, especially Malaysia, were also developed.

Unfortunately, competition from the European Community and the United States became more intense after 1974, with Australian wheat growers facing increased difficulty in holding the markets which they had established in the 1960s. Australia's share of the world wheat exports actually declined over the 1970s decade as global wheat exports rose, largely due to increased surpluses coming onto the market from the United States and the European Community.

Unlike the Australian wool industry, the wheat industry experienced relatively favourable conditions during 1973-1980 period, as global consumption of wheat increased steadily (ABARE 1988). The Australian wheat industry was able to take advantage of the effective increase in international demand, and in the early 1980s replaced wool as the rural sector's most important earner of export income (Table 1.1).

The world trading situation for wheat became less favourable during the 1980s as leading importers began to produce more of their own grain requirements. By the mid-1980s, the grain imports of Western and Eastern Europe and the Soviet Union were down, while global wheat growth remained static. International trade in wheat was also undermined from 1985 onwards when, in retaliation against European Community agricultural policies, the United States began its export enhancement program under which wheat exports were heavily subsidised. As a consequence, Australian wheat was one of the major casualties in this trade war. In 1986/87, world wheat production achieved a new record. At the same time, the American Export Enhancement Scheme began to have an adverse effect, with the price for Australian wheat falling to \$US110 per ton, or \$A137. Overall, despite wheat's position as a leading export staple, wheat exports did not increase, value-wise, as fast as Australian total exports, with the result that its share in Australian total goods exports continued to decline, falling from 12.7% in 1965 to 9.9% in 1985 and then to 3.8% by 1994 (Table 1.1).

1.4.2.1.2 Wool

Over the 1946/47 to 1948/49 period, as wool prices increased substantially, Australian wool exports accounted for an average of 40% of Australian total merchandise exports. During the late 1940s, in response to the high wool prices, Australian wool growers expanded output.

As a consequence of the Korean War, between July 1950 and March 1951, the average price for the Australian wool clip rose by 140% on the previous year prices (Waterman, 1972), with wool accounting for 57% of Australian total exports during the 1950/51 financial year. When in April 1951, the United States Defense Department suspended further acquisition of wool, world wool prices fell. Nonetheless, with clip prices still above those of 1949/50, wool exports accounted for 48% of Australia's merchandise export.

Wool export prices fell back in 1951/52 and stabilised at around £A0.35 per lb in 1952/53 and 1953/54. Thereafter, Australia's wool exports were characterised by fluctuating, but falling prices over the 1950 to 1972 period which were not fully offset by rising sheep numbers or increases in the average weight of fleece, which had increased from 4.18 kg in 1951/52 to 4.99 kg in 1969/70 (BAE, 1973). The weak international wool prices were partly due by a shift in consumer demand in the major industrial countries, away from wool and towards synthetic fibres. At the same time, the global wool production increased as well. In the face of declining prices, it was inevitable that the wool's share of Australian total exports should decline. Wool's share fell from 48% in 1949/50 to 30.4% in 1965, and then fell further to 8.8% in 1980, and 6.3% in 1994 (Table 1.1).

Major changes occurred in the markets for Australian wool exports over the 1950s and 1960s decades. While the United Kingdom market took 25% of Australian wool exports in the mid-1950s, by 1971/72 its share stood at 5%. The share going to the United States and Western Europe fell also. This reflected the change-over to synthetic fibres in these countries' textile industries. New markets were found in the Soviet Union and China, which were attempting to increase rapidly their output of woollen textiles, and to Japan where a large woollen textile industry was developed as part of Japan's economic resurgence. By 1971/72, Japan took 39% of Australia's total wool exports, compared to the 33% share which went to Australia's traditional wool markets of the United Kingdom, Belgium, France, West Germany and Italy.

Though, over the 1970-1975 period, wool prices continued to rise, drought induced farmers to move from sheep to grain and beef growing. A fall in volume combined with lower prices meant that in 1975 wool exports constituted 9.1% of Australian total exports (Table 1.1). By the mid-1970s, the Soviet Union was the second largest market for Australian wool, taking 11% in 1974/75, while exports to China quadrupled in 1982/83, accounting for 12% of Australian total wool exports.

In 1970, the Australian government introduced a Reserve Price System (RPS) to be operated by the Australian Wool Commission (AWC). The RPS became fully operational in 1974/75 when international wool prices fell sharply. Whilst the immediate problems for wool stemmed from drought and fluctuating international prices, long-term difficulties were becoming apparent as the use of synthetic fibres continued to increase at the expense of the wool clip and woollen goods were mass produced and marketed. The Federal government and the AWC began addressing the problem of inter-fibre competition through process and product innovations, as well as seeking to promote wool and develop new markets overseas.

During the early 1980s, the Australian wool industry was in a state of decline. However, from 1980/81 to 1988/89, world demand for wool as well as wool prices increased significantly. The resultant recovery was the result of growth in the demand for wool in overseas markets.

In 1987, the Australian Government virtually abolished the role of the Minister for Primary Industry in determining the market floor price indicator for the RPS. Rather, the AWC was to set the minimum market reserve price indicator after discussions with the Wool Council. However, once the producers gained complete control over the rate at which the RPS was set, they disregarded the original purpose of the scheme, that is, to guarantee minimum survival prices during slumps, and set the price at a level designed to maintain the high profits associated with boom conditions. These prices could not be sustained and the wool industry crashed under the burden of overproduction and an ever increasing build-up of the wool stockpile (Vines Report, 1991).

1.4.2.1.3 Meat

During the late-1940s, high wool prices resulted in a shift in the Australian pastoral sector away from meat production towards the growing of sheep for wool. In October 1951, a Long-Term Purchase Agreement was made between the Australian and United Kingdom governments which was aimed at promoting Australian meat exports to Britain over the following fifteen years. However, events during the next three decades showed that the future for Australian meat exports lay with markets in Asia and the United States.

Over the 1950s and 1960s, Australian meat exports increased from 1.7% in 1951/52 to 9.7% in 1970/71 of Australian total merchandise exports (Table 1.1). This change was mostly brought about by increases in output and in prices, with beef prices rising fourfold. In comparison, the value of sheep meat exports rose eleven-fold, with mutton and lamb prices remaining fairly static over the 1955-1969 period.

In 1952, Australia signed a fifteen year meat agreement with the United Kingdom which was not renewed in 1967. In 1971, in preparation for joining the European Community, the United Kingdom began imposing duties on imported meat (*Australia Year Book, 1973*). From the mid 1950s onwards, the United States began buying Australian beef that in 1958/59 it accounted for 33% of total beef exports by value. The United States share of beef exports rose to 85% in 1962/63. From 1963/64 to 1972/73, the annual average share of Australian beef exports going to the United States stood at 71%. In 1964, Australia entered into a formal agreement with the United States which gave the Australian exporters a guaranteed quota for American beef imports. The agreement was ratified by the United States in 1970, with Australia retaining its quota thereafter (*Australia Year Book, 1973*). The United Kingdom remained the second most important beef market until 1969/70, when it was overtaken by Canada.

By the early 1970s, Japan was the principal market for Australian beef exports, accounting for a 33% share of total beef exports; the United States and United Kingdom accounted for 14% each, followed by Canada which took 10%. Thus, the decline of the United Kingdom market was offset, by increasing exports to the North American region and Japan.

Overall, the pastoral sector declined in its importance despite the growth in meat exports: the share of wool, meat and hides and skins in Australian total exports fell from: 36.4% in 1951 to 30.3% in 1970, and then to 20.4% in 1980 and 12.5% in 1994 (Table 1.1).

In the 1970s, trade in meat exports was dominated by chilled and frozen beef. By 1974/75, the United States took 67% of Australian beef and veal exports, while Japan and the United Kingdom accounted for another 9% each. However, by the early 1980s, the United States share of Australian beef and veal exports declined to 54%, while Japan's and South Korea's shares increased to 14% and 12%, each respectively.

During the 1980s, beef and veal remained Australia's principal components of meat exports, accounting for around 75% of total meat and live sheep exports. From the mid-to late-1980s, the industry began a slow recovery from the contraction it had sustained from the mid-1970s, when overseas import restrictions and drought conditions in Australia had undermined the industry. The United States recovered its importance as a market for Australian beef exports during the 1980s, by increasing its share from 54% in the early-1980s to 60% by the end of the decade. However, during the 1980s, Australian meat exports to the Japanese market faced two major obstacles: restructuring and expansion within the Japanese beef industry and a higher level of protection, especially in the form of a quota system which was biased against Australian grass-fed beef. Setbacks were also experienced in the South Korean market, Australia's third largest market for meat exports, as its government targeted its beef industry for support. Prospects for Australian meat exports continued to improve as Japan began to increase its meat imports, from 1986 onwards; the South Korean market was reopened in 1988, while the Taiwan market began expanding rapidly.

1.4.2.1.4 Sugar, Dairy products and Fruit

Dairy products,¹¹ as a share of Australian total merchandise exports, peaked in 1955/56 at 4.9% (Table 1.1). Thereafter, their share slowly declined to 4.7 in 1960 and 2.3% in 1970, and then to 1.4% in 1980 and 1.2% in 1990/91. The United Kingdom was the traditional market for Australian butter until this market closed in 1973 (*Australian Year Book, 1973*). During the 1950s and 1960s, the United Kingdom accounted for 82% and 73% of Australian total butter exports. Cheese exports found more diverse markets, though the United Kingdom market predominated. In the 1960s, the markets for Australian cheese expanded in Japan, the Philippines, the Persian Gulf and the United States, so that in 1971/72, Japan accounted for 33% of Australian total cheese exports, Saudi Arabia for 15%, the United Kingdom for 12%, the Philippines for 6%, the United States for 5% and Kuwait for 5%.

¹¹ Dairy products, that is, milk in various forms, butter and cheese.

Australian fruit exports were as important as dairy produce in the 1950s and 1960, and like dairy produce, they tended to decline as a proportion of Australian total merchandise exports: from 4.3% in 1955; to 3.4% in 1960; 2.1% in 1970; 1.1% in 1980, and 0.7% in 1990 (Table 1.1).

Sugar exports tended to rise in importance, reaching a peak of 7.8% of Australian total merchandise exports in 1975/76 (Table 1.1). In the early 1970s, world inflationary trends lifted sugar prices, and as output increased in 1971/72 and 1972/73, sugar exports increased their percentage share of Australian total exports, which peaked in 1975/76. The United Kingdom remained the single most important market for sugar until overtaken by Japan in 1969/70.

During the 1980s, sugar, dairy products and fruit (canned and fresh) continued to decline in their relative importance as they had to face the aggressive agricultural protectionism adopted by the advanced industrialised countries, such as the European Community Common Agricultural Policy (CAP) and the United States use of import duties, quotas and VERs.

Together, the four non-pastoral agricultural exports of wheat, dairy produce, sugar and fruit initially, during the 1960s decade, increased their cumulative share of Australia's total exports and then declined. In the early 1950s, the share of these four commodities averaged 19.2%; this rose to 23.3% in 1960 before falling to 15.9% by 1970. This level was maintained until 1984 but the share fell to 9.1% by 1994. However, it can be seen that over the 1951/52 to 1994/95, Australia's major pastoral and agricultural exports continued to lose their dynamism in Australia's export mix. This is reflected in the fall of the combined shares of the seven major pastoral and agricultural commodities, as noted above.

1.4.2.2 Fuels and Minerals Exports and Markets

1.4.2.2.1 Fuels

Australia exported a range of refined petroleum products,¹² partly manufactured from imported crude oil, in the 1950s and 1960s: motor spirit, gasoline, kerosene, jet fuel, distillate fuels, lubricating oils and greases. These exports reached a peak of 2.5% of

¹² Within the refined petroleum products oil and gas exports are not included.

Australian total merchandise exports in 1962/63. Thereafter, export values declined to 1.25% by 1969/70, while price increases in the early 1970s pushed their value in 1973/74, at which point they made up 1.5% of Australian total exports. The major markets for these products were regional: 50% went to New Zealand, 20% to Singapore, and the remainder to Fiji, New Caledonia, Papua New Guinea, Japan and South Africa.

Up to the early-1960s, coal exports were less important than petroleum products. It was during 1962/63-1971/72 period that coal exports expanded tenfold. In the early 1950s, the bulk of Australia's coal exports went to New Caledonia and the Republic of Korea. From the mid 1950s, Japan emerged as the major export destination: its share of total Australian coal exports rose from less than 5% in 1955/56 to over 50% in 1958/59, and reached 90% by 1973/74. Thereafter, while Japan remained the principal market for coal, its share fell from 76% in 1974/75 to 65% in 1982/83. Significant new markets were found in South Korea and Taiwan, with each taking 8% and 5%, each respectively of Australian total coal exports. The European Union maintained its share of 14% during 1974 to 1982 period. Over the 1982-1987 period, Japan's share of Australian total coal exports continued to decline from 65% in 1982/83 to 47% in 1988/89. In addition, South Korea maintained its 8% share of Australian coal exports while Taiwan's share grew from 5% to 6.5%.

Development of Australia's oil reserves were stimulated by the substantial oil price increases obtained by the OPEC nations during the 1970s and the Australian government's decision to allow oil to be sold at world parity prices. Among mineral products, the value of oil and natural gas in 1981/82 was second only to black coal and well ahead of iron ore. Production of crude oil condensate and LPG peaked in 1977/78 but then declined by 1982/83.

Most of the oil and natural gas produced in Australia during the 1970s was directed to domestic consumption. The quantity of petroleum exports remained limited during the postboom decade, with exports of crude oil averaging less than 1% of production and exports of refined petroleum products averaging around 5%. The United States was the main destination for crude oil exports, while refined products went principally to the South West Pacific Region. Exports of LPG provided a contrast to crude and refined oil, since two-thirds of output was exports, primarily to Japan and, as exports grew sharply from the mid 1970s, by 1981/82, LPG accounted for around 33% of the value of petroleum exports.

During the early 1980s, intensive exploration activity led to the development of several new wells which became operational by the mid-1980s. Production of crude oil, condensate and LPG rose to a new high of 3.5gl by 1984/85 and stayed at this level for the rest of the decade. Consequently, Australia reached 85% self-sufficiency in its crude oil requirements.

In 1984, strong international economic growth caused global oil consumption to rise by around 1.5% while production in the OPEC countries had fallen by 16% from 1981/82 (GATT, 1985). Consequently, the price for Bass Strait crude oil rose, with total petroleum product exports, including bunker supplies, constituting 9.7% of Australian total goods exports. Increased OPEC supplies then led to a dramatic collapse of international prices, in 1986, with Australian petroleum exports declining to 5.3% of total merchandise exports. By 1987/88, the OPEC countries had increased their oil production to earlier levels, around 20m barrels a day while world prices remained volatile for the rest of the decade. Bass Strait crude oil climbed to \$30.34 per barrel in February 1987 but fell to under \$20 by 1989.

In the 1990s, the outlook for Australian petroleum exports remains unpromising in view of: that, while in the 1970s, global demand was reduced by conservation and substitution effects; during the 1980s, world supplies continued to grow as exploration and production increased in non-OPEC countries. At the same time, estimates of global oil reserves underwent a substantial upward revision. The prospects for the Australian petroleum industry are made even weaker by the fact that crude oil production is expected to fall that by the end of the century, Australia will be importing 70% of its crude oil requirements (ABARE, 1988b).

1.4.2.2.2 Minerals

In 1951/52, mining exports accounted for 3.8% of Australian total merchandise exports. In 1953, output of the major metallic mineral exports of gold, lead, and zinc was lower than they were in 1939 (*Australian Year Book*, 1955). Gold presented producers with a major set back as its price had been set by the Bretton Woods agreement, that is, its price was that which was determined by the United States in 1933. Therefore, Australian producers had to sell, at the set price, their gold to the Commonwealth Bank and were not able to share in the inflationary gains made by the suppliers of other commodities while they had to bear the increased costs of production.

From 1944/45 to 1952/53, the decline in the volume of mineral exports was due to several factors: most of the easily recoverable ores in Australia had been found and mined, by the end of the war (Blainey, 1978) and the booming domestic economy and low unemployment of the postwar years made labour scarce.

Non-ferrous metal ores, as an export group, were relatively unimportant before the 1960s. The chief non-ferrous metal ores which were exported were zinc, copper and titanium, which between them accounted for 90% of total non-ferrous metal exports. Small amounts of manganese and tin ores were also exported. Nickel ore production began in the late 1960s and by 1973/74, nickel ore exports ranked fourth after titanium, copper and zinc. Iron ore exports, which were prohibited until 1961, under regulations which were introduced in 1938, began to be significant in 1966/67, and within three years had overtaken non-ferrous metal ores exports.

Metal ores increased their share of Australian total merchandise exports from just under 10% in 1968/69 to 14% in 1970/71 and averaged 12.3% during 1970-1973 period. Iron ore constituted 67% of these exports. The sudden rise of iron ore exports was the result of a massive expansion of mining operations made possible by new technologies and Japanese demand (*Australia Year Book*, 1988).

The late-1960s mineral boom involved a considerable degree of foreign investment and control. Federal and State governments policy in the 1960s favoured foreign investment in mining as the most reliable means of achieving increased exports earnings, to relieve the balance of payments and to achieve diversification of export commodities and markets.

The high level of investment in Australian mining was sustained by large flows of foreign capital, predominantly from the United States and the United Kingdom. Between 1963 and 1975, foreign ownership of the mining industry rose from 27% to 52% (Barnett, 1988). The mineral resources sector interests were represented by the Australian Mining Industry Council (AMIC), which brought considerable pressure to bear upon governments. The mining industry was a price taker in international markets which sees domestic inflation and wage increases as the most important factors affecting their profitability. Consequently, AMIC supported restrictionist economic policies. AMIC was against revaluation of the Australian dollar as an anti-inflation weapon since the majority of mining contracts were denominated in foreign currencies, mainly the American dollar, and revaluation represented a direct loss of Australian income. However, the devaluation of the Australian dollar in November 1976 led to a rapid increase in the price of mining shares and renewed confidence in the industry (McKern, 1976).

Markets for metal ores were found almost exclusively in the industrialised economies where smelting and processing industries were well established. The United States was the major purchaser of Australia's lead ore, titanium, zirconium and tungsten. The United Kingdom bought lead, zinc, tungsten, and most of the exported tin ore. The Western European countries of Belgium, France, the Netherlands and West Germany were all important customers for lead, zinc, titanium and zirconium. From the 1960s, Japan became a major buyer of lead, zinc, titanium and zirconium, manganese and almost all of the exported copper ore. In the 1950s and 1960s decades, the only substantial non-industrialised markets for Australia's non-ferrous base metal exports were Spain and Malaysia, both of which imported Australian tin ore.

From 1933/34 to 1938/39, at which point iron ore exports were prohibited, Japan and the United States had accounted for 65% and 31% respectively of Australian total iron ore exports. When iron ore exports resumed in 1963, Japan remained Australia's principal customer, taking 93% of total iron exports in 1966/67 and an average of 87% over the subsequent seven years to 1973/74. Much of the remaining share of iron ore exports went to Western Europe, with the United Kingdom and the European Community taking 10.5% during the same period.

By the early 1970s, metal ores accounted for over 33% of Australia's total exports to Japan, with iron ore constituting 75% of these exports. Expansion of the Japanese economy, in particular the Japanese steel industry, with its need for coking coal and iron ore, provided the basic stimulus to the rapid development of Australian mineral exports during the late 1960s and early 1970s. The 1972-1975 boom in commodity prices further boosted returns in the mining sector which permitted a substantial consolidation of the industry.

In the 1970s, Australian exports of raw materials initially gained from the tumultuous inflation in international prices (Figure 1.3, *Panels i, iii, and iv*). Subsequently, they began to experience difficulties from contracting global demand in the later years of the decade. In the early 1980s, when the world economy went into recession, mining commodities were severely affected. However, by the mid-1980s, the Australian mining sector started to benefit from another shift in the structure of international supply and demand relations, as leading industrial countries, notably Japan and the United States, began to move out of early stage mineral processing. This improved Australia's prospects for an expansion in processed mineral exports.

The mining industries in Australia were capable of responding to international challenges. Physical capital and technological change served the mining industry by sustaining its comparative advantage. Over the long run, however, maintaining and improving the mining sector's comparative advantage had been crucially dependent on technological dynamism. Australia's natural resource sectors have been advantaged by coupling their export orientation with institutionalised state support for research, development and extension services in relation to 'best practice' production methods.

The mining industry's vulnerability to international factors was indicated when the international recession in the early 1980s led to a sharp fall in demand, with the profit rate halving to just over 10% in 1981/82 (BIE, 1988). Demand for Australian supplies was also made worse as Japanese buyers began diversifying their sources of supply. Nevertheless, the mining industry was to prove its resilience over the 1980s and 1990s.

The growing demand for raw materials led to substantial increases in the mining sector's share of Australian total exports. The combined share of minerals and fuels, as a percentage of Australia's total merchandise exports continued to increase over the decades rising from 4.8% in 1960 to 16.6% in 1970 and 48.1% in 1985 (Figure 1.4).

1.4.3 Manufactured Exports and Markets

One of the forgotten stories of Australia's economic history is the rapid rise of manufactured exports over the 1950s and 1960s. Indeed, the rise of manufactured goods exports over the 1953-1973 period represented one of the most important diversifications of the Australian exports since the early 20th century (Perkins, 1979). This was mainly due to the strong growth in the Australian manufacturing industry and in the context of the rapid expansion of world trade in manufactures. At the same time, international transport costs became more competitive.

In effect, during the 1951-1970 period, Australian exports of manufactures, as a proportion of total exports, rose dramatically from 6.6% in 1951/52 to 16.4% in 1965/66, and to 25.1% in 1970 (Figure 1.4 & Table 1.2). In effect, both simple transformed manufactures (STMs) and elaborately transformed manufactures (ETMs) exports increased at approximately the same rate that in 1965, they constituted 7.9% and 8.5% respectively of Australian total merchandise exports. In the early 1950s, manufactured

exports were dominated by non-ferrous metal goods which constituted 45.5% of all manufactured exports. Lead manufactures constituted two thirds of the non-ferrous metal manufactures exports while the other one third was made up of zinc manufactures. Iron and steel manufactures constituted 6% of Australian total manufactured exports while TCFs accounted for another 4%.

From 1960 to the early 1970s, while global manufactures trade grew strongly, Australian governments did not perceive it necessary to take any further measures to expand manufactures exports. By 1973, when the global conditions changed, the fragility of a great proportion of Australian manufactures was revealed as they quickly lost a great deal of their previously gained share in Australia's total exports. Australian manufactured exports underwent a contraction, dropping from 25.1% in 1970 to 23.8% in 1975/76 and to 16.8% by 1985 of Australian total merchandise exports (Figure 1.4).

Diversification was evident as manufactures exports grew in the 1960s: by the mid 1960s nine overseas markets took 74 per cent of total manufactures exports: New Zealand, 25%; United Kingdom, 17%; United States and Japan, 9%; Papua New Guinea, 5%; Malaysia and Singapore, 4%; India, 3%; and Hong Kong, 2%. This pattern reflected the greater market opportunities for Australian manufactures exports in South East Asia and the Pacific, chiefly among the Commonwealth developing countries of the region, as well as in Japan's rapid industrial expansion.

During the 1970s, manufacturing received an acute competitive shock from Japan and the Asian NICs - nations which used aggressive industry policies to support their manufacturing sectors exports' growth. It was during the 1980s that a number of Australian industry policies were formulated to counteract these forces.

By the early 1970s, the markets for Australia's main categories of manufactured exports had broadened further. By 1972, the North East Asian markets of Hong Kong, China and Taiwan shares of Australian STMs exports corresponded to 3.7 per cent, 1.8 per cent, and 1.2 per cent, respectively. Furthermore, these three countries, took 6.4% of Australia's total ETMs. By 1975, the total intake of STMs and ETMs taken by Hong Kong, China and Taiwan stood at 8.6% and 4.1%, respectively. Performance in these markets continued to improve, that by 1980, the percentage share of Australia's STMs and ETMs exports absorbed by the mentioned countries stood at 12.4% and 8.4%, respectively. This will be returned to later.

In the late 1970s, Australian export industries were assisted by the introduction of export incentive schemes for manufactures. These schemes added about one percentage point to the effective rate of assistance to the manufacturing sector. However, by the early 1980s, manufactures' share, other than processed primary products, constituted 15 per cent of Australian total exports. Government policies which were introduced during the 1980s to make the Australian economy more outward-oriented began to give results, with the total share of manufactures, as a percentage of Australian total exports, increasing from 16.9% in 1985, to 25.8% in 1990 and 34.5% in 1995. Sheehan *et al.* (1994) found that the policy group of ETMs¹³ continued to dominate ETM exports after 1985; the emergence of rapid export growth in a group of categories involving natural materials, modest levels of technology and a close relation to building or to consumer demand; substantial rates of growth in the heavy machinery area and that the acceleration in export growth was very widely spread across the ETM spectrum.

1.4.3.1 Simple Transformed Manufactures (STMs)

Simple transformed manufactures (STMs) exports are basically mineral manufactures of ferrous and non-ferrous metal products, with a small component made up of mineral construction material. International demand for STMs tended to vary along with industrial growth rates in the world's leading economies. Consequently, prices for STMs boomed along with those for major commodities during the early to mid-1970s. From 1972/73 to 1989/90, the share of STM exports in Australian total merchandise exports averaged 7.8% (Table 1.2). However, over the 1990/91 to 1994/95 period, STMs average share of Australian total goods exports stood at 10.4%, with the highest share being 10.6%, in 1991/92.

During the 1960s, the proportion of manufactured exports represented by chemical products remained low at around 6 per cent of total manufactured exports. However, in the late 1960s, there was a considerable expansion so that by 1968, the share of chemical products in total exports rose to 19 per cent, making chemicals the third most important source of manufactured goods exports after metals and machinery. Virtually all of this increase was due to alumina exports which began in 1966. By 1968, alumina accounted for half of all chemical exports. Non-ferrous metals accounted for around 55 per cent of total metal exports during the mid 1970s, and this rose to over 70 per cent in the early 1980s.

¹³ Pharmaceuticals (SITC 54), Computing equipment (SITC 75), Telecommunications equipment (SITC 76), Road vehicles (SITC 78), Other transport (SITC 79) and Clothing (SITC 84).

Australian iron and steel manufactured exports expanded rapidly in the early 1960s, though the share of these exports in total exports declined to less than 10 per cent by 1970. This was mainly due to a rapid growth in demand from China, Hong Kong and the Philippines in the Western Pacific Region. From the late 1970s, however, international demand for all ferrous products began to stagnate due to economies in use and substitution effects. The situation was further deteriorated by China’s substantial cut-back on their import requirements.

While the share of manufactured goods in Australian total exports rose during the 1960s and early 1970s; from 1974 onwards, much of the increase was attributable to metals. Australian manufactured goods remained extremely low by industrialised country standards. The substantial increase in real wages in Australia during the 1970s, especially for female and unskilled workers, reduced the competitiveness of Australia’s labour-intensive manufacturing industries (Figure 1.2, *Panel ii*). The ratio of female to male minimum awards rose from 71% in 1968 to 81% in 1973 and 92% in 1975. By 1977, the average earnings of females were only 12% lower than those of males, compared with 36% lower a decade earlier. This improvement was the result of a conscious movement toward equal pay for women (Gregory & Duncan, 1981).

Table 1.2 Australian Exports Commodity Composition (\$Am and %) 1951-1995											
Year End 30/6	Agricultural		Manufactures				Manufactures		Minerals & Fuels		TOTAL EXPORTS
	Total		STMs		ETMs		Total		Total		
	\$Am	%	\$Am	%	\$Am	%	\$Am	%	\$Am	%	
1951	1,692.1	86.2	76.5	3.9	52.4	2.7	128.9	6.6	73.2	3.8	1,963.6
1955	1,163.4	75.1	91.5	5.9	82.9	5.4	174.5	11.3	37.2	2.4	1,548.3
1960	1,339.7	71.4	136.1	7.3	107.1	5.7	243.2	13.0	89.9	4.8	1,875.4
1965	1,781.1	67.2	208.8	7.9	226.1	8.5	434.9	16.4	158.3	5.9	2,651.5
1970	1,909.5	46.2	584.3	14.1	455.2	11.0	1,039.5	25.1	685.5	16.6	4,137.2
1975	3,265.0	39.4	840.0	10.1	1,130.0	13.6	1,970.0	23.8	2,719.0	32.8	8,290.0
1980	7,011.0	38.8	1,850.0	10.2	1,990.0	11.0	3,840.0	21.2	6,302.0	34.8	18,088.0
1985	8,275.0	28.6	2,330.0	8.0	2,560.0	8.8	4,890.0	16.9	13,948.0	48.1	28,973.0
1990	10,189.0	20.0	5,348.0	10.5	7,765.0	15.3	13,113.0	25.8	17,949.0	35.3	50,892.0
1995	13,993.0	19.6	7,736.0	10.8	16,958.0	23.7	24,694.0	34.5	20,684.0	28.9	71,590.0

Notes: Year refers to calendar year.
STMs are Simple Transformed Manufactures.
ETMs are Elaborately Transformed Manufactures.
Percentages do not add up to 100.0 as data excludes commodities which are subject to confidentiality restrictions.

Sources: ABS, *Overseas Trade*, Australian Bureau of Statistics, Australian Government Publishing Service, Canberra, ACT, various issues; ABS *Merchandise Trade, Australia*, ABS Cat. No: 5422.0, AGPS, Canberra, ACT, various issues; Department of Foreign Affairs and Trade (DFAT), *Composition of Trade Australia*, AGPS, Canberra, ACT, various issues; DFAT, *Exports of Primary and Manufactured Products 1995*, AGPS, Canberra, ACT, various issues.

Mineral manufactures and metals continued to dominate STM exports during the 1980s. Expansion was almost entirely driven by exports of aluminium and aluminium alloys. This was mainly due to increased local refining of alumina and smelting of aluminium.

This seems to have been attributable to reasonably priced electricity, partly due to competition between Australian State governments, a depreciating currency, and a natural advantage in bauxite production, which led to large-scale investment in smelting plants, such as the Portland smelter in Victoria.

Despite the general increases in volumes, the value of exports of the other major non-ferrous metals - lead, zinc, and copper - showed little improvement over the 1980s. However, the value of nickel rose strongly during the late 1980s.

In the minerals processing area, too, North East Asia's trade policies have favoured the importation of ores and concentrates rather than metals. As a result, most of Japan's, Korea's and Taiwan's imports of Australian minerals and metals have been in the form of ores and concentrates, with the remainder being lightly rather than highly processed metals. By contrast, Australia's exports to the rest of the world have predominantly been made up of processed rather than unprocessed minerals.

The volume and direction of manufactured exports were also affected by shifts in global demand over the 1970-1995 period. The growth of the Asian NICs, notably Hong Kong, Taiwan and Singapore, provided a growing market for simply transformed manufactures, especially from the mid-1980s onwards.

1.4.3.2 Elaborately Transformed Manufactures (ETMs)

Elaborately transformed manufactures (ETMs) encompasses more sophisticated engineering products, such as motor vehicles, electrical equipment, machinery and scientific instruments. Over the 1951 to 1994 period, ETMs share of Australian total exports increased from: 2.7% in 1951; to 8.5% in 1965; 13.6% in 1975; 15.3% in 1990 and 23.7% in 1995 (Table 1.2). In effect, it was ETMs growth which mainly sustained the overall performance of Australian total manufactures' exports, as a percentage of Australian total merchandise exports (Table 1.2).

Machines and metal manufactures increased in importance, exports of these products rising from 17 per cent of total ETM exports in the early 1950s to 27 per cent in 1961 and then to 33 per cent a decade later. Within the ETMs, vehicles grew strongly, whilst electrical machinery remained static. Non-electrical machinery and metal manufactures declined proportionately.

Table 1.3 Australian Exports Distribution (%)^a: By Region/Country 1940/41 to 1994/95 (Selected Years)^b

Geographical Distribution of Australian Exports (%): 1940/41 to 1950/51

Year	UK	Belgium	France	Germany	Italy	USA	Canada	Egypt	India ^c	Ceylon	China	HK ^d	Malaya ^e	NEI ^f	Japan	NZ ^g	S Africa	All Oth Ctrs ^h
1940	56.3	0.5	6.9	0.2	0.1	15.1	2.0	0.7	1.2	0.5	0.8	0.5	1.7	1.2	3.2	3.8	0.6	4.7
1945	33.6	---	0.2	---	1.3	19.8	2.4	2.0	10.2	4.4	---	---	---	0.0	---	5.3	0.7	26.2
1950	38.7	4.5	6.6	2.7	3.2	8.1	1.5	1.6	6.1	1.0	0.1	1.1	2.2	0.1	3.9	3.5	0.5	14.6

Notes: ^aIncludes re-exports, gold bullion and specie; ^bYear is financial year; ^cIncludes Pakistan 1946/47 to 1949/50; ^dHong Kong; ^eIncludes Singapore; ^fNetherlands East Indies/Indonesia; ^gNew Zealand; ^hAll Other Countries.

Sources: Australian Bureau of Statistics, *Overseas Trade*, ABS Cat No: 19, 26, 33, 36, 40 and 49, Commonwealth of Australia Printers, Canberra, ACT.

Geographical Distribution of Australian Exports (%): 1951/52 to 1985/86^a

Year	UK	USA	Japan	EEC ^b	NZ	China, P.R.	PNG ^c	SE Asia ^d	All Oth Ctrs ^e
1951	32.7	15.2	6.3	22.9	2.1	0.1	0.7	3.1	16.9
1955	36.9	6.8	7.6	21.9	4.9	0.3	1.6	5.9	14.1
1960	26.3	8.1	14.4	18.7	5.8	1.7	1.7	5.3	18.0
1965	19.5	10.0	16.6	13.6	6.0	5.1	2.2	7.2	19.8
1970	11.8	13.5	24.8	10.9	4.8	3.0	3.6	10.3	17.3
1975	5.3	9.3	28.4	11.0	5.8	3.0	1.9	11.5	23.8
1980	4.5	10.8	26.9	9.7	4.6	4.5	2.0	12.9	24.1
1985	3.1	11.6	26.9	9.9	5.2	3.6	1.7	17.0	21.0

Notes: ^aYear is financial year; ^bEEC is the European Economic Community, which was formed in 1957 and comprise Belgium-Luxemborg, France, West Germany, Italy, the Netherlands. The United Kingdom which joined in January 1973 is excluded and is computed separately; ^cPapua New Guinea; ^dHong Kong, Taiwan, Republic of Korea, Brunei, Cambodia, Laos, and ASEAN which was formed in 1967 and comprises of Indonesia, Malaysia, Singapore, Philippines and Thailand; ^eAll Other Countries.

Sources: Australian Bureau of Statistics, *Overseas Trade*, Commonwealth of Australia Printers, Canberra, ACT, various issues.

Geographical Distribution of Australian Exports (%): 1990/91 to 1994/95^a

Year	UK	EU ^b	ASEAN ^c	Canada	China	HK ^d	Japan	Korea, Rep.	NZ	PNG	Taiwan	USA	All Oth Ctrs ^e
1990	3.0	9.0	12.0	2.0	3.0	3.0	27.0	6.0	5.0	1.0	4.0	11.0	14.0
1994	3.0	8.0	15.0	2.0	4.0	4.0	24.0	8.0	7.0	1.0	5.0	7.0	12.0

Notes: ^aYear is financial year; ^bEuropean Union which comprises Austria, Belgium-Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, and Sweden. The United Kingdom, which is a member of the EU has been excluded and its share is computed separately; ^cAssociation of South East Asian Nations, which for this period is made up of Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam; ^dHong Kong; ^eAll Other Countries..

Sources: Australian Bureau of Statistics, *International Merchandise Trade Australia*, ABS Cat. No. 5422.0, Australian Government Publishing Service (AGPS), Canberra, ACT, various issues.; ABS, *Composition of Australia Trade Australia*, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.

From the 1950s to early-1970s, government policy discouraged export diversification and structural change. Specifically, by maintaining a highly protectionist tariff policy, even after import quotas and exchange controls were lifted in 1960, the Federal government created a climate in which Australian firms could easily fail to become internationally competitive.

However, during 1973/74 to 1975/76, exports of elaborately transformed chemicals performed far better than those in the STM category. Medicaments and pharmaceuticals accounted for about one-third of ETM exports during 1973/74 to 1982/83, but those from the plastics related industries grew to rival them - rising from 20% in the early 1970s to over one third in the early 1980s. Australia proved itself to be highly competitive in the production of some elaborately transformed chemicals that by 1979/80 it had expanded its share of the world market for items as diverse as perfumery and cosmetics, antibiotics and medicaments containing hormones (Department of Trade, 1985a).

The competitiveness in these industries was achieved through the local availability of relatively cheap supplies of raw materials, the use of capital intensive production and the accessibility, in Australia, of appropriately trained people. The achieved success within this sub-category demonstrates the gains which could arise when the natural advantages stemming from Australia's resource base could be united with the cultural advantages associated with the existence of a well-established scientific community.

The share of Australia's ETMs exports taken by the ASEAN nations contracted from 20 per cent in the mid-1970s to 10 per cent by the mid-1980s. Three countries - Papua New Guinea, Hong Kong and Singapore - between them accounted for around 15-20 per cent of ETMs exports over the 1970s and 1980s decades. In 1989/90, the percentage shares were 7, 6.5 and 6 per cent for Papua New Guinea, Hong Kong, and Singapore, respectively. Between them, Taiwan and South Korea, accounted for 4.7% of ETMs' exports over the 1980s.

1.4.3.3 Markets

Australia's export markets were realigned over the 1950/51-1994/95 period. The United Kingdom share of Australian total exports continued to decrease, falling from 56.3% in 1940 to 36.9% in 1955 and to 11.8% in 1970. By 1985, the United Kingdom share of Australian total exports contracted to 3.1% and to an average of 3.0% over the 1990/91-1994/95 period (Table 1.3).

There was also a severe and steady decline in the share of Australian exports taken by the European Economic Community (EEC) which declined from 22.9% in 1951 to 18.7% in 1960 and to 10.9% in 1970. By 1985, the EEC share of Australian total exports contracted 9.9% and to 8% in 1994 (Table 1.3). The British share of Australian exports was increasingly taken by Japan so that between 1951 and 1990 the relative importance of the two nations, as export markets for Australian goods, was completely reversed, with Japan's share of Australian exports increasing from 6.3% in 1951 to 27% in 1990.

There were fluctuations and the emergence of a declining trend in the percentage share of Australian exports going to the United States: from 15.2 per cent in 1951 to 8.1% in 1960, and to 13.5% in 1970. The United States share of Australian total exports continued to fluctuate from 9.3% in 1975 to 11.6% in 1985 and to 7.0% in 1994 (Table 1.3).

During the 1970s, the developing Asian countries began emerging as important markets for Australian trade. The common history and the continuation of a British Commonwealth connection with North East Asia reinforced the effect of relative proximity, causing Australian trade with the North East Asian region to remain reasonably intense.

Despite the increases in the share held by Japan and the United States of Australian exports, the decline of the United Kingdom's and Western Europe's shares was not fully compensated by these increases. In effect, Australia's trade was less directed to the major industrial countries. To compensate for this short fall, Australia turned to closer, less developed and industrialised economies within its region - to Papua New Guinea, South East Asia, China, and New Zealand. Together these economies raised their share of Australia's exports from a mere 6% in 1951, to 14.5% in 1960, 21.6% in 1970, 27.5% in 1985 and 36.0% in 1994 (Table 1.3).

The decades between 1950/51 and 1994/95 resulted in Australia's redirection of its trade away from the United Kingdom and the EEC towards East and South East Asia. The share of Australia's merchandise trade taken by the Asian region continued to increase, rising from 46.7 per cent in 1983 to 51.9 per cent in 1989. The percentage share of East and South East Asia in Australian trade more than trebled in 44 years: by 1994/95 accounting for 61% of Australian total exports and 38% of its imports.

The 1970s' rapid growth of the NIEs of Hong Kong, the Republic of Korea, Singapore and Taiwan were significantly important to Australia's trade as they were resource-poor countries. By 1994/95, Australia's trade with East and South East Asia was twice as important as trade with the European Union and one and a half times as important as trade with other industrialised countries. Apart from Singapore and Hong Kong, the South East Asian countries are rich in natural resources and consequently do not require major imports of Australian resource-based products (Tyers & Phillips, 1985). With increasing regional economic success, there is greater scope for Australian high value-added goods to be exported to North East Asia. Hong Kong, Taiwan, and Singapore have the highest per capita GNP in the region.

Since 1978, as China's economy became more outward oriented, it began to achieve high rates of growth which surpassed those of the industrialised countries. China's economic growth became more pronounced, from 1989 onwards, when its economy became integrated with the economies of Hong Kong and Taiwan. This led to further expansion in China's trade. However, Australian exports to China remained subject to sudden changes in Chinese development policy. While mainland China per capita GNP is quite low, this is increasing rapidly. China's share rose from 2.6 per cent of Australian total merchandise exports in 1984 to average 4.0% over 1985-1994 period.

The synergistic relationships between the economies of Hong Kong, Taiwan and Southern China (Guangdong and Fujian Provinces) which constitute the Greater China Region are to face a major challenge with Hong Kong reversion to China in July 1997. The main objective of this thesis is to analyse Australian trade, investment and immigration with China, Hong Kong and Taiwan prior to the Sino-British talks on Hong Kong's future in 1983 and over the 1983-1995 period.

1.5 Outline of Thesis Chapters

This thesis is composed of nine chapters. Chapter one puts forth a historical perspective of Australia's global trade, investment and immigration over the 1950/52-1994/95 period. The adopted approach evaluate the global economic effects during the period under examination and how these effected the Australian economy, in general. The Australian economy is evaluated not only on the basis of exogenous factors, but also in respect to the internal political forces at play and how policies and strategies were adopted, vis-a-vis, Australian exports, immigration and investment. Then an overview is given of the major Australian sectors exports and their markets, and how the markets for Australian merchandise exports were realigned.

Chapter two gives a historical overview of the economic performance of China, Hong Kong and Taiwan over the period 1950/51 to 1994/95. The general approach will look at each country's economic advantage, policies and strategies, and whether their economic growth was related to an expansion in trade.

Chapter three examines Australia's trade with the three North East Asian countries of China, Hong Kong and Taiwan, examining Australia's bilateral trade with each respective country, the trade composition, and the factors which influenced the overall trade performance amongst each of the respective countries.

Chapter four scrutinises Australian migration and investment flows from North East Asia, over the 1960-1983 period, especially from the respective countries of China, Hong Kong and Taiwan and evaluate the implications that these had on trade relations with the Asian region. The changes in Australian immigration policy will be examined, to evaluate how these affected the Asian migrant inflow, as well as their intersectoral effects on trade and investment. The social, economic and political effects that migration and investments from North East Asia had on Australia will be evaluated as well as Australian investment flows to China, Hong Kong and Taiwan.

Chapter five analyses, in detail, Australian global merchandise trade, as well as that with China, Hong Kong and Taiwan, over the 1983-1995 period, and whether Australian governments expectations that the Australian economy be bounded with the North East Asian (especially NICs) economies did eventuate or not.

Chapter six investigates Australian services trade with China, Hong Kong and Taiwan over the 1983-1995 period. This analysis will look at Australia's global services performance as well as regional, with special emphasis on the countries of China, Hong Kong and Taiwan. The opportunities and constraints within each market will be evaluated, to see whether Australian services trade with China, Hong Kong and Taiwan had improved over time. Any foreseen implications will be put forth, as well as how this will affect Australian relations with China and Taiwan.

Chapter seven probes Australia's immigration policies over the 1983-1995 period and how these affected the immigrants inflow from North East Asia, especially from Hong Kong, China, and Taiwan. A detailed evaluation is undertaken as to the perceived misunderstandings that might befall Australia's relations with China on the reversion of Hong Kong to China in July 1997.

Chapter 8 analyses, in detail, Australia's investment outflows and inflows over the 1980-1995 period, both from a global perspective as well as on a regional basis, with special reference to China, Hong Kong and Taiwan. Australia's investment levels in China, Hong Kong and Taiwan are determined and any perceived implications put forth in view of Hong Kong receding back to China in 1997. Australia's investments inflows from China, Hong Kong and Taiwan are evaluated as to the levels, types and industries they are targeting.

Chapter 9 is the conclusion of the thesis. Within this chapter, an overview of the main conclusions are brought together, as well as points which might be worthy of further research.

2. CHAPTER 2 HISTORICAL OVERVIEW OF THE THREE NORTH EAST ASIAN ECONOMIES

2.1 Introduction

This chapter will give an overview of the economies of China, Hong Kong and Taiwan, over the 1950-1994 period, focusing on the policies which were implemented and how these affected the direction and rate of economic growth within each of the respective countries.

In Sections 2.2 and 2.3, China's economic milestones during 1949-1978 period are presented, noting the effects that the Stalinist central planning and control had on the economy, and specifically on trade. Section 2.4 will outline the policy changes which have taken place over the 1978-1994 period, considering whether the strategies behind the implemented policies were realised and how the economy responded to these general changes, again with emphasis on investment and trade.

Section 2.5 will give an overview of the Taiwan's economy, focussing on the strategies and policies which were executed and the results obtained. Section 2.6 evaluates Hong Kong's economy over the 1950-1995 period, outlining the reasons behind the growth of the economy. It explores briefly the way in which exchange rate and monetary management impacted on the domestic economy and trade, the shifts that had occurred in Hong Kong's industrialisation and the consequential impact that this had on the composition of exports, as well as the reasons behind Hong Kong's economic transformation and the China factor.

2.2 The People's Republic of China (PRC) Economy

During the first three decades¹ of the People's Republic of China, China pursued a rigid strategy of central planning based on self-reliance. China was governed by a central administration which allocated resources to key sectors. In the late 1970s, China's policymakers began to restore its economic system after the impact of the Cultural Revolution. While maintaining the overall framework of predominant public ownership, China adopted an outward-oriented policy of opening up its trade and investment links with the rest of the world and, at the same time, reforming its domestic economic structure. This resulted in the gradual relaxation of mandatory planning, some decentralised economic decision making, and in a role for market forces in determining an increasing number of prices. The government also permitted a larger role for the non-state sector and began transforming those institutions which were critical for the conduct of macroeconomic policy.

2.3 Economic Policy and Structure 1949-78

Over the period 1949-78, as a centrally planned economy, China was determined to achieve self-sufficiency in all the major sectors of its economy and pursued a policy of minimum dependence on foreign trade. The Chinese imported only what was essential for furthering their industrial base and economic development, as well as meeting internal demands as they arose from failures in local production. By the late 1950s, agriculture was seen as the bottleneck for further industrial growth. The government was not prepared to use scarce foreign reserves to import food for its people. On the contrary, it wanted agriculture to be an expanding net contributor to foreign exchange earnings; to enhance China's capacity to import capital goods for heavy industries. During China's Great Leap Forward, the Chinese government changed its policy from encouraging relatively small, voluntary collective farms to large, non-voluntary communes was initially disastrous. Whenever there was a decline in farm output, the official reason presented was that this was due to poor weather. Others have suggested poor communal management and the effects of teamwork disincentives (Perkins & Yusuf, 1984). This had disastrous effects on Chinese society, that over the 1960s decade, it had been estimated that as many that as many as 27 million people died from malnourishment. It was only in 1965 that total agricultural output exceeded that of 1958.

¹ That is, 1949-1978.

The Chinese planning system had a tendency to regard trade as a residual, with only those items essential and unobtainable within China to be imported. The sum of imports was equilibrated to the amount of export earnings likely to be available (Table 2.1). A further factor has been that between 1960-1977, China refused to accept foreign gifts or loans, restricting its imports to the availability of exports' earnings which increased at a very low average annual rate of 0.5%, in constant prices, over the same period. Prior to 1978, the complete state monopoly on foreign trade, handled through a few state trading corporations, also tended to act as a restraint on trade.

Table 2.1 China's Foreign Trade Growth (%) - in Current & Constant (1970) Prices (US\$ Bn) 1953 - 1977						
Year	In Current Prices			In Constant Prices (1970)		
	Total Trade US\$ Bn	Exports US\$ Bn	Imports US\$ Bn	Total Trade US\$ Bn	Exports US\$ Bn	Imports US\$ Bn
1953	2.37	1.02	1.35	1.73	0.92	0.81
1960	3.81	1.86	1.95	3.81	1.78	2.03
1970	4.59	2.26	2.33	4.60	2.27	2.33
1977	14.80	7.59	7.21	4.99	1.94	3.06
Year	Total Trade %	Exports %	Imports %	Total Trade %	Exports %	Imports %
1953-59	10.8	14.2	7.8	16.7	15.5	17.9
1960-69	0.6	1.9	-0.7	0.7	2.3	-0.9
1970-77	18.2	18.9	17.5	1.2	-2.2	3.9
1953-77	7.9	8.7	7.2	4.5	3.2	5.7
<i>Note:</i> The effects of inflation were removed by the use of the Eckstein and Reynolds method. Chinese exports were divided into four groups, food, non-food agricultural, minerals, and manufactures, and then deflated each group separately using UN price indices for these items for developing countries; Chinese imports were divided into the same way, but the price index used for developed countries, on the grounds that most of China's imports come from developed countries. The UN ceased to produce its deflators in this form in 1977. The resulting figures are indicative only. The UN price deflators are probably fairly crude, the choice of items that are included as 'food' etc open to many arbitrary decisions.						
<i>Source:</i> State Statistical Bureau, <i>Statistical Yearbook of China-1981</i> , Economic Information Agency, Hong Kong, 1982, p. 357.						

However, China gained from trade by engaging in a pattern that was close to comparative advantage, importing capital-intensive and exporting labour-intensive goods, thus raising its standard of living. While the Maoist self-reliance policy was followed during the 1960-1971 period, from 1976 onwards, an import substitution policy was more openly pursued. At other times, the trade pattern was in line with long run self-sufficiency: importing plant, equipment and technology, and essential raw materials only. Since 1979, a change has occurred with a small amount of consumer goods being imported.

2.3.1 Trade

A number of fluctuations appeared in Chinese trade over the 1949-78 period. During the 1950s, trade grew rapidly as China recovered from rebuilding its collapsed economy. Imports grew more rapidly than exports, as China engaged in buying plant and equipment, chiefly on credit from the Soviet Union, in order to build up its industries. During this period, economic growth and foreign trade went hand in hand, with an average real increase in trade of 16.6% per annum over the 1953-59 period (PRC State Statistical Bureau, 1982). Real per capita income grew at the rate of 4 per cent per annum, according to official figures.

From 1960 to 1962, trade (defined as the sum of exports and imports) fell sharply owing to two factors: the economic slump which followed the collapse of the Great Leap Forward in 1960 and the Sino-Soviet split in the same year. The latter resulted in China being cut off from its then major trading partner, the Soviet Union. During the 1960s, trade grew more slowly as China began a period of self-sufficiency, after the withdrawal of Soviet experts and with its inability to obtain further Soviet aid. As a result, between 1960 and 1969, China's total foreign trade grew only at an annual real rate of 0.7% per annum (Table 2.1).

During 1963-66, trade grew quite rapidly, with an average annual rate of growth of 7.4%. On the eve of the Cultural Revolution, in 1966, China was enjoying a strong trade boom. In that year, the previous trade high of 1959 was surpassed, in both current and constant prices; despite a slight fall owing to the effects of the Cultural Revolution. During the 1960s decade, there was an expansion in trade, in an effort to export and in part to repay the incurred Soviet loans; with exports growing at an average rate of 2.3% per annum while imports falling at an average rate of 0.9% per annum (in constant prices).

As the Chinese economy underwent structural adjustment, agriculture's share of China's net material product fell from 67% to 33% between 1949 and 1978, while the industrial sector share almost quadrupled from its 12.5% in 1949. These trends were accentuated by deliberate government policy which aimed at encouraging heavy industry, with prices set so that value added was boosted in industrial enterprises and depressed in agriculture. Over the 1949-59 period, output within the light and heavy industries increased five-fold

and twenty-fold, each respectively. Prior to the 1970s, farm products provided more than half of China’s export income. Since 1970, however, that share has declined steadily and by 1994 it was only 10 per cent. The extent of the decline in the share of agricultural products in China’s exports is very marked (Table 2.2). Indeed, primary products share in China’s total exports have decreased significantly: prior to the 1960s they accounted for more than 67% of all exports, while in 1994, they contributed only 17 per cent.

Much of this decline is attributable to the growth of manufactured exports, the share of which increased from 44% in the mid-1960s to 83% by 1994, as its comparative advantage gradually transformed - away from its heavy reliance on primary products and towards unskilled, labour-intensive manufactures (Table 2.2).

Table 2.2 China: Sectoral Shares of Goods Exports and As a Share of National Income 1955 - 1994							
Year	Primary Products			Manufactured Products			Total Exports As a % of National Income
	TOTAL	Agric & Processed Food	Fuels, Minerals & Metals	TOTAL	Textiles & Clothing	Other Manufactures	
1955-57	70	55	15	30	14	16	6
1965-69	56	51	5	44	20	24	4
1970-74	53	47	6	47	21	26	4
1975-77	54	38	16	46	21	25	5
1978-80	50	30	20	50	23	27	6
1981-83	49	23	26	51	25	26	9
1984-86	44	14	30	56	18	38	7
1987-89	31	13	18	69	22	47	9
1990-92	23	11	12	77	20	57	16
1993-94	17	10	7	83	18	65	22
Sources: World Bank 1991, <i>World Tables 1989-90</i> , Washington DC; People's Republic of China State Statistical Bureau 1996, <i>China Statistical Yearbook 1996</i> , China Statistical Publishing House, Beijing, China.							

The share of manufactured goods in China merchandise exports grew from 35 per cent in the latter 1950s to around 45 per cent in the latter 1960s and early 1970s; subsequently, they grew more rapidly following the economic reforms of the late 1970s (Table 2.2). This occurred despite the rapid increase in the value of energy product exports: the share of fuels, minerals and metals, mainly petroleum, in China’s total exports increased from 6 per cent just prior to the first oil price shock of 1973 to a peak of 29 per cent in 1985, before dropping back substantially in the latter 1980s.

The effect of the open-door policy on the volume of trade has been dramatic. Until 1978, exports from the People's Republic of China had been small as a percentage of total national income, so that, in 1970, export share of national income amounted to only 4 per cent (Table 2.2). Over the 1981-83 period, exports' share of national income increased to 9% per annum. But then they fell back to 7%. According to official statistics, national income, measured at constant prices, rose at an average annual rate of 6.0 per cent between 1952 and 1978, or at 4.0 per cent in per capita terms. Official Chinese estimates show real per capita national income to have risen at the annual rate of 7.1% during 1978-1984, and 9.0% between 1984 and 1987, while the World Bank's estimate for the 1980-86 period has been 9.3% (United Nations, 1992a).

The 1970s saw China turn back to the rest of the world and increase its attention to foreign trade. In 1972, imports of foreign technology began on a large scale, and by 1978, China was willing to accept foreign loans and foreign capital. But, during the 1970s as a whole, China's apparent increases in trade were deceptive, the product of inflation rather than real increases. In current value terms, China's total trade grew at the annual rate of 18.2% during 1970-77 period, but, in real terms, this represented a mere annual growth rate of 1.2% (Table 2.1).

2.4 Post-1978 Policy Changes

2.4.1 Conceptual Framework

A major turning point in Chinese policy occurred in December 1978, during the Third Plenum of the Eleventh Central Committee of the Communist Party of China. The leadership made a decisive break with the legacy of the Cultural Revolution and resolved to focus the party's work on economic development, with the principal task being defined as developing the productive forces of the population. However, there was no agreement on the pace and nature of the reform, particularly the role of the market versus that of planning in a socialist economy. In the early years, the adopted reforms were experimental and partial, directed mainly at revitalising the economy. However, as the reforms began to spread across the economy, the inadequacy of the limited approach became increasingly apparent, as became evident in the periodic outbreaks of macroeconomic instability.

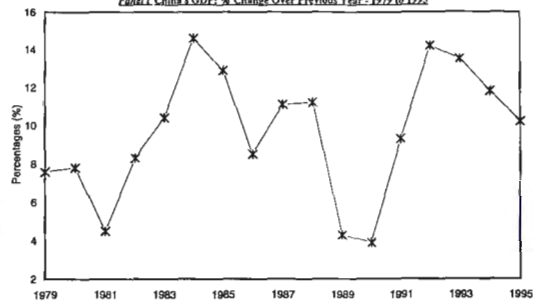
The importance of the resolution of the Fourteenth Party Congress to establish a “socialist market economy” and acceptance of Deng Xiaoping’s argument that the market mechanism is merely an instrument of economic development and not a defining characteristic of a social system meant that the aim of the reform was to establish an economic structure in which market forces, under the state’s influence, will determine relative prices and the allocation of resources.

During the initial stage, 1978-84, policies placed greater emphasis on material incentives and allowed a greater role for the market. In particular, agricultural produce prices were increased, diversification and specialisation of crops were encouraged, rural market’ restrictions were relaxed and the organisation of farming was decentralised from the collective to the household level. In industry, the bonus system was reinstated, the retention of depreciation allowance was permitted and experimentation began on profit retention by state-owned enterprises. In foreign economic relations, preferential policies were conferred on special economic zones (SEZs) with the aim of attracting foreign investment and technology, promoting exports and spear-heading bolder market-oriented reforms (Lin, 1987).

Over the 1984-88 period, the authorities adopted a wide-ranging set of measures to reform the urban industrial sectors (World Bank, 1990; Lardy, 1992). These measures included the establishment of a two-track pricing system which resulted, by 1988, in 53% by value of retail sales being transacted at market prices, 28% took place at fixed prices, and the remainder were subject to “state guidance.” These also included the introduction of enterprise taxation; the reform of the wage system, with closer linkage between remuneration and productivity and the establishment of a central bank. The investment system was reformed to encourage enterprises to borrow from the banking system to finance projects rather than to rely on the state. The revenue-sharing system between the central and local governments was revised, to allow for greater retention of revenue by the latter. To attract more capital and technical knowledge, 14 major coastal cities were opened to foreign trade and investment. In 1986, many of these measures were revised and expanded. Among the expanded measures were the decentralisation of trade through the establishment of local foreign trade corporations, and the adoption of a contract system, similar to that in agriculture, for enterprises.

Figure 2.1 Selective People's Republic of China Economic Indicators 1975 to 1995

Panel I. China's GDP: % Change Over Previous Year - 1979 to 1995



Source: People's Republic of China Statistical Bureau, *China Statistical Yearbook* 1995, Xinhua Publishing House, Beijing, China, various issues; People's Republic of China Statistical Bureau, *China Monthly Statistics*, Xinhua Publishing House, Beijing, China, various issues; Asian Development Bank, 1992, *Key Indicators of Developing Asia & Pacific Quarterly: Economics & Development*; ADP, Philippines: International Monetary Fund 1994, *International Financial Statistics Yearbook*, IMF, Washington, DC, Vol XLVII.

Panel II. Foreign Direct Investment (US\$bn) 1980-1995



Note: FDI includes all contracted direct investments, but is largely Joint Ventures, Co-operative Joint Ventures, Wholly-Owned Foreign Companies, Joint-Ventures, & Other Foreign Investments. Other Foreign Investment encompasses international leasing, cooperative deals, and processing and assembling.
Source: People's Republic of China Statistical Bureau, *China Statistical Yearbook* 1996, Xinhua Publishing House, Beijing, China, various issues; People's Republic of China Statistical Bureau, *China Monthly Statistics*, Xinhua Publishing House, Beijing, China, various issues.

Panel III. China's Exports & Imports (US\$bn) 1978 - 1995



Source: People's Republic of China Statistical Bureau, *China Statistical Yearbook* 1995, Xinhua Publishing House, Beijing, China, various issues; People's Republic of China Statistical Bureau, *China Monthly Statistics*, Xinhua Publishing House, Beijing, China, various issues; International Monetary Fund 1994, *International Financial Statistics Yearbook*, IMF, Washington, DC, Vol XLVII.

Panel IV. Exchange Rate: Chinese Yuan to \$US 1975 to 1995



Source: 1969-87: People's Bank of China Research & Statistics Department 1988, *China's Financial Statistics 1971-1987*, Chinese Banking Publishing House, Beijing, pp. 156-7.
1988-95: People's Republic of China State Statistical Bureau, *China Statistical Yearbook* 1996, State Statistical Bureau, China Statistical Publishing House, Beijing, China.

The mid-1988 to 1991 period was a period of restraint. The adopted reforms were successful in stimulating demand and production which led to rising inflation, so that by early-1988 the annual inflation rate reached double-digit levels. Plans for additional price reforms were deferred as the authorities took strong measures to cool the overheated economy. The program of restraints succeeded in stabilising prices, but they also resulted in a sharp slowdown in the economy as a percentage of GDP, particularly in the industrial sector (Figure 2.1, *Panel i*) (Lardy, 1992). As a result, losses of state-owned enterprises rose, inter-enterprise debt escalated and inventories accumulated, threatening to destabilise the macroeconomic situation. To avert an imminent economic crisis, in late 1990, the authorities resorted to stimulative monetary and investment policies to reactivate the economy. With the resulting change in policy, the economy began to recover in 1991 (Figure 2.1, *Panel i*). During this latter period, the authorities took advantage of generally stable prices to make substantial realignments in relative prices and to liberalise certain prices.

In a major step of simplification, the taxation of all foreign enterprises and joint ventures was brought onto a common base in 1991, the intention being to eventually unify the taxation of all foreign-funded and domestic enterprises. In other areas of taxation, the Government continued to reform the tax administration system, the income tax for domestic enterprises, the personal income tax, and the value-added tax.

In early 1992, the authorities declared an end to the rectification program and announced their intention to accelerate the process of reform. The process cumulated in October 1992 when the Communist Party formally embraced paramount leader Deng Xiaoping's view that the market system was not incompatible with the ideals of socialism and called for the establishment of a socialist market economy. This orientation set the way for the authorities to begin to formulate comprehensive plans to establish a fully market-based economy. In March 1992, the country's constitution was amended to delete references to a planned economy and to enshrine the new goal of establishing a socialist market system. Other important initiatives included an acceleration of the work program to develop a legal and regulatory framework to support a market economy, the decision to undertake a major restructuring of the role and functions of government, and plans to speed up enterprise, financial and social reforms.

An important consequence of the partial approach to reform has been the tendency for the economy to experience "stop-go" cycles of macroeconomic instability as the authorities have relinquished direct control over the economy, while indirect instruments have remained ineffective because of the incompleteness of reforms. The traditional

administrative system of macroeconomic control has become less effective as local authorities and state-owned enterprises have gained greater autonomy to pursue their own objectives of promoting growth and development within a relatively weak framework of financial discipline. As a result, macroeconomic instability has tended to become more severe with each cycle. So far the authorities have managed to regain control of the economy by combining economic policy actions with direct administrative intervention. However, such an approach has become increasingly risky.

Although, since the mid-1980s, the system of macroeconomic management has been reformed to incorporate indirect instruments, it still relied, to a large extent, on administrative methods and instruments. Such a system is incompatible with the principle that the behaviour of economic agents should be guided by market forces.

To strengthen the role of the budget in macroeconomic management, in 1992, the authorities began taking steps to correct the structural weakness in the fiscal system, particularly the lack of revenue flexibility, the erosion in the central government's share of fiscal revenue and the high subsidy payments. Over the years, the budget has been weakened by a progressive narrowing in the tax base, which is highly dependent on state-owned enterprises. To broaden the tax base and improve the elasticity of the tax system, a new enterprise income tax was introduced that subjected all domestic enterprises to a uniform tax rate of 33% (PRC Government 1989, 1991). Other tax reforms included the introduction of a new personal income tax, the reform of indirect taxes, and the strengthening of tax administration. To strengthen the central government's control over fiscal revenue, the current revenue-sharing contracts with the provinces was replaced by the establishment of separate taxation for the local and central governments.

After the inception of the reforms, real growth accelerated markedly. Growth rates of real net material product rose from an average of about 6% in the 25 years between 1953 and 1978, to more than 9% between 1979 and 1992. This acceleration was predominantly due to a sharp increase in the growth of total factor productivity, although increases in the growth rate of capital stock also contributed.² An important goal of the reform effort was to facilitate import of technology to modernise the economy. The growth in productivity was undoubtedly reinforced by the resultant technological progress.

² Perkins 1988, estimates that productivity growth accounted for over 40% of total growth in real net material product between 1977 and 1985, whereas growth in the labour force and in the capital stock accounted for the remainder.

Along with the open-door policy came a decision to allow productive resources to move more towards areas where China's comparative advantage was strongest. This meant less emphasis on heavy industry relative to light industry, such that between 1978 and 1985, light industry output grew by 130 per cent whereas heavy industry output expanded by only 70 per cent, in contrast to the opposite bias prior to 1978. This was in part due to the reallocation of some of the government's construction expenditure from heavy to light industry, during 1979-81.

2.4.2 Investment Strategies

A key feature of the Chinese reforms was the gradual opening of the economy to the rest of the world, and the concomitant change in official attitudes to foreign trade and investment. The approach was initially conceived with the goals of transferring technology to China and of boosting export earnings to acquire essential imports for industry, while minimising recourse to foreign borrowing.

The process of opening the economy necessitated, inevitably, the reform of policies and institutions in the external sector. China has gradually undertaken an extensive reform of its exchange and trade systems, which nonetheless remain complex, restrictive, and lacking in transparency. In principle, China's exchange and trade systems remain subject to many constraints and distortions. China's growing integration into the global economy suggests that its external policies are relatively selective.

Even though China showed greater willingness to turn to foreign sources to finance its modernisation and development process, its policy towards external borrowing has been relatively conservative. Its borrowings were mostly medium-term and long-term, with a substantial proportion being on concessional terms. In absolute terms, China's external debt increased dramatically, rising tenfold, to reach \$US40bn in 1988 (IMF, 1994; World Bank, 1994). Although in the wake of the June 1989 events China's access to the market for medium-term and long-term funds became tight, there appeared to have been no lasting impact on its credit-worthiness, as the external accounts strengthened and reform reappeared on the agenda.

In addition, China has had considerable success in attracting foreign direct investment, which increased from \$US1.5bn in 1982 to over \$US111bn in 1993 (Figure 2.1, *Panel ii*). In this regard, the special roles played by Hong Kong and, more recently, Taiwan, are noteworthy. Between 1988 and 1993, Hong Kong alone accounted for more than 67% of

total FDI inflows to China; with the major component being absorbed by Guangdong's SEZs. In 1988, with the Hong Kong dollar overly undervalued and an over-heated economy saw Hong Kong's labour market increasingly afflicted by both labour shortages and escalating wage costs (Yao, 1991, 1993). Consequently, Hong Kong companies, both local and foreign, moved their labour-intensive production processes to the Pearl River Delta region in the adjoining Guangdong province, leaving their Hong Kong operations specialising in coordinating the various sub-processes of manufacturing consignment and in associated activities like procurement and sales. Mirroring the emergence of this new division of labour, foreign investment in Hong Kong's manufacturing sector dwindled towards the end of the 1980s, and in its place, Guangdong province filled the gap by developing itself as a manufacturing base for Hong Kong (Yao, 1993). Since 1990, Taiwanese investment has also been increasing, particularly in Fujian. These trends are, no doubt, largely attributable to the cultural and geographic proximity of these territories to China.

2.4.3 Special Economic Zones (SEZs)

China's policy in making its economy more outward oriented began with the establishment of four SEZs in the two coastal provinces of Guangdong and Fujian in 1979-80. Enterprises operating in the zones include state enterprises, which are owned by local authorities or other provincial authorities; enterprises that are wholly foreign owned; equity joint ventures and contractual joint ventures. Wholly owned foreign-funded enterprises in the zones generally make their own decisions with respect to their organisational and personnel structure, wage systems and the recruitment or dismissal of employees. With the authorities' approval, they can sell part of their output in the domestic market. Enterprises in the zones have the right to make their own investment, production and marketing decisions. This relative autonomy has been an important factor in attracting investment resources from other areas in China, as well as from abroad, into the SEZs.

Another important consideration is the tax incentives available to foreign investors (World Bank, 1993). Foreign funded enterprises (FFE) are subject to 15% tax on profits, compared with 33% paid by those located outside the SEZs. In addition, after a tax holiday in the first two profit-making years, they pay only 7.5% tax during the following three years. FFEs located in the SEZs were exempted from import licenses and from customs duties on imports of machinery, equipment, and other inputs, as well as on their exports.

The success of these original SEZs may be attributed to a number of factors: the incentives given to foreign investors that were more generous than those made available in many other countries; their small initial size, coupled with the fact that they were the only areas in China opened to foreign investment before 1984, which enabled them to receive very large amounts of investment; and the large amount of domestic investment that came in the form of joint ventures established by provincial authorities from other coastal and inland provinces (Perkins, 1988).

The SEZs were given financial and administrative powers, including the right to approve large-scale investment projects, to grant tax concessions and other incentives to foreign-funded enterprises and to retain a high proportion of foreign exchange. As the positive results of these experiments became evident, the approach was extended to a number of other “coastal open cities,” each of which acquired the right to offer incentives to potential investors, allowing a degree of competition among localities and potential for divergence in economic performance among provinces or regions.

Starting in 1991, a number of new measures were taken to liberalise trade, in part stimulated by China’s efforts to make its trade conform with international practices, in the context of its application to resume its membership in the General Agreement on Tariffs and Trade (GATT). All direct budgetary export subsidies to foreign trade corporations were eliminated, from January 1991, and export tariffs on mineral ores were reduced. Import duties were reduced on a number of occasions,³ and China’s customs duty regulations were replaced with the harmonised commodity description and coding system. In April 1992, the import regulatory duty which was established in 1985, as an import surtax, was eliminated, and in October 1992 the import substitution regulations were terminated. In addition, under a Memorandum of Understanding (MOU) with the United States, China announced its intention to publish many of its internal regulations on foreign trade, to increase its system’s transparency.

2.4.4 Foreign Exchange

During the early stages of reform, various arrangements were tested for sharing foreign exchange, with the objective of improving incentives for exports (Bell & Kochhar, 1992). A retention system evolved, under which exporters surrendered their actual foreign exchange and were issued retention quotas by the State Administration for Exchange

³ The most substantial of these was on 31 December, 1992, when customs tariffs were reduced by an average of 7.3 percentage points on 3,371 items representing 53 per cent of dutiable items.

Control (SAEC), equivalent to a portion of such earnings. Through 1990, a complex set of regulations had developed that allocated foreign exchange differently according to industrial type and provincial location.

Until 1980, several exchange rates were used for trade transactions between the Foreign Trade Corporations and domestic enterprises with which they were trading. In 1981, a single exchange rate was established for the internal settlement of trade transactions that remained lower than the official exchange rate. Over the succeeding three years the official exchange rate was progressively devalued, and in 1984 the rates were unified.

A dual exchange rate re-emerged in 1986, with the establishment of the foreign exchange adjustment centres, at which approved enterprises were permitted to buy and sell retention quotas. With the new exchange arrangements, in 1986, the official exchange rate was, in effect, pegged to the United States dollar. There were two devaluations: of 21% in 1989, and 9% in 1990, and in 1991, small frequent adjustments in the official rate were made (Figure 2.1, *Panel iv*). By April 1993, the real effective official exchange rate had depreciated 33% relative to 1986, and 70% relative to 1980. Unification of the exchange rates were implemented in 1994, which resulted in a 50% depreciation of the official exchange rate. The implemented change in the exchange rate improved the competitiveness of Chinese exports, in the face of rising domestic cost pressures.

2.4.5 Trade Liberalisation

The policy of opening the economy to the rest of the world has resulted in a marked expansion of foreign trade and investment during the last decade (Figure 2.1, *Panel iii*). Exports, in constant prices, grew at the average annual rate of 12% during 1980-91, making China the thirteenth largest exporter in the world in 1991, up from twenty-sixth in the world, in 1980. China's merchandise trade, as a ratio of its current price GNP, increased from 12.8% in 1980 to over 38% in 1992. In 1994, China became the sixth largest exporter in the world (WTO, 1995a).

This increase in the relative importance of foreign trade in the Chinese economy reflected, to a large extent, the growing export orientation of the economies of its coastal regions. Exports also increased rapidly with the establishment of foreign-funded enterprises. Hong Kong-based enterprises have been taking advantage of China's cheap labour and land, to develop mainly labor-intensive industries, in the open economic

zones. These enterprises have diversified China's industrial production of export goods. The share of industrial exports in China's total exports increased from about 50% in 1980 to around 80% in 1992.

China's industrial exports have continued to be heavily concentrated in light industrial goods. Products such as textiles, clothing, telecommunications equipment and arts and crafts still represent a high percentage of total exports (Table 2.2). At the same time, there has also been a relative concentration of China's foreign trade in a limited number of markets. Sixty five per cent of China's total direct trade is with other Asian countries. Among these countries, Hong Kong plays a leading role, especially in its entrepôt role. On the other hand, imports of intermediate and capital goods come from Asia, notably Hong Kong and Japan, and finished consumer goods are exported, mainly to the United States and Europe.

Foreign capital flows have increased rapidly as a result of the preferential policies which were offered by the Chinese Government. These policies have attracted numerous Hong Kong investors, particularly in the form of contractual joint ventures. By the end of 1995, over 233,000 foreign-funded enterprises had been approved in China (*China Statistical Yearbook, 1996*). About one-third of these enterprises were in tourism and other service sectors, while the other enterprises invested in oil exploration and assembly and processing industries. About 67% of total foreign investment originated from Hong Kong. However, investment from the United States, Europe and Japan has also increased rapidly.

A further indicator of China's increasing significance in the global economy is the rise in its share of the international (non-gold) reserves for reporting territories. From less than 1% in 1978, China's reserves increased - notably in the later years of the period - to about 5%, in 1991 (United Nations, 1992a). In absolute terms, its ranking rose from fortieth to seventh during this period.

In conclusion, measured in terms of trade and investment flows, China's economy has become increasingly integrated into the world economy (Bell & Kochhar, 1992; WTO, 1996). One manifestation of this integration has been the narrowing of the gap between domestic and international prices of many tradeable goods, as a result of price reforms. This process will be strengthened by China's recent opening of the services sector and its inland provinces to foreign trade and investment, as well as its intention to adopt international conventions and practices in accounting and in the legal and regulatory framework.

2.5 The Republic of China (ROC) - Taiwan Economy

Since its liberation from Japan following the Pacific War, the Republic of China on Taiwan has implemented a series of rapid structural changes. During the 1950s, Taiwan embarked on an import-substituting industrialisation drive which involved not only substantial protection for its domestic manufacturers from import competition, but also involved maintaining low domestic prices for agricultural produce. In the initial stages of its economic development, Taiwan had to overcome both internal and external factors which were creating enormous burden on its economic performance.

In its early years, Taiwan's scarcity of resources, runaway inflation and widespread unemployment made its initial development stage difficult. By 1952, Taiwan's economy was mainly composed of agriculture 32.2% of GDP, while industry provided only 19.7% of GDP and services accounted for the remaining 48.1%. Its low levels of exports rendered Taiwan not only susceptible to shortages of foreign exchange for its initial stages of development, but also to incur balance of trade deficits. In 1952, Taiwan incurred a trade deficit of \$US71m, which corresponded to 61.2% of its total merchandise exports. Taiwan's total trade in that year was only \$US303m while its per capita GNP stood at only \$US196.

2.5.1 Strategies and Outcomes

In order to overcome Taiwan's initial difficulties of development, and to prepare it in becoming a modern nation, the Taiwanese government adopted a series of pragmatic strategies which addressed both domestic economic demands and external economic conditions. Without implying that these strategies were the only important factors influencing Taiwan's development, it is useful to use these plans as expository devices in reviewing that development.

2.5.1.1 The 1950s and 1960s Decades

In its first four-year Economic Development Plan, 1953-1956, the government's objectives were to increase agriculture and industrial production, to maintain economic stability, and to improve the country's balance of payments. To achieve these objectives, a number of important measures were taken, including: increasing substantially the levels of investment in the agricultural and industrial sectors, making good use of United States aid and implementing an import-substitution trade policy (Ministry of Economic Affairs, 1994). The government, through legislation, also promoted the privatisation of state-run enterprises in 1953, investment by foreigners in 1954 and investment by overseas Chinese in 1955.

In this context, the Taiwanese economy grew at the annual rate of 8.1% over the 1953-56 period. During this four-year period, agricultural production increased by 22% and industrial production by 55%. However, Taiwan's total trade remained small, at \$US312m in 1956. Taiwan was still registering a trade deficit which, in 1956, amounted to \$US76m.

The second four-year Economic Development Plan, 1957-1960, addressed the basic problems that Taiwan's economy was seen as still facing, namely its low per capita GNP, the over-emphasis on light industry, which accounted for 77.3% of all industries, and the trade deficit. In addressing these problems, the following objectives were set: acceleration of the development of the mining and manufacturing industry, expansion of exports, increased employment opportunities and improvement in the balance of payments. The measures undertaken to achieve these targets included initiation of a plan for foreign exchange reform in 1958, with the aim of encouraging exports; a plan for the acceleration of economic development in 1959 and the encouragement of investment in 1960, with tax incentives aimed at revitalising savings, investment and exports (Ministry of Economic Affairs, 1994).

Over the 1957 to 1960 period, the economy grew at the average annual rate of 7% in real terms, real per capita GNP increased from \$US141 to \$US154 and the volume of agricultural and industrial production grew at the average annual rate of 4.7% and 12%, each respectively. In comparison to the earlier period, though there continued to be growth in Taiwan's total trade, the balance of trade was still registering a deficit of \$US133m. By 1960, total investment amounted to \$US607m.

During the 1960s decade, the Taiwanese government implemented three development plans, that is, the Third, Fourth and Fifth Four-Year Economic Development Plans, in order that the economy continue on its targeted growth. In the early 1960s, Taiwan switched the basis of its development strategy - away from import substitution towards export-oriented industrialisation. This led the Taiwanese government to decrease the level of its assistance to manufacturing by lowering it to a low level and holding it there (Hong, 1979; Nam, 1981; Anderson, 1983; Anderson & Hayami, 1986). Total trade expanded at an annual rate of 18.5%; with exports growing at the phenomenal rate of 23.7% per annum over the 1965-1968 period. But, over the 1960-1964 period, Taiwan's imports of machinery to restructure its economy led it to incur an annual trade deficit of \$US118m. Over the 1960-1980 decades, Taiwan's exports share of GDP continued to grow, rising from 11% in 1960 to 54% in 1980 (Anderson & Hayami, 1986).

During the 1960s and 1970s, substantial improvements were achieved in the most important sectors of the economy, with average annual growth rates for manufacturing and agriculture being recorded at 17.3% and 3.4%, each respectively (Table 2.3). Over time, the importance of the agricultural sector in the economy continued to diminish, relative to its share in GDP, labour force participation and exports. Agriculture's share in GDP continued to decrease over time, falling from 33% in the 1960s and 18% in 1970s to 9% in the 1980s and to 3.6% during the 1990-1995 period (Table 2.3). In the late 1960s, Taiwanese farmers felt the effects of the relative decline in agriculture. They sought price supports and protection from import competition, and the Government was responsive.

Table 2.3 Indicators of Growth and Structural Adjustment, Taiwan 1960 to 1995				
INDICATORS	1960	1970	1980	1990-1995
Real Growth (% period average) in:				
GDP	9.6	9.5		8.4
Manufacturing	17.3	13.2 ^a		12.2 ^b
Agriculture	3.4	1.6 ^a		13.0
Exports	23.7	9.3		11.0
Ratio of Exports to GDP (%)	11	30	54	57
Ratio of Agricultural Imports to Exports (%)	42	95	144	116
Share of Agriculture (%) in:				
GDP	33	18	9	3.6
Employment	56	35	20	19
Exports	51	22	9	11.2
Index of 'Revealed Comparative Advantage'^c in:				
Agriculture and Food	2.6	1.0	0.6	*
Non-Food Manufactures	0.9	1.2	1.5	*
Notes ^a 1970-78. ^b 1990-95 ^c Defined as the ratio of the share of the commodity group in a country's exports to that commodity group's share of world exports. *Non availability of data. Sources: Council for Economic Planning and Development, <i>Taiwan Statistical Data Book, 1981</i> ; Department of Agriculture and Forestry, <i>Taiwan Agricultural Yearbook, various issues</i> ; Directorate-General of Budget, Accounting and Statistics 1996, <i>Monthly Bulletin of Statistics of the Republic of China</i> , Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, Taiwan, Vol. XXII, No. 1, March 1996, various issues.				

As a consequence, the nominal rates of protection for grain and meat rose from negative levels in the 1950s and from close to zero in the mid-1960s, to high positive levels in the 1970s and early 1980s, when they reached 50% (Council for Economic Planning and Development, 1981). Nevertheless, as Taiwan reoriented its economy from agriculture towards manufacturing, the percentage share of total employment which was in the agricultural sector decreased from 56% in the 1960s to 19% in the 1990s (Table 2.3). By 1964, industrial production was up by 65% on the level of 1960. Taiwan's 'revealed comparative advantage' shifted from agriculture and food, towards non-food manufactures. Agriculture's share of total exports decreased over time; from 51% in 1960 to 9% in 1980 (Anderson & Hayami, 1986; Council for Economic Planning and Development, 1981).

2.5.1.2 The 1970s and 1980s Decades

The Sixth Four Year Economic development plan, 1973-75, continued to focus on the accelerated modernisation of Taiwan's industry expansion of infrastructural facilities on raising the quality of human resources and on the continued expansion of exports. Key measures undertaken to accomplish the specified targets included implementation of ten major construction plans, seven of which were related to the expansion of the infrastructure; development of the heavy industries, such as steel, copper, aluminium, shipbuilding, automobiles, machinery and petrochemicals; appropriation of foreign exchange funds for the import of essential commodities, and the adoption of measures aimed at tightening the money supply.

Throughout the 1960-1975 period, GDP grew at an annual average rate of 9.6%. From mid-1970s to the late-1970s, GDP continued to grow, attaining an average annual growth rate of 9.5%. As a consequence of the 1973 oil crisis, Taiwan's economic growth rate fell sharply to 1% in 1974 and only improved to 4.4% in the subsequent year. The 1975 GDP growth rate was achieved in spite of exports registering a negative growth (-5.9%). In 1974, the trade deficit amounted to \$US1.33bn, which fell to \$US640m the following year. Over the 1973-75 period, industrial production increased at the annual rate of 7%.

Throughout the Seventh Four-Year Economic Development Plan, 1976-81, the average annual economic growth rate stood at 10%, indicating that Taiwan's economy has recovered from the early 1970s decline. Industrial production increased at the annual average rate of 12.6%. By 1981, total foreign trade amounted to \$US43.8bn (Figure 2.2, *Panel iii*), making Taiwan the nineteenth largest trading power in the world. Taiwan's trade surplus stood at \$US1.41bn in 1981.

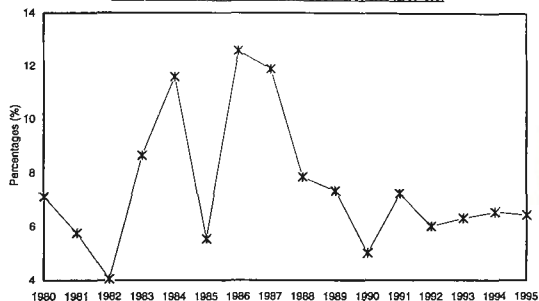
In the early 1980s, Taiwan had to confront not only the global economic recession, but also some contraction in domestic demand. As a result of the 1981 increase in oil prices, Taiwan's inflation rose to 16.3% during the same calendar year. Industrial production growth started to slow, that by 1981 the rate of growth was only 3.4%. The Eight Development Plan, 1982-85, sought to address the underlying problems by expanding the scope of scientific and technological development, by promoting genetic engineering and biological technology; by encouraging innovation and expanding the scope of existing labour-intensive industries' operation and by implementing 14 major construction projects in 1984 (Ministry of Economic Affairs, 1994). Over the Plan period, economic growth was maintained at the annual average rate of 7.5% (Figure 2.2, *Panel i*); real per capita GNP increased from \$US2,669 to \$US3,297 and the average annual growth rate within the secondary and tertiary sectors was 6.6% and 7%, each respectively. Taiwan achieved phenomenal trade growth, so that by 1985, its trade surplus had increased sharply to \$US10.6bn (Figure 2.2, *Panel iii*), representing an annual increase of 70.2% over the 1982-85 period.

In 1985, slow growth within the international economy caused the Taiwanese economy to contract sharply, registering a growth rate of only 5.6% (Figure 2.2, *Panel i*). In addition, Taiwan's increasingly large trade surplus had an adverse impact on the development of a balanced macroeconomy (Ministry of Economic Affairs, 1994). Investment confidence was low, especially in the private sector with the formation of fixed capital falling at the annual rate of 1.7% over the 1982-86 period (Figure 2.2, *Panel ii*).

To address these basic problems, Taiwan's Ninth Four-year Economic Development Plan, 1986-1989, set out objectives to promote the liberalisation, internationalisation, and institutionalisation of its economy; to strengthen the coordination between its industrial and the export structures, to develop a stable service sector and to raise the standard of living of its people.

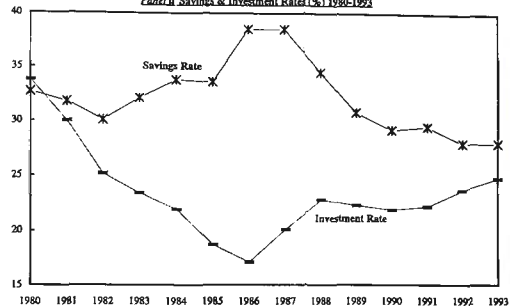
Figure 2.2 Selective Economic Indicators: Republic of China on Taiwan, 1975 to 1995

Panel I. Economic Growth Rate (As % of GDP) - 1980-1993 (1986=100)



Sources: Directorate-General of Budget, Accounting and Statistics 1996, *Monthly Bulletin of Statistics of the Republic of China*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, Taiwan, Vol. XXII, No. 1, March 1996, various issues; International Monetary Fund 1994, *International Financial Statistics Yearbook* (IMF, Washington, DC, Vol. XLVII).

Panel II. Savings & Investment Rates (%) 1980-1993



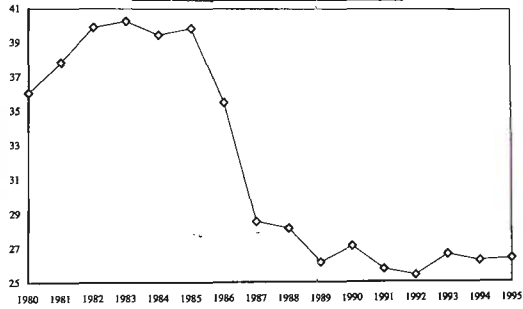
Sources: Directorate-General of Budget, Accounting and Statistics 1996, *Monthly Bulletin of Statistics of the Republic of China*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, Taiwan, Vol. XXII, No. 1, March 1996, various issues; International Monetary Fund 1994, *International Financial Statistics Yearbook* (IMF, Washington, DC, Vol. XLVII).

Panel III. Taiwan's Exports & Imports (US\$bn) 1980 - 1995



Sources: Directorate-General of Budget, Accounting and Statistics 1996, *Monthly Bulletin of Statistics of the Republic of China*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, Taiwan, Vol. XXII, No. 1, March 1996, various issues; International Monetary Fund 1994, *International Financial Statistics Yearbook* (IMF, Washington, DC, Vol. XLVII).

Panel IV. Exchange Rate: New Taiwan \$ to US\$ 1975 to 1995



Sources: Directorate-General of Budget, Accounting and Statistics 1996, *Monthly Bulletin of Statistics of the Republic of China*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, Taiwan, Vol. XXII, No. 1, March 1996, various issues.

In order to achieve these objectives, a series of measures were adopted, including the promotion of trade liberalisation, opening the domestic market, and strengthening trade expansion; establishing a sound financial system, regulating monetary operations, decontrolling foreign exchange, and promoting financial liberalisation; adjusting the industrial structure, by establishing an environment for free competition in industry, and promoting overall industrial development; reforming the functions of finance and taxation, implementing a new business taxation system, and rationalising the nation's taxation administration; strengthening the development of manpower and technology and improving the planning and management of energy.

Over the Plan period economic growth decreased from a high of 12.6% in 1986 to 7.3% in 1989 (Figure 2.2, *Panel i*), nominal per capita GNP to rose from \$US3,297 in 1987 to \$US7,518 in 1989 and the share of heavy chemical industries rose to 55.5%. Despite the slowed export expansion, the annual trade surplus, during the 1987-1989 period, amounted to \$US14.8bn (Figure 2.2, *Panel iii*). In addition, the rapid appreciation of the New Taiwan dollar resulted in the massive inflow of foreign speculative money, which led to a rapid accumulation of foreign exchange reserves. The New Taiwanese currency rose 34.4% in value against the United States dollar during the 1986-1989 period and continued to appreciate from then onwards (Figure 2.2, *Panel iv*). This led to a high rate of increase in the money supply. The excessive expansion of the money supply indicates the seriousness of the excess savings situation (Figure 2.2, *Panel ii*). However, the rapid appreciation of the New Taiwan dollar weakened their exports competitiveness and reduced Taiwan's export growth and in due course the trade surplus.

2.5.1.3 The 1990s

In 1990, the Taiwanese Government published the Six Years National Development Plan (SYD), 1991-1996, as the outline for the country's economic development, with an estimated total budget of \$US300 billion. The plan included a total of 775 projects covering major infrastructure works, industrial upgrading and social welfare (Table 2.4).

Table 2.4 Taiwan's Proposed Spending on the SYP¹ Projects: 1992-1997 (Financial Years)			
Sector	Number of Projects	Funds Required (NT\$ bn)	Share (%)
Transport/Communications	100	2,771	33.7
Energy Development	77	1,000	12.1
Urban Housing	44	931	11.3
Social Welfare/Security	39	795	9.6
Culture/Education	93	791	9.5
Water Conservancy/Flood Control	61	444	5.4
Industry Development	73	334	4.1
Environmental Protection	67	290	3.5
Agriculture/Fisheries/Forestry	79	277	3.3
Science and Technology	67	234	2.8
Tourism and Recreation	30	127	1.6
Medicine and Health	9	108	1.3
Other Spending	26	106	1.3
Services	10	41	0.5
TOTAL	775	8,249	100.0
<i>Note:</i> ¹ Six Year Plan.			
<i>Source:</i> Council for Economic Planning and Development			

Many of the projects in the SYP, up to 60%, are projects that have already commenced as part of the previous Fourteen Major Projects of the Tenth Medium Term Economic Development Plan, and there is little doubt that a lot of the larger projects in the plan will continue well after 1996.

During the six year period covered by the SYD, the government intended to achieve the following main economic targets, as indicated in Table 2.5.

Table 2.5 Republic of China Main Economic Indicators: As Forecasted in Six Year Plan and Actual Outcome 1991 & 1996				
	Forecasted in SYP		Actual Outcome	
	1991	1996	1991	1996^a
Gross National Product (GNP) Growth Rate (%)	7.0 ^b	7.0 ^b	7.6 ^b	5.1 ^{a,b}
GNP (\$USbn)	178.6	298.5	183.7	203.4
GNP per capita (\$US)	8,747.0	13,975.0	8,982.0	9,526.0
Inflation (CPI)	5.0	5.0	3.5	5.7
Unemployment	2.1	2.3	1.5	2.5
Exports (fob in \$USbn)	70.3	99.4	76.2	85.7
Imports (cif in \$USbn)	59.1	95.5	62.9	75.5
Balance of trade (\$USbn)	11.2	3.9	13.3	10.2
<i>Note:</i> ^a Due to the unavailability of data, 1996 calendar year refers to period January to September 1996.				
^b percentages (%) refers to average over the specified period, that is 1991 to 1996.				
Year refers to one financial year.				
<i>Source:</i> Directorate-General of Budget, Accounting & Statistics, <i>Monthly Bulletin of Statistics of the Republic of China</i> , December 1996, Vol. XXII, No. 10, Directorate-General of Budget, Accounting & Statistics, Executive Yuan, Taipei, Republic of China.				

It was anticipated that government consumption, rather than trade, would have been the driving force behind Taiwan's growth over the 1991-96 period. High capital outflows, particularly to support Taiwan's flourishing trade with mainland China, meant that projects had to be paid from government reserves and external bond issues. However, it should be realised, that by September 1996, not all the targets were either achieved (Table 2.5). In effect, trade was one of the driving factors by which Taiwan's SYP objectives were achieved, as trade surpluses continued to be registered (Table 2.5 & Figure 2.2, *Panel iii*).

These continuing trade surpluses were in spite of the fact that, from the mid-1980s onwards, sharp increases were incurred in Taiwan's production costs, resulting in a greater number of businesses seeking to invest overseas. Cheaper production costs and incentives on mainland China and in South East Asia, coupled with the emerging international protectionism, resulted in an increase in the ratio of outward to domestic investment from 5.4% in 1987 to 33.9% in 1989.

Taiwan, though a late comer on the mainland economic boom, has some 31,000 companies operating throughout China by the end of 1995, directly employing five million people and indirectly employing another five million (*World Journal*, 3 March 1996; *New York Times*, 20 March 1996; *People's Daily*, 1, 18 and 31 January 1996). While Taiwan's investment in China is hard to calculate due to many unregistered and indirect transactions by Taiwanese businessmen, in 1994, China's figure puts Taiwan investment at \$US3.3bn which rose to US\$28.9bn by September 1995.⁴ With improvements in the Taiwan's investment environment, outward investment moderated, bringing the ratio down from 33.9% in 1989 to 6.6% in 1992. However, as there were advantages to be sought within the international division of labour and competition, outward investment continued to increase that by 1993, it was 8.4%.

Due to the changes within Taiwan's investment environment, Taiwanese labour-intensive industries continued gradually to lose their comparative advantage. In order to remain internationally competitive, firms had to move their investments and production overseas. At the same time, heavy, chemical and technology-intensive industries have experienced a corresponding growth, with their share of total production increasing from 59.9% in 1986 to 67.7% in 1993. Their share of exports increased from 54.9% in 1986 to 69.2% in 1993.

⁴ *Ibid.*

Taiwan had been trying, since the mid-1980s, to address its over-concentration on the American market in terms of exports. Steps were taken to find alternative markets for their products as the ever increasing trade surpluses with the United States was creating commercial friction between the two countries. In fact, the share of Taiwan's exports going to the United States decreased from 47.7% in 1986 to 28.9% in 1990, and to 26.1% in 1994. However, Taiwan's trade deficit with Japan got larger: from 29.9% in 1988 to 30.1% in 1993. In the meantime, trade with South East Asia and the European Union remained on a stable growth trend.

Indirect trade between Taiwan and mainland China - most of which goes through Hong Kong - reached US\$20.97bn in 1995, compared with the US\$77m in 1979. Since 1991, Hong Kong became Taiwan's second largest export market, accounting for Taiwan's record trade surplus of \$US10.5bn, in 1991. Taiwan's trade surplus with Hong Kong continued to increase, that by 1995, it stood at \$US20.9bn. This signifies that Hong Kong had replaced the United States as the main market for Taiwanese exports. However, by 1993, the share of exports going to America, Japan and the European Union still accounted for over 50% of Taiwan's global exports. The Taiwanese Government believes that it is necessary to continue expanding its trade with the United States, Japan, and the European Union, in order to be able to execute its global trade expansion program, and strengthen the diversification of its export markets.

The increasingly important role of Hong Kong for both Taiwan and mainland China suggests a deepening and broadening of economic interdependence between these Chinese entities. The combined trade of mainland China, Taiwan and Hong Kong, in 1995, was about US\$860bn. This constituted the third largest trade entity in the world and was second only to the United States and Germany, and is expected to surpass Germany to become the second largest trader in 1996.⁵ In 1995, the combined trade of China, Hong Kong and Taiwan with the United States has surpassed the United States trade with Mexico to become the third largest trading partner for the United States.⁶

⁵ *Ibid*; *World Journal*, 2 January, 3 February and 1 March 1996.

⁶ *World Journal*, 29 January 1996, p. 2.

2.6 Hong Kong Economy

Due to its limited size and lack of resources, Hong Kong has to import most of its food supplies and virtually all raw materials and fuels that are required by its various industries. In addition, as Hong Kong is a small region, the domestic market is not large enough to provide a significant market for manufactured products. The major manufacturing industries in Hong Kong are therefore export-oriented. Hong Kong's basis for its industrialisation had been to import raw materials and fuels and export manufactured products. Thus, foreign trade was vital in the process of Hong Kong's industrialisation, while a deep and sheltered harbour facilitated in the achievement of this trade. Hong Kong's rapid growth was initiated and sustained by a rapid expansion in exports. This enabled the country to import capital goods which had the effect of raising the level of productivity and therefore the rate of growth.

The economic success of Hong Kong is best analysed by examining how its modern economic growth began. Two major factors gave rise to the economic transformation of Hong Kong in the early 1950s, namely, a massive inflow of resources and a decline in the importance of entrepôt trade. These factors were the consequences of historical development rather than of government design or of special efforts made by private businessmen. In addition, institutional factors, such as the British administration of Hong Kong, facilitated the process of economic transformation in Hong Kong.

2.6.1 The 1950-1990 decades

The Communist regime in China was established in 1949. As a consequence of related political pressures, during 1948-1951 a large inflow of labour, capital, and entrepreneurial skill left from China to Hong Kong (Rabushka, 1973, 1976). Those taking refuge in Hong Kong included young and energetic people, some of whom had capital and skilled entrepreneurs, mostly Shanghainese industrialists, engaged in the textile industry. This huge inflow of human and capital resources from China formed the basis of subsequent industrialisation. In the interim, an inflow of capital and entrepreneurial skill flowed in from the West and from South East Asia, as Hong Kong was the most stable place in Asia - both politically and economically.

The post-1951 decline in Hong Kong's entrepôt trade can be attributed to two main factors: the Communist takeover in China in 1949, and the consequent redirection of China's trade, for political reasons, towards Russia and the Comecon⁷ block rather than to the West and other parts of Asia. Under these circumstances, Hong Kong lost its traditional importance as a medium for China's foreign trade. The second factor was the outbreak of the Korean War, in 1950, which led to the United Nations embargo on the export of strategic commodities to China, in 1951. The Hong Kong's government rigid enforcement of the embargo resulted in a very sharp fall in Hong Kong's trade with China (Rabushka, 1973, 1979).

Hong Kong gradually developed its industries as the importance of entrepôt trade declined. The expansion of manufacturing industries such as textile and plastics, and later clothing and electronics, led to a high rate of growth in both exports and income. During the 1960s and 1970s, Hong Kong, along with the other NICs, achieved rapid growth. The rapid development of the financial sector began in the 1970s, and since then, Hong Kong has remained one of Asia's prime regional financial centres, with an increasing number of banks and other financial institutions, especially foreign banks, setting up branches and representative offices in Hong Kong.

By virtue of its British administration, Hong Kong enjoyed the advantages of the Commonwealth Preference Scheme, until 1956, and membership of the Sterling Area, till 1967. The Commonwealth Preference Scheme enabled Hong Kong's products to be more competitive in overseas markets and Sterling Area membership helped Hong Kong to have a stable currency. Both these schemes were of considerable importance to Hong Kong in the early stages of its industrialisation.

Owing to changes in the state of world trade and internal events, such as the banking crisis in 1965 and the riots of 1967, the Hong Kong economy has experienced considerable fluctuations in its level of economic activity (Miners, 1995). Nevertheless, Hong Kong's recovery after an economic setback has always been rapid. The economy recovered quickly from its slow growth in the years 1966, 1968, and 1971. And whilst Hong Kong suffered from the world economic recession during 1974-75, as did other countries, it recovered well in 1976. Owing to Hong Kong's strong internal demand and

⁷ Comecon - Council for Mutual Economic Assistance.

the increasing importance of the financial sector, the growth rates of Hong Kong were still at the high levels of 11.7% and 10.9% in 1980 and 1981, respectively (Figure 2.3, *Panel i*). But the world recession had its impact on Hong Kong in 1982, when the economy grew at a rate of only 2.5%. Some attributed this 1982 slow growth to the uncertainties related to the Hong Kong reversion to China in 1997 (Lethbridge & Hong, 1995).

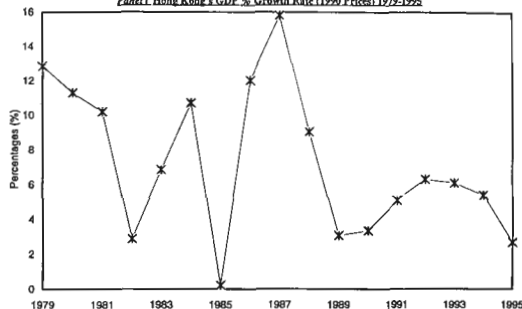
In addition, Hong Kong, like other export-oriented economies such as Taiwan and South Korea, were fortunate to have accessible markets in developed countries which enjoyed almost uninterrupted prosperity in the post-war period up to the early 1970s. The colony had the added benefit of undergoing industrialisation in a period of widespread internationalisation of production by developed countries. The setting up of manufacturing subsidiaries by multinational companies in Hong Kong, as in other developing countries resulted in the transfer of, not only capital, but also technology, management and marketing skills.

Table 2.6 Hong Kong's GDP Average Annual Growth Rates 1961-1994 (At Constant Prices, 1980=100)		
Years	Gross Domestic Product (GDP)	GDP Per Head
1961-66	10.9	8.0
1966-71	6.8	4.5
1971-76	8.3	6.1
1976-81	10.6	7.6
1981-86	6.0	4.6
1986-91	6.5	5.7
1991-92	5.4	4.4
1992-93	5.4	3.4
1993-94	5.4	3.1
<i>Note:</i> 1985-86 had a low growth rate of 1.1 percent. <i>Source:</i> Hong Kong Government Census and Statistics Department, <i>Estimates of Gross Domestic Product 1966 to 1996</i> , Hong Kong, March 1996.		

Table 2.6 shows the average annual growth rates of Hong Kong's GDP and GDP per head during the 1961-1994 period. During the 1960-80 period, Hong Kong's growth was fast relative to other industrialised countries, such as the United States (3%), United Kingdom's (2.5%) and West Germany's (3.3%). However, from mid-1980s, GDP growth rate was slower than in previous years, that by the early 1990s, GDP growth rate stabilised at around 5.4%. However, if a closer look is taken at the annual GDP growth rate and per capita GDP, one finds that Hong Kong's economy was experiencing considerable fluctuations in the 1980s (Figure 2.3, *Panel i & ii*).

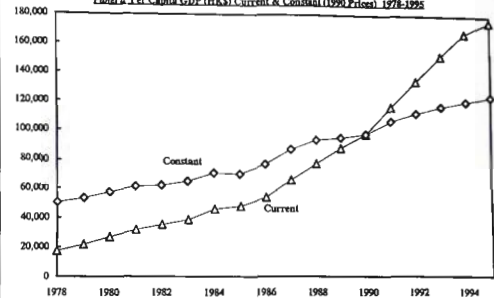
Figure 2.3 Selective Indicators of Hong Kong's Economy 1975 to 1995

Panel I: Hong Kong's GDP % Growth Rate (1990 Prices) 1979-1995



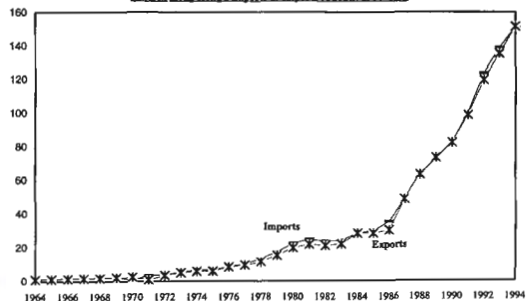
Source: International Monetary Fund 1994, International Financial Statistics Yearbook, IMF, Washington, DC, Vol XLVII.

Panel II: Per Capita GDP (HK\$) Current & Constant (1990 Prices) 1978-1995



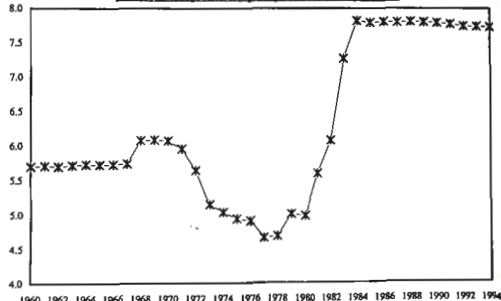
Source: Hong Kong Government Census & Statistics Department 1995, Hong Kong Year Book 1995, Hong Kong Government Census & Statistics Department, Hong Kong, various issues; International Monetary Fund 1994, International Financial Statistics Yearbook, IMF, Washington, DC, Vol XLVII.

Panel III: Hong Kong's Exports & Imports (US\$bn) 1964-1994



Source: Hong Kong Government Census & Statistics Department 1995, Hong Kong Year Book 1995, Hong Kong Government Census & Statistics Department, Hong Kong, various issues; International Monetary Fund 1994, International Financial Statistics Yearbook, IMF, Washington, DC, Vol XLVII.

Panel IV: Exchange Rate: Hong Kong Dollar to US\$ 1960 to 1994



Source: International Monetary Fund Data, Australian National University International Economic Database, ANU, Canberra, ACT; Posen, R.A. 1996, *Aspen* Economic Statistics, Occasional Paper No. 6, Reserve Bank of Australia, Sydney, NSW.

These fluctuations were mainly due to changes in the state of world trade and to internal events. The growth rate slowed during the 1981-86 period (Figure 2.3 *Panel i*). This was partly caused by the world recession of 1982, but was also symptomatic of Hong Kong's internal crisis of confidence regarding the 1997 issue which was brought into focus by the Sino-British talks. However, a recovery was achieved in 1986 with a two-digit GDP growth rate. At the end of the decade, 1989-1991, there was a three year decline, influenced by the 4th June Tiananmen Square incident, the associated economic austerity programme in China and the beginning of a recession in Western countries.

2.6.2 The Hong Kong Dollar & Monetary Management

Table 2.7 Hong Kong Inflation: Changes in the Composite Consumer Price Indices 1976 to 1996			
Changes in the Consumer Price Indices (July 1973 to June 1974 = 100)			
	Index A ^a	Index B ^b	Hang Seng Index ^c
1976	2.4	4.0	4.1
1977	5.9	5.5	5.1
1978	6.0	5.9	5.6
1979	11.6	11.5	12.6
1980	15.5	15.1	14.8
1981	15.4	14.8	14.5
1982	10.6	10.8	11.7
Changes in the Consumer Price Indices (October 1989 to September 1990 = 100)			
	Index A ^d	Index B ^e	Hang Seng Index ^f
1984	8.3	8.4	9.1
1985	3.1	3.5	3.9
1986	2.9	3.1	4.7
1987	5.5	5.2	6.5
1988	7.5	7.4	8.6
1989	10.1	9.7	11.0
1990	9.7	9.6	11.1
1991	11.6	11.3	10.9
1992	9.3	9.6	9.7
1993	8.5	8.7	9.5
1994	8.1	8.6	10.0
1995	8.7	9.2	9.6
1996	6.0	6.6	7.0
<p>Notes: 1976-1982</p> <p>^a Index A is based on households with a monthly expenditure in the range of HK\$400-HK\$1,499.</p> <p>^b Index B is based on households with a monthly expenditure in the range of HK\$1,500-HK\$2,999.</p> <p>^c Hang Seng Index is based on households with a monthly expenditure in the range of HK\$3,000-HK\$9,999.</p> <p>1984-1996</p> <p>^d Index A is based on households with a monthly expenditure in the range of HK\$2,500-HK\$9,999.</p> <p>^e Index B is based on households with a monthly expenditure in the range of HK\$10,000-HK\$17,499.</p> <p>^f Hang Seng Index is based on households with a monthly expenditure in the range of HK\$17,500-HK\$37,499.</p> <p>Sources: Hong Kong Government, <i>Hong Kong Annual Report 1996</i>, Hong Kong Government Census and Statistics Department, Hong Kong, various years; Hong Kong Government 1993, <i>Annual Digest of Statistics</i>, 1993 edn, Hong Kong Government, Census and Statistics Department, Hong Kong.</p>			

In theory, under a flexible exchange rate system, a system which Hong Kong adopted from late 1974 to October 1983, imported inflation will be restricted automatically through changes in the exchange rate.

The high inflation during the period 1979-83 was in part the direct result of imported inflation arising from a global oil shock in 1979-81 (Figure 2.3, *Panel ii* and Table 2.7). However, more importantly, the inflation during this period was related to a change, during 1972-74, in the monetary management system which led to the adoption of a flexible exchange rate system and a different note-issuing mechanism. As a result, the government became incapable of controlling monetary expansion. The monetary supply increased at an annual average rate of 33% during 1979-83, an increase far in excess of the normal requirement for economic growth. The results were high inflation rates (Table 2.7) and sharp deterioration of trade balances (Figure 2.3, *Panel iii*). In October 1983, the exchange crisis, precipitated by the 1997 uncertainties, prompted the government to introduce a linked exchange rate with the United States dollar (Figure 2.3, *Panel iv*). A by-product of this mechanism, which was primarily put in place for political reasons, has been to stabilise monetary expansion and the price level.

Another wave of inflation started in 1989 and only in mid-1993 were there some indications of it moderating (Table 2.7). This inflation was generally blamed on the linked exchange rate system; as the Hong Kong dollar was pegged to the United States dollar, it was forced to depreciate significantly alongside the United States dollar during the 1986-88, and the Hong Kong interest rates had to follow those of the United States closely, with the consequence the Hong Kong government could not use interest rates to restrain inflation (Lethbridge & Hong, 1995).

Hong Kong's domestically produced exports depend mainly on the economic conditions in its major markets, which have traditionally been the developed countries, particularly the United States. Hong Kong's export competitiveness is affected by exchange rates, especially fluctuations in the value of the Hong Kong dollar in terms of other currencies. While the United States had been the largest market for Hong Kong's domestic exports, taking 33% of total exports in the 1970s and over 40% during the 1983-86 period, this percentage share began declining thereafter. While the United States economic recessions were a factor in the declining United States share, more importantly were the sharp appreciations of the Deutschmark and Japanese yen, from the mid-1980s onwards, which resulted in a diversion of Hong Kong's domestic exports to West Germany and Japan.

2.6.3 Industrialisation and Exports

Hong Kong's industrialisation differs from that of some other Asian countries in that it began with export promotion of labour-intensive products and not with any period of import substitution (Chen, 1988). Hong Kong Government intervention in the economy was minimal. The economy's development progressed in two major directions: upgrading traditional industries and developing intermediate and linkage industries. Thus, there have been two phases of structural change in Hong Kong's economic growth during the past thirty five years. The first phase occurred in the 1960s when there was a shift of resources to the manufacturing sector. The second phase began in the early 1970s, when increasing attention was directed towards the development of Hong Kong as a financial and services centre. The transformation from the former to the latter has not been smooth and fast. The private and public sectors put considerable efforts in upgrading and supporting traditional industries, such as plastics, toys and electronics, as well as in developing linkages and support for the plastics and machinery industries.

Table 2.8 Hong Kong's GDP By Economic Activity Percentages (%) 1961-62 to 1995

Code	Econ Activity by I.S.I.C.	1961-62 (%)	1970 (%)	1975 (%)	1980 (%)	1985 (%)	1990 (%)	1995 (%)
1	Agriculture ^a	3.4	2.2	1.6	1.0	0.5	0.2	0.1
2-4	Industrial Sector	26.3	32.9	27.7	26.4	24.8	23.1	16.0
2	Mining and Quarrying	0.3	0.2	0.1	*	0.2	*	*
3	Manufacturing	23.6	30.8	26.0	25.1	21.9	15.4	8.8
4	Utilities ^b	2.4	1.9	1.6	1.3	2.7	2.1	2.3
5	Construction	6.2	3.3	4.5	7.1	5.0	5.5	4.9
6-9	Services	64.2	61.0	66.2	65.2	74.5	76.7	83.8
6	Wholesale and Retail Trade	21.9	21.9	22.0	19.2	21.8	25.9	27.4
7	Transport and Communication	9.6	7.4	7.2	7.2	8.1	9.6	9.8
8	Financial and Commercial Services	17.4	14.5	20.0	25.9	27.3	33.6	37.6
9	Community, Social & Personal Services	15.3	17.2	17.0	12.9	17.3	14.9	17.1

Notes: I.S.I.C. stands for International Standard Industrial Classification.
^aIncludes hunting, forestry, and fishing
^bElectricity, gas, and water.
^cThis was computed by subtracting the imputed bank charges share of 6.5% from the total nominal share of 10.8%.
^dThe same procedure was applied as in note ^c, with the difference that the percentages for both the imputed bank charges and total nominal share were 10.8% and 5.1%, respectively.
^eLess than 0.05%.

Sources: 1961-62: Chang, E.R. 1969, *Report on the National Income Survey of Hong Kong*, 1969; 1970-95: Census and Statistics Department, *Estimates of Gross Domestic Product 1966-1996*, Census and Statistics Department, Hong Kong Government, Hong Kong.

Table 2.8 gives an overview of the changes which occurred within Hong Kong's major economic sectors over the 1961-1995 period. The agricultural sector has never been important in Hong Kong and its contribution to GDP continued to decline. The industrial sector, which comprises mining, manufacturing, and utilities accounted for 26.3% of GDP in 1961-62 and 32.9% in 1970. This increase attests to the rapid growth of many manufacturing industries such as textiles, electronics, wigs, and plastics. In 1961-62, the relatively high contribution of construction to GDP (6%) is explainable by the post-war

housing boom in Hong Kong, which did not moderate until the mid-1960s. A rapid growth in the construction sector eventuated during the post-recession period of 1977-81 when income growth was very high. Despite some restructuring, the manufacturing sector's contribution to Hong Kong's GDP has declined over the decades. Hong Kong's limited land space have restricted the development of Hong Kong's manufacturing sector as well as making large-scale production unfeasible.

Notwithstanding manufacturing industries contribution to the Hong Kong economy during the 1960s, the most notable change in the 1970s was the emergence of Hong Kong as a financial centre in Asia. The contribution of financial and commercial services to GDP in 1970 was only 14.5%, increasing to 21.6% in 1972. By 1980, the contribution of financial services to GDP was much greater than that of manufacturing (Table 2.8). In effect, after 1980, the services share to GDP continued to increase, mostly aided by an expansion within the financial and commercial sector. By 1995, services accounted for 83.8% share of Hong Kong's GDP.

2.6.4 Hong Kong Economic Transformation and China's Outward Policy

The rapid contraction of Hong Kong industrial sector was accompanied by the dynamic expansion of its services sector. Hong Kong has developed into a multi-service centre, with activities ranging from finance to telecommunications, entrepôt trade, technology and regional headquarters. This development has been heavily associated with China opening up its economy.

Since the early 1980s, with China adopting a more outward-looking economic policy, Hong Kong's role as a gateway to China has again expanded rapidly, in particular as a trading partner, a foreign investor and a recipient of its investment. However the crucial stimulus for closer China-Hong Kong economic relations is the economic complementarity factor. Hong Kong faces severe shortage of labour and land while China has abundant labour and land. Therefore Hong Kong firms relocated their relatively low-value added, labour- and land- intensive processing operations to China, whereby the manufactured products are then exported. It has been estimated that Hong Kong has moved about 100,000 firms, about 80% of its manufacturing capacity, to mainland China, directly employing six million people in Guangdong and Fujian Provinces, in Southern China (*World Journal*, 3 March 1996).

The success of the SEZs in Guangdong, Southern China, has facilitated the intense process of integration between Hong Kong and China - in trade and investment. Hong Kong's exports to China have increased dramatically since 1979 - increasing from less than 1% of total exports prior to 1978 to 32.3% in 1993 (Hong Kong Government Census & Statistics Department, 1996). By 1993, China had become Hong Kong's primary export market, accounting for 28.4% of Hong Kong's total domestic exports, thus overtaking the United States, at 27%. Out of Hong Kong's total re-exports, 33.3% goes to China, compared to 6.4% in 1979. In 1979, of Hong Kong total imports, 11.2% were sourced from China, by 1993, 36.8% of total imports were sourced from China. The increase in the percentage of Hong Kong total re-exports imported from China is also rapid: increasing from its 27.7% share in 1979 to 57.5% in 1993. The rate of growth in trade was not only maintained, but in 1985, China replaced the United States as Hong Kong's largest trade partner, in volume. In the interim, Hong Kong's exports and imports continued to grow at a high rate (Figure 2.3, *Panel iii*).

In the financial sector, close integration between China and Hong Kong has been established since the early 1980s. From 1988 to 1993, Hong Kong banks incurred net liabilities to China because this was the period when China accumulated sizeable foreign exchange reserves. During that period, Hong Kong experienced a number of economic and monetary crises, and substantial Chinese loans granted to Hong Kong banks helped to stabilise the Hong Kong monetary system. For example, during the Ka Wah Bank Crises in 1987, the Bank of China Group joined the Hong Kong and Shanghai Bank Corporation to stabilise the crisis, and it provided \$HK100m stand-by credit for the Hong Kong Commodity Futures Exchange to prevent a total market collapse in October 1987. From May 1994, the Bank of China became the Territory's third note-issuing bank. Thus, Hong Kong and Southern China have already formed a *de facto* quasi-monetary union, by adopting the Hong Kong dollar as a principal unit of account, a medium of exchange and a store of wealth in South China.

PART II
TRADE & MIGRATION
1960-1983



3. CHAPTER 3 TRADE WITH CHINA, TAIWAN AND HONG KONG 1960-1983

3.1 Introduction

This chapter will look at the factors which influenced Australia's trade with China, Taiwan, and Hong Kong, stating the significance of trade, the bilateral composition of the exchanged commodities, yearly aggregate sums and percentage share of Australian total trade. The political and economic factors that influenced this trade will be outlined, with the former focusing on the 'One China, One Taiwan policy,' the adopted 'Special China List,' and preferential treatments. The effects of both Australian and international factors will be examined in view of how they impacted on trade in general, and specifically on Australia's trade with China, Hong Kong and Taiwan.

Section 3.2 will look at the political realities of the period, analysing how political pressure shaped the strategies adopted and what the effects were on the economy in general and on Australia's trade performance in particular.

Section 3.3 will investigate Australia's political outlook towards the North East Asian region, in general, concentrating on Australia's perceptions of mainland China and the measures used by Australia in the attempt to maintain its trade relations with China and Taiwan.

Section 3.4 analyses Australia's policies towards China, Taiwan and Hong Kong - the special lists, which Australia implemented in relation to mainland China, the implications this had on Australia's trade relations with Taiwan, as well as the flow-on benefits that Australia-Hong Kong trade obtained, through their respective association with the Commonwealth Preference System and Sterling System.

Section 3.5 will consider Australia's exports to and imports from China, analysing the value and composition of trade and the benefits and costs of that trade. It will also examine the level and extent of Australian wheat dumping on the Chinese market during the 1960-1972 period.

In Section 3.6, Australia-Taiwan trade is analysed as to its composition, value and complementarity in relation to bilateral trade between the two countries. The same approach is adopted for Hong Kong in Section 3.7. In addition, a comparative analysis is also undertaken to establish the relative importance of each country, both as a source of Australian imports and a destination for Australian exports. Section 3.9 presents the conclusion.

3.2 Australian Strategies towards Mainland China, Taiwan and Hong Kong

The belief that China constituted the greatest threat to Australia's security was central to Canberra's strategic thinking and diplomacy in the 1960s. Canberra and Beijing were diplomatically estranged from one another, with a few common interests, beyond a mutual desire to sustain a generally buoyant wheat trade.

Australia's approach towards Taiwan, in the 1950s and 1960s, was essentially a negative policy limited by a choice of either the mainland or Taiwan - but not both. In effect, Australia recognised the Republic of China on Taiwan but not mainland China as the legitimate government of China. By May 1959, Australia appointed a 'trade correspondent' to Taiwan (*China Yearbook, 1961*).

During the time Taiwan was recognised as the representative of China, Australia never granted any special concessions to Taiwan. The Australian Department of Trade opposed moves in granting tariff preferences to Taiwan, as a developing country, due to its concern that such a move might damage Australia's growing wheat trade with mainland China (Dept of Foreign Affairs, 1967).

The only agreements established with the Republic of China were: an Agreement for the Exchange of Postal Parcels (Canberra, 22 March 1955), the Exchange of Notes regarding the reciprocal Protection of Inventions and Trade Marks and a Trade Agreement (Canberra, 22 April 1968). The Exchange of Postal Parcels was terminated by Australia with effect from 1 January 1966 (replaced by Universal Postal Union amendments), while the other two agreements lapsed on 22 December 1972, on the establishment of diplomatic relations between Australia and the People's Republic of China.

All bilateral treaties and agreements between Australia and Taiwan came to an end on 22 December 1972, when the Whitlam Labor government recognised the Government of the People's Republic of China as the sole legal Government of China.¹ This did not result in any substantial affects in Australia-Taiwan bilateral trade (refer to Sec. 3.6). On impasse, diplomatic relations with Taiwan were terminated and subsequently the representatives of both countries withdrawn from each other's country, as of 25 January 1973.²

¹ Statement by the Minister for Foreign Affairs, E.G. Whitlam, 22 December 1972, *Australian Foreign Affairs Record*, 43 (12), 1972, p. 631.

² *Ibid.*

3.3 Australian Political Outlook Towards The People's Republic of China

Analysis of Australia's trade with China needs to be concerned with the interplay of political and economic factors, both in the broad perspective of the bilateral relationship and within the Australian domestic scene. Over the 1960-72 period, Australia's foreign relations towards China, which Canberra only recognised on December 1972, were largely characterised by hostility. Trade was considered as Australia's only way of keeping in touch with China. During the period in question, with the exception of one year (1971), trade was overwhelmingly in Australia's favour, owing to the massive Chinese demands for wheat.

The Australian Government wanted to maximise its gains from trade while maintaining good relations with its American ally which imposed a total trade embargo on China. Throughout the 1960s, there were objections towards Australia's relations with China on the grounds of China's inability to separate politics from economics.³ But in spite of the rhetoric afforded to the China issue, Australia quietly pursued what it saw as in its best interests. For example, it was revealed, in August 1967, that Australia had exported steel to China, worth \$A4.1m, from BHP and John Lysaghts.⁴ The Australian government argued that its position to use trade as a means of achieving normal relations with Beijing.⁵ This could be construed as economics intertwined with politics.

Canberra's policy of separating trade from politics became increasingly difficult to maintain after 1970, owing to the changed realities of international politics that followed China's emergence from the Cultural Revolution - after years of isolation.

Australia looked at China as a potential market for its products, mostly wheat, which it had been overproducing. In order to reach its job creation objectives and in order to increase its revenue from exports, the Australian government heavily assisted the wheat industry in its continued expansion and over-production patterns. The basic economic principles of supply and demand were ignored. Production was afforded priority over other constraints imposed by international market forces. Thus, it was at the mercy of buyers.

Until 1970, the Chinese made no objection to Australia's opposition to Chinese communism because they attached little political importance to Australia as it was perceived as a middle power - at best. Even in terms of trade, Australia was not indispensable as China could buy most, if not all, of what it wanted elsewhere.

³ *Commonwealth Parliamentary Debates, House of Representatives* 16 September 1965, pp. 972 and 1137. Hereafter, *Commonwealth Parliamentary Debates, House of Representatives* is abbreviated to *CPD, HR*.

⁴ First disclosed by *The Australian* on 26 August 1967.

⁵ *CPD, HR*, 29 August 1967, pp. 504- 5.

Ironically, it was only when the Chinese began to pay specific attention to Australia, as part of their new strategy to improve relations with the West, that politics and trade became intermingled. The sympathetic foreign policies of Canada and France, coupled with increased domestic grain production worldwide, afforded the Chinese the opportunity to discriminate against Australia in their wheat deals in order to gain political leverage in changing Australia's policy. Overproduction in the Australian wheat industry and increasing competition on the world market, played into the hands of the Chinese Government, whose position was already strengthened by a combination of international and domestic factors.

From an economic point of view, it was a convincing argument that lucrative overseas markets should be sustained in the national interest and divorced from politics, if necessary and possible. The realities proved otherwise. Australia's indecisiveness and dependence on the United States' diplomatic response, in combination with government and corporations continued reliance on the British market, led Australia to pursue markets which were either closing up or unattainable.

In December 1970, the wheatgrowers were alarmed by a report from an Asian wheat trading firm that due to Australia's non-recognition policy, it had been listed among a group of nations to be excluded from the Chinese market.⁶ China was no longer prepared to disregard politics in trading with an unfriendly Australia.

Towards the end of 1970, it had become obvious that Australia's China policy was far too inflexible and unrealistic in the light of changing world events. Canberra, though aware of the need for change, was uncertain how far and fast it should move. Australia's dependence on the United States for its security led it to become a follower of its protector's policies.

The Australian government's policy regarding mainland China was centred around two points: United Nations membership and recognition. The first was regarded as far more important, with the government upholding a two-China policy. Australia's chief concern was in safeguarding Taiwan's United Nations seat.⁷ Australia did not want to move ahead of the United States. McMahon felt that China was making a "ghastly error" in allowing politics to intrude into trade; convinced, that despite politics, when the Chinese wanted wheat in quantity, they would buy where they could get the best price.⁸

⁶ *Australian Financial Review*, 7 December 1970; *The Australian*, 8 December 1970.

⁷ *The Australian*, 16 April 1971; *Sydney Morning Herald*, 16 April 1971.

⁸ *Ibid.*

Meanwhile, reports from Beijing indicated that the Chinese government was showing a political interest in Australia. Through indirect channels, it was revealed that the normalisation of relations between the two countries was to be based on three principles: that Australia dissociates itself from the United States' hostile China policy; that it sever its diplomatic relations with Taiwan and, that it withdraw its opposition to China's United Nations membership.⁹

On 13 October 1970, Canada and China established formal diplomatic relations. Fourteen days later, Canada announced the sale of \$A142m worth of wheat to China in a one-year contract - the largest wheat deal negotiated by Canada for such a short term.¹⁰ No similar contracts were won by the Australian Wheat Board.¹¹

Australia's response continued to take the wait-and-see approach. On 11 May 1971, the government announced its decision to explore the possibilities of opening a dialogue with China for the normalisation of bilateral relations. In July 1971, a Labor Party delegation visited Beijing, where they held lengthy discussions with Premier Zhou Enlai, Trade Minister Bai Xiangguo and Acting Foreign Minister Ji Pengfei. Among the important issues discussed were those relating to recognition, regional alliances, Vietnam and Sino-Australian trade. On the question of wheat, Bai Xiangguo made it clear that Australia's hostility towards the Chinese government "created certain obstacles." The obstacles were defined as Australia's diplomatic relations with Taiwan and its opposition to China's membership of the United Nations. China opposed the two-China policy as an interference in Chinese internal affairs and indicated that the wheat trade could be continued and developed only if political relations between the two countries were normalised.¹²

The Labor Party visit confirmed the impression that China was no longer prepared to divorce politics from trade. In international relations, a government's policy is generally, if not always, based on its national interests. In 1971, China's national interests were definitely membership of the United Nations and recognition by as many nations as possible - on Chinese terms.

⁹ *The Australian*, 4 May 1971, Report by Gregory Clark; Similar report by Vincent Matthews in *Canberra Times*, 4 May 1971.

¹⁰ *The Australian*, 29 October 1970. For a general account of Canada's trade with China, see Norman A. Endicott, "Canada-China trade and political considerations," *Pacific Community* 2(4): 672-683, July 1971.

¹¹ *CPD, HR*, 16 October 1970, p. 2324. Statements by R. Hunt and McEwen.

¹² FitzGerald, Stephen, *Talking with China*, op. cit., p. 29.

On Australia's recognition of the People's Republic of China, in December 1972, bilateral relations between the two countries improved considerably. To facilitate the betterment of bilateral relations between both countries, Australia and China signed several protocols: to facilitate greater access for each other's trade and to afford greater cooperation between the governments and companies of each country. Bilateral trade increased substantially, with a greater diversity of commodities going between the two countries.

3.4 Australia's Policies Towards North East Asia

Prior to 1960, North East Asia supplied less than 10% of Australian global imports. Over the 1960-1983 period, the region supplied 29% of Australian total imports. Virtually all of Australia's imports from the region were manufactured goods. Over the 1970-80 period, Australian imports from North East Asia grew at the annual rate of 19.6%, whereas imports from the rest of the world grew by 14% a year.

North East Asian goods tended to encounter higher average rates of border protection in Australia than goods from the rest of the world. The reason was that Australia's tariff protection and quantitative restrictions have been concentrated on import items within the TCF group, motor vehicles and appliances and electrical equipment. These commodity goods were particularly important, not only in North East Asian countries global exports, but also for their exports to Australia.

3.4.1 Mainland China

Mr Paul Hasluck, Minister for External Affairs said that "Australia's foreign policy was not one of isolating China but of finding a way to live with that country, making the policy fit with both the realities and the dangers of the present short-term situation and with hopes that gradually, over a period, the normalisation of relations may be achieved."¹³ Hasluck also pointed out that the pattern of Chinese trade had changed significantly over the 1962-67 period. Non-communist countries supplied about 70% of China's imports in 1967, compared with 33% five years earlier.

¹³ Mr Paul Hasluck, answer to a Parliamentary question, 29 August 1967, *CNIA*, Vol. 38, No. 8, 1967, p. 394.

Hasluck's response added a new dimension to the government's stance, namely, the avowed use of trade as a means of achieving normal relations with Beijing. Canberra was not quite prepared to normalise relations with Beijing, seeing that such normalisation, though desirable in the long run, would depend on a change in China's "aggressive" foreign policy rather than on Australia's initiative.

The media (*Australian Financial Review*, 28 August 1967) urged the government to lay down guidelines for the China trade, on the basis that Australian exports should be promoted and that sales should be made at commercially viable prices. The *Australian Financial Review* (6 October 1967) objected to the "secrecy" which surrounded the trade, and expected more precise information from the government, amongst others, what quantity of low-grade wheat had been sold to China and whether the large quantities bought by the Chinese, for quick delivery, brought a heavy discount. No mention, however, was made of diplomatic recognition.

3.4.1.1 China Preferential Treatment

In mid-1951, Australia had supported the United Nations resolution that its member nations ban the export of strategic goods to China and North Korea (Albinski, 1965a). This led to the establishment of the 'Special China List' of goods whose export to China was banned, which was a wider list than the 'General List' of goods whose export was prohibited to all communist countries. The difference between the two was sometimes referred to as the 'China differential.' In 1957, the United Kingdom dropped the 'Special China List' while Australia maintained the 'China differential,' in addition to the 'Special China List' which was applicable to all communist nations. Canada's foreign policies were more independent of the United States policies, with its strategic embargo on exports to the Socialist Bloc being more liberal and, until 1971, less shrouded in secrecy. Canada was one of the first Western countries to drop the Special China List, in 1957, whilst Australia only abolished the same list in 1971. As will be seen in subsequent sections, Canada's stand would have enormous implications in relation to Australia's wheat exports to China.

Australia's policy was not as rigid as it appeared, in that it had two strategic exports control lists. The first was an absolute embargo list, never published in Australia but reportedly identical with the list issued by the British Board of Trade. The other was an intermediate list containing a wide range of goods for which export licences had to be sought.

3.4.1.1.1 The Strategic List

Until 1971, Australia maintained the “China differential” as a compromise between the United States’ total ban policy and the United Kingdom’s and NATO nations’ policy of trading freely in non-strategic goods; and followed the “General List” in strategic exports. On 30 May 1971, Canberra announced that restrictions on trade with China had been reduced to the level of those with European communist countries. In other words, the “China differential” was initially removed, and subsequently, the strategic and non-strategic lists were eliminated.

Long before the review of 1971, Australia had been exporting, rather secretively, iron, steel and rutile to China. As noted above, in August 1967, Labor disclosed that Australia has exported steel worth \$A4.1m to China in 1966/67 from BHP and John Lysaght’s.¹⁴ The government disclaimed responsibility and involvement in the promotion of the China trade. It must be realised that both the Australian Wheat Board (AWB) and the Australian Wool Corporation (AWC) were statutory bodies set up by Parliament. In effect, the Australian government did play a role in fostering and encouraging the Australia-China trade: from the provision of banking facilities to assistance with visits to and from China. Indeed, trade would not have flourished without Canberra’s blessing and cooperation (Albinski, 1965b).

The list of goods needing special export approval under the Strategic List was in three sections - munitions, industrial goods and atomic energy equipment and materials. Among the goods classified within the munitions and industrial categories requiring clearance were: precision metalworking machinery, electric vacuum furnaces, rolling mills, high-speed vessels, aircraft, radio, radar and navigation equipment, computers, high-speed cameras, certain ball and roller bearings, rare minerals, specialised metals, and synthetic rubber. The atomic energy category included uranium, plutonium, lithium and nuclear reactors.

3.4.1.1.2 The Non-Strategic List

In 1971, the Department of Customs and Excise released a 68-page list of items for which special export approval had to be sought.¹⁵ Items that could now be exported without a licence included certain petroleum equipment; metals such as aluminium and aluminium alloys in fabricated and semi-fabricated forms; many types of electrical equipment; some chemicals; iron and steel products and scrap metals.

¹⁴ First disclosed by *The Australian* on 26 August 1967.

¹⁵ Commonwealth of Australia, Department of Customs and Excise, *List of Goods Subject to Strategic Export Control*, Canberra, Commonwealth Government Printer, 1971 (Supplement to *Overseas Trading*).

3.4.1.2 China's Approach and Bilateral Relationships

The Chinese were flexible customers, separating wheat from other Australian exports which might not be so readily available from friendly nations. They were keeping politics out of their trade in iron, steel, and other metals. This was consistent with Australia's removal of the "China differential," in May 1971, on the sale of strategic materials. Moreover, while wheat was sold by the Australian Wheat Board, which the Chinese regarded as a government or quasi-government instrumentality, iron and steel were sold by BHP and other private firms and companies which were not party to Australia's China policy. In effect, China used two approaches in conducting its business with governments and private firms of non-recognising countries.

Late in 1971, BHP negotiated a \$A6.5m contract with the Chinese. The deal, possibly the largest ever negotiated with a single company, involved the supply of 120,000 tons of pig iron and 10,000 tons of wire rod. Furthermore, Comalco Ltd. made two substantial sales of aluminium ingots to China (*Australian Financial Review*, 1971a; *Sydney Morning Herald*, 1971b). Later in the year, both BHP and Comalco further increased their sales. In addition, a considerable amount of chemicals was also sold by other firms (*Australian Financial Review*, 1971b; *China Trade Report*, 1971).

Australia recognised the People's Republic of China government as the sole representative of mainland China on 22 December 1972. On 24 July 1973, in Canberra, the Department of Foreign Affairs ratified a Trade Agreement¹⁶ between Australia and the People's Republic of China. The purpose of this agreement was to further develop the economic and trade relations between the two countries on the basis of equality and mutual benefit. It was also agreed, among other things, that the two countries would grant each other most favoured nation (MFN) treatment in the issue of import and export licences and the allocation of foreign exchange, as well as in all respects concerning customs duties, internal taxes or other charges imposed on or connected with imported goods, customs and other related formalities, regulations and procedures.

Government to government relations played a central role in the development of trade and commercial relations with China. Subsequent prime ministerial visits, in 1973, 1976, 1982, and numerous ministerial and official visits have taken place. Chinese visits to Australia have included the then Premier Zhao Ziyang, in 1983, and the then General Secretary of the Communist Party.

¹⁶ Department of Foreign Affairs, *Trade Agreement Between Australia and the People's Republic of China*, Treaty Series 1973, No. 21, Australian Government Publishing Service, Canberra, ACT, 24 July 1973.

The signing of the trade agreement, in 1973, was a significant development and was reinforced by the extension of tariff preferences to China, in 1978. Other developments in the bilateral relationship included the establishment of an Austrade Export Finance Insurance Corporation (EFIC) line of credit to China in 1979, to be able to purchase Australian capital goods and services at concessional rates, and the signing of a Protocol to the Trade Agreement in 1981, which sought to broaden commercial ties, strengthen economic and trade relations and encourage opportunities for industrial and commercial cooperation between enterprises in both countries.

On 22 September 1981, at Canberra, the Department of Foreign Affairs ratified a Protocol on Economic Co-operation between the Government of Australia and the Government of the People's Republic of China,¹⁷ in order to further strengthen and broaden the economic co-operation between the two countries. In October of the same year, in Beijing, an agreement was reached between the Government of Australia and the Government of the People's Republic of China, on a Program of Technical Co-operation for Development,¹⁸ an instrument by which Australia would assist those sectors of China's economy which the Government of the People's Republic of China accords the greatest priority.

3.4.2 Republic of China - Taiwan

From the early 1960s, Australia faced a dilemma in its quest to accommodate both China and Taiwan; in the process creating its one-China, one-Formosa policy. Australia formulated this approach, not only in an attempt to satisfy the two Chinas, but also to uphold the adopted line followed by the United States and its friends and allies in SEATO and ANZUS.

Trade was becoming an important factor in Australia's approach to the two Chinas. While Australia claimed to be most concerned with the Chinese threat, the establishment of trade in wheat, wool and small quantities of metals and machinery created the basis of a new relationship with the mainland - with long-term implications for Taiwan.

¹⁷ Department of Foreign Affairs, *Protocol on Economic Co-operation between the Government of Australia and the Government of the People's Republic of China*, Treaty Series 1981 No. 20, Australian Government Publishing Service, Canberra, 1982..

¹⁸ Department of Foreign Affairs, *Agreement between the Government of Australia and the Government of the People's Republic of China on a Program of Technical Co-operation for Development, Beijing, 2 October 1981*, Treaty Series 1981, No. 21, Australian Government Publishing Service, 1982.

The Australian government never granted any special concessions to Taiwan during the time Taiwan was recognised as the representative of China. The Australian Department of Trade opposed moves to grant tariff preferences to Taiwan as a developing country, due to its concern that such a move might damage Australia's growing wheat trade with mainland China (Department of Foreign Affairs, 1967).

The Australian Department of External Affairs, under pressure from the wheat sales factor and the Canadian recognition of China in 1970, began to review its China-Taiwan policy. The Australian embassy in Taipei concluded that Australia's political interests in Taiwan were 'comparatively slight,' especially when weighed against the importance of normalising Australia-China relations. However, trade and consular activities in Taiwan were considered as 'sizeable, tangible, with the likelihood of persisting and even growing' (Department of Foreign Affairs, 1972b). The Taiwanese began to import more from Australia, contracting to buy 250,000 tonnes of wheat in June 1971, in a vain attempt to influence Australia's rural lobby group and postpone the inevitable - Australia's recognition of China.

In 1971/72, Australia exported goods worth \$A55.7m to Taiwan. By 1972, Taiwan had become Australia's fifth largest trading partner, up from tenth place in 1970. Australian exports and imports to Taiwan increased at the annual rate of 30% and 60%, each respectively. Despite these trends, the Department of External Affairs was intent on finding a face-saving way to cut off Australia's diplomatic relations with Taiwan. Australian arms exports to Taiwan, allowable from 1953, and the sale of warlike stores, like the Ikara anti-submarine warfare missile, were suspended. When, in 1972, the Labor government recognised mainland China, diplomatic relations with Taiwan were terminated and subsequently, the representatives of both countries withdrawn from each other's country, as of 25 January 1973.

3.4.3 Hong Kong

By virtue of its British administration, Hong Kong enjoyed the advantages of Commonwealth Preference and membership of the Sterling Area. Under the Commonwealth Preference System, Hong Kong, along with all other Commonwealth suppliers, gained a preferential position which each had to reciprocate, by increasing the margin of preference granted to British suppliers. Those countries within the Sterling Area that devalued their currencies were the same countries which tended to experience the most rapid revival in economic activity (Eichengreen, 1988). Devaluation also gave Hong Kong exports an early advantage over its competitors' products, in Britain. However, in the long-run, the Hong Kong dollar was better served by full convertibility for sterling and the elimination of the Commonwealth Preference Scheme. Both these schemes were of considerable importance to Hong Kong, in the early stages of its industrialisation, though their later abolition had little effect.

3.5 Australian Trade With Mainland China

During the past three decades, Australia has been fortunate that its neighbouring northern Asian economies have not only been experiencing fast growth, but that their economies have been becoming increasingly complementary to the Australian economy.

North East Asia's industrialisation, as well as the increases in OPEC petroleum prices, stimulated the boom in Australia's minerals and energy exports. But the full benefits of opportunities can only be realised if appropriate actions are taken to harness them. While the Australian economy received some benefits out of the strong economic growth within the North East Asian countries, as would be seen in the subsequent section, Australia lost opportunities in becoming linked to the success of these countries.

Australia inward looking economy continued to rely on the exports of its primary commodities. Due to Australia's inconsistent and delayed responses, Australia did not establish an enduring and reliant competitive manufacturing base, but continued to rely on the export-expansion of its rural and mineral resources sectors.

3.5.1 Australian Exports to China

Table 3.1 Australia-China Trade: Prices (\$Am) & Annual Growth Rates (%) in Current & Constant (1979-80) Figures						
Year	Aust Exports to China		Aust Imports from China		Total Trade With China	
	Current Prices \$Am	Constant Prices \$Am	Current Prices \$Am	Constant Prices \$Am	Current Prices \$Am	Constant Prices \$Am
1949/50	1.0	3.6	2.9	13.8	3.9	17.3
1959/60	32.3	102.8	8.8	30.7	41.1	133.4
1969/70	128.8	367.4	32.1	102.4	160.9	469.8
1979/80	845.5	857.9	199.6	202.4	1,045.1	1,060.3
Year	Current Prices %	Constant Prices %	Current Prices %	Constant Prices %	Current Prices %	Constant Prices %
1949/50 - 1959/60	41.5	39.9	11.7	8.3	26.5	22.6
1959/60 - 1969/70	14.8	13.6	13.8	12.8	14.6	13.4
1969/70 - 1979/80	20.1	8.8	20.0	7.0	20.1	8.5
1949/50 - 1980/81	23.3	18.1	15.7	9.8	19.3	13.5
<p><i>Note:</i> Over time, due to changes in the classifications, the data are not strictly comparable. The data was deflated using export and import price deflators based on 1979-80 = 100.</p> <p><i>Sources:</i> Australian Bureau of Statistics, <i>Australian Exports</i> and <i>Australian Imports</i>, Monthly Series, various issues; from Australian Bureau of Statistics, <i>Australia: Exports</i> and <i>Australia: Imports</i>, various issues. The deflators were sourced from Foster, R.A., <i>Australian Economic Statistics 1949-50 to 1994-95</i>, Reserve Bank of Australia Occasional Paper No. 8, Reserve Bank of Australia, Sydney.</p>						

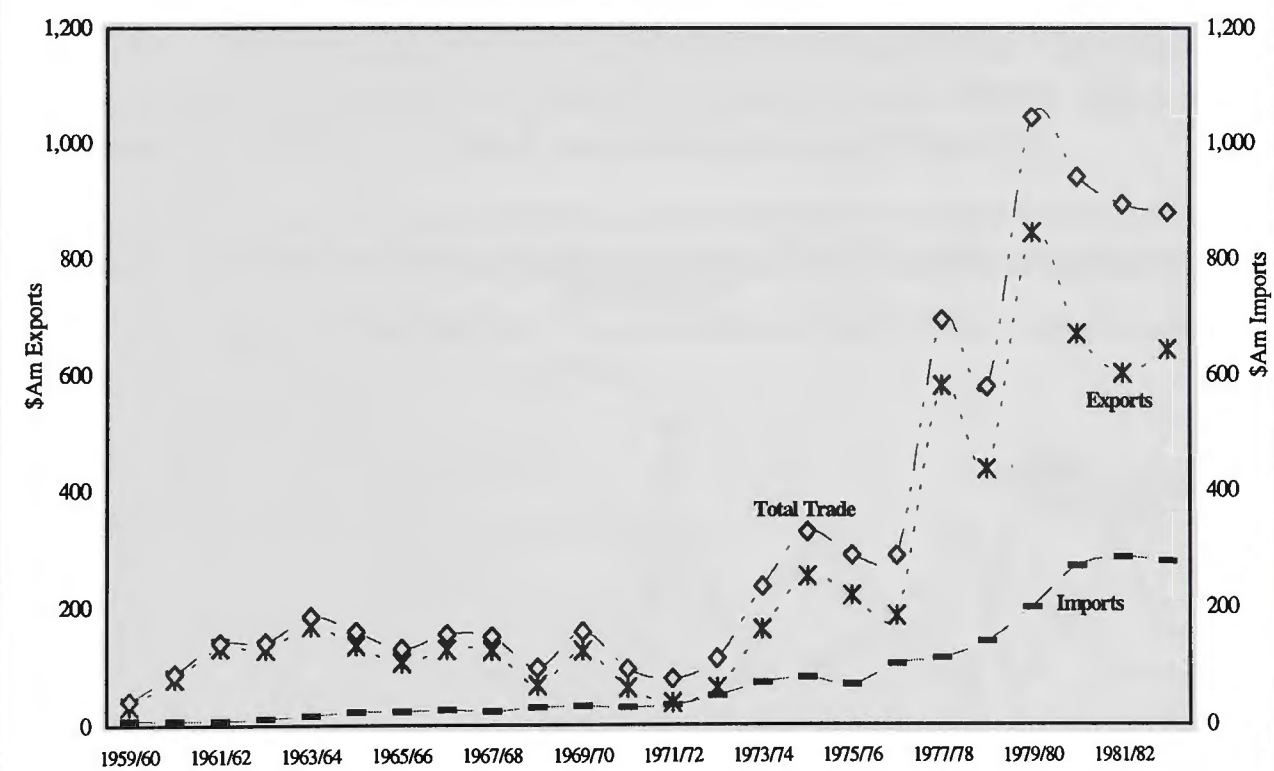
The net effect of Australia’s trade relations with mainland China are revealed in the balance of trade. With the exception of one year, from 1948 to 1954, Australian trade with China registered a deficit of around \$A6m (Table 3.1). From the mid-1950s, as Australia began a slow but steady export expansion to China, the balance of trade consistently favoured Australia, apart from the exceptional 1971/72. During the 1950s, Australia registered annual trade surpluses of \$A20m in its trade with China. These trade surpluses continued to increase from \$A124.3m in the 1961/62 to a peak of \$A645.8m in 1979/80 (Figure 3.1 and Table 3.5). However, during the 1970s, bilateral trade suffered from considerable fluctuations as Australia’s export composition underwent significant changes while imports from China continued their slow but steady increase. It becomes evident that over the 1949-81 period, the aggregate balance of trade was in Australia’s favour, with exports to China totalling \$A4,988.2m (\$US5,780m) while imports amounting to \$A1,557.6m (\$US1,827m), resulting in a trade surplus of \$A3,430.6m (\$US3,953m).¹⁹

¹⁹ Australian Bureau of Statistics, *Australian Exports* and *Australian Imports*, monthly series (various issues); Up to November 1964, the quoted figures were in £A, these were converted to \$A at the exchange rate of £A1 = \$A2; Rate of Exchange 1965-80 *Supplement on Foreign Exchange*, 1981, International Financial Statistics; 1948-64 and 1981 *International Financial Statistics Yearbook*, IFS, various issues - the average buying and selling rates of cheque-paying banks.

Foreign trade between the two countries has grown rapidly since 1949. Measured in current prices, from 1949/50 to 1980/81, total trade grew at an annual average rate of 19.3% while Australian exports and imports grew at 23.3% and 15.7%, each respectively.

Examining Australian imports from China in real terms reveals that there was a steady annual growth rate of about 10% over the 1949-80 period, with the slowest growth being recorded during the 1970s. However, Australian export growth was less stable: with the fastest growth rates being recorded in the 1950s, at about 40 per cent a year and then falling steadily over the decades, attaining an annual growth rate of 9% during the 1970s. The current trade figures for the 1970s decade overstate the real growth in the bilateral trade between Australia and China - concealing the slowdown which was occurring in the volume of trade. Furthermore, the 1970s decade was complicated by the global recession which rendered trade increases difficult.

Figure 3.1 Australian Exports And Imports: China 1959/60 to 1982/83 (\$Am Current Figures)



Sources: Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin No 58*, Commonwealth Bureau of Census and Statistics, Canberra, Australia (5692/61), pp. 579-581; *Overseas Trade 1964-65 Bulletin No 62*, pp. 762-4; *Overseas Trade 1969-70 Bulletin No. 67*, Catalogue No. 5409, pp. 1064-1067, p. 1081; *Overseas Trade 1974-75*, Catalogue No 5410.0, pp. 14,19,31; *Overseas Trade 1978-79 and 1979-80* , Catalogue No. 5410.0, pp. 41, 42, 55; *Foreign Trade Australia, Part 2: Comparative and Summary Tables 1983-84*, Catalogue No. 5410.0, pp. 37, 38, 52.

Since the early 1970s, Australia's exports to China have grown from \$A62.85m (\$US46.41m) in 1972, to \$A627.00m (\$US402.87m) in 1983. From 1974 to 1984, China's share of Australia's total exports increased from 2.9 per cent in 1974 to 3.3 per cent in 1984, with China's importance as a destination for Australian exports moving from seventh place in 1974, to fourth place in 1977/78 and to sixth place in 1984.

3.5.1.1 Exports Composition

Australia perceived China as having the greatest market potential for Australian goods due its immense population. Wool and wheat accounted for the significant increases in Australia's trade with China over the period under review; with wool exports averaging \$A8.85m annually over the 1950s, while wheat became the prime commodity from 1960/61 onwards, when a large order was placed (Figure 3.2 & Table 3.2). Wool started regaining its significance as a major commodity export to China during the 1981/82 to 1982/83 period when its share became almost on par with that for wheat. Wheat sales increased impressively in December 1960 when the Chinese placed a large order, valued at \$A50.8m. This represented a quarter of Australia's total wheat sales. The wheat trade continued to increase for three successive years, culminating in 1963/64 with a record sale valued at \$A128.2m, or 76.2% of Australian total exports (Figure 3.2).

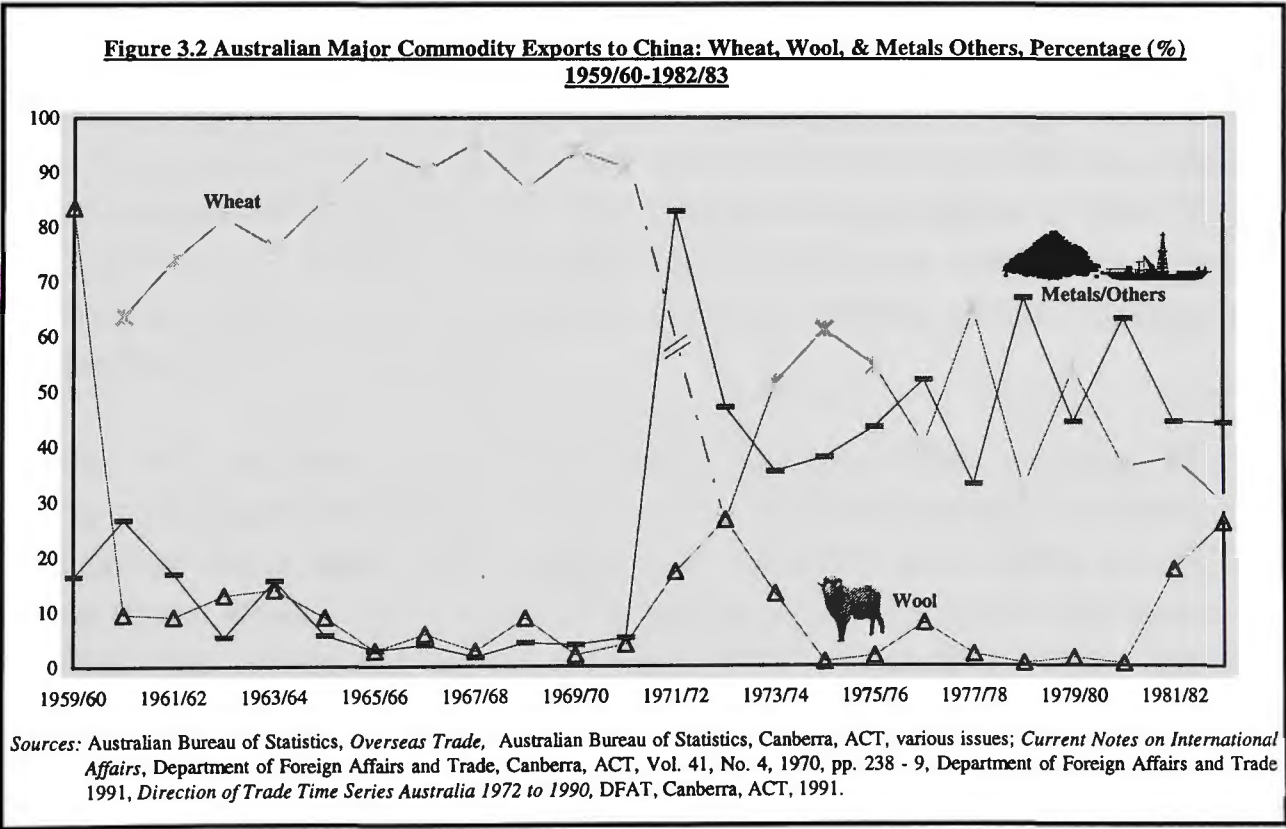


Table 3.2 Australia-China, P.R. Trade (Current Prices - \$Am) 1958-59 to 1982-83

Year	AUSTRALIAN EXPORTS						AUST IMPORTS		TOTAL TRADE
	TOTAL EXPORTS		Wheat Exps	Other Major Components of Exports			Aust Imps (\$Am)	% of Total Imps	Total Trade (\$Am)
	Total Exps (\$Am)	% of Total Exps	Wheat Exps (\$Am)	Total (\$Am)	Wool (\$Am)	Metals /Oths (\$Am)			
1959/60	32.20	1.70	---	32.20	26.90	5.30	8.80	0.50	41.00
1960/61	79.70	4.10	50.80	28.70	7.60	21.30	7.90	0.40	87.60
1961/62	131.90	6.10	97.50	34.40	12.00	22.40	7.60	0.40	139.50
1962/63	129.30	6.00	105.50	23.80	16.80	7.00	11.30	0.50	140.60
1963/64	168.20	6.00	128.20	40.00	23.60	26.40	16.40	0.70	184.60
1964/65	135.60	5.10	115.70	19.90	12.20	7.70	22.90	0.80	158.50
1965/66	106.50	3.90	100.40	6.10	3.00	3.10	23.50	0.80	130.00
1966/67	128.50	4.20	115.90	12.60	7.60	5.00	26.10	0.90	154.60
1967/68	126.50	4.20	120.80	5.70	3.50	2.20	23.60	0.70	150.10
1968/69	67.20	2.00	58.40	8.80	5.90	2.90	29.70	0.90	96.90
1969/70	125.80	3.00	118.30	7.50	2.60	4.90	32.10	0.80	157.90
1970/71	63.30	1.40	57.50	5.80	2.50	3.30	31.60	0.80	94.90
1971/72	37.30	0.80	---	37.30	6.40	30.90	41.30	1.00	78.60
1972/73	62.85	1.04	16.54	46.31	16.74	29.57	49.92	1.31	112.77
1973/74	162.55	2.41	83.66	78.89	21.41	57.48	71.86	1.25	234.41
1974/75	247.52	2.91	151.61	95.91	1.96	93.95	81.14	1.06	328.66
1975/76	219.79	2.32	120.18	99.61	4.05	95.56	68.94	0.87	288.73
1976/77	184.69	1.61	74.11	110.58	14.45	96.13	103.15	0.99	287.84
1977/78	580.98	4.84	376.39	204.59	12.29	192.30	113.39	1.02	694.37
1978/79	437.57	3.11	142.34	295.23	2.12	293.11	141.64	1.06	579.21
1979/80	845.46	4.55	457.37	388.09	12.38	375.71	199.65	1.26	1,045.11
1980/81	671.20	3.59	243.14	428.06	2.82	425.24	269.79	1.41	940.99
1981/82	608.33	3.14	230.84	377.49	106.70	270.79	285.45	1.28	893.78
1982/83	627.00	3.00	186.63	440.37	162.92	277.45	253.37	1.17	880.37

Sources: Australian Bureau of Statistics, *Overseas Trade*, Australian Bureau of Statistics, Canberra, ACT, various issues; *Current Notes on International Affairs*, Department of Foreign Affairs and Trade, Canberra, ACT, Vol. 41, No. 4, 1970, pp. 238 - 9, Department of Foreign Affairs and Trade 1991, *Direction of Trade Time Series Australia 1972 to 1990*, DFAT, Canberra, ACT, 1991.

Among the other major Australian commodities which were exported to China were wool, oats and metals, in combination, constituted 6% of Australia's total exports in 1965/66. It must be realised that wheat exports to China represented a third of Australia's global wheat exports during 1965-68 period. Between 1965 and mid-1968, wheat sales to China averaged \$A115m per year or 93.3% of Australian total exports to China (Figure 3.2 & Table 3.2). Throughout the 1960s, the Chinese, on an annual basis, imported approximately four to six million tons of wheat from Australia, Canada, Argentina and France, the bulk being from Australia.

During 1969, Australia's wheat storage capacity was almost filled with more than 13 million tons of grain which had to be sold on the world market to avoid a carryover. The international wheat market was sluggish, with Australia's rival sellers, Canada, the United States, Argentina and France having more wheat to dispose of in 1969 than in the previous year. China had ordered \$A58m worth of wheat from Canada following Ottawa's announcement that it was considering Beijing's diplomatic recognition (*Sydney Morning Herald*, 22 January 1969). Canada was to continue to sell large quantities of wheat as a result of its sympathetic foreign policy.

At the end of December 1969, the Chinese placed an order for 2.18 million tons of Australian wheat worth \$A100m - the largest contract ever concluded between the two countries. This deal offered some relief to Australian wheatgrowers and helped to reduce the some of the stockpiles (Albinski, 1973).

The outcomes of the successful wheat sales resulted in an expansion of wheat acreage and production. The rapidly developing Chinese market was particularly valuable at a time when Australia's traditional markets in the United Kingdom and the European Economic Community (EEC) were decreasing in importance because of the EEC's Common Agricultural Policy (CAP), the British recession and changes in the Commonwealth Preferential System. As late as 1970, the Australian government decided to raise the wheat production quota for 1971 by 824,644 tons despite a carryover of 6.8 million tons from the previous season (Arndt, 1972).

By 1969/70, primary produce constituted 94% of Australia's total exports to China. While, prior to 1970/71, the share of metals in Australian total exports to China was insignificant; from 1971/72 onwards, metals began emerging as an important component in the export composition (Figure 3.2 & Table 3.2).

The Chinese were pragmatic. In September 1972, they suddenly ordered a million tons of Australian wheat. During that year, the international wheat market had recovered and Australia, like Canada, was able to dispose of its stockpiles with little difficulty (Arndt, 1972). The Chinese resumed their massive purchases from Australia due to the bad harvests they had incurred. Premier Zhou Enlai's stated that the new wheat order was intended as a gesture of goodwill to Australia (Arndt, 1972).

In 1974, Australian wheat sales to China were boosted when United States-China wheat trade relations suffered some setback, as a result of a United States shipment of low quality infected wheat to China, which was in violation of previously reached agreements. During that year, Australia sold to China wheat valued at \$A151.6m, which represented an 81.22% increase on the previous year figure.

But what were the associated costs of Australia's wheat sales to China? Did the economic benefits outweigh the associated costs? Were basic, economic principles adhered to? Was self-interest and political gains pursued above everything else?

There have been frequent criticisms of Australia's wheat sales to China - for both economic and political reasons. Concerns were being raised that over the 1960-64 period, the prices charged for Australian wheat sales to China were not only below the average home consumption price, but were also below prices charged to other overseas customers. Wilczynski (1966a) pointed out several reasons why lower wheat sale prices were being charged to China. These were that wheat exported to China was generally of low-grade quality, sometimes weather-affected, which could not easily have been sold elsewhere if China had not bought it; that China's bulk buying warranted some discounts and, that there were formidable overseas competitors who were prepared to undercut the Australian prices if prices were not reduced enough.

Furthermore, it was also alleged that the Australian government and taxpayers were subsidising Australian wheat sales to China, as prices were set below the guaranteed price.²⁰ The subsidy theory was based on the wheat industry stabilisation plan, whereby wheatgrowers were guaranteed a minimum price on the wheat exports. Over the 1960-64 period, the Australian government's subsidy to the Wheat Stabilisation Fund amounted to \$A56m. From 1965, the subsidy was increased due to a rise in the guaranteed price. In addition, government assistance to the wheat industry was administered through several schemes: the Commonwealth superphosphate subsidy, the wheat research allocation, the tractor bounty, the ammonium sulphate subsidy, and others.

Coupled with the above assertions was the allegation that Australian wheat had been dumped in the Chinese markets. This accusation was based on the fact that as Australia expanded its acreage, it had to contend with increasing export surpluses which were not easy to sell on the international market. According to E. J. Donath, an economic geographer, 40% of the wheat produced had to be "dumped" in China at prices far below the costs of production and below the price charged to other countries (Donath, 1967).

In seeking to prove that Australian wheat was dumped on the Chinese market during the 1960/61 to 1964/65 period, Wilczynski (1966b) calculated, indirectly, the annual average wheat prices from sources published by the Commonwealth Statistician, as the Australian Wheat Board (AWB) refused to disclose the prices obtained from China. In this section, an analysis is carried out to show that it is likely Australian wheat was in fact dumped on mainland China over the 1959/60 to 1972/73 period. The analysis is undertaken within the constraints of the availability of data, as to this day the Australian Wheat Board maintains that wheat sale prices to China continue to be classified as confidential trade data.

²⁰ *Op. cit.*

Table 3.3 Australian Wheat Prices & Normal Values¹ (\$A/ton): China & Rest of The World 1955/56-1972/73

Year	Cost of Production ² \$A/ton A.	Home Consumption Price \$A/ton B.	Average Export Price Obtained From Other Countries Than China, P.R. \$A/ton C.	Average Export Price Obtained From China \$A/ton D.
1955/56	48.13	49.60	47.77	53.65
1956/57	50.34	50.71	48.87	[47.77]‡
1957/58	52.18	52.54	52.91	53.28
1958/59	53.28	54.01	51.81	68.34
1959/60	54.38	55.12	53.65	----
1960/61	55.73	56.10	50.23	46.20
1961/62	57.57	57.93	52.43	49.87
1962/63	57.93	58.67	53.90	50.60
1963/64	52.80	53.53	53.53	50.23
1964/65	53.53	53.90	52.80	50.60
1965/66	55.73	56.22	51.90	52.94
1966/67	56.83	57.50	53.35	54.43
1967/68	60.26	60.81	49.96	50.80
1968/69	53.28	62.83	48.16	50.18
1969/70	53.61	52.73	48.85	47.76
1970/71	54.20	53.28	51.72	45.22
1971/72	55.78	54.75	53.77	49.34
1972/73	57.61	56.97	97.38	51.05

Notes: ¹ This table shows the 'normal values' of Australian wheat, according to each of the three criteria accepted by GATT as well as by Australia. *GATT Article VI*, para. 1, Sec^{III} (a) & (b), (I), (ii); *Australian Customs Tariff (Dumping & Subsidies) Act 1961-1965*, Sec. 4, (I), (a), (b) & (d).

² Official cost of production as calculated by the Bureau of Agricultural Economics under the Wheat Industry Stabilisation Plans.

‡ Flour only was exported. This figure is based on the assumption that grain yields 72% of flour by weight, should be treated with caution. The quantities of flour exported were very small.

Sources: Bureau of Agricultural Economics (BAE), *The Wheat Situation*, BAE, Canberra, ACT, Vol. 35, July 1972, various issues; Australian Wheat Board, *Annual Report*, AWB, Melbourne, 1973, various issues; Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*, No' 52-65, Commonwealth of Australia Printing, Canberra, ACT; Commonwealth Bureau of Census and Statistics, *Year Book Australia*, No' 45-59, Commonwealth Government, Canberra, ACT.

Dumping, as used within the context of these calculations is defined as the price per ton of Australian wheat sold to China, free on board (fob), being less than the cost of its production.

Table 3.3 demonstrates that in the 1955-1959 period, wheat prices charged to China were almost invariably higher than normal value by any of the three criteria. On the other hand, since 1960, the prices charged have been consistently below normal value, whichever criteria is adopted.

The extent of subsidisation of Australian wheat exports to China over the same period is detailed in Table 3.4. The total amount of subsidisation, even if the 'surpluses' earned in the 1950s decade were to be deducted, amounted to \$A21.1m if the average export price to third countries is taken as a normal value, or up to \$A113.4m if the home consumption price is the criterion. However, the most appropriate criterion would be the cost of production, in which case the total amount has been up to \$A73.2m.

Table 3.4 The Extent of Subsidisation of Australian Wheat Exports to China 1955/56-1972/73

Year	Quantity of Wheat Exported tonnes E.	Subsidisation According to The Criterion of Normal Value		
		Cost of Production	Home Consumption Price	Average Export Price To Third Countries
		\$Am F.	\$Am G.	\$Am H.
1955/56	1,061.0	*	*	*
1956/57	272.2	*	*	* [‡]
1957/58	2,558.3	*	*	*
1958/59	8,627.3	*	0.01	*
1959/60	-----	-----	-----	-----
1960/61	1,158,756.5	11.04	11.47	4.68
1961/62	1,952,960.6	15.04	15.74	5.02
1962/63	2,074,450.9	15.21	16.74	6.86
1963/64	2,542,993.8	6.54	8.39	8.41
1964/65	2,252,576.6	6.60	7.43	4.97
1965/66	2,017,488.7	5.63	6.62	- 2.10
1966/67	2,130,077.0	5.11	6.54	-2.30
1967/68	2,378,057.0	2.25	23.80	- 1.99
1968/69	1,163,324.0	3.61	14.72	- 2.35
1969/70	25,049.0	0.15	0.01	*
1970/71	1,548.0	*	*	*
1971/72	-----	-----	-----	-----
1972/73	324,036.0	2.13	1.92	*
NET TOTAL:		73.17	113.38	21.08

Notes: This table shows the 'normal values' of Australian wheat, according to each of the three criteria accepted by GATT as well as by Australia. GATT Article VI, para. 1, Sec^{ua} (a) & (b), (i), (ii); *Australian Customs Tariff (Dumping & Subsidies) Act 1961-1965*, Sec. 4, (1), (a), (b) & (d). Cost of production, column (F) is computed = (A-D) x E, where A & D are columns in Table 3.3 and E is a column in Table 3.4. Home Consumption Price (G) is computed = (B-D) x E, where B & D are columns in Table 3.3 and E is a column in Table 3.4. Average Export Price to Third Countries (H) = (C-D) x E, where C & D are columns in Table 3.3 and E is a column in Table 3.4.

‡ Flour only was exported. This figure is based on the assumption that grain yields 72% of flour by weight, should be treated with caution. The quantities of flour exported were very small.

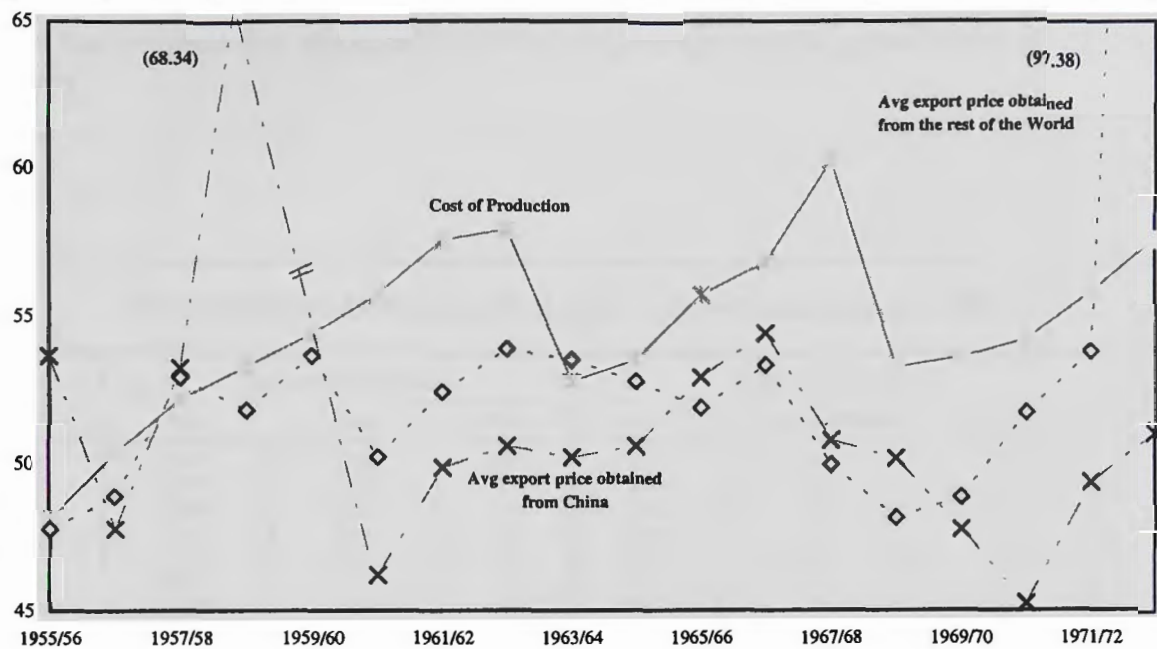
* Insignificant amount, that is less than 0.01

Sources: Bureau of Agricultural Economics (BAE), *The Wheat Situation*, BAE, Canberra, ACT, Vol. 35, July 1972, various issues; Australian Wheat Board, *Annual Report*, AWB, Melbourne, 1973, various issues; Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*, No^r 52-65, Commonwealth of Australia Printing, Canberra, ACT; Commonwealth Bureau of Census and Statistics, *Year Book Australia*, No^r 45-59, Commonwealth Government, Canberra, ACT.

The figures in Table 3.4 must, in general, be treated as upper limits. The AWB has pointed out on several occasions that the shipments to China included quantities of off-grade wheat which, naturally, would carry slightly lower prices. But it is known that quantities of premium grades were also included. It must also be conceded that the large orders, since the early 1960s, should in fairness carry some quantity discounts.

On the other hand, it may be reiterated that, apart from the subsidisation under the Wheat Industry Stabilisation Plans, the industry has also been subsidised indirectly through, amongst others, the Commonwealth wheat research allocations and superphosphate, sulphate of ammonia, diesel fuel, transportation, and tractor bounties. It is estimated that the taxpayers' contribution in respect of the share exported to China over the period 1960/61 to 1965/66 through the research allocations and the superphosphate bounty alone has been more than \$A6.5m.

Figure 3.3 Australian Wheat (\$A/t): Cost of Production, Export Prices to China & Rest of the World 1955/56-1972/73



Sources: Bureau of Agricultural Economics (BAE), *The Wheat Situation*, BAE, Canberra, ACT, Vol. 35, July 1972, various issues; Australian Wheat Board, *Annual Report*, AWB, Melbourne, 1973, various issues; Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*, No' 52-65, Commonwealth of Australia Printing, Canberra, ACT; Commonwealth Bureau of Census and Statistics, *Year Book Australia*, No' 45-59, Commonwealth Government, Canberra, ACT.

It becomes clear that during 1959/60 to 1971/72, excluding the 1965/66 to 1968/69 period, wheat sales to China were not only below production costs, but significantly less than the Australian wheat sale prices to the rest of the world (Table 3.3 & Figure 3.3). It also becomes evident that even though the AWB Pool Payments afforded to farmers were below production costs, not only were Australian wheatgrowers able to survive, but also to continue expanding their wheat production.

3.5.2 Imports from China

During the 1960s, Australian imports from China began increasing: from \$A8.8m in 1959/60 to \$A11.3m in 1962/63, and then to \$A26.1m in 1966/67 and to \$A32.1m in 1969/70. The 1970s were similar to the 1960s, in that Australian imports from China continued to grow steadily but remained well below Australian exports to China. The sole exception to this was 1971/72 - the year in which there was drastic decline in China's intake of Australian wheat. The 1970s saw a surge in imports from China, influenced, in

part, by the introduction, in July 1973, of a general cut in tariffs of 25%. Imports sourced from China rose from \$A31.6m in 1970/71 to \$A71.9m in 1973/74, and then \$A103.2m in 1976/77 and \$A199.7m in 1979/80. By 1982/83, Australian total imports sourced from China has reached the value of \$A279m, an average annual growth rate of 22.7% since 1970/71.

Table 3.5 Australia's Major Imports From China - Commodity Composition (%) 1959 to 1982							
	Agricultural Produce			All Manufactured Goods			
	Total	Food	Other	Total	Textiles & Clothing	Other Manuf.	Other Goods
1959/60	32.3	9.3	23.0	57.5	48.5	9.0	10.2
1969/70	13.7	5.0	8.7	82.6	58.6	24.0	3.7
1976/77	12.9	8.3	4.6	80.8	58.6	22.2	6.3
1977/78	15.1	11.1	4.0	82.9	61.2	21.7	2.0
1978/79	15.2	11.5	3.7	80.3	58.3	22.0	4.5
1979/80	10.3	7.7	2.6	81.2	56.1	25.1	8.5
1980/81	10.0	8.6	1.4	65.2	40.8	24.4	24.8
1981/82	11.1	9.1	2.0	77.3	49.1	28.2	11.6
Sources: Australian Bureau of Statistics, <i>Overseas Trade</i> (Annual), various issues; From 1979-80 onwards, Australian Bureau of Statistics, <i>Exports and Imports, Australia: Trade with Selected Countries and Major Country Groups</i> , (Quarterly), various issues.							

Australian imports sourced from China grew from an average annual rate of 15.9% during the 1960s and at 17.8% during the 1970/71 to 1982/83 period. Over time, the proportion of manufactures in Australian imports from China continued to rise (Table 3.5). From 1959/60 to 1979/80, textiles and clothing were the most important category of imports increasing from 48.5% in 1959/60 to 61.2% in 1977/78. However, during the late 1970s, with the implementation of quotas, the textiles and clothing category share of Australian total imports from China started decreasing, so that in 1980/81 the percentage share stood at 40.8%.

However, from 1959/60 to 1979/80, the percentage share of all manufactured goods category imports increased from 57.5% in 1959/60 to 81.2% in 1979/80. In 1980/81, there was a 16% decrease in the imported manufactured category. Manufactured goods attained a 77.3% share in 1981/82, becoming almost on par with 1979/80 imports level. This is attributed to an increased share in the imports of textiles and clothing category (Table 3.5).

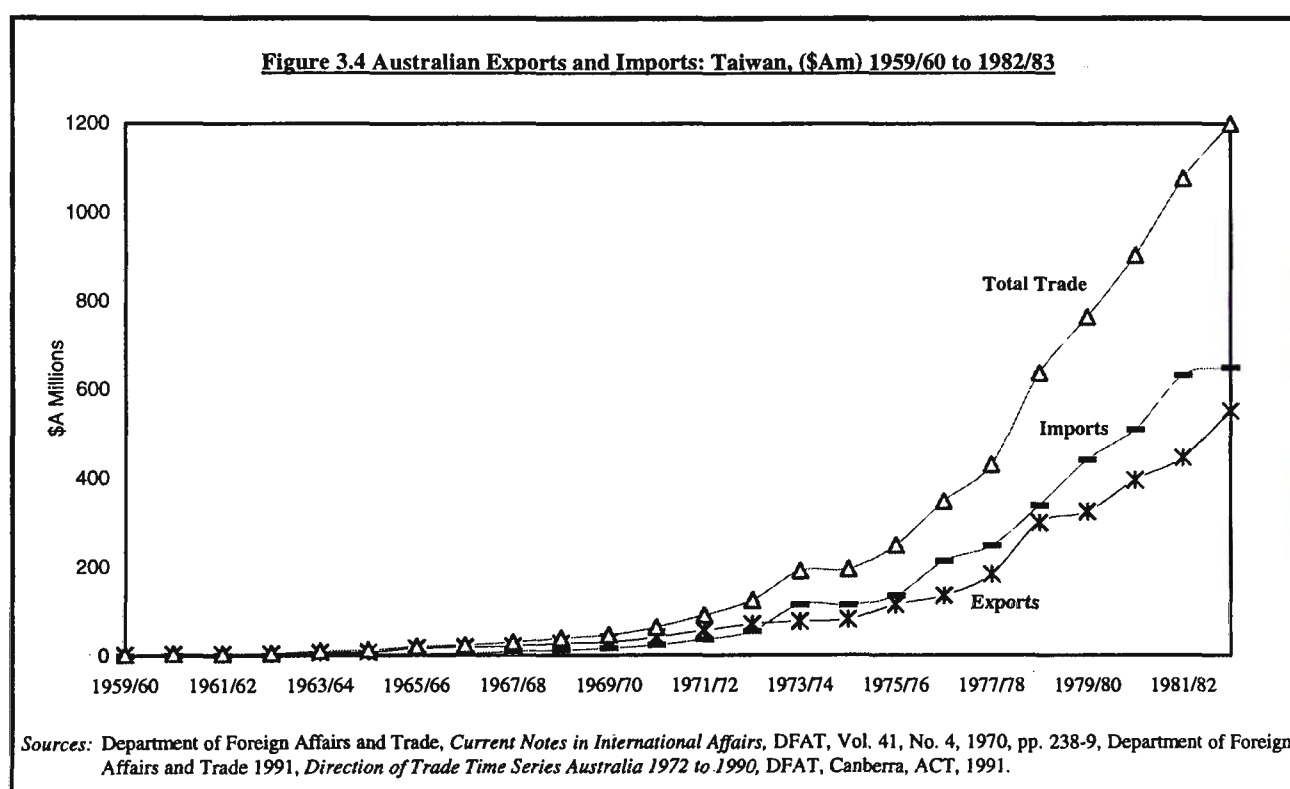
China's inability to diversify its exports to Australia, during the 1960s and 1970s, have been attributable to several factors. These were its limited range of products; Australia's self sufficiency in the production of its food requirements; a lack of Australian demand for China's limited products; the operating price mechanism was subject to severe constraints - with Australian importers buying cheap and selling high - maximising their profits with relatively small sales at a high price and the lack of suitable packaging and brand names.

In 1982, China ranked in seventeenth place as a source of Australian imports. Comparatively, Taiwan and Hong Kong were more important as supply destinations, holding eighth and thirteenth place, each respectively. By 1981/82, Australia imported goods worth \$A631.9m from Taiwan and \$A500.4m from Hong Kong, which corresponded to 2.7% and 2.2%, each respectively of Australian global merchandise imports.

3.6 Australian Trade with Taiwan

3.6.1 Australian Exports to Taiwan: Composition And Value

An indication of the dynamics of Australia's trade with Taiwan is found in the balance of trade (Figure 3.4 & Table 3.6). In the 1960s, Australia maintained a trade surplus with Taiwan, ranging from a low of \$A2.59m in 1959/60 to a high of \$A14.63m in 1968/69. In the early 1970s, Australia continued to maintain its trade surplus with Taiwan, the surplus of \$A20.53m in 1972 decreasing to \$A15.45m in 1973. However, from 1973 onwards, Australia's trade with Taiwan turned into a deficit, which continued to increase over the decade, rising from \$A37.5m in 1973 to \$A78.35m in 1976, and then to \$A117.31m in 1979. By 1981/82, Australia's trade deficit with Taiwan peaked to an all-time-high at \$A186m (Table 3.6).



In 1961/62, the value of Australian total exports to Taiwan was only \$A4m (Table 3.6). The majority of goods exported to Taiwan were mainly in three categories: primary produce, chemicals and manufactures. Primary produce was predominantly composed of butter, wheat, oats, mixed stock feeds, cattle hides and wool and these products contributed \$A1.98m of Australian total exports to Taiwan. The chemicals category was mainly made up of oleic acid, stearine, and different mineral resources, totalling to \$A0.5m or 12.65% of total exports. The remaining 37.2% of Australian exports to Taiwan were made up of manufactures.

Table 3.6 Australian Exports, Imports & Balance of Trade: Taiwan (\$Am) 1959/60 to 1982/83			
Australia's Exports to Taiwan		Australia Imports From Taiwan	Australian Trade Balance
Year	(\$Am)	(\$Am)	(\$Am)
1959/60	2.70	0.11	2.59
1960/61	4.00	0.45	3.55
1961/62	4.00	0.78	3.22
1962/63	4.00	1.15	2.85
1963/64	7.30	2.87	4.43
1964/65	8.10	4.36	3.74
1965/66	16.23	4.27	11.96
1966/67	18.84	4.80	14.04
1967/68	20.39	8.59	11.80
1968/69	26.42	11.79	14.63
1969/70	29.92	15.87	14.05
1970/71	40.09	22.85	17.24
1971/72	55.68	35.15	20.53
1972/73	69.79	54.34	15.45
1973/74	76.51	114.05	-37.54
1974/75	80.95	113.10	-32.15
1975/76	114.14	134.24	-20.10
1976/77	134.40	212.75	-78.35
1977/78	182.57	246.85	-64.28
1978/79	298.71	337.54	-38.83
1979/80	323.25	440.56	-117.31
1980/81	395.14	508.61	-113.47
1981/82	445.26	631.95	-186.69
1982/83	550.63	649.60	-98.97

Sources: Australian Bureau of Statistics, *Overseas Trade*, Australian Bureau of Statistics, Canberra, ACT, various issues; *Current Notes on International Affairs*, Department of Foreign Affairs and Trade, Canberra, ACT, Vol. 41, No. 4, 1970, pp. 238-9; Department of Foreign Affairs and Trade 1991, *Direction of Trade Time Series Australia 1972 to 1990*, DFAT, Canberra, ACT, 1991.

Perhaps spurred by the signing of an Australia-Taiwan trade agreement in 1968,²¹ Australian exports to Taiwan increased to \$A29.9m in 1969. Exports to Taiwan remained below a 1% share of Australian global exports until 1971/72, when they reached 1.17%. By 1982, Taiwan's share of Australia's global exports stood at 2.7%.

Over the 1967/68 to 1972/73 period, the significant increases in Australia's exports to Taiwan were mainly due to the Taiwanese stance in instigating Australian support to retain legitimacy over mainland China (Department of Foreign Affairs, 1972b). In the interim, Taiwan's share of Australian global exports increased from 0.69% in 1967, 0.94% in 1970 and 1.17% in 1971/72. During 1972/73 to 1975/76 period, there was a decline in the percentage share of Australian total exports to Taiwan. By 1971, Australian major commodity exports to Taiwan were mainly composed of agricultural produce - cereals, dairy produce, and wool; minerals and fuels - ferrous and non-ferrous metals and coal; and manufactures - machinery and transport equipment, corresponding to 33%, 20% and 47% each respectively, of Australian total exports to Taiwan. In 1974/75, machinery and transport equipment constituted 4.3% of Australian total exports to Taiwan.

²¹ Commonwealth of Australia, *Trade Agreement Between Australia and The Republic of China*, 22 April 1968, Canberra, Treaty Series 1968, No. 8, Department of External Affairs, Canberra, ACT.

It is not a coincidence that the share of Australian exports going to Taiwan contracted in 1972, the year that Australia gave recognition to China as the sole and legitimate government on mainland China. This suggests that politics had more to do in Australian trade with China and Taiwan than did the principles of trade economics.

Taiwan's importance as a market for Australian products started to increase from the mid-1970s onwards. This was partly due to the increasing demands for Australian raw materials by Taiwanese industries as they became more export-oriented and grew rapidly. While in 1974/75, crude materials and mineral fuels, lubricants and manufactures made up 15.9%, 13.8%, and 4% of Australian exports to Taiwan, in 1979/80, these three categories had increased their share to 32.4%, 18.4%, and 16.7% each respectively. However, food and live animals category contracted from its 1974/75 share of 32.4% to 24.3% in 1979/80. As a consequence of Japan's diminishing intake of Australian black coal during the postboom decade, significant new markets were sourced and found in South Korea and Taiwan.

Between 1974/75 and 1982/83, while Japan's share of coal intake diminished from 76% to 65%, South Korea and Taiwan imported 8% and 5%, each respectively, of Australia's total coal exports. From the mid 1970s to the late 1980s, Taiwan's share of Australian steaming coal intake grew from 5% to 6.5%. Over the same period, strong economic growth caused Taiwan's share of Australian simple transformed manufacture (STM) exports to rise from 4.1% to 6.4%. Taiwan's importance as a market for Australian exports started becoming evident in the early 1970s when its share of Australian global exports increased from a mere 1.2% in 1972 to 2.7% in 1982. By 1981/82, Australia's total trade with Taiwan was worth \$A1,077.2m, significantly in excess of Australia's total trade with China, which was worth \$A893.8m. This was the first time, since 1972, that Australian trade with Taiwan had surpassed that with China (Table 3.2 & Table 3.6).

3.6.2 Australian Imports from Taiwan: Composition and Value

While in 1960/61, Australian imports from Taiwan were mainly composed of gold bullion (72.1%), piece goods (25.7%) and tea (2.2%), by mid-1960s, there were significant changes in the major categories of imports, with 63.1% made up of piece goods and textiles, 10.9% building materials, 5.2% chemicals and 1.9% vegetable products.

Manufactured goods continued to sustain their share of total imports, so that in 1969/70 their share stood at 63.4%. Food and live animals and machinery and transport equipment constituted 6.5% and 3.5%, each respectively of total imports.

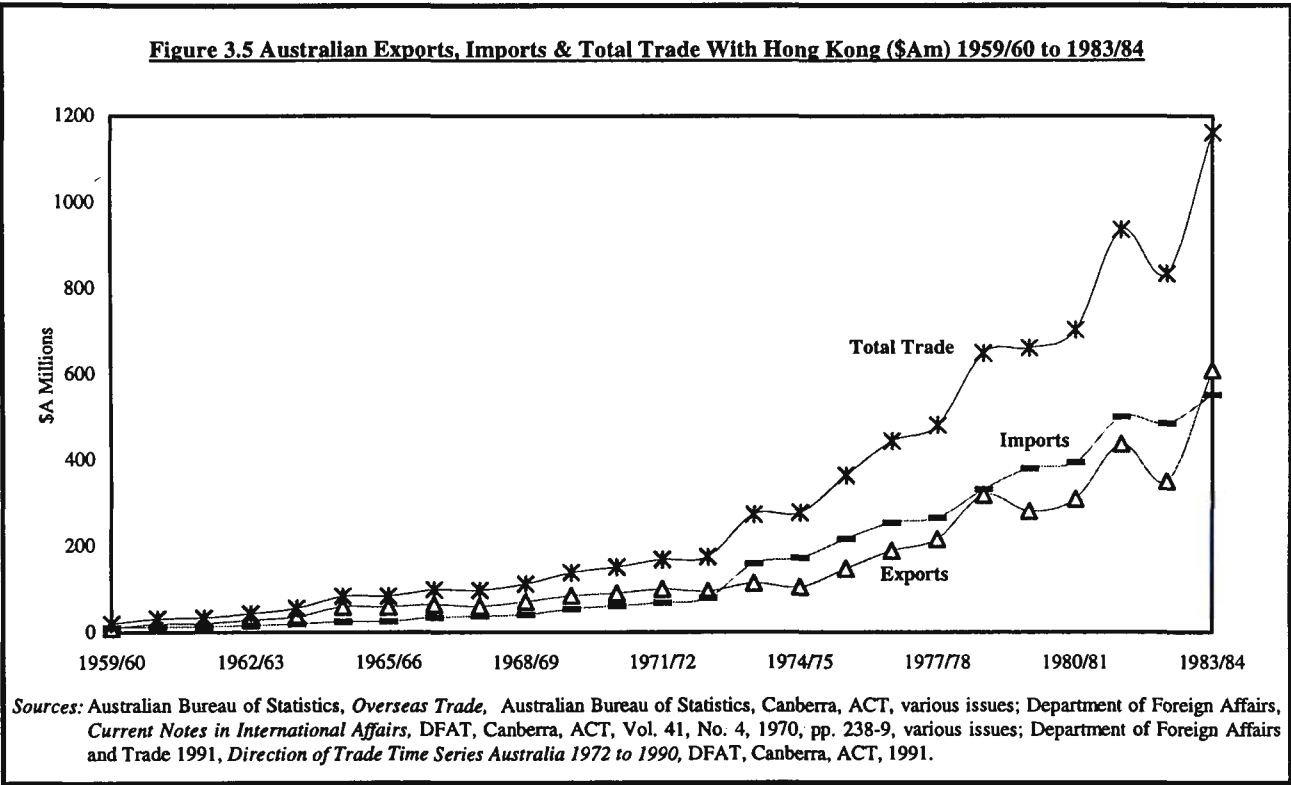
It must be realised that a major component of Australia's imports from Taiwan was manufactured goods. The post-1973 growth in Australian imports from Taiwan were mainly due to the 25% reduction in Australian tariffs in 1973 and to further reductions within the TCF group - the major category of Taiwanese imports. As a result, manufactured goods and machinery and transport equipment shares of total imports from Taiwan continued to be consolidated, reaching 75.6% and 13%, each respectively, in 1974/75.

However, as a result of the Australian quota restriction which was introduced in the late 1970s, by 1983/84, Taiwanese manufactured goods share of total Australian imports decreased by 6.2% on 1974/75 figures; attaining a 69.4% share. At the same time, the machinery and transport category grew by 6.4% on 1974/75 figures, to reach 19.4%, in 1983/84.

During 1959/60 to 1971/72, Australian imports from Taiwan remained relatively low although growing rapidly from a low base; increasing from \$A0.11m in 1959/60 to \$A35.2m in 1971/72 (Figure 3.4 & Table 3.6). However, from 1973/74, Australian imports from Taiwan sustained significant growth rates on a higher base, that by 1983/84, total imports stood at \$A854.2m, or 3.0% of Australian global imports.

3.7 Australia-Hong Kong Trade

3.7.1 Australian Exports to Hong Kong: Composition And Value



Prior to the 1960s decade, Australian trade relations with Hong Kong, though small, were favourable. From 1960/61 to 1972/73, Australia enjoyed trade surpluses with Hong Kong which ranged from \$A6.3m in 1960/61, to an all time high of \$A34.15m in 1964/65 (Figure 3.5 & Table 3.7). Subsequently, Australia’s trade with Hong Kong went into deficit and remained until 1982/83. During 1973/74 to 1982/83 period, Australia’s trade deficit with Hong Kong fluctuated considerably: \$A45.5m in 1973/74; \$A67m in 1974/75; \$A13.4m in 1978/79 and reaching a high over this period of \$A135.6m in 1982/83. It was in 1983/84 that the Australian trade deficit with Hong Kong turned into a surplus of \$A57.5m.

In the 1950s, Australia exports to Hong Kong consisted mainly of temperate foodstuffs for the British colony’s expatriate community; during the 1960s, some construction materials entered the trade. By the mid-1960s, Australian exports to Hong Kong had undergone substantial diversification and growth, especially within manufactures, so that Hong Kong share of Australian global exports of metal manufactures stood at 2.0% in 1965/66. Over the 1960s decade, Hong Kong’s share of Australian global exports increased from 1.0% in 1960 to 2.0% in 1969.

Table 3.7 Australian Exports, Imports & Balance of Trade: Hong Kong 1959/60 to 1983/84

Year	Australian Exports (\$Am)	Australian Imports (\$Am)	Australia's Trade Balance (\$Am)
1959/60	9.27	10.32	-1.05
1960/61	18.79	12.49	6.30
1961/62	20.37	12.84	7.53
1962/63	27.91	15.26	12.65
1963/64	36.16	18.81	17.35
1964/65	58.56	24.41	34.15
1965/66	58.77	25.36	33.41
1966/67	64.39	34.19	30.20
1967/68	59.88	37.73	22.15
1968/69	70.97	41.08	29.89
1969/70	84.70	54.02	30.68
1970/71	90.40	61.12	29.28
1971/72	100.39	68.12	32.27
1972/73	94.88	80.15	14.73
1973/74	114.10	159.60	-45.50
1974/75	105.18	172.24	-67.06
1975/76	147.40	216.50	-69.10
1976/77	189.20	254.30	-65.10
1977/78	215.50	265.30	-49.80
1978/79	318.20	331.60	-13.40
1979/80	281.10	380.40	-99.30
1980/81	309.30	394.80	-85.50
1981/82	436.90	500.40	-63.50
1982/83	349.70	485.30	-135.60
1983/84	609.70	552.20	57.50

Sources: Australian Bureau of Statistics, *Overseas Trade*, Australian Bureau of Statistics, Canberra, ACT, various issues; Department of Foreign Affairs and Trade, *Current Notes on International Affairs*, Department of Foreign Affairs and Trade, Canberra, ACT, Vol. 41, No. 4, 1970, pp. 238-9, Department of Foreign Affairs and Trade 1991, *Direction of Trade Time Series Australia 1972 to 1990*, DFAT, Canberra, ACT, 1991.

In 1972/73, Australian major exports to Hong Kong were food and live animals (Sec. 0) 21.9%, manufactured goods classified chiefly by material (Sec. 6) 20.8%, crude materials (Sec. 2) 15.2%, machinery and transport equipment (Sec. 7) 10.3% and other goods 31.8%. By 1974/75, Australian exports to Hong Kong sustained changes, with increases in Sec. 6 (31.5%) and Sec. 0 (28.6%) while there were contractions in Sec. 7 (8.6%), Sec. 2 (7.5%) and other goods (23.8%). The composition of Australian exports to Hong Kong continued to change, with increases registered in the shares of Sec. 6 (34.6%), the emergence of miscellaneous manufactured articles (Sec. 8) 10.3% and Sec. 0 remaining almost on par with the 1974/75 figures (28.1%) while there were contractions in Sec. 2 (5.1%) and other goods (16%).

However, it was not until 1983/84 that there was a dramatic change in Australian exports to Hong Kong, with increases in other goods (40.3%), the emergence of mineral fuels (Sec. 3) 12.1% and contractions in the shares of Sec. 0 (17.2%), Sec. 2 (3.6%), Sec. 6 (10.5%), Sec. 7 (3.3%) and Sec. 8 (8.8%).

During 1970/1971, Hong Kong's share of Australia's total exports continued to improve, reaching a high of 2.1% in that year. Subsequently, the percentage share of Australia's total exports taken by Hong Kong declined to 1.6% in 1976/77. From 1977 to 1984, there

were erratic fluctuations in Hong Kong intake of Australia’s total exports ranking from 1.50% in 1979/80 to 2.50% in 1984. This fluctuation was partly due to the world recession, and on the other hand, as a result of Hong Kong’s strong economic growth, from the late-1970s, which sustained a strong demand for Australian chemicals and other semi-manufactured goods. Overall, during 1970/71 to 1983/84, Australian exports destined to Hong Kong achieved an average annual growth rate of 15.8%, which was mainly sustained by an increase in the intake of mineral fuels and manufactured goods.

3.7.2 Australian Imports From Hong Kong: Composition and Value

Table 3.8 Australia's Imports From Hong Kong (\$Am) 1959/60 to 1983/84			
Year	Australia's Imports From Hong Kong (\$Am)	Australia's Imports From Hong Kong as % of Total Imps (%)	Change in Import Share (Percentage Points) (%)
1959-60	10.32	0.57	-----
1960-61	12.49	0.61	7.02
1961-62	12.84	0.73	19.67
1962-63	15.26	0.74	1.37
1963-64	18.81	0.84	13.51
1964-65	24.41	0.89	5.95
1965-66	25.36	0.90	1.12
1966-67	34.19	1.20	33.33
1967-68	37.73	1.16	-3.33
1968-69	41.08	1.28	10.34
1969-70	54.02	1.40	9.37
1970-71	61.12	1.47	5.00
1971-72	68.12	1.70	15.65
1972-73	80.15	2.10	23.53
1973-74	159.60	2.60	23.81
1974-75	172.24	2.25	-13.46
1975-76	216.50	2.60	15.56
1976-77	254.30	2.40	-7.69
1977-78	265.30	2.40	0.00
1978-79	331.60	2.40	0.00
1979-80	380.40	2.30	-4.17
1980-81	394.80	2.10	-8.70
1981-82	500.40	2.20	4.76
1982-83	485.30	2.20	0.00
1983-84	552.20	2.30	4.55

Sources: Australian Bureau of Statistics, *Overseas Trade, Imports*, Australian Bureau of Statistics, Canberra, ACT, various issues; Canberra, ACT, 1991, Department of Foreign Affairs and Trade, *Direction of Trade Time Series Australia 1972 to 1990*, DFAT, Canberra, ACT, 1991.

During the 1960s, Australian total imports sourced from Hong Kong increased from a mere \$A10.32m at the beginning of the decade to \$A54m in 1969/70 (Table 3.8). This growth in imports continued over the 1970-1983 period. The most significant change in the rate of imports from Hong Kong commenced in 1973, when imports totalled \$A159.6m; in comparison to \$A80.2m in 1972. As previously explained, this was the

affect of the Australian implementation of a 25% tariff reduction. Subsequently, imports increased considerably, that over the 1975-1980 period; averaging \$A289.6m per annum. This trend continued well into the early 1980s, with the average annual rate of imports from Hong Kong being \$A460.2m.

In the early 1960s, Australian imports from Hong Kong were mainly composed of textiles, clothing and apparel, metal manufactures and other manufactures. In 1960/61, Australian imports from Hong Kong were mainly composed of textiles (33.4%), apparel (25.9%), earthenware and china (6.7%), toys and sports goods (6.1%), metal and metal manufactures (5.0%), yarns (2.5%) and other goods not elsewhere classified (11.8%). In comparison, during 1964/65, Australian imports composition from Hong Kong sustained some changes, with increases in the shares of textiles (38.6%), toys and sports goods (10.4%), yarns (2.8%), other goods (18.5%) and the emergence of the wood and wicket category (5.0%) while there were contractions in the shares of apparel (18.8%), metals and metal manufactures (3.8%) and earthenware and china (2.1%).

By 1974/75, Australia's composition of imports originating from Hong Kong had not changed considerably, with miscellaneous manufactured articles, manufactured goods, classified chiefly by material, and machinery and transport equipment constituting 60.0%, 25.5% and 10.5%, each respectively. This trend in the imports of Hong Kong's manufactures continued over the 1970s, so that by 1979/80, miscellaneous manufactured articles, manufactured goods, classified chiefly by material, and machinery and transport equipment constituted 50.5%, 29.7% and 15.0%, respectively. This means that over the 1970s decade, a trend had been established in which Australia's intake of Hong Kong manufactures has shifted from simple products to more elaborately transformed manufactures, especially in the machinery and transport equipment category, which registered a rise of 12.1% on the 1969/70 figures. It must be noted that over the 1970s decade, machinery and transport equipment goods were one of the major commodities which sustained significant price increases in the international markets.

Australia's total imports from Hong Kong, in current values, continued to increase that by 1981/82, it reached the amount of \$A500.4m. The three major imports categories were: Manufactured Goods Classified Chiefly By Material (Div. 6), Machinery and Transport Equipment (Div. 7), and Miscellaneous Manufactured Articles (Div. 8), corresponding to 27%, 19.1%, and 51.4%, each respectively, of Australian total imports from Hong Kong. By 1983/84, while the composition of Australian imports from Hong Kong remained the same, the percentage share of imports grew at the average annual rate of 5.9%.

3.8 Conclusion

During the 1960-1983 period, Australian exports remained highly specialised in a small range of primary products. For natural-resource-rich, lightly populated Australia, the key determinant had been its relative factor endowments of agricultural land and mineral and energy resources. The expansion of Australia's wheat production remained an important policy objective, not only as an export earner, but in providing jobs for the increasing intake of migrants (refer to ch. 4). However, too much stimulus was provided, with no actions taken to correct overproduction as governments were fully aware of the ensuing political backlash that this would entice (refer to ch. 1). Politics, rather than economic principles guided the formulation of Australian agricultural policies.

The inward-looking development strategy, which have contributed to Australia's relatively per capita economic growth performance, began to change in the early 1970s, when the government cut all tariffs by 25%. However, by the late-1970s, the tariff reductions were substituted by quota restrictions, especially on TCF imports. Devaluation of the Australian dollar and high inflation continued to make Australian exports less competitive on the international markets.

At the same time, Australian trade faced dramatic changes in its commercial direction. Markets that Australia used to rely upon, e.g. the United Kingdom, were closing up and new ones had to be found. Australia began re-orienting its trade more towards the Asia-Pacific region.

While, on the one hand, Australia perceived China as the greatest threat to its security, on the other hand, it wanted to take advantage of its trade potential. However, as Australia relied on the United States for its security, it believed it had to remain in step with US policies, as well as those imposed by its allies. In order to find a solution to the China-Taiwan issue, Australia formulated the 'One China, One Taiwan' policy. In the process, Australia-China trade got intertwined in politics, which directly involved Taiwan. Australia's slow response to the changing realities meant that its trade relations with China became difficult.

While Australia's allies had long abandoned the United Nations' Special China List, which was imposed in the early 1950s, with Canada and the United Kingdom dropping the list in 1957, Australia continued to enforce the 'China differential' until 1971. In addition, Canada's diplomatic recognition of China in 1970, placed it in a more

favourable position in its trade with China - to Australia's detriment. Australia's inadequate response in lifting its export ban to China created insurmountable implications for its wheat sales to China, to the advantage of its competitors, e.g. Canada. It was in December 1972 that the Australian government diplomatically recognised the government of the People's Republic of China as the sole representative on mainland China. As a result of Australia's diplomatic recognition of China, wheat sales resumed and bilateral trade continued to improve.

Australians continued to view China as a market with enormous potential. Until the late 1960s, Australia's main commodity export was wheat, which was virtually dumped on the Chinese market. From early 1970s to mid-1980s, export of mineral resources became prominent. China was an important export destination due its large intake of Australian wheat. However, as have been shown, the costs associated with Australian subsidised wheat sales to China may have outweighed the benefits. On Australia's diplomatic recognition of mainland China, Australia-China trade increased significantly, with Australian exports to China exceeding those to Taiwan from 1972/73 to 1987/88 and with Hong Kong from 1972/73 till 1986/87. Though compounded with difficulties, Australia's trade with China, Taiwan and Hong Kong became more complementary over time - Australia exporting primary produce and minerals and importing labour intensive manufactures from each of the respective countries. However, China's importance as a source of Australian imports was less than that for Hong Kong.

Taiwan's commodity imports from Australia were mainly in three categories: primary produce, chemicals and manufactures. Over the 1967-72 period, there were significant increases in Australian exports to Taiwan, as a result of the Taiwanese government stance in instigating Australia's support in retaining legitimacy as the sole government on mainland China (Dept of Foreign Affairs, 1972b). This did not come to fruition as the Australian government diplomatically recognised China in 1972. While Australian trade with Taiwan was in surplus over the 1960-1972 period, this trade balance went into a deficit from 1973 onwards, so that by 1981/82 this deficit reached an all-time-high of \$A186m.

During the 1960s, Australian exports to Hong Kong were mainly of temperate foodstuffs for the expatriate community (Garnaut, 1989). While, over 1960/61 to 1971/72, Australia enjoyed a trade surplus with Hong Kong; this changed to a deficit from 1972/73 onwards, reaching a high of \$A135.6m in 1982/83. It was in 1983/84 that Australian trade with Hong Kong turned back into a surplus. Over the 1960-83 period, Australian exports to Hong Kong sustained considerable fluctuations, with STMs and ETMs exports emerging

as prominent export categories from the early 1970s onwards. From 1959/60 to 1979/80, as a market for Australian exports, Hong Kong was more important than Taiwan. However, from 1980/81 onwards, Taiwan's became more prominent than Hong Kong for Australian goods. At the end of the period, prior to the announcement of the reversion of Hong Kong to China, the three countries were about of equal importance as an export destination for Australia, although Australia had a trade surplus only with China. By this time, also, the political dimension of Australia's trade with China and Taiwan had receded substantially, even though the basic conflict between China and Taiwan remained a central reality in the region.

Imports sourced from Hong Kong continued to increase over the 1959/60 to 1983/84 period, so that from 1972/73 onwards, total imports sourced from Hong Kong had surpassed Australian-exports. In effect, from 1972/73 to 1982/83, Australia incurred a trade deficit with Hong Kong. While in the early 1960s, Hong Kong imports into Australia were mainly composed of textiles and apparel, sports goods and metal manufactures; by the late-1960s, the three major categories became: manufactured goods, miscellaneous manufactured goods, and machinery and transport equipment. Over the 1970s decade to 1981/82, Australian import composition from Hong Kong had shifted from simple products to ETMs, corresponding to 70.5% of imports. While, over the 1959/60 to 1978/79 period, Hong Kong's importance as a source of Australian imports surpassed those of China and Taiwan; from 1978/79 onwards, Taiwan overtook Hong Kong's lead. In effect, the combined markets of Taiwan and Hong Kong constituted a larger share of Australian global exports than did mainland China.

Australia had lost opportunities in establishing long term strategies in its trade relations with China, Taiwan and Hong Kong. As will be expounded upon in ch. 5, the resultant affect have been for Australia to intensify its efforts in each respective country in order to maintain its share; with exports being biased towards mineral resources.

4. CHAPTER 4 AUSTRALIA'S IMMIGRATION FROM NORTH EAST ASIA 1960-1983

4.1 Introduction

Since its discovery, Australia has relied heavily on immigrants for its manpower needs. The influx of immigrants brought not only their strengths to build their newly adopted country, but also their fears, biases and prejudices which, over the decades, shaped and influenced Australia's Constitution and legislation. Reflecting these views, Australia's immigration laws have been selective in sourcing its migrants. On the establishment of Australian Federalism in 1901, one of the first laws to be enacted was *The Restrictive Act, 1901*. This gave a clear indication that Australia was going to adopt a "White Australia Policy." Through the decades, this was mainly achieved by sourcing immigrants from the United Kingdom - at the exclusion of non-European settlers. The fear of intrusion from the north was still persistent in Australia's policy makers' minds, so that by 1946, with the establishing of the first Department of Immigration, the rationale was still based on the notion: "populate or perish."

From the 1960s, Australia's trade became more oriented towards the Pacific Region - its diplomacy driven in part by trade. Australia did not foresee the need to know and understand other countries' cultures. Cultural misunderstandings proved to be to Australia's detriment - diplomatically and economically. Australia's slow response in adjusting its immigration policies hampered the development of trade. Australia's cultural differences and lack of appreciation of the North East Asian region was one of the factors which contributed to a loss in trade opportunities.

This chapter examines changes in Australia's immigration policy and how these affected the immigrant inflow from North East Asia, especially China, Taiwan, and Hong Kong, as well briefly discussing investment flows to and from the region. This chapter consists of ten sections: Section 4.2 documents Australian attitudes, legislation and policies over the 1950-1983 period; Section 4.3 documents the reasons for the changes in immigration policy; Section 4.4 presents Australian immigration inflows, vis-a-vis, new arrivals from China, Taiwan, and Hong Kong over the 1960-1983 period; Section 4.5 deals with the economic conditions of the settlers; Section 4.6 describes the immigrants' occupations and how these were attained; Section 4.7 examines the trends in Australia's North East Asian immigrant intake and how they compared with the overall immigration intakes;

Section 4.8 consider some of the socio-economic, political and economic impacts that the North East Asian immigrants had, on their natural as well as adopted country; Section 4.9 examines whether there were any significant investment inflows or outflows associated with the North East Asian settlers in Australia and Section 4.10 presents the conclusion.

4.2 Attitudes, Legislation And Policies

4.2.1 The Immigration Restrictive Act of 1901

It was not until the later part of the 19th century that Australia saw large movements of people from various parts of Asia. The dominant inflow came from China, specially driven by the gold rushes. This was precipitated by the discovery of gold in 1851. From 1856 onwards, large numbers of Chinese migrated in search of gold. The arrival of relatively large numbers of Chinese gold-diggers led to considerable tension and hostility with European migrants. By the time the Australian Federation was established in 1901, restrictive policies against non-Europeans were in force in each of the Australian colonies.

The *Immigration Restriction Act of 1901*, which was one of the first elements of the legislation to be enacted by the Federal Parliament, reflected the general hostility to non-European migration, by establishing a Dictation Test in any European language chosen by the administering officer. Section 3a of *The Immigration Restriction Act 1901-1910*¹ stipulates:

The immigration into the Commonwealth of the persons described in any of the following paragraphs of this section (hereinafter called "prohibited immigrants") is prohibited, namely:-

- (a) any person² who fails to pass the dictation test: that is to say, who, when an officer dictates to him not less than fifty words in any prescribed language,³ fails to write them out in that language in the presence of the officer.⁴ No regulation prescribing any language or languages shall have any force until it has been laid before both Houses of the Parliament for thirty days and, before or after the expiration of such thirty days, both Houses of the Parliament, by a resolution, of which notice has been given, have agreed to such regulation.

¹ (a) Meaning of "immigration" and "immigrant" discussed. *Mann v. Ah On*, (1905) 7 W.A.L.R. 182; *Chia Gee v. Martin*, (1905) 8 C.L.R. 649; *Ah Sheung v. Lindberg*, 1906 V.L.R. 923 (and, on appeal, *sub. Nom. Attorney-General for the Commonwealth v Ah Sheung*, [1906] 4 C.L.R. 949); *Ah Yin v. Christie*, (1907) 4 C.L.R. 142S; *Potter v. Minahan*, (1908) 7 C.L.R. 277.

² Paragraph (a) of the Act of 1901, for which the present paragraph (a) was substituted in 1905, was as follows:- "Any person who when asked to do so by an officer fails to write out at dictation and sign in the presence of the officer a passage of fifty words in length in an European language directed by the officer." Under this paragraph the following decisions were given: - It is essential that a passage of fifty words, neither more nor less, should be dictated. Where the officer stopped after reading ten words out, being satisfied that the immigrant did not understand what was being read to him, and had not attempted to write any of the ten words so dictated, no offence was committed. *Christie v. Ah Foo*, (1904) 29 V.L.R. 583; *Mann v. Ah On*, (1905) 7 W.A.L.R. 182. It is for the officer, and not the immigrant to select the European language for the purpose of applying the dictation test. *Chia Gee v. Martin*, (1905) 3 C.L.R. 649.

³ Section 5 of the *Immigration Restriction Amendment Act 1905* is as follows: - "5. Until a regulation prescribing any language or languages under section three of the Principal Act as amended by this Act shall come into force, any language authorised by section three of the Principal Act before the commencement of this Act shall be deemed to be a prescribed language within the meaning of that section as so amended."

⁴ As to the method of administering the dictation test, see *Potter v. Minahan*, (1908) 7 C.L.R. 277. Held by Pring, J. of the Supreme Court of New South Wales, that where a defendant, charged with being a prohibited immigrant, has failed to pass the dictation test in the presence of an officer, the Court has no jurisdiction to apply the test to the defendant at the hearing of the charge. *McManus v. Santos*, (1907) 24 W.N. (NSW) 37.

During the Commonwealth's first two decades, the *Immigration Restriction Act, 1901* was frequently amended and its impact modified by administrative decision.⁵ These changes were all in harmony with the basic policy of excluding non-European settlement.

The peaks and troughs in the numbers of immigrants are not fully explained by the sudden changes of policy - changes in economic activity in Australia and in the countries of the immigrant origin and how they were interrelated in terms of 'push and pull' factors which are also important. Nevertheless, the changes in immigration policy by successive governments over the decades did play a part.

4.2.2 The 1950s

Experiences during the Pacific War during 1941-45 initially strengthened white racial consciousness in Australia, by bringing about the very confrontation that had been predicted by seers of the 'yellow peril.' After the Second World War, in the conferences drafting the United Nations Charter, Dr H.V. Evatt insisted that the control of immigration to Australia was to remain a matter for domestic jurisdiction.

Attitudes to the outside world were influenced by Second World War experiences, an ongoing fear of enforced mass immigration from Asia, and the relative homogeneity of the Australian population, which was still oriented to Britain and Ireland through family ties and, in the case of most Anglo-Australians, also through firm allegiance to the Crown and Empire. Australia's post-World War Two immigration program started in 1946, when Arthur Calwell established the first Department of Immigration. The earlier rationale for a relatively large immigration program, motivated by the 'populate or perish' doctrine, continued to be implemented. It was thought that unless Australia achieved a sizeable population, the sparsely populated continent might entice unwelcomed settlers from the north against which it could not defend itself.

The demand for labour during the post-war reconstruction years was an added incentive for attracting a large number of able-bodied immigrants. A variety of financial assistance schemes were introduced to encourage immigration from Britain. Some of these assistance schemes were later extended to non-British European countries.

⁵ *Op. cit.*

In counteracting accusations of racism from Pacific Region countries, Australia's initial response was to help initiate the Colombo Plan⁶ - a regional foreign aid program, in 1950. From then onwards, through the Colombo Plan and the admittance of private overseas students, many young Chinese from South-East Asia, particularly from Malaysia and Singapore, as well as from Hong Kong, came to Australia for a university education. They chose Australia largely because of its geographical proximity and the relatively low cost of living expenses, in comparison with other Western countries.

By the 1950s, Australia still considered its immigration control to be and to remain a matter of domestic jurisdiction. With the United Kingdom joining the European Economic Community and the composition of the United Nations greatly altered, Australia had to increasingly look to countries within its region. At late as 1957, different rights still applied to different nationals residing in Australia.

It was in 1957 that non-Europeans were allowed to apply for Australian citizenship after 15 years of residence, compared with 5 years for Europeans; thereafter, they were able to bring their wives and children to Australia. The first official moves to modify the White Australia Policy were marked by extreme caution. The *Migration Act of 1958* revoked the Dictation Test of the *Immigration Restrictive Act, 1901* but retained equally effective controls and awarded no right of appeal. This did not, however, change the 'White Australia' image, as only a small number of foreign-born Chinese, on an annual average of 150, were added to the population in the postwar years to the mid-1960s, at which time the total Chinese population of Australia was probably less than 30,000. It was announced in 1959 that 'distinguished and highly qualified Asians' would be admitted for permanent residence, and there was some relaxation of the rules that had previously kept spouses and dependent children from joining Australian citizens. The numbers involved were small, perhaps 700 a year in 1965 and 1,000 soon after.

4.2.3 The 1960s

The demand for labour during the 1960s continued to entice large number of able-bodied immigrants. A variety of financial assistance schemes were still operational to allure immigrants to Australia. Some of these assistance schemes were later, in 1971, extended to non-British European countries.

⁶ The Colombo Plan was conceived at the Commonwealth Conference on Foreign Affairs, 1950, and launched in 1951. Originally, it was composed of seven Commonwealth nations - Australia, Britain, Canada, Ceylon (now Sri Lanka), India, New Zealand and Pakistan. Colombo Plan Bureau, Sri Lanka.

The 1960s was a crucial period in Australia orientation towards immigrants in general, a decade that witnessed a shift in policy from that of assimilation toward one of integration. Addressing the 1959 convention, Dr J.R. Darling, member of the Immigration Advisory Council (IAC), told participants that

'immigration policy should aim at the integration of new settlers rather than assimilation... the policy should aim at building into a new unity the capacity of old and new Australians rather than attempt to force all newcomers into the pattern of Australia "as it used to be' (Jupp, 1988).'

Attempting to define integration, Dr Ulrich Engelbert, senior research officer, Atomic Energy Commission, suggested that it was

'a mutual process on the part of both the new citizen and his neighbours... [so that] the Australian way of life will change as much as does the way of life lived by the migrants in their home country' (Jupp, 1988).

In 1966, the period of residence required for naturalisation was shortened to five years, and a wider range of people was allowed to enter under the 'distinguished and highly qualified' category. Under these more relaxed conditions, between 1966-1970, an annual average of 6,500 Asians migrated to Australia.

The mid-1960s raised once again the issue of Australia immigration insensitivity towards the Asia-Pacific nations, which was to cost Australia dearly - in diplomatic terms. The Locsin case in 1965 illustrated the diplomatic costs that Australia had incurred. This case related to Australia's refusal to allow a university-educated Filipino to be granted permanent residency. With Australia's immigration policy compared with apartheid, and with its intentions towards its Asian neighbours questioned, Australia sought and found its strongest message from the experiences of the United States in avoiding racist-motivated policies.

The Australian Labor Party decided at its August 1965 conference to drop the White Australia Policy from its platform, but stressed the need to avoid problems that might flow from an influx of people having 'different standards of living, traditions and cultures.'

The immigration mix continued to be given priority in the latter stages of Hubert Opperman's term as Minister for Immigration. In March 1966, the minister announced that there was to be a greater intake of non-Europeans, with 'well-qualified' migrants considered, and a liberalisation in the area of family reunions. The Department of Immigration announced, for the first time, that non-Europeans were to be admitted as permanent settlers and that resident non-Europeans were to have the same rights as Europeans in matters of naturalisation and registration.

4.2.4 The 1970s

The principal immigration policy continued to be set, until 1971, on sourcing new settlers from the United Kingdom, but previous success with the sudden input of large numbers of European refugees in the late 1940s encouraged the view that an increased proportion of non-British immigrants could be absorbed. There were also doubts that the United Kingdom would supply settlers in the quantities and with the range of skills that seemed to be necessary for the Australian economy. Consequently, from the early 1960s, migration agreements were negotiated with a number of European governments. The schemes aimed to bring to Australia not only workers in occupations in which there was a scarcity of local labour but also their families, so that they would contribute to total population growth. However, when the supply of immigrants from Britain and later from other parts of Western Europe began to decline, recruitment efforts were directed to southern Europe and then the Middle East, South America and subsequently Asia.

In 1972, the Hon. Donald Chipp, Minister for Customs expressed views in favour of a multi-racial Australia, at a time when Australia was taking in about 10,000 non-European migrants every year.

At his first press conference after the election victory of December 1972, Prime Minister E.G. Whitlam declared Labor's commitment to the removal of racism from every aspect of government. In the Department of Immigration, the new Minister, Al Grassby, began to make important changes. Race was to be disregarded in the consideration of applications for settlement and the same rule would apply to assisted passages. Applications for citizenship could be made after a qualifying period of three years and the distinction between Europeans and non-Europeans was to be removed. Minister Grassby indicated that Australia would follow Canada's example of a migrant assessment system. The criteria were to be based on occupational skills, knowledge of English, initiative, appearance, personal hygiene, speech and behaviour, and have no reference to race or religion.

It was in 1973, however, that discrimination against all non-British immigrants was formally removed, when a uniform three years residence, shortened to only two years in 1984, applied to all immigrants seeking citizenship. This made Australia an attractive place for Asian immigrants.

From 1950 onwards, through the Colombo Plan and the admittance of private overseas students, many young Chinese from South-East Asia, particularly from Malaysia and Singapore, as well as from Hong Kong, continued to come to Australia for a university education. Their preference for an Australian education appeared to be based on Australia's geographical proximity and the relatively low costs involved, in comparison with other Western countries. This was especially so after 1974, when tuition fees for tertiary education were waived, although fees were subsequently re-introduced in 1980, in the form of visa fees and in 1985 as tuition fees. Throughout most of the 1970s, many Chinese and others were allowed to stay in Australia after graduation. Some applied for family members and relatives to join them, which led to a steady influx of Chinese immigrants. Furthermore, from the mid-1970s onwards, thousands of refugees from Indo-China were admitted under the humanitarian program. All these factors brought about a substantial increase in the number of Asian settlers in Australia.

In December 1975, with the Fraser Liberal-National government gaining office, they accepted the elements of Labor's non-discriminatory policy and moved much more quickly than Labor had done to accept Asian refugees. The government also began to raise the immigration targets again, in conformity with traditional Liberal-National Party philosophy. It also continued the emphasis on family reunion and extended opportunities for immigration to persons with skills known to be in short supply in Australia, as well as to entrepreneurs with capital to invest.

The Entrepreneurial Migration Category, which was incorporated into the general Australian migration program in November 1976, was introduced to provide a means of entry for migrants who would be unable to qualify under other categories of migration, but could be expected to benefit Australia by applying their business skills and capital in the Australian economy. The Entrepreneurial Migration Category existed until 1981, when it was replaced by the Business Migration Program (BMP).

The government also abolished the notion of annual targets and from 1978 onwards planned on a triennial basis. The government also announced that Australia fully recognises its humanitarian commitment and responsibility to admit refugees for resettlement, although it did not quite anticipate at the time where the major pressure was to come from, namely Vietnam.

In May 1978, the Fraser government raised its annual target intake for Indo-Chinese refugees, first to 9,000, and again to 14,000 following the Geneva Convention of July 1979.⁷ The main change in the pattern of immigration in the 1970s came not from the changes in the categories of regular immigrants, but from the turmoil of international events that caused refugee problems, this time not from Europe, but from Asia. This was mainly due to the Communists victories in Cambodia, Laos and Vietnam which precipitated an exodus of over two million Indochinese asylum seekers. This exodus, which began as a trickle immediately after the fall of Saigon in 1975 grew to a flood by late 1977. During the 1975-84 period, Australia resettled over 90,000 Indo-Chinese refugees (DIMA, *Magnetic Tape Data*).

The flow of Asian settlers expanded further since 1982, when family migration provisions were extended to applicants from Indo-China. In addition to these Asian refugee settlers, a further 100,000 immigrants came from a number of other Asian and Pacific countries - India, Malaysia, the Philippines and the Pacific Islands. Over the post-war period 1947-85, Australia's non-European-born population increased from about 0.5% to 2.5% of the total population, a substantial component of which was accounted for, from 1975, by refugee arrivals.

4.2.5 The mid-1980s

Throughout the 1980s the Australian community and its external concerns underwent further modifications. The Asian component of new immigrants grew appreciably larger and ethnic minorities drawn from several continents sought to influence Australian foreign policy on specific issues linked with their former homelands. Constitutional ties with Britain were terminated by the *Australian Act* in 1986 but the flow of British immigrants remained steady.

In 1981, the Business Migration Program (BMP) was introduced. The BMP had two elements: one element maintained essentially the same criteria for entry as the Entrepreneurial Migration Category, in that applicants were required to provide proposals which would either introduce new designs, techniques or technology, create employment or develop export markets. The other element allowed entry for self-employed persons, which covered successful professionals and tradespeople with their own firms. While no minimum level was set, the BMP required that each applicant have sufficient personal

⁷ *Op. cit.*

capital to transfer to Australia so that each would be able to carry out the proposed business. The two elements of the BMP were amalgamated into a single stream in January 1983. The BMP experienced modest growth in the early 1980s. From 1982/83 to 1983/84, an annual average of 375 principal applicants arrived in Australia.

A further change was the phasing out of government-assisted passages, the 'Ten-Pound Passage,' to virtually all categories except refugees, thus ending a practice that had existed for over 150 years. Passage assistance was the price paid to overcome the tyranny of distance, and to compete successfully in the migration markets of Europe against the major and much closer immigrant destinations of the USA and Canada. It was felt that the scheme had become a bad economic proposition, as it was no longer an effective incentive for attracting immigrants. The scheme showed a net loss when assisted immigrants left Australia after serving the required residential period of two years (Borrie & Rodgers, 1976). Moreover, the growing emphasis on family migration broadened the base from which immigrants could receive non-government help.

Despite the problems and disagreements that had ensued with ASEAN countries, the ASEAN-Australia relationship remained strong and cordial, except for specific disputes. However, when disagreements occurred, these pointed to underlying political and cultural differences which accentuated Australia's separateness from the rest of the region. As far as Australian policies and attitudes were concerned, these succeeded in confirming that Australia was not fully accepted as part of the regional community. Australia's right to participate positively in decisions concerning the region came into question, irrespective of Australian aid or defence contributions. The potential for Australian isolation was thereby increased.

One of Australia's difficulties in gaining increased regional acceptance was its overwhelmingly European composition - racially and culturally. Australia's adoption of an immigration policy that was 'universal and non-discriminatory' and its record in accepting South East Asian refugees have, to some extent, helped to counter-balance the impression that it was a European outpost. However, Australian immigration and refugee policies remained sensitive issues and their debate did, at times, attract publicity which does not improve Australia's image (Joint Committee on Foreign Affairs & Defence, 1984).

Cultural exchanges between Australia and China were significant in opening up an awareness of each other's country that had not been there before. China made a point of sending to Australia major exhibitions, such as the Entombed Warriors, which would not

normally have gone to a nation without a record of international cultural exchanges. Teacher and student exchanges between China and Australia were substantial. For its part, Australia sent more cultural delegations to China than almost anyone else.

The 1983 Sino-British talks about the future of Hong Kong elicited a great sense of uncertainty on the local inhabitants, with a great number of middle to upper level professionals seeking visas or emigrating overseas. In competition with one another, Australia, Canada, and the USA developed special schemes to attract the best brains and the most investment to their respective countries. During the 1970s, Australia's yearly average intake of Hong Kong-born settlers was 879 persons (BIR, 1993b). As a consequence of the Sino-British talks of 1983, Australia's yearly intake of Hong Kong-born migrants increased to an annual average of 3,296 settlers over the 1980s decade, compared to the annual average intake of 798 settlers over the 1970s decade (BIMPR, various issues). Investment funds, especially foreign direct investments (FDI) have, from 1983 onwards, been leaving Hong Kong in search of safer places - Australia being one of the main recipients of such investments.

4.3 Reasons For Change

4.3.1 Diplomatic Credibility

During the postwar years, Australia was facing a strategic dilemma: that of being a European outpost, located in a more economically backward and culturally alien regional environment. Over the 1950s, Australia did not take heed of the international community concerns regarding its immigration policies and continued to consider immigration control to be a matter of domestic jurisdiction only. With the United Kingdom joining the EEC in 1973, and with the composition of the United Nations greatly altered, Australia had to increasingly look to countries within its region. Until 1956, different laws, e.g., permanent residence and naturalisation rights, applied to different nationals residing in Australia, as noted above. The external pressures that tended to modify the 'White Australia' policy took effect by virtue of the nation's desire to build a credible diplomacy in the interests of security and trade, as well as a growing acceptance that a non-racial policy was a desirable one in its own right.

The Gamboa and Locsin cases of 1949 and 1965 each respectively, illustrate the diplomatic costs that Australia had to incur as a consequence of its immigration policies. Both cases had to do with Australia's refusal to allow individuals - the former a United States citizen of Filipino parentage to join his family in Australia and the latter a university-educated Filipino - to be granted permanent residency. In the Gamboa case, the Philippines House of Representatives even debated a motion to declare war on Australia. The Sergeant Gamboa case of 1949 was taken to the United Nations and drew upon Australia a comparison with the racist practices of Nazi Germany. It was not until 1952, after the Menzies government came into power that Lorenzo Gamboa was able to rejoin his family in Australia. In the Locsin case, Australia refused to grant permanent residency to this Filipino citizen, at the time when it was seeking admission to the Manila conference of 1966. Australia's policy was compared with apartheid, and its intentions towards its Asian neighbours questioned.

But power relationships in South East Asia and the Pacific changed radically with the withdrawal of the British military forces and the emergence of most countries within the region from colonial tutelage. Unable as dependent states to make effective protests at Australian discrimination, these new nations now had seats in the General Assembly, their own armies and the disposition of their own external trade. Their sensitivities to policies apparently based on white racism was a fact that Australia could not afford to ignore. Australia's initial response was to help initiate the Colombo Plan in 1950.

Australia was committed to this immediate region in strategy and trade, and aspired to be a middle-ranking voice in regional associations. It has, therefore, become essential for Australia to remove the diplomatic obstacles posed by its 'White Australia Policy.' With the United Kingdom joining the European Economic Community in 1973 and with the composition of the United Nations greatly altered, Australia had to look increasingly to countries within its region for its trade.

4.3.2 Trade

Over the 1950s to mid-1980s period, Australia's reasons for protecting manufactures included the desire to redistribute income towards workers - for its own sake and to attract more European migrants (Norton & Kennedy, 1985). Australia's protection of the import-competing manufacturing sector was believed to raise the demand for labour. This action in turn had two effects that were socially desirable: it supported greater employment at given real wages and so attracted immigrants, and it implicitly taxed some

of the rents of the relatively rich landowners. Protection was thus seen as an instrument capable not only of redistributing national income more equitably, but also of increasing Australia's population by European settlers.

The emergence of Hong Kong, Taiwan and South Korea as rapidly expanding and highly successful newly industrialised countries, and the rapid rate of economic growth of the ASEAN countries during the 1970s and their recovery after the slump of the mid 1980s, as well as the new attention given in communist countries to reform, suggested that a growing emphasis on economic priorities and trade initiatives should balance if not replace strategic-diplomatic-military considerations. Unfortunately, the Asian economic and trade success story had not been matched by Australia.

4.3.3 Security

The power relationships in SE Asia and the Pacific changed radically with the withdrawal of British military forces and the emergence of most countries in the region from colonial tutelage. These independent states had armies and their own external trade at their disposition to retaliate against those whom they saw as aggressors.

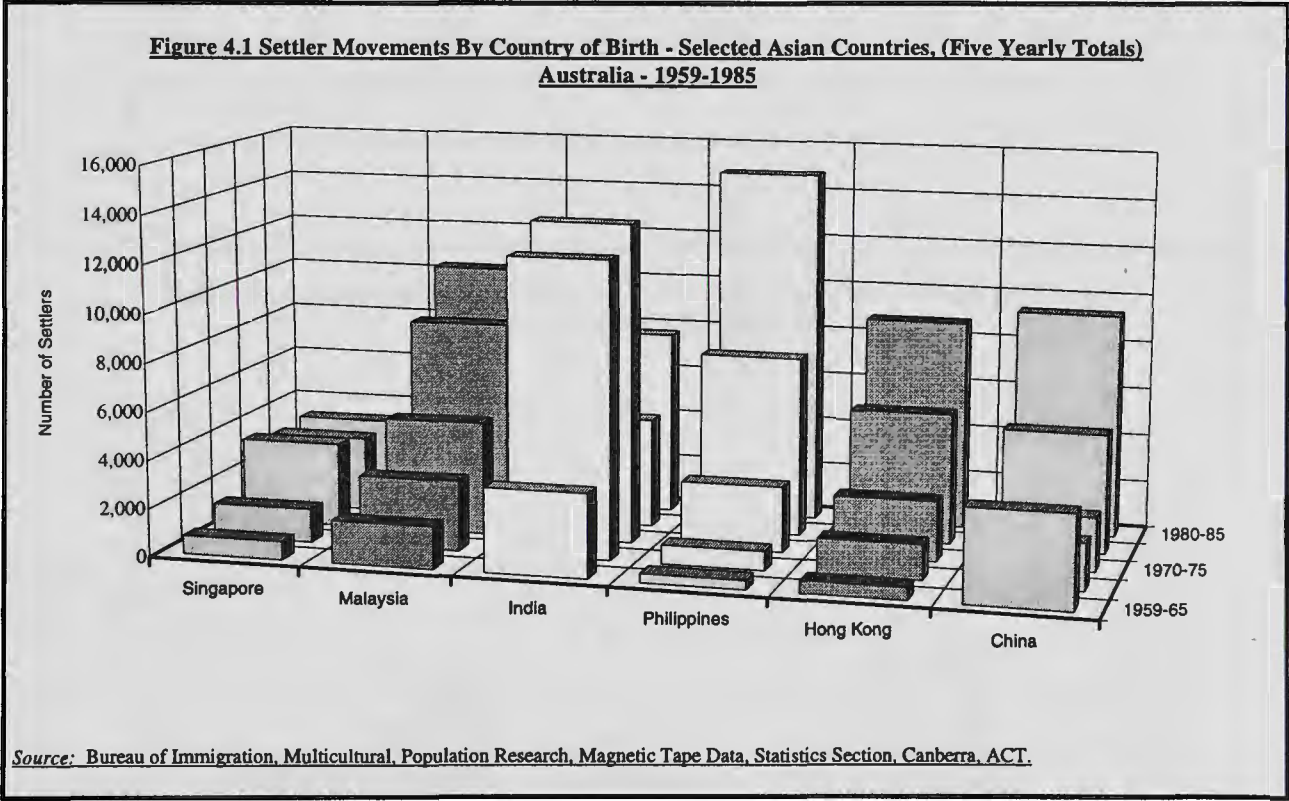
The decolonisation process in South East Asia left Australia isolated as an underpopulated, relatively prosperous European outpost, indeed, as one of the last colonial powers until Papua New Guinea gained its independence in 1975. Regional stability, security and prosperity became, understandably, one of the major concerns of Australian policy. Australian foreign policy developed two important objectives. One was to check the spread of communism in the region. The other was to encourage the continued military and strategic presence in the region of Australia's major Western allies, Britain and the United States.

Australia's primary aims in so far as the containment of the spread of communism and the retention of a great Western power presence within the region were concerned, had been only partly achieved up to the mid 1970s. The British military withdrawal after victory, in 1971, in the Malaysia dispute, and the American military withdrawal from mainland South East Asia after suffering defeat in Vietnam, in January 1973, were seen as major set-backs for Australia. The regional trend of events became less pessimistic with the easing of the Cold War during the early 1980s, and with greater emphasis placed on economic objectives by the Soviet and Chinese policies. This produced a much less menacing security environment for Australia.

Regional order in South East Asia, from the mid 1970s onwards, was undergoing far-reaching changes which, in turn, posed significant challenges for Australia. Yet Canberra's policy responses were, on the whole, conservative and unimaginative. Ministerial statements repeatedly stressed the importance of maintaining good relations with the regional countries. There were, however, no significant initiatives which aimed at improving, revitalising, or redirecting Australia's relations with its South East Asian neighbours.

4.4 Immigration Inflows 1960 to the mid-1980s

4.4.1 Sources

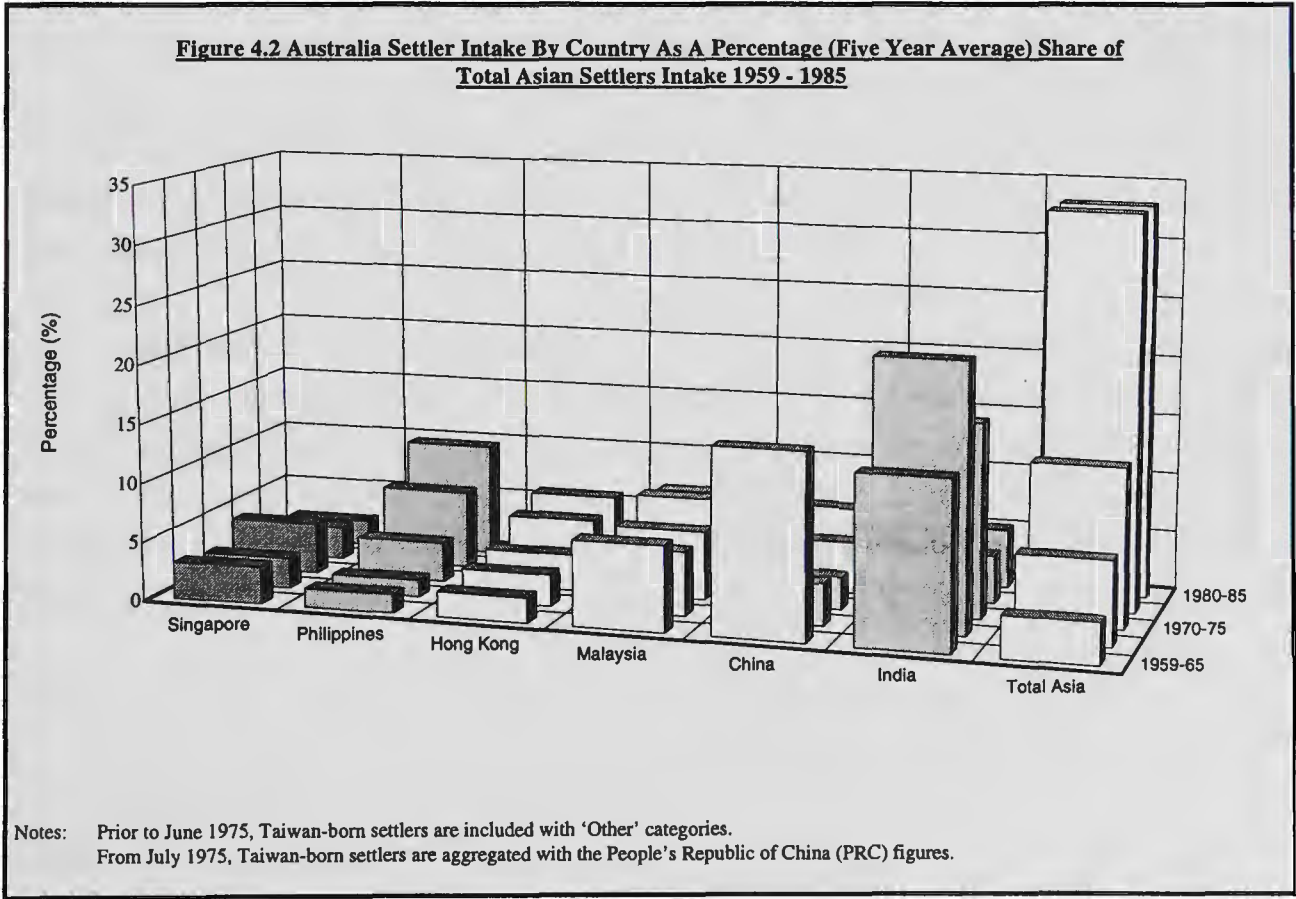


The growth of Asian immigration has been accompanied by a diversification in the sources of intakes (Figure 4.1). Prior to World War II, the main Asian immigrant groups in Australia were Chinese, Indians, Japanese, Sri Lankans and Filipinos. In the mid-1960s, India was the only Asian country listed among the top ten settler source countries (Table 4.1). Many of the Indian-born were persons of Anglo-Indian ancestry. Malaysia and the Philippines were the second and third Asian countries to move into the top ten

rank in the mid-1970s, followed by Vietnam in 1981-82, and Hong Kong and China in the mid-1980s (Figure 4.1 and Figure 4.2). It is evident that as of the mid-1970s, of the total Asian immigrants intake, the percentage shares of immigrants from China and Hong Kong increased substantially (Figure 4.2).

Table 4.1 Australia's Ten Most Important Settler Source Countries Comparison: 1965/66 and 1975/76					
Country	1965/66		Country	1975/76	
	Settlers' Numbers	Rank		Settlers' Numbers	Rank
UK and Ireland	74,749	1	UK and Ireland	17,339	1
Greece	15,153	2	Greece	1,489	2
Italy	11,420	3	Cyprus	2,855	3
Yugoslavia	8,081	4	Chile	1,905	4
Malta	4,298	5	Yugoslavia	1,804	5
Germany	3,751	6	Lebanon	1,519	6
USA	2,326	7	USA	1,432	7
Lebanon	1,625	8	Italy	1,365	8
Egypt	1,365	9	Malaysia	1,201	9
India	1,196	10	Philippines	1,111	10

Source: : Bureau of Immigration Research 1993, *Statistical Focus*, Bureau of Immigration Research, Statistics Section, Canberra, ACT.



4.4.2 Inflows From The People's Republic of China (PRC)

Despite the long history of Chinese overseas movements, China never officially encouraged its nationals to emigrate. From the 1950s, the People's Republic of China distinguished two categories of Chinese abroad, namely *waiji huaren* (foreign Chinese) and *huaqiao* (Chinese living overseas). *Waiji huaren* consists of naturalised and overseas-born Chinese and their descendants. These Chinese were no longer subject to Chinese law and protection, although they could 're-Sinicise' and become Chinese citizens after renouncing their foreign status and on returning to China. *Huaqiao* referred only to first generation Chinese with overseas residence, who held People's Republic of China citizenship. In contrast, the Nationalists'⁸ stand in the matter had been rather ambiguous. After 1955, the Nationalists continued to encourage the view that all those of Chinese descent were Chinese first and foreign citizens second (Chin, 1988).

In the Australian Census of 1947, there were only 9,144 full-blood Chinese and 2,950 mixed-blood Chinese in Australia. Although Australian naturalisation laws were relaxed after 1956, making it possible for many naturalised Chinese, including the 800 or so wartime refugee Chinese, to send for their wives and families, it was only in 1961 that an increasing Chinese population began to appear, with 20,382 full-blood Chinese accounted for in that year - more than double the 1947 Census figures. Their numbers had increased to 23,281⁹ by 1966 and to 36,638 by 1976, the last time that the census collected race figures, and just before the large influx of Chinese immigrants coming from regions outside the traditional sources in South China. Since 1976, estimates of the Chinese population in Australia have ranged from 60,000 to 150,000.

Perhaps the most salient feature of the post-World War II Chinese population in Australia had been its heterogeneity. Since the 1960s, Chinese immigrants from outside Guangdong and Fujian provinces have arrived in increasingly large numbers. Among these were several hundreds from Timor. The 1970s decade saw more Chinese arrivals coming from Papua New Guinea, Hong Kong, Singapore, the PRC, Malaysia and Indo-China.

⁸ Guomindang or KMT.

⁹ This figure excludes some 3,500 - 5,000 mixed-blood Chinese.

4.4.3 From Hong Kong

After the 'White Australia' policy was abandoned in the 1960s, Chinese immigration resumed slowly. While in 1960/61, 611 Chinese settlers arrived in Australia, by 1962/63, their number had increased to 1,184 (Bureau of Immigration Research, 1992). The remnants of the 'White Australia' policy resulted in a small and depressed group of Chinese settlers with few linkages to Hong Kong (DIEA, 1984; BIR, 1991 & 1993a).¹⁰

As an emigrant community, many residents in Hong Kong had family members and relatives living abroad. But their kin tended to concentrate in Canada and the United States (Employment and Immigration Canada, various issues; U.S. Department of Justice, various issues). A small percentage had relatives in Australia. Without a strong kinship network in Australia, the majority had little direct experience of the Australian way of life. The Australian Census of 1976 enumerated 26,748 foreign-born Chinese, of whom 4,556 or 17% were from Hong Kong (Crissman, 1991).

In the early 1970s, migration from Hong Kong to Australia was negligible, accounting for only a few hundreds of the annual intake of 132,719. Even the unstable conditions in the colony, in 1966 and 1967, did not appear to have given rise to significant increases of out-migration to Australia. In the mid-1970s, Malaysia and the Philippines were the second and third Asian countries to move into the top ten rank; followed by Vietnam in 1981-82, and Hong Kong and China in the mid-1980s.

By the mid-1980s, the influx of Hong Kong immigrants to Australia increased to around 5,000 of the total intake of 80,000 to 90,000 at that time. In 1983-84, there were only 1,139 students from Hong Kong in Australia (BIR, 1992a, b). In addition, Australia was not one of the favourite spots for Hong Kong tourists.

However, since the mid-1980s, the appeal of Australia as an immigration destination has increased rapidly for a combination of reasons, including issues surrounding the reversion of Hong Kong to China which is the central topic of this thesis. First, though tainted by the past exclusionary policy, Australia's image as the 'New Gold Mountain' and the land of opportunity remained potent (Lau *et al.*, 1991). Chinese migrants to Australia who later set up modern department stores in Hong Kong are still legendary. The Wing On Company set up by the Guo family, the Sincere Company by the Ma family, and the Dah

¹⁰ Hong Kong settlers were mostly mainland Chinese from Macau, Shanghai, Fujian and Guangdong, who used Hong Kong as a departure point in emigrating to Australia. Until 1963/64, annual Hong Kong settlers numbered less than 100 per year. Between the first major relaxation of the *White Australian Policy* in 1966, and its final abolition in 1973, Hong Kong settlers average annual intake stood at 300.

Sun Company by the Cai family, all owed their origins to the sojourns of their founders in Australia where they accumulated the initial capital and obtained inspiration for their business ventures (Chan, 1993).

Second, in Australia a new national identity was being forged which upheld the ideal of non-discrimination and multiculturalism. Australians had been urged to see their future as entwined with the Asia-Pacific region, and settlers from Asia were being welcomed rather than barred. For example, in 1984/85, 39.6% of all immigrants entering Australia came from Asia, compared with 12.9% in 1972/73. The Asian percentage share of Australian total immigration intake continued to increase that by 1991/92, it stood at 50.7% (refer to ch. 7). Around 60% of Australia's total exports were being sold to Asia at that time (refer to ch. 5). Asia has also become the most important regional source of tourists, accounting for approximately 43% of short-term tourists arrival in 1991/92 (refer to ch. 6), compared with only 12.8% in 1973, and 9.6% in 1966. Over 80% of Australia's education exports rely on full-fee paying students from the Asian region, such as Malaysia, Hong Kong, and China (refer to ch. 6). An active effort was initiated to recruit talents through an enlarged intake of independents and other skill migrants; thus lowering the hurdles imposed by the lack of kinship connections among Hong Kong residents who may not qualify for family reunion.

Third, Australia's immigration policy is more flexible than those of Canada and the United States. It neither imposes area quotas nor demands rigid residency requirements for landed immigrants. A settler obtains a multiple re-entry visa valid for three years on landing in Australia. Before the expiry of that visa, they only need to return to Australia for at least twelve months before obtaining a further re-entry visa. Such flexibility enables many Hong Kong migrants to fulfil the immigration requirement and obtain Australian passports with relative ease.

4.4.4 From The Republic of China on Taiwan (ROC)

The stand of the Nationalist Government in Taiwan in relation to migration had always been rather ambiguous (Chin, 1988). After 1955, the Nationalists continued to encourage the view that all those of Chinese descent are Chinese first and foreign citizens second.

From the 1960s to the mid-1980s, the inflow of Taiwanese immigrants to Australia was always small. Prior to 1981-82, the figures of Taiwanese migrants were aggregated with

the total of the People's Republic of China. But it is suffice to say that if the 1980-84 figures are taken as an indication, the number of immigrants from Taiwan should not have been more than 100 per year during the 1960s to early 1980s period. In the 1980s, the Taiwanese-born group showed the most dramatic growth in immigration to Australia with an increase of 1,484 per cent, albeit from a small base - increasing from a population level of 878 persons in 1982/83 to 13,025 in 1989/90 (BIMPR, 1991).

4.5 Immigrants' Economic Conditions 1960 - 1983

4.5.1 Economic Conditions 1960 - 1970 Period

Since the turn of the twentieth century, the Chinese in Australia were in the main market-gardeners, cabinet-makers, laundrymen, retailers of fruit and vegetables, cooks, tailors, and importers of food ingredients and other daily articles, catering to the Chinese community. There were a few entrepreneurs who gained wealth and prominence in the tea trade, such as the celebrated Quong Tart, and in the banana trade, such as the Wing On, Sincere, and Sun companies noted above, which moved their operations to Hong Kong and China, but the great majority consisted of small traders.

After the Second World War, both market-gardening and cabinet-making began to decline, partly because of a shortage of labour and partly because of competition from more highly organised capital. Moreover, as Chinese food began to be appreciated, more Chinese turned to the restaurant business. By the 1960s, there were still retailers of fruit, vegetables and flowers, as well as restaurants and grocery shops which multiplied. However, more and more of the younger generation began to seek employment elsewhere as their level of education improved. The Chinese Chamber of Commerce, which was established in 1913, became less active as many of its members had been able to establish their own trade contacts and operate independently with the assistance of educated family members (DFAT, 1995d).

4.5.2 Prevailing Economic Conditions 1970 - 1983 Period

Education proved to be the main factor that changed the economic status of the Chinese community. From the 1970s onwards, the large influx of Chinese from countries other than China, particularly from Malaysia, Singapore and Hong Kong, have significantly boosted the Chinese numbers and proportions in white- and blue-collar occupations, the professions and in the services. For instance, many of the 60,000 Malaysians who had graduated from Australian universities and colleges since the late-1950s, returned to Australia as immigrants after the 1970s - with many of those arriving as settlers being highly qualified. Thus, in 1981, 42% of the 25,894 Malaysian residents in Australia, aged 15 years and over, had some qualifications, compared with 24% of all Australians (*Census Australia, 1981*). Of these, 64% held college diplomas and university degrees. Of the 14,562 employed Malaysians, 50% were in the 'Professional, Technical and Related Workers' or 'Administrative, Executive and Managerial Workers' categories. From 1959/60 to 1981, 68.1% of mainland Chinese residents in Australia were without any qualifications which contracted to 62.8% by the 1981 Census (Table 4.2). Twenty four percent of those who were fifteen years and over had obtained a trade or some other qualification. The largest proportion of qualified males had obtained a bachelor degree and the largest proportion of qualified females had obtained a certificate other than a trade certificate.

Table 4.2 Australian Residents from Mainland China Residents - Highest Qualification Obtained, Australian Census 1981						
Level of Qualification	Males		Females		Persons	
	No ^a	%	No ^a	%	No ^a	%
Higher Degree	281	2.2	91	0.7	373	1.5
Graduate Diploma	151	1.2	104	0.8	255	1.0
Bachelor Degree	1,108	8.8	474	3.8	1,579	6.3
Diploma	463	3.7	418	3.3	883	3.5
Trade Certificate	1,023	8.1	151	1.2	1,175	4.7
Other Certificate	664	5.3	998	7.9	1,662	6.6
Not Classifiable	13	0.1	69	0.5	81	0.3
Inadequately Described	2	+	1	+	5	+
Total Qualified	3,706	29.3	2,308	18.3	6,012	23.8
No Qualification	7,935	62.8	9,255	73.5	17,190	68.1
Still at School	160	1.3	168	1.3	327	1.3
Not Stated	833	6.6	868	6.9	1,700	6.7
TOTAL	12,630	100.0	12,598	100.0	25,228	100.0
Source: BIMPR, <i>Profile 81</i> , 1981 Census Data on Persons Born in China, Bureau of Immigration, Multiculturalism, Population Research, Statistics Section, Canberra, ACT, 1982.						

Post-1981, the Chinese immigrants were more inclined to have diplomas and trade certificates. Being highly conscious of their inferior social status in Australia, most Chinese families strove to provide their children with a good education. Their children, in turn, were keen to achieve good academic results to fulfil their obligations and honour their families. Accordingly, Chinese students have achieved a high success rate at the HSC Examination and a high rate of admittance to the universities.

Today, the Chinese community can boast of having a large number of professional people. In 1974, a preliminary survey yielded 26 architects, 31 dentists and 151 medical practitioners with Chinese names in New South Wales (Shum, 1975). In addition, other professional groups in which the Chinese are well represented include accountants and engineers, and, to a lesser extent, lawyers, pharmacists, teachers and social workers. In business, during 1983, there were over 30 Chinese-owned trading firms in Sydney handling imports and exports. But the overwhelming majority, over 80%, of Chinese businesses were in restaurants. There were an estimated 1,200 Chinese restaurants in the Sydney metropolitan area alone.

4.6 Immigrants' Occupations 1966 - 1983

4.6.1 Professionals

From the 1970s onwards, the large influx of Chinese from countries other than China, particularly from Malaysia, Singapore, and Hong Kong, have significantly boosted the numbers and proportion of Chinese in the professions, white-collar occupations and in the service industries.

According to *Australia Census 1981*, there were only 2,391 Australian residents born in mainland China who had occupations in the Professional and Technical category. Within the Administrative, Executive and Managerial Category, there were 1,582 Chinese occupying such positions.

After the 1970s, many Asian students who had graduated from Australia's universities and colleges later returned to Australia as immigrants, while those who arrived as settlers were highly qualified. Asian settlers from Malaysia, Singapore, and Hong Kong, with their high levels of professional and technical skills were employed by institutions and businesses requiring skills and experience. Men from mainland China were somewhat exceptional in opening small businesses which employed themselves and a few others.

4.6.2 Self-Employed and Entrepreneurs

Although the Chinese vegetables and fruit retailers came under stiff competition from other European immigrants, the Chinese continued to flourish. The Chinese, however, found a safe occupation in running cafés. Large numbers entered this trade following a booming economy and a rapid population growth in the major population centres in the 1950s and 1960s.

Many of the Cantonese diggers' descendants continued in their traditional Chinese occupations, including grocery - wholesale and retail, cooking or helping in cafés. Many are still engaged in these occupations, particularly in Chinatowns. In 1986, there was an estimated 1,200 Chinese restaurants in the Sydney metropolitan area alone (Shum, 1986). However, their Australian-born children, are better represented in the professions and in white-collar and blue-collar jobs, and less numerous in the traditional Chinese occupations.

The early 1980s saw enterprising Chinese venture into the manufacturing industries particularly, food and clothes, into supermarkets, hotels and real estate, and more recently into finance and banking. In Melbourne, Indo-Chinese claim to have founded the first Chinese food-processing factory in Australia; with several others being founded subsequently. Australia's largest Chinese-owned food manufacturing company, the Melbourne-based Wing Lee Pty Ltd, claims to have employed 100 Australians. In Melbourne, apart from their entry into the bakery industry, the Indo-Chinese also ran several smaller food-processing factories.

4.6.3 Industry Patterns

Over the 1960-1981 period, the employment patterns of the Chinese had changed considerably. In 1966, only 4% of the Chinese work-force were employed in agriculture, 17% were professionals, 14% white-collar workers, 18% blue-collar workers, 18% service workers, and 15% transport and communications workers. Up to 35% of the Chinese work-force were skilled workers and 47% were semi-skilled.

In 1981, there was a considerable change in the main categories of Chinese employment. During 1981, only 1.9% of the Chinese work-force was employed in agriculture, 25.8% were in the professions, 41.4% in the service industries, 23% as blue-collar workers and 3.7% as transport and communication workers (Table 4.3). From the 1970s onwards, the large influx of Chinese from countries other than China, primarily from Malaysia, Singapore and Hong Kong, have significantly boosted the numbers and proportions of Chinese in white- and blue-collar occupations, professions and services.

Table 4.3 China-Born Residents Occupations¹: By State and Persons - Census 1981

INDUSTRY	New South Wales		Victoria		Queensland		South Australia		Western Australia		Tasmania		NT ²		ACT ³		TOTAL	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture, Forestry, Fishing, and Hunting	196	2.4	13	0.4	26	1.7	5	1.0	11	2.5	14	9.0	3	*	---	---	265	1.9
Mining	19	0.2	4	0.1	12	0.8	2	0.4	18	4.2	---	---	---	---	---	---	52	0.4
Manufacturing	1,156	14.0	512	16.9	185	12.1	117	23.4	17	3.9	11	7.1	---	---	6	2.2	2,005	14.1
Electricity, Gas, and Water	90	1.1	44	1.5	24	1.6	4	0.8	2	0.5	3	1.9	2	*	---	---	171	1.2
Construction	398	4.8	162	5.4	153	10.0	21	4.2	9	2.1	5	3.2	3	*	6	2.2	754	5.3
Wholesale, Retail Trade	1,346	16.4	502	16.6	292	19.2	60	12.0	68	15.7	22	14.2	19	*	29	10.9	2,340	16.5
Transport, Storage	210	2.6	55	1.8	41	2.7	12	2.4	4	0.9	17	11.0	11	*	---	---	353	2.5
Communication	107	1.3	44	1.5	9	0.6	---	---	2	0.5	---	---	---	---	3	1.1	166	1.2
Finance, Property, and Business	575	7.0	141	4.7	78	5.1	22	4.4	24	5.5	4	2.6	---	---	11	4.1	858	6.0
Public Administration, Defence	231	2.8	80	2.6	40	2.6	22	4.4	9	2.1	4	2.6	10	*	68	25.5	470	3.3
Community Services	951	11.6	371	12.3	215	14.1	102	20.4	71	16.4	14	9.0	11	*	75	28.1	1,812	12.8
Recreation, Personal, Other Services	2,429	29.5	887	29.3	338	22.2	104	20.8	183	42.3	51	32.9	12	*	58	21.7	4,060	28.6
Non-Classifiable or Not Stated	520	6.3	212	7.0	109	7.2	27	5.4	13	3.0	4	2.6	7	*	9	3.4	905	6.4
TOTAL	8,228	100.0	3,023	100.0⁴	1,524	100.0⁵	500	100.0⁵	433	100.0⁴	155	100.0⁵	81	*	267	100.0⁵	14,209	100.0⁴

Note: ¹ Occupation defined as employed persons aged 15 years and over.

² NT is Northern Territories.

³ ACT is Australian National Territory.

⁴ Does not add to 100.0 due to rounding error.

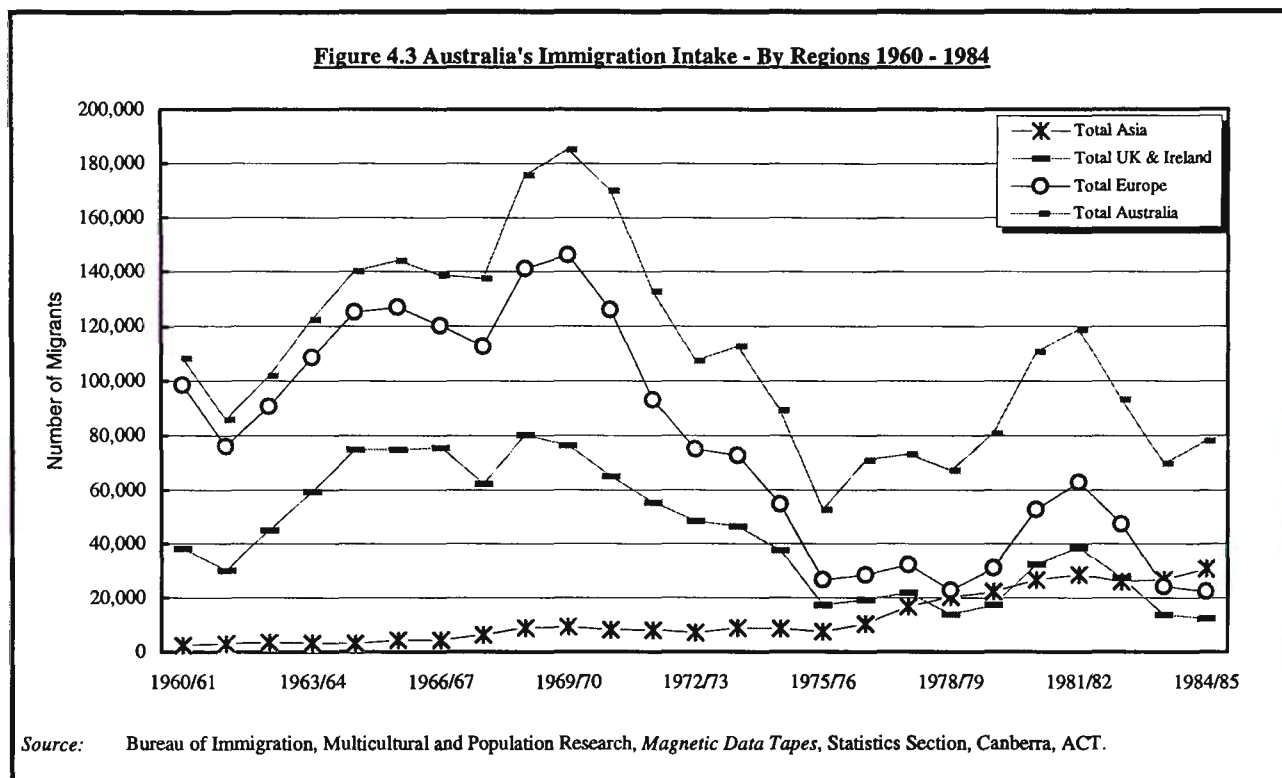
⁵ Does not add to 100.0 due to missing data.

*When figures add up to less than 100, percentages have not been calculated because these could be misleading (random error).

Source: Australian Bureau of Statistics, 1981 *Census Australia*, ABS Cat. No. 2701.0, Australian Government Publishing Service, Canberra, ACT.

4.7 Trends

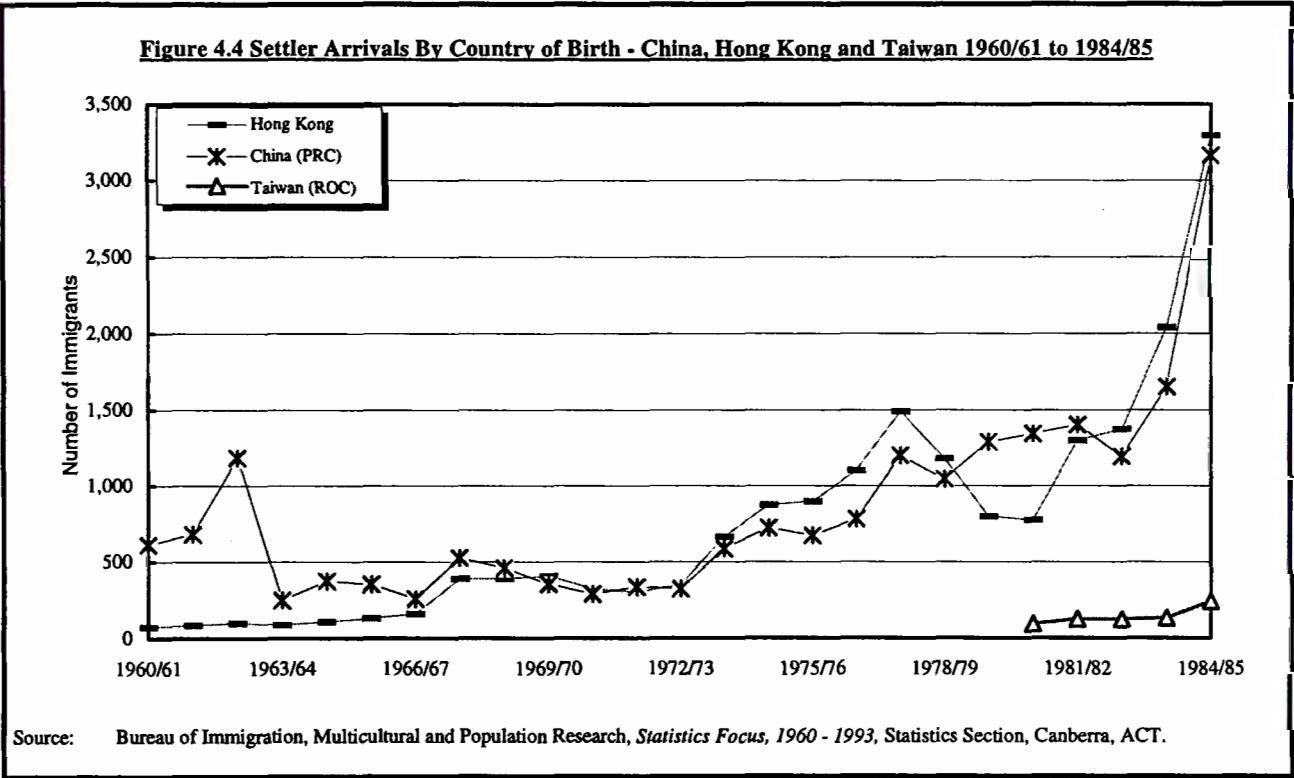
4.7.1 Statistics



Four decades of postwar immigration had brought about five million settlers into Australia. The level of settler arrivals peaked at 185,000 in 1969-70 and fell to a record post-war low of 52,700 in 1975-76 (Figure 4.3). Despite the introduction of a non-discriminatory immigration policy with respect to race, colour or nationality, Asian immigration remained within the annual range of 7,000 to 9,000 from 1970 till the arrival of the Indo-Chinese refugees in 1977-78, when, for the first time, the level of Asian settlers exceeded 10,000 per annum.

Since the mid-1970s, the most significant shift in Australia's experience with international migration has been the relative decline of Europe, especially continental Europe, as a source of immigrants for Australia. In the 1960s, the number of Asian-born immigrants as a proportion of all settler arrivals remained at around 3 or 4 per cent a year. Since the late 1970s, and as a consequence of previous large intakes of Vietnamese refugees, the Asian intake began increasing steadily on consecutive years.

From 1982/83 to 1984/85, the continued increase in Asian immigration coincided with the sharp drop in the proportions of immigrants from the United Kingdom and the rest of Europe, after three years of growth in arrivals from these destinations. This led to a big increase in the share of Asian immigrants in total immigration. It was against this background that the much publicised debates on Asian migration erupted in 1983.



Over the 1960-1975 period, immigration from Hong Kong and mainland China was small when compared with Australia total average annual intake of 125,263 migrants over the same period (Figure 4.3 and Figure 4.4). Taiwanese migration figures are unclear as, prior to 1980-81, their total was aggregated with that for mainland China due to diplomatic uncertainties regarding the Republic of China and on China’s insistence that it was the sole representative over all China and the Chinese. However, if the data for 1980-1984 is any reflection as to the Taiwanese migrants intake, then it can be inferred that over the 1960-1980 period, their numbers were very small indeed.

In comparison with the 1960-1975 period, from 1975 to 1977 there was an increase in the number of immigrants from Hong Kong. However, by 1980, the total intake of Hong Kong immigrants had returned to less than the 1975 level. Then, from 1981 onwards, there was a steady increase - reaching a total of 3,296 in 1984 (Figure 4.4).

The Chinese immigrant intake showed a very similar pattern, registering a larger influx in 1977, a small decrease in 1978; and then continued increases from 1979 to 1984 with the exception of 1982(Figure 4.4). The level of Taiwanese immigration over the 1980-84 period, for which data are available, was less than 200 persons. The increase in the migrant intake from mainland Chinese may be attributable to many factors, among which were the relaxation of Australian immigration laws and the special preference given to the Asian region and the ensuing uncertainties which emerged with China's reorientation of its economy to the West, in 1978, and which led to a larger number of Chinese seeking their opportunities elsewhere - leaving either through China's 14 open cities or via Hong Kong. Statistically, this trend may lead to a misleading interpretation as to the level and number of immigrants leaving Hong Kong for Australia.

From Table 4.4 it is clear that while over the period 1959-65 there was an average annual intake of 520 immigrants which were Hong Kong born, over the same period an annual average of 1,860 immigrants entered Australia claiming that their last place of residence as Hong Kong. The difference between the Hong Kong born figures and those with their last place of residence as Hong Kong continued to grow over the 1965-1985 period.

Since the late 1970s, children born to Indo-Chinese refugees in Hong Kong have been counted with the Hong Kong born. Following the official lifting of the White Australian policy in 1973, the large majority of Hong Kong-born immigrants have indeed been Chinese. It must be borne in mind that although place-of-birth statistics for Hong Kong can include non-ethnic Chinese, they exclude China-born settlers who have spent much of their lives in Hong Kong.

By adhering to the place-of-birth rather than the place-of-last-residence, one can get a more accurate impression in relation to long-term Hong Kong residents as opposed to those who use Hong Kong as a transient place, such as refugees and political asylum seekers.

<u>Table 4.4 Comparison of Birthplace and Place of Last Residence Statistics on the Origin of Hong Kong Settlers to Australia, 1959 - 1985</u>		
Year	Place of birth Hong Kong	Place of Last Residence HK
1959-65	520	1,860
1965-70	1,470	3,540
1970-75	2,510	4,890
1975-80	5,470	9,370
1980-85	8,750	15,890
<i>Source:</i> Bureau of Immigration, Multicultural and Population Research, 1993, <i>Australian Immigration: Consolidated Statistics No. 17, 1991-92</i> . Canberra: Australian Government Publishing Service, ACT.		

Emigration from Hong Kong was mainly spurred by push factors which were political in nature, especially after 1983 (Lau *et al.*, 1991). As will be discussed in detail in chapter seven, the chief propelling force was the high anxiety generated by the impending reversion of the territory to China in 1997. Many Hong Kong residents were apprehensive, and such apprehensions led to a steep increase in emigration.

In 1980, an estimated 22,400 persons left Hong Kong for residence overseas (Table 4.5). Official estimates of emigration from Hong Kong placed the number of leavers to all destinations through the early 1980s at about 20,640 per annum (Table 4.5). But this actual outflow only constituted the tip of the iceberg. There existed a large pool of potential migrants who wanted to leave. For example, during the 1980s, 66% of accountants had applied for foreign passports and 27% planned to emigrate while 40% of civil engineers, 70% of government doctors, and 60% of lawyers planned to emigrate either before 1997 or within a few years of the surveys (Kwong, 1990).

Table 4.5 Official Hong Kong Government Estimates of Emigration 1980 - 1984	
Year	Number of Emigrants
1980	22,400
1981	18,300
1982	20,300
1983	19,800
1984	22,400
Source: Government Secretariat, Hong Kong Government Publishing Service, Hong Kong.	

During the 1960-70 period, the main destination of Hong Kong immigrants was the United States; taking an average 7,500 persons per annum (US Department of Justice, various issues). Canada occupied second place, taking 3,529 immigrants per year (Employment and Immigration Canada, various issues). In comparison, Australia's average annual intake stood at 540 (DIEA, 1982, 1988). This trend continued over the 1970-83 period, with the average yearly intake of Hong Kong immigrants by the United States, Canada, and Australia being 12,006, 7,722 and 1,830, each respectively.

Why is there such a consistent pattern of preference for the U.S, Canada, and Australia as preferred destinations? What do these countries have in common that attract settlers from Hong Kong? It has been argued that the relative importance of the different types of factors which influenced Hong Kong people to emigrate or not were that they were mainly pushed by political factors, with a lower importance of economic and personal

factors (Lau *et al.*, 1991). However, the difference was only relative and the significance of economic and personal considerations should not be underestimated. Hong Kong immigrants were seeking political stability buttressed by democracy, economic affluence protected by legal guarantees, and long term mobility chances, fortified by civil liberty in the recipient countries, a combination of factors that Australia, together with Canada and the United States, possesses.

The influx in Hong Kong immigrants to Australia is attributed to a combination of reasons. Firstly, the perception of Australia as the 'New Gold Mountain,' and as the land of opportunities, were powerful (Wong, 1992). Secondly, there was the forging of a new national identity in Australia which upheld the ideal of non-discrimination and multiculturalism (refer to Section 4.4.3). Thirdly, Australia's immigration policy was more flexible than those of Canada and the United States. On landing in Australia, a settler obtains a multiple re-entry visa valid for three years. Then, before the expiry of the re-entry visa, they must return to Australia for at least twelve months before obtaining a further re-entry visa (DIMA, *Residency Regulations*). In qualifying for Australian citizenship, a settler needs to have only resided two years in Australia compared with three years for Canadian citizenship and between 3-5 years for American citizenship.

The eligibility criteria by which North East Asian migrants were selected as settlers to Australia varied considerably (Table 4.6). From 1982-83, the first time statistics by eligibility criteria were taken, Hong Kong intake was mostly made of: family migration, 416; labour shortages, 603; and independent 144. Only 56 migrants were accepted through the Business Migration Program (BMP). In comparison, mainland Chinese migrants selected criteria were: family migration, 790; labour shortages, 209; and Special Humanitarian Program (SHP), 100. Only 22 persons were accepted under the BMP. Taiwan's migrants intake was mainly composed of, in descending order: labour shortage, 60; family migrant 41; and independent, 6. Only 4 were accepted under the BMP.

In 1983, while the total intake for China and Taiwan remained almost the same, that for Hong Kong increased by 50% on the 1982 figures (Table 4.6). There was also substantial changes in almost all of the eligibility criteria categories. For Chinese migrants, the main categories were: family migration increased by 60% to 1,267; labour shortage decreased by 31.6% to 143; SHP increased by 21% to 121; while BMP increased by 400% to 87. Hong Kong migration composition was more impressive: family migration increasing by 160% to 1,099; labour shortage remaining almost the same at 541; a sharp decrease of 73.6%, to 38 in the independent category; and a 250% increase, to 192 in the BMP category. The intake composition for Taiwan resulted in a 100% increase in family migration, a 43% decrease, to 34 in labour shortage; and a 125% increase, to 9 in the BMP category.

Table 4.6 Settler Arrivals By Region/Country of Birth According to Eligibility Criteria 1982/83 to 1983/84

1982/83											
Country	Family Mig	Labour Shortage	Business BMP ^a	Independent	Refugee	SHP ^b	Spec Elig	NZ Citizen	Aust Child Born O/S	Other	Total
China-PRC	790	209	22	26	22	100	6	14	----	4	1,193
Hong Kong	416	603	56	144	41	---	10	5	83	15	1,373
Taiwan ROC	41	60	4	6	---	4	---	1	3	3	122
Total Asia	7402	3957	270	725	12448	489	46	137	404	68	25,946
1983/84											
China-PRC	1,267	143	87	1	5	121	10	14	----	2	1,650
Hong Kong	1,099	541	192	38	66	3	8	14	61	18	2,040
Taiwan ROC	86	34	9	---	-----	2	---	1	----	---	132
Total Asia	11,936	2,396	727	62	10,116	758	70	124	434	67	26,690

Note: Prior to 1982, there was no classification by Country of Birth Eligibility Criteria.

^aSHP - Special Humanitarian Program.

^bBMP - Business Migration Program

Source: Bureau of Immigration, Multicultural and Population Research, *Magnetic Data Tapes*, , BIMPR, Statistics Section, Canberra, ACT.

The parallel increases in the eligibility criteria categories for the above mentioned countries not only show their emerging importance as sources of immigrants but also that applicants were using organised systems to take advantage of the immigration process. It seems that it is highly improbable that there would have been such increases, especially in the BMP category, where increases of between 200% and 400% were recorded, when the overall total increase in Asian intake, for the period 1982 to 1983, was only 169%.

4.7.2 Net Settler Gains

The net permanent migration gains among Asian immigrants has been higher for a given level of inflow than that of other groups. Generally, the proportion of Asian-born permanent migration was much higher among settler arrivals than among permanent departures. From the human resource planning point of view, it is important to know the immigrants' and emigrants' skills profile. At 97.7%, the Asian-born immigration is extremely effective when considered in terms of net population increase, as a ratio of 100% indicates that net gain is the same as the number of arrivals (Table 4.7). However, among the economically active immigrants, a higher proportion of Asian-born who have professional, technical and skilled qualifications were leaving Australia than were coming in.

Table 4.7 Permanent Arrivals and Departures of the Asian-born By Occupation, 1982/83 to 1989/90

Occupation/s	Arrivals		Departures		Net Gain		Effectiveness Ratio*
	No.	%	No.	%	No.	%	
Professional/Technical	30,129	25.0	1,333	40.9	28,796	24.6	95.6
Managerial/Clerical	29,240	24.3	605	18.6	28,635	24.4	97.9
Skilled	8,525	7.1	474	14.6	8,051	6.9	94.4
Semi-Skilled	33,613	27.9	680	20.9	32,933	28.1	98.0
Unskilled	18,923	15.7	163	5.0	18,760	16.0	99.1
Sub-total	120,430	100.0	3,255	100.0	117,175	100.0 ⁻	0.0
Not in employment	11,223		461		107,62		95.9
Not in the workforce	172,406		3,329		169,077		98.1
Not stated	4		15		-11	0.0	
Total	304,063		7,060		297,003	100.0	97.7

Note: * Signifies net migration divided by arrivals.
- Figure do not add to 100.00 due to rounding error.

Source: Bureau of Immigration Research, BIR Movement Database, BIR, Canberra, ACT, unpublished data.

At the beginning of this century, immigration laws were so strict that the number of Chinese declined from about 30,000 in 1901 to around 8,000 in 1947 (*Census Australia 1901 & Census Australia 1947*). The 'White Australia' policy resulted in a small and depressed group of Chinese settlers with few linkages to Hong Kong. After the 'White Australia' policy was abandoned in the 1960s, Chinese immigration slowly resumed. The Australian Census of 1976 enumerated 26,748 foreign-born Chinese, of whom 4,556 or 17% were from Hong Kong (Choi, 1975; Ho & Poo-kong, 1988; Loh, 1988; Crissman, 1991). By the time of the 1981 Census, the numbers of first generation mainland Chinese, Hong Kong and Macau, and Taiwan residents in Australia stood at 25,883, 15,716, and 878, each respectively (Table 4.8). In the Australian Census of 1986, mainland China and Hong Kong and Macau born residents were enumerated at 36,495 and 27,779, each respectively (Table 4.9). From Table 4.8 and Table 4.9 data, it results that over the 1981-1986 period, the percentage rate at which Australian residents from mainland China and Hong Kong and Macau were leaving Australia stood at 10% and 20%, each respectively.

Table 4.8 Australian Population By Selected Birthplace 1981 Census (No. and Percentages)		
Birthplace	1981	
	No.	%
Northeast Asia		
China, People's Republic	25,883	0.2
Hong Kong and Macau	15,716	0.1
Taiwan	878	0.0
Total Northeast Asia ^(a)	55,051	0.4
Total Overseas Born	3,003,823	20.6
Not Stated*	1,78,834	1.2
Australian-born	11,393,861	78.2
Total	14,576,330	
Notes: * Includes at sea and not elsewhere classified. * Includes 'other.' Source: Australian Bureau of Statistics, Census of Population and Housing 1981, ABS, Australian Government Publishing Service, Canberra, ACT, 1981.		

Table 4.9 Australian Residents from Non-English Speaking Countries - by Country of Birth Australia's Census 1986										
Country of Birth	STATE								AUSTRALIA	
	NSW	VIC	QLD	SA	WA	Tas	NT	ACT	ALL STATES	
	No.	No.	No.	No.	No.	No.	No.	No.	No.	%
China	20,348	8,320	3,415	1,635	1,532	286	228	731	36,495	2.0
Hong Kong and Macau	15,651	6,258	2,273	799	1,728	232	188	650	27,779	1.6
Total (NES)*	683,067	604,331	149,041	137,759	151,250	16,249	13,666	32,341	1,787,704	100.0
Note: *NES - Non-English Speaking. Sources: <i>The Australian Census of Population and Housing 1986</i> , Australian Government, Australian Government Publishing Service, ACT, 1987, Matrix Tape CX0254; <i>Community Profile 86 - Non English Speaking Born</i> , BIMPR, Statistics Section, Canberra, ACT, December 1991.										

4.8 Impacts

4.8.1 Social Impact

Migrants from Hong Kong have to face several acute problems of social adjustment in Australia, among which include securing satisfactory employment and accommodation as well as schooling for their children. They differ in that many Hong Kong migrants have advantageous economic and occupational resources and come from a background with a strongly developed culture of emigration. The most intense is the phenomenon of the so-called 'astronauts' and 'parachute' children, whereby husbands return to Hong Kong to make a living while their wives and children are left behind in Australia. It is not a new phenomenon that migration causes disruption to family life.

Another social issue relates to language and education. While many of the adult migrants from Hong Kong can speak English, which facilitates their entry into the Australian society, they still retain and continue to use Chinese at home after their arrival. The expectations of parents and children may not coincide, with the inclination of their children who wish to acculturate quickly. There might be a clash with the Australian educational system philosophy, which is less competitive and elitist in orientation. Inter-generation conflicts and tensions between parents and schools may ensue, requiring mutual adjustment and accommodation.

However, the existence of a distinctive 'Hong Kong community' in Australia is more problematic. The Hong Kong-born form a component within the broader Chinese community, which originates from many sources, including mainland China, Taiwan, Malaysia and Singapore, among whom indicators such as language, accent and social background may be more important bases for communality than birthplace. A Hong Kong 'community' separate from the broader Chinese community 'exists more as an interconnected set of personal social networks than as a major structural entity' (Inglis & Wu, 1994; Lary *et al.*, 1994).

To complicate matters further, Hong Kong migrants are actually more than bicultural. Not strictly Chinese or British in character, they have evolved into a distinctive breed that Baker (1983) calls the 'Hong Kong Man.' Reared in a social milieu suffused with precariousness and anxiety, they are infected with a refugee mentality (Wong, 1992). The short term orientation and audacious behaviour of Hong Kong immigrants have provoked considerable criticisms abroad.

4.8.2 Political Impact

Soon after World War II, the Chinese in Australia zeal for homeland politics waned. By the late 1960s, most Chinese were apathetic about politics - local as well as homeland.

Arguably, the most active and influential body has been the Australian Chinese Community Association, founded in 1974, whose objectives included, *inter alia*, the promotion of mutual understanding between the people of Chinese origin and Australians, the encouragement of Chinese immigrants to integrate into Australian society, cooperation with government bodies and other organisations to achieve the above objectives, and the stimulation of interest within the Chinese community in economic, social, cultural and political matters.

On the political front, the issue of returnees is a controversial one. Hong Kong migrants are 'reluctant exiles' who show a strong desire to return after obtaining a foreign passport. Though the precise magnitude is not yet known, there is no doubt that the number of returnees is substantial, reflecting the pervasiveness of the instrumental attitude adopted by Hong Kong migrants towards issues of nationality and passports.

Such an attitude provoked popular resentment in Australia against their apparent lack of commitment and loyalty to the host country. It will challenge the established assumption of immigration as a promise of permanent settlement and the traditional conception of nationalism which insists on an exclusive form of identity. However, the instrumental approach of the Hong Kong migrants should be seen in context. They are not the only group with a high return rate. Frequent movement of people across national boundaries is a new fact of life in the contemporary world. Adapting quickly to the new reality, there are signs that notions of nationalism and identity are undergoing fundamental changes in Australia itself (Castles *et al.*, 1992).

The instrumental attitude of the Hong Kong migrants also means that they tend to be apolitical and self-contained. Attempting to keep the state at arm's length, they generally do not impose demands on the government or draw on public assistance. Being pragmatic about matters of nationality and allegiance, it is unlikely that they will form a unified political force by merging with other settlers of Chinese descent. Left to themselves, they would probably follow the natural course to become part of a diversified Chinese mosaic that fits into the multicultural framework of Australia.

However, the substantial number of returnees to Hong Kong carries with it a hidden political problem for Australia's future relationship with China. As Australian citizens, the returnees will become foreign nationals in Hong Kong after 1997. But being born in the territory, they have a claim to be regarded as permanent residents when Hong Kong becomes a Special Administrative Region (SAR) within China. Their dual identities will create ambiguities and could generate tensions in the future SAR. In times of crisis, they can demand consular protection from the Australian government which may be perceived by the Chinese government as unwarranted interference in its internal affairs.

4.8.3 Economic Impact

Along with changes in social conditions, the Chinese community in Australia has also experienced dramatic changes in its economic activities. In the past, the Chinese were in the main market-gardeners, cabinet-makers, laundrymen, retailers of fruit and vegetables, cooks, tailors and importers and exporters of food ingredient and other daily articles, catering to the need of the Chinese community. There were also a few entrepreneurs who gained wealth and prominence in the tea and banana trade.

Education proved to be the main factor that changed the economic status of the Chinese community, as noted above. Being highly conscious of their inferior social status in Australia, most Chinese families strove to provide their children with a good education. Their children, in turn, were keen to achieve good academic results to fulfil their obligations and honour to their families.

In 1974, a preliminary survey yielded 26 architects, 31 dentists, and 151 medical practitioners with Chinese names in New South Wales. In 1986, there were over 70 dentists and 400 medical practitioners. Other professional groups well represented included accountants and engineers and, to a lesser extent lawyers, pharmacists, teachers and social workers. In business, there were over 30 Chinese-owned trading firms in Sydney, handling imports and exports. But the overwhelming majority, over 80%, of Chinese businesses were in restaurants.

It is generally believed that the Hong Kong migrants had a beneficial effect on the Australian economy. They brought with them considerable capital, both in physical and human form. They tend to be innovative and enterprising, keen to set up small businesses and to engage in self-employment. They thus inject dynamism and vitality into the Australian economy which is dominated by the outlook of large corporations and complex hierarchies.

From an economic perspective, even the returnees to Hong Kong appear to be more of an asset than a liability to their adopted country. They are creating transnational business networks which bind Australia with other parts of Asia. In particular, they can serve as useful intermediaries to facilitate Australian investment in Southern China, with their business experience and cultural affinity, a role which is being highlighted by Australian scholars and Chinese officials alike.

Growing numbers of non-Asian Australians were also going to Hong Kong for business and work. Through the movement of people and capital, the Hong Kong business style is spreading to Australia and the Chinese mainland. In a buoyant economic mood, many Hong Kong migrants exude a sense of self-confidence bordering on arrogance. But there is a dark side to their euphoria. The zeal for wealth and success has led quite a few of them to take short cuts and engage in shady activities. Some are drawn into the notorious 'triads' which are probably far less organised and powerful than they have been made out to be, but which nonetheless have attracted much publicity in the popular press (Chin, 1990).

The story of Hong Kong emigration to Australia is absorbing because it is unique. There is the fate with destiny which Hong Kong has to face in 1997, with its inherent suspense and drama. But the story should also be instructive because it has a more general significance. Gungwu (1992) suggested that there have been four main patterns of Chinese emigration in the past two hundred years: the trader pattern, the coolie pattern, the sojourner pattern, and the descent or re-migrant pattern. The trader pattern was the dominant one in Southeast Asia from the beginning, while it was the coolie pattern that characterised early migration to Australasia and the Americas. Since the end of World War II, the centre of gravity for Chinese migration has shifted from the former region to the latter. Simultaneously, there was the emergence of the new pattern of remigration of the *Huayi*, foreign nationals of Chinese descent.

The present immigration policy, which Australia developed over the last two decades on a fundamentally bipartisan basis, is an important positive facet of Australia's image in the Asia Pacific. After decades of restrictive policy, apprehensions remains within the Asia-Pacific region.

Who, then, are those who are leaving Hong Kong for Australia, Canada, the United States, and New Zealand? They include some of the best educated, well trained, and highly skilled of Hong Kong's population. Not only are the emigrants from Hong Kong educated and highly skilled, but many have considerable wealth. It is certainly the minority who are extremely wealthy, but the emigrants include large numbers who have substantial assets. This will be elaborated upon in Section 7.9.

4.8.4 Of Brain Drains and Brain Gains

On the one hand, Hong Kong is seen to be experiencing a brain drain that, in one reviewer's words, has "already sapped Hong Kong's dynamism" (Nicoll, 1993); on the other hand, the major destination countries are seen to be competing for these brains with the intention, according to one observer from the United States, "to get as many people as possible from Hong Kong to their shores, so that they will use their talents and energy to advance American rather than Australian or Canadian interests" (McGurn, 1992).

The orientation of Hong Kong people was then, as it is now, more oriented towards North America and Australasia than to Europe. That is, they are oriented more toward the Pacific basin, in which Hong Kong itself is strategically based, rather than to the Atlantic basin in relation to which Hong Kong is on the periphery.

As elaborated upon earlier, there may have been short-term gains for Australia to the detriment of Hong Kong. Once Hong Kong-born settlers are granted permanent residency or obtain a foreign passport, they return back to continue with their businesses in Hong Kong. This might be of direct benefit to Australia - in establishing better links within the region (Inglis & Wu, 1994). But at what costs? The lack of commitment and loyalty by Hong Kong settlers has provoked resentment within Australia. It seems that in competition with the United States and Canada in attracting the best, certain migration categories, e.g. BMP, were haphazardly implemented. Disreputable Hong Kong-born applicants were processed and granted permanent residency status. While in the short term, that is, from the early- to the mid- 1980s, Australia might have benefited from the uncertainties which precipitated out of the 1983 Sino-British talks, the full implications of Hong Kong reversion to China, in 1997, are still to be felt. Will Australia not only be willing but also able to defend the rights of its citizens residing in this former British colony? And if in the affirmative, could not this be interpreted by Beijing as Australia's interference in its sovereignty? Will Australia be ready and able to forsake its trade with China in overseeing that its citizens be treated fairly? With Australia's trade highly dependent on mainland China, this might not be the case.

4.9 Investments Flows 1960 - 1983

4.9.1 Investments Outflows - Hong Kong, China and Taiwan

From the early 1960s to the late 1970s, the needs and growth within China, Hong Kong and Taiwan made it virtually impossible, either directly or indirectly, for these countries to make any substantial FDI in Australia (Chen, 1983). They reinvested whatever national savings and profits that they accumulated back into their own economies. Also, China and Taiwan had very tough controls on outward capital flows - especially investments. But, by the early 1980s, as a result of the uncertainty generated by the Sino-British talks in 1983, substantial sums of Hong Kong capital began moving overseas.

By 1983, large investments were coming from Chinese in Hong Kong, Singapore and Malaysia. As with the local wealthy Chinese families, overseas Chinese investments has been mainly in real estate and commercial properties, with a smaller number investing in hotels, as these are seen to be stable and secure.

Table 4.10 Country of Investor: Total Expected Investment (\$Am), By Industry Sector 1 July 1982 to June 1983					
Industry Sector	ASEAN			Hong Kong	Total ^b
	Singapore	Malaysia	Other ^a		
Agriculture, forestry and Fishing ^c	4.8	5.8	0.2	5.3	62.1
Mineral exploration and Development	---	---	---	0.1	495.6
Manufacturing	2.6	9.8	0.5	---	472.9
Finance and Insurance	0.4	---	---	2.4	290.2
Services	28.4	7.6	3.5	5.9	544.2
Real Estate ^d	219.6	80.1	6.2	93.8	918.6
Resource Processing	---	---	---	---	384.6
Total	255.7	103.2	10.4	107.4	3,168.3
Number of Proposals^e	57	31	7	52	1100
Notes: ^a Thailand, Indonesia and the Philippines. ^b The global total. ^c Includes proposals for the acquisition of rural properties. ^d This data cover only those acquisition that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. ^e These figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under "Other" is a balancing item.					
Source: Foreign Investment Review Board, <i>Annual Report 1983</i> , Australian Government Publishing Service, Canberra, ACT.					

During 1982/83, investors from ASEAN and Hong Kong submitted through the Foreign Investment Review Board (FIRB), 147 investment proposals for the value of \$A476.7m (Table 4.10). This corresponded to 13.4% and 15.1% of the total number and total value of all proposals submitted. In the following year, the number of investment proposals, direct and portfolio, from ASEAN and Hong Kong numbered 150, with a total value of

\$A764m (Table 4.11). This corresponded to 12.4% and 16.98% of Australian total number of proposals and value, each respectively. Little investment has gone into industry, largely because of the high frequency of strikes and industrial disputes in Australia¹¹ and the much higher wages;¹² nor into the stock market or finance, owing chiefly to their unfamiliarity with local conditions (Table 4.10).

The dominant mode of investment by ASEAN and Hong Kong investors has been through acquisitions rather than greenfield investments (Table 4.12). As could be seen from Table 4.12, ASEAN and Hong Kong percentage share of their total investment going into acquisitions aggregated to 71.79% and 100%, each respectively. In 1983, ASEAN and Hong Kong investments in acquisitions were 59.5% and 84.7%, each respectively (Table 4.13).

Table 4.11 Country of Investor: Total Expected Investment (\$Am), By Industry Sector 1 July 1983 to June 1984					
Industry Sector	ASEAN			Hong Kong	Total ^b
	Singapore	Malaysia	Other ^a		
Agriculture, forestry and Fishing ^c	---	4	---	1	138
Mineral exploration and Development	---	---	---	---	1,061
Manufacturing	7	4	1	3	558
Finance and Insurance	---	---	---	14	259
Services	130	173	1	14	1,371
Real Estate ^d	116	240	4	52	738
Resource Processing	---	---	---	---	373
Total	253	421	5	85	4,499
Number of Proposals^e	56	37	13	44	1,208
Notes: ^a Thailand, Indonesia and the Philippines. ^b The global total. ^c Includes proposals for the acquisition of rural properties. ^d This data cover only those acquisition that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. ^e These figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under "Other" is a balancing item. Source: Foreign Investment Review Board, <i>Annual Report 1983</i> , Australian Government Publishing Service, Canberra, ACT.					

¹¹ In 1970 and 1980, there were 537 and 649 working days lost per thousand employees within all industries, each respectively. That is, in total, during 1970 and 1980, 2.39 million and 3.32 million working days were lost in Australia. Foster, R.A. 1996, *Australian Economic Statistics 1949-50 to 1994-95*, Occasional Paper No. 8, Reserve Bank of Australia, Sydney, NSW, p. 206.

¹² In 1972 and 1980, the average weekly earnings for all persons were \$A85.5 and \$241.6 each respectively. Foster, R.A. *op. cit*, p. 209.

**Table 4.12 Investor Country: Acquisitions and New Businesses Total Expected Investment (\$Am), By Industry
Sector 1 July 1982 to June 1983**

Industry Sector	ASEAN				Total ^b
	Singapore	Malaysia	Other ^a	Hong Kong	
Acquisitions ^c	233.5	101.8	6.9	107.4	2,676.9
New Businesses	22.2	1.4	3.5	---	491.4
Total	255.7	103.2	10.4	107.4	3,168.3
Number of Proposals^d	57	31	7	52	1110

Notes: ^aThailand, Indonesia and the Philippines.

^bThe global total.

^cThese proposals cover a range of transactions, only a proportion of which would lead to a loss by Australians of capacity to exercise effective control of the businesses concerned.

^dThese figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under "Other" is a balancing item.

Source: Foreign Investment Review Board, *Annual Report 1983*, Australian Government Publishing Service, Canberra, ACT.

Yet there were exceptions. A big Malaysian investor startled the business community with the aggressive and successful ventures of Sunshine Australia Ltd, one of which involved the export to China of Australian high technology worth millions of dollars.

In the early 1980s, two large shopping malls, Dixon House and Chinatown Centre, were completed in the heart of Sydney's Chinatown. Most of these large shopping malls have been financed with Hong Kong Chinese capital. In Cabramatta, West Sydney, immigrants from the South-East Asian mainland have built two large shopping malls - the K. K. Shopping Centre and the A. A. Supermarket, which they operate, while a Chinese import-export merchant from Sydney's Chinatown acquired a third mall.

**Table 4.13 Investor Country: Acquisitions and New Businesses Total Expected Investment (\$Am), By Industry
Sector 1 July 1983 to June 1984**

Industry Sector	ASEAN				Total ^b
	Singapore	Malaysia	Other ^a	Hong Kong	
Acquisitions ^c	192	207	5	72	3,529
New Businesses	61	214	---	13	970
Total	253	421	5	85	4,499
Number of Proposals^d	56	37	13	44	1,208

Notes: ^aThailand, Indonesia and the Philippines.

^bThe global total.

^cThese proposals cover a range of transactions, only a proportion of which would lead to a loss by Australians of capacity to exercise effective control of the businesses concerned.

^dThese figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under "Other" is a balancing item.

Source: Foreign Investment Review Board, *Annual Report 1983*, Australian Government Publishing Service, Canberra, ACT.

The Chinese, particularly from Malaysia, Singapore and Hong Kong, were also moving into the lucrative property industry, an area where they have gained much experience in their own countries. In April 1982, new immigration procedures were established to attract business migrants to Australia (refer to Section 4.7.1, p.140). Between then and June 1986, the Business Migration Program attracted 3,364 business migrants from Asia, out of an Australian total of 6,027, mostly Chinese entrepreneurs from Hong Kong, Singapore and Malaysia. By the end of 1983, Chinese business migrants from the ASEAN countries had brought with them capital totalling \$A985 million out of a total of \$A3.1 billion brought into Australia by foreign capitalists in that year. Within the same year, Chinese business migrants from Hong Kong also brought into Australia some \$A250 million. Many of these recent settlers are wealthy, professional and speak English.

Chinese investors from Hong Kong were also actively engaged in the property industry. With joint Malaysian partnership and finance, the Hong Kong-based Regent Hotel Ltd put up the Regent Hotel in Sydney. Two years later it acquired the Melbourne Wentworth Hotel, which it renamed the Melbourne Regent. In 1984, Hong Kong investors planned another new hotel, the Mandarin Hotel, in Sydney. Hong Kong Chinese also invested heavily in residential housing, particularly town houses and apartment units. For example, two-thirds of 15 town houses, priced from \$A147,000 to \$A175,000 per unit, of a residential project at Sydney's Neutral Bay were readily bought by Hong Kong buyers in 10 days. Other Hong Kong purchases included a \$A3.5 million Sydney hotel, the Kingsley, and a \$A935,000 house in the northern Sydney suburb of Northbridge. A Sydney import-export merchant company, Howard Chia Pty Ltd, took over a prime Brisbane inner-city retail redevelopment site with the purchase of a four-storey building, the Coles Block, at a record price of \$A16.5m. Hong Kong, Singaporean, and Malaysian businessmen have also large stakes in car-parks.

Business people from Hong Kong and Malaysia have also ventured into the gambling industry. A Hong Kong casino king, Stanley Ho, and his investment group made one of the four tenders for a government contract to build the world's largest casino on the Darling Harbour site in Sydney. A Malaysian casino giant, Genting, was one of the rival tenders. However, fresh tenders were called for in October 1987.

The Malaysian Chinese have also entered the shareholding business. In Melbourne, in 1986, Lee Ming-Tee's Sunshine Australia Ltd acquired control over a large Australian shareholding company Wormald International Ltd, with Lee himself becoming its executive chairman. Earlier, Lee's company was a major shareholder of Hooker Homes Ltd, although he later sold a substantial portion of his shares for a total of \$A58 m.

The achievements of Lee, Chia and Ho may not appear innovative when viewed in their own countries but, from an Australian point of view, they represent a new generation of Chinese entrepreneurs confidently investing in areas which were once considered not theirs. As Australia's immigration policy becomes more relaxed, and with a sense of increasing uncertainty over the political future of Hong Kong, Malaysia, and other Asian countries, Chinese capital and energies are likely to continue to filter out of Asia's prime business capitals to Australia.

Overall, in 1983/84, Hong Kong's total investments in Australia stood at \$A2.47bn (Table 4.14). During that financial year, Hong Kong's direct investment into Australia decreased by \$A12m, to a total of \$A375m; with total investment flow, direct and portfolio, increasing by \$A249m; with total investments aggregating to \$A2.47bn. This trend continued over 1984/85, with Hong Kong's direct investment standing at \$A486m, with total stock level of \$A3.42bn (Table 4.14).

Table 4.14 Hong Kong - Australia Investments 1982-83 to 1983-84 (\$Am)								
Year	Hong Kong Investment in Australia				Australia Investment in Hong Kong			
	Direct		Total		Direct		Total	
	Flow	Level	Flow	Level	Flow	Level	Flow	Level
1983-84	-12	375	249	2467	45	303	36	332
1984-85	-38	486	81	3416	21	859	50	958
<p>Notes: The Table shows net value of capital transactions in each year ("Flow") and the Stock or "Level" of investment at the end of the period. Apart from capital flows, changes in level can arise from exchange rate fluctuations, market revaluations and reclassification.</p> <p>na - not available</p> <p>np - not publishable</p> <p>Source: Australian Bureau of Statistics, Australia's Investment Position, ABS, Australian Government Publishing Service, Canberra, ACT, various issues.</p>								

But by early 1980s, Hong Kong and Chinese investments were finding their way into Australia. By 1983, Hong Kong's total investment, FDI and portfolio, in Australia reached the value of \$A2.47bn, while China's total investment reached \$A41m (Table 4.15). From an Australian perspective, in 1983, China's investment in Australia might look insignificant, but as a percentage of Chinese total worldwide investment, this accounted for 40% of the total (UNCTC, 1988). In 1984, while Taiwanese investment in Australia amounted to only \$A11m (Table 4.16), as a percentage of Taiwan's worldwide investment, this aggregated to 5.5%.¹³ In 1984, the flow of investments from Hong Kong continued to increase while those from China decreased.

¹³ Ibid.

Table 4.15 China - Australia Investments 1982-83 to 1983-84 (\$Am)								
Year	China Investment in Australia				Australia Investment in China			
	Direct		Total		Direct		Total	
	Flow	Level	Flow	Level	Flow	Level	Flow	Level
1983-84	na	na	14	41	na	na	np	np
1984-85	-1	4	-4	31	1	na	np	np
<p><i>Note:</i> The Table shows net value of capital transactions in each year ("Flow") and the Stock or "Level" of investment at the end of the period. Apart from capital flows, changes in level can arise from exchange rate fluctuations, market revaluations and reclassification. na - not available np - not publishable</p> <p><i>Source:</i> Australian Bureau of Immigration, Australia's Investment Position, ABS, Australian Government Publishing Service, Canberra, ACT, various issues.</p>								

Table 4.16 Taiwan - Australia Investments 1982-83 to 1983-84 (\$Am)								
Year	Taiwan Investment in Australia				Australia Investment in Taiwan			
	Direct		Total		Direct		Total	
	Flow	Level	Flow	Level	Flow	Level	Flow	Level
1983-84	1	np	1	np	na	na	np	np
1984-85	-1	-5	14	11	0	2	1	5
<p><i>Note:</i> The Table shows net value of capital transactions in each year ("Flow") and the Stock or "Level" of investment at the end of the period. Apart from capital flows, changes in level can arise from exchange rate fluctuations, market revaluations and reclassification. na - not available np - not publishable</p> <p><i>Source:</i> Australian Bureau of Immigration, Australia's Investment Position, ABS, Australian Government Publishing Service, Canberra, ACT, various issues.</p>								

4.9.2 Investments Outflows - Australia

Since the 1950s, Australian investments were directed to Hong Kong. Australia's dominant mode of investment in Hong Kong had been through mergers and acquisitions rather than through greenfield investments. From 1955 to 1983, Australian investments in Hong Kong owned twenty five factories (Table 4.18). In comparison, countries like Taiwan, United Kingdom, Japan, and the United States had 17, 52, 117 and 124 factories, each respectively (Table 4.17).

Table 4.17 Hong Kong's Number of Establishments and Total Investments Owed by Major Overseas Countries - 1983

Source Country	Number of Establishments			Total Investment ^a		Employment
	Wholly-owned by O/S ^b Interests	J-V ^c Between HK and O/S Interests	TOTAL	Exclude HK Interests (\$Am)	Include HK Interests (\$Am)	
Australia	11	14	25	26.53	35.89	2,927
Taiwan	1	16	17	14.19	20.26	1,416
Singapore	4	14	18	33.34	60.38	2,286
United States	75	49	124	867.87	1,087.70	39,708
Japan	55	62	117	339.89	394.66	18,574
United Kingdom	23	29	52	112.06	143.49	13,407
Total	248 (229)	254 (213)	502 (442)	1,615.20	2,002.70	103,975 (89,033)

Notes: The figures in brackets denotes the actual number. The discrepancy reflects the fact that some companies are joint ventures involving more than one overseas interest.
^aTotal investments were converted from \$HK to \$A by using the conversion factor of \$HK7.823 to \$US1 (1983 average). These were then converted to \$A by using the RBA (1983) average rate for the \$A to \$US, that is \$US:\$A 0.9060.
^bO/S is overseas.
^cJ-V is Joint-Venture

Source: Hong Kong Government Industry Department, 1984, *Hong Kong Industry Survey 1984*, Hong Kong Government Publishing Service, Hong Kong.

By 1983, Australia had 11 wholly-owned companies, as well as 14 joint-ventures in Hong Kong. The total value of Australian investments in these twenty five establishments was \$A26.53m. When the Hong Kong partners' interests are also included, the total value increases to \$A35.89m. The total number of employees employed by all the Australian establishments was 2,927, that is, an average of 117 employees per establishment. This number of employees was below the average size of 201 workers per establishment (*Hong Kong Survey, 1984*). On average, the investment per worker in Australian establishments was \$A12,262 - well below the industries' per worker average of \$A22,490. Previously, the industries' average investment per worker was \$A12,557. Of the 25 companies Australia had interests in, only five were established in the early 1980s - the rest varied in age from 10 to 40 years (Table 4.18). In comparison with other countries' investments in Hong Kong, the United States, Japan, and the United Kingdom had more early 1980s facilities, corresponding to 39, 24 and 13, each respectively.

**Table 4.18 Distribution of Hong Kong Factories with O/S Investment By Source Country and
Decade in Which Operations Commenced**

Year	AUSTRALASIA		NE ASIA		United States	UK
	Australia	New Zealand	Taiwan	Japan		
Pre - 1955	2	---	---	1	1	3
1950s Decade	2	---	---	1	8	2
1960s Decade	5	---	3	17	25	10
1970s Decade	11	1	11	74	51	26
Early 1980s						
1980	1	---	2	7	10	3
1981	---	---	---	4	5	1
1982	2	---	---	8	9	5
1983	1	---	---	4	10	1
1984	1	---	1	1	5	1
Total Early 1980s	5	0	3	24	39	11
TOTAL	25	1	17	117	124	52

Source: Hong Kong Government Industry Department 1984, *Hong Kong Industry Survey 1984*, Hong Kong Government Publishing Service, Hong Kong.

This means, that while establishments with overseas interests had become more capital-intensive and more automated, Australian firms lagged behind and did not react to more efficient means of production. It can also signify that Australian investment was more in mature industries. Only one wholly-owned Australian firm was listed to be in high technology, that is, electronics (Table 4.19). In the Textiles and Garments Industry, Australian interests stood at four factories - two wholly-owned and two in joint-venture with Hong Kong residents, with total capital of \$A1.8m and employing 768 persons (*Hong Kong Industry Survey, 1984*). Within the Textiles and Garments Industry and the Electrical Products Industry, Australian average investment per employee was \$A2,344 and \$A9,340, each respectively. These averages were far below the industries' average of \$A22,490.

**Table 4.19 Australia's Number of Establishments And Total Investments in Hong Kong
By Major Industries - 1983**

Industry Sector	Number of Establishments			Total Investment ^a		Employment
	Wholly-owned by O/S ^b Interests	J-V ^c Between HK and O/S Interests	TOTAL	Exclude HK Interests (\$Am)	Include HK Interests (\$Am)	
Electronics	1	--	1	*	*	*
Textiles and Garments	2	2	4	0.84	0.96	768
Electrical Prods	1	2	3	1.20	1.63	303
Other	7	10	17	n/a ^d	n/a	n/a
Australia Total	11	14	25	26.53	35.89	2927

Notes: The figures in brackets denotes the actual number. The discrepancy reflects the fact that some companies are joint ventures involving more than one overseas interest.

^a Total investments were converted from \$HK to \$A by using the conversion factor of \$HK7.823 to \$US1 (1983 average). These were then converted to \$A by using the RBA (1983) average rate, that is, \$US:\$A 0.9060.

* means suppressed information to avoid disclosure of data of individual companies.

^b O/S is overseas.

^c J-V is Joint-Venture

^d n/a not available

Source: Hong Kong Government Industry Department, 1984, *Hong Kong Industry Survey 1984*, Hong Kong Government Publishing Service, Hong Kong.

**Table 4.20 Level of Australian Foreign Direct Investment: Country Shares:
30 June 1970 And 1979 Percentage (%) of Total**

Country	1969/70			1978/79		
	Corporate Equities %	Other %	Total %	Corporate Equities %	Other %	Total %
Papua New Guinea	38.2	41.6	40.0	24.9	17.1	20.4
New Zealand	28.2	17.9	22.9	22.5	18.4	20.1
United Kingdom	11.2	21.2	16.3	8.7	10.9	10.0
Pacific Islands	12.7	7.3	9.9	4.6	6.8	5.9
USA and Canada	1.5	2.6	2.1	6.6	19.3	13.9
Singapore	1.2	0.4	0.8	5.2	3.0	4.0
Hong Kong	0.8	0.4	0.6	3.9	6.2	5.2
EEC, excluding UK	0.4	---	0.2	2.6	7.2	5.2
Japan	0.4	0.4	0.4	0.5	0.2	0.3
Taiwan	---	---	---	---	---	---
China	---	---	---	---	---	---
Other countries	5.4	8.2	6.8	20.5	10.9	15.0
Total Level (\$Am)	259.0	274.0	533.0	610.0	825.0	1,435.0
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Australian Bureau of Statistics, ABS, unpublished data.

Table 4.21 Stocks of Australian Outward FDI (\$Am Current Prices)
Major Countries Comparison : June 1980^a And 1985^b

Country	June 1980		June 1985	
	Total \$Am	Percentage %	Total \$Am	Percentage %
ASEAN ^c	1,193	28.0	676	6.9
Hong Kong (HK)	742	18.0	859	8.8
United States of America (USA)	553	13.0	2,427	24.8
United Kingdom (UK)	499	12.0	1,958	20.1
European Economic Community ^d	210	5.0	1,000	10.2
New Zealand (NZ)	340	8.0	791	8.1
Papua New Guinea (PNG)	244	6.0	507	5.2
Other	438	10.0	1,553	15.9
Total	4,219	100.0	9,771	100.0

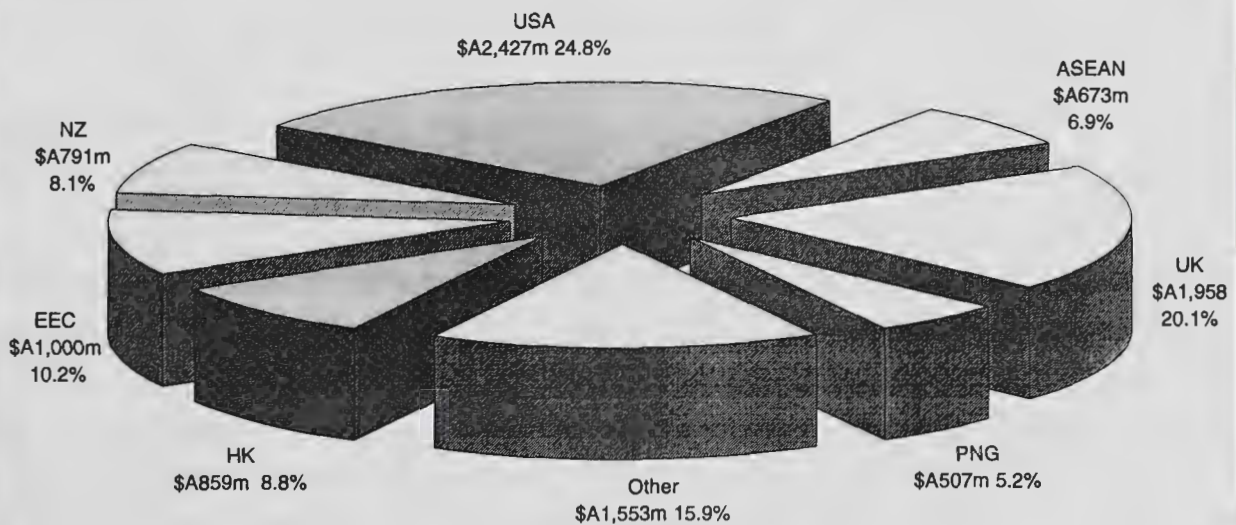
Notes: ^a & ^b Years at June 1980 and June 1985 corresponds to financial years, that is, from 1 July to 30 June of the consecutive year.

^c Association of South East Asian Nations.

^d Prior to 1984/85, the European Economic Community (EEC); post 1985, the European Community (EC). The EEC total excludes the total for the UK as it is listed separately.

Sources: ABS, 1994, *International Investment Position: Australia 1992-93*, Catalogue No. 5305.0, AGPS, Canberra, ACT, various issues; BIE 1995, *Australia Direct Investment Abroad: a Statistical Profile*, Working Paper 103, BIE, Canberra, ACT; Australian Bureau of Statistics, unpublished data.

Figure 4.5 Australia's Stocks of FDI: Major Countries, 1984/85 (\$Am, Current Prices)



Source: Australian Bureau of Statistics (ABS) unpublished data, ABS, Canberra, ACT.

In contrast to the 1970s decade (Table 4.20), by the mid-1980s (Figure 4.5), Australian outflows were increasingly directed to the United States, United Kingdom and the European Economic Community, and to a lesser extent, to Hong Kong, rather than to neighbouring New Zealand and ASEAN countries. At June 1980, Australian global direct investments stood at \$A4.22bn; with Hong Kong receiving \$A742m or 18% of the total (Table 4.21). The other major receivers of Australian direct investments were Papua New Guinea, New Zealand, United Kingdom, United States and ASEAN. However, as of June 1985, not only has Australian total foreign direct investment stock increased significantly to \$A9.77bn, but there were also shifts in the major recipient countries (Table 4.21 & Figure 4.5). Percentage gains were achieved by the United States, from 13% in 1979/80 to 25% in 1984/5; United Kingdom, from 12% to 20.1%; and the European Economic Community, from 5% to 10.2%. This was achieved at the expense ASEAN, decreasing from 28% to 6.9%, and Hong Kong, from 18% to 8.8%, shares.

While there is no denial that during the early 1980s, substantial sums, by Australian standards, of Asian investment was coming into Australia, one has to question the benefits which Australia gained. Looking at the types of projects that these investments were going into, one would realise that they were mostly in property and real estate and not in production. The flow-on benefits from such investments have been small. The overall effect that these investments had on the economy was a short term one - that of balancing the Australian current account. Surveys undertaken by DILEA (1982) in relation to the Entrepreneur and the BMP schemes had been inconclusive. One of the recommendations that came out of this survey was that both schemes should have had appropriate and enforceable monitoring mechanisms.

4.10 Conclusion

Australia's immigration laws have been selective. With the enactment of *The Restrictive Act, 1901*, Australia adopted its "White Policy." Until the demise of the "White Policy" in 1973, Australia was able to achieve its objective by sourcing immigrants mainly from the United Kingdom and Ireland, and Europe. The mid-1940s rationale for a relatively large immigration program, motivated by the 'populate or perish' doctrine continued to be implemented over the 1960s and 1970s decades. However, when the supply of immigrants from the United Kingdom and Ireland and later from other parts of Western Europe began to decline, recruitment efforts were directed to southern Europe, and then the Middle East, South America, and subsequently Asia.

With the United Kingdom joining the European Economic Community in 1973, and with the composition of the United Nations greatly altered, Australia had to increasingly look to countries within its region. This was achieved by adopting an immigration policy that was 'universal and non-discriminatory' and in accepting South East Asian refugees. This helped to counter-balance an impression of Australia as a European outpost.

The external pressures that tended to modify the 'White Australia' policy took effect by virtue of the nation's desire to build a credible diplomacy in the interests of security, with the withdrawal of the British forces from Malaysia in 1971 and the US withdrawal from Vietnam in 1973, and trade.

In the mid-1960s, India was the only Asian country listed among the top ten settler source countries. Malaysia and the Philippines were the second and third Asian countries to move into the top ten rank in the mid-1970s, followed by Vietnam in 1981-82, and Hong Kong and China in the mid-1980s.

From 1975 to 1984, Australia resettled over 90,000 Indo-Chinese refugees. This core has expanded further since 1982 when family migration provisions were extended to applicants from Indo-China. This resulted in the Asian settlers intake to continue to increase over the years.

At 97.7%, the Asian-born immigration is extremely effective when considered in terms of accretion, as a ratio of 100% indicates that net gain is the same as the number of arrivals (Table 4.7). However, among the economically active immigrants, a higher proportion of the Asian-born who have professional, technical and skilled qualifications are leaving Australia than are coming in.

The ensuing shift in sourcing settlers away from the United Kingdom and Ireland and Europe towards Asia was not intentional but was the result of the Australian Government short-term planning, in combination with pressure from ethnic community groups.

From 1961, the Chinese population in Australia began to show signs of progressive increases: from 20,382 Chinese in 1961; to 23,281 in 1966; and 26,748 in 1976 (*Australian Census 1976*), and just before the large influx of Chinese immigrants from regions outside the traditional sources in Southern China. *Australia Census 1976* also revealed that of the 26,748 foreign-born Chinese, 4,556 or 17% were from Hong Kong.

Over the 1960s decade, Hong Kong migration to Australia was on an annual average intake of 225 settlers - even during the unstable conditions of 1966 and 1967 which the colony had to face. However, over the 1970s to mid-1980s decade, the annual average rate of Hong Kong settlers arrival in Australia increased to 798 and 2,225 persons, each respectively. The uncertainties generated by the Sino-British talks of 1983 resulted in Hong Kong nationals seeking alternative places of residency. Canada and the United States continued to be the preferred destinations of Hong Kong nationals due to family contacts. However, with the marketing of Australia as a good migrant destination through schemes such as the BMP, numerous Hong Kong people took the opportunity to migrate to Australia. Hong Kong migrants preferred the business and independent categories rather than the family category in attaining permanent residents status in Australia. These migrants were not only professional and well-educated, but also had considerable wealth.

There was a drastic change in the social and economical levels of the Chinese community. Historically, the Chinese were mostly labourers, cabinet makers and retailers, and grocers. However, post-1980, a greater number within the Chinese ethnic community were within the professionals. This was mainly due to the significant number of Asian students from Malaysia, Singapore, and Hong Kong who graduated from Australian universities and colleges and later returned to Australia as migrants.

Occupational patterns changed considerably over the 1960-1981 period (Census time frames). In 1966, only 4% of the Chinese work-force was employed in agriculture, 17% were professionals, 14% white-collar workers, 18% blue-collar workers, 18% service workers and 15% transport and communication workers. However, in 1981, the composition was made of 1.9% agriculture; 24.8% professionals; 41.4% services; 23% blue-collar workers, and 3.7% as transport and communication workers.

But it is not quite clear how effective and appropriate their uniqueness and contacts with their old country have helped to increase the flows of trade and investment between the respective countries. While marginal companies were set, these were mostly in supplying the Chinese community needs. Within ch. 5, the trade pattern over the 1983-1995 period would be analysed to evaluate whether there were any significant trends.

In contrast to the 1970s decade, by 1984/85, Australian direct investment outflows were increasingly directed to the United States, the United Kingdom and the European Economic Community, and to a lesser extent to Hong Kong, rather than to neighbouring New Zealand and ASEAN countries. At June 1980, Australia's total direct investment

abroad stood at \$A4.22bn; with Hong Kong receiving \$A742m or 18% of the total. The other major receivers of Australian direct investments were Papua New Guinea, New Zealand, United Kingdom, United States and ASEAN. However, by the mid-1980s, not only has Australia's total foreign direct investment stock increased significantly to \$A9.77bn, but there were also shifts in the major recipient countries. The major receivers were the developed nations: the United States, United Kingdom and European Union, to the detriment of ASEAN and Hong Kong.

Investments between Australia and Hong Kong had been substantial over the years. In the early 1980s, 18% of Australia's global investment was located in Hong Kong, ahead of its investments in the United Kingdom and the United States, which were 12% and 13%, each respectively. Hong Kong investments in Australia were also substantial. But while Australia's investments in Hong Kong were of a productive nature, Hong Kong's investments in Australia, like most Asian investments, were mostly in properties and real estate. While mainland China and Taiwan levels of investment in Australia were low, by Australian standards, as a percentage of their total worldwide investments, these were high. Australia's investments in China and Taiwan were insignificant due to these countries' barriers and uncertainties. From an Australian perspective, China was considered a risky and hard market to operate in, due to the central government controls, which made operations hard to achieve and remittances difficult to repatriate; Taiwan was highly protected in FDI. Reciprocity was made harder, when Australian management attitudes and perception are taken into consideration. Overall, during 1960-83 period, with the exception of Hong Kong, no significant achievements were accomplished in Australian investments in China and Taiwan. Chapter 7 would evaluate the intake of immigrants over the 1980-1996 period, while Chapter 8 would analyse the patterns in FDI over the 1983-95 period and what were the major reasons for these.

PART III

TRADE, MIGRATION
&
INVESTMENT

1983-1995



5. CHAPTER 5 AUSTRALIAN TRADE WITH CHINA, HONG KONG AND TAIWAN 1983-1994

5.1 Introduction

In the 1980s, Australia started implementing a series of economic reforms - at micro- and macro levels - in making the economy more competitive and open to international forces. Australian trade was to be more diversified and prominence was put on shifting exports from simple transformed manufacturing (STMs) towards elaborately transformed manufacturing (ETMs). The objectives of reform ranged from industrial reforms at the micro level and exchange rates depreciation, tariff cuts and interest rates at the macro level had to be overcome. Significant importance was given on the need for trade to be more oriented towards the Asian and Pacific Region.

Over the 1983-1994 period, Australian trade with the North East Asian countries of China, Hong Kong and Taiwan continued to improve and be more diversified. While Australia sustained a surplus in its balance of trade with Hong Kong, the balance of trade with China went into deficit in 1989/90, which continued to increase steadily over time. The balance of trade with Taiwan only turned into surplus from the early 1990s onwards.

Australian government expectations that the Australian economy would be closely linked with North East Asia's, especially the newly industrialised economies and their high growth rates, did not eventuate - especially vis-a-vis the China's economy. Australia-China trade became more dependent on Hong Kong in its role as a middleman over the 1979 to 1994 period. Though Australia does not recognise the Republic of China on Taiwan, its trade relations with Taiwan continued to improve, notwithstanding Taiwan's protection measures, e.g., beef licensing.

Australian exports became more dependent on the Chinese market rather than China's exports on the Australian market. China continued to import larger amounts of unprocessed mineral resources. Furthermore, China used its own bulk carriers, which were previously owned and classified as unseaworthy by Australian companies, to transport its purchased goods from Australia (refer to ch. 6). While there were improvements in Australian trade with the Asia-Pacific region, the enormous potential of the Australian economy had not been realised as Australian exports continued to be mainly composed of mineral resources.

This chapter will examine Australia's trade relations with China, Hong Kong and Taiwan during the 1980s and 1990s decades; utilising Australian Bureau of Statistics (ABS) SITC Revs 2 and 3 data to analyse Australian merchandise trade with the respective countries of China, Hong Kong and Taiwan. An evaluation will be made as to whether the Australian government expectations that the Australian economy will be bounded with the North East Asian economies of China, Hong Kong and Taiwan and their high growth rates, did eventuate. In addition, Australian trade strategies for China and Hong Kong will be examined, in view of the implications which may ensue on the reversion of Hong Kong to China, in 1997.

This chapter is composed of five sections after this introduction. Section 5.2 presents an overview of the broad patterns of Australian global merchandise trade during the 1980s and 1990s decades.

Section 5.3 looks at Australia's merchandise trade with China. An overview is given of Australian main categories of exports to and imports from China and the method by which this trade is conducted, that is, whether it is direct or indirect, via Hong Kong. An analysis is undertaken to determine the level of direct and indirect trade originating from China to Australia and in comparison to China's trade with other selected countries. This is then followed by a detailed analysis of Australian merchandise exports to and imports from China, using Australian Bureau of Statistics commodities trade data (SITC, Revs 2 & 3). Explanations are put forth as to the reasons behind the emerging patterns and the repercussions that these may have on Australia-China overall trade.

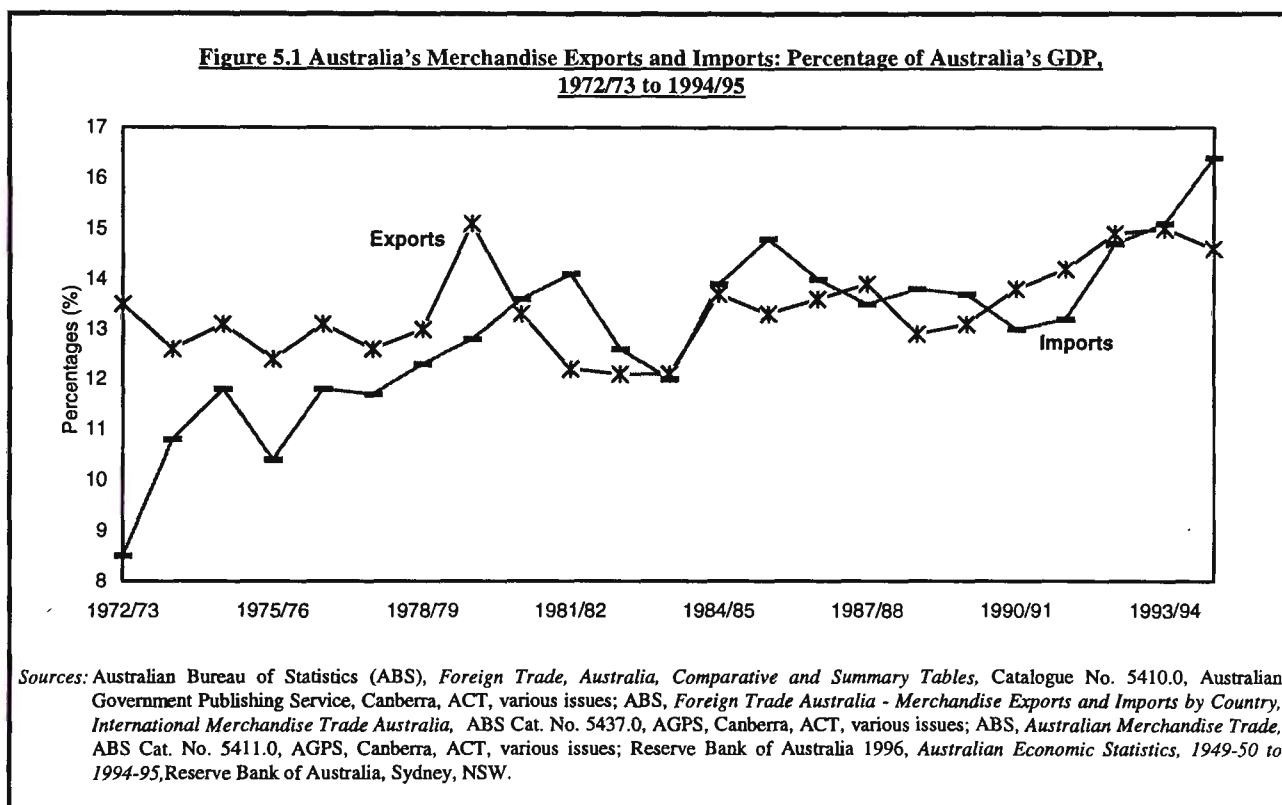
Section 5.4 presents Australian merchandise trade with Hong Kong. An overview of Australian commodities exports to Hong Kong and the general economic conditions in Hong Kong is outlined, especially with respect to Hong Kong's role as a middleman for China's booming trade. This then leads to a detailed analysis of Australian merchandise exports to and imports from Hong Kong, utilising Australian Bureau of Statistics commodities trade data (SITC Revs 2 & 3). Explanations are presented as to the shifts in overall patterns as well as how Australian trade with Hong Kong could be effected if there will be instability on Hong Kong's reversion to China in 1997.

The approach adopted for China and Hong Kong is replicated in Section 5.5, in analysing Australian merchandise trade with Taiwan. Shifts in the trade patterns between Australia and Taiwan would be closely examined as well as how they relate to the other major contenders within the Greater China Region, that is, Southern China and Hong. Section 5.6 is the conclusion.

5.2 Overview of Australian Global Trade Patterns

It is useful to take an overview of Australia's broader international trading patterns during the 1980s and 1990s decades.

Firstly, it must be noted that exports and imports of merchandise accounted for 13% and 14% respectively of Australia's GDP during the 1980s. During 1990-94 period, merchandise exports and imports accounted for 14.6% and 14.5% respectively of Australia's GDP (Figure 5.1).



Australia's postwar decline in trade is mainly attributable to its continued reliance on the exports of agricultural and mineral commodities which were susceptible to volatile prices, while importing elaborately transformed manufacturing which sustained real price increases (Figure 5.1). During the 1980s, the often-stated government policy, especially from 1983 onwards, to internationalise the Australian economy did not materialise (refer to ch. 1). To reiterate from ch. 1, from 1983 onwards, policies perceived as appropriate, and accordingly pursued to further the internationalisation of the Australian economy have included:

- * reducing the effective rates of tariff protection
- * freeing up capital flows, the Australian exchange rate and financial markets, and
- * reducing real wages and simultaneously reducing industrial unrest via the Accord (refer to ch. 1).

Table 5.1 Australia's Global Merchandise Exports By Major Categories Percentage (%) of Total 1970/71 to 1994/95 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b EXPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food & Live Animals	31	34	20	18
1	Beverages & Tobacco	*	*	*	1
2	Crude Matrls & Inedible Except fuel	35	30	28	21
3	Mineral Fuels	5	11	17	17
4	Animal & Vegetable Oils	1	1	*	*
5	Chemicals	4	2	3	4
6	Manuf. Goods Classified by Mat.	14	13	12	14
7	Machinery & Transport Equipment	7	5	7	12
8	Miscellaneous Manufactures	1	2	3	3
9	Other	2	3	9	10
<p>Notes: ^a Data to 1987/88 are classified according to SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.</p> <p> ^b Total Australian exports to all destinations for all sections as a percentage of Australia's total exports. Percentages may not add to 100.0 due to rounding error.</p>					
<p>Sources: Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i>, ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.</p>					

Overall, Australian trade had experienced structural changes. Within exports, it can be noted (Table 5.1):

- * A relative decline in the importance of Food and Live Animal (Sec. 0) exports from 31% in 1970/71 to 18% in 1994/95. This was mainly due to the exercise of agricultural protectionism by the leading industrialised countries, the European Union and the United States engagement in a subsidiary war on agricultural exports which kept international prices depressed throughout most of the period.

- * The decline in the relative importance of Crude Inedible Materials (Sec. 2) from 35% in 1970/71 to 21% in 1994/95. This decline mainly reflects the weakening international prices for such commodities to such an extent that further increases in Australian production for export was not enough to prevent stagnation in export receipt. A significant decrease in Japan's mineral demands for Australian minerals greatly effected Australian raw material exports.
- * The rise in the relative importance, till the mid-1980s, of Mineral Fuels (Sec. 3) exports from 3% in the mid 1960s to 25% in 1986/87 and then to 17% in 1994/95. The second oil price increase in 1978/79 stimulated new interest in coal as an alternative to oil though the increased demand which emerged eventually took longer, with the international market firming from 1981/82 onwards. Up until 1986/87, the growth in energy resources exports, especially coal, was greater than that for any other group of exports. However, as the world steel industry adopted new technologies, there was a decrease in the demand for Australian high-quality, hard coking coal. From 1989/90 onwards, as electric furnaces were increasingly utilised in Japan's steel production, lesser amounts of Australian coal were exported to Japan. In addition, globally, with the development of cost-saving innovations in blast furnace production coal began to be increasingly displaced by fuel oil and natural gas for heating purposes and pulverised low-ranking coals were used to partially replace coke in the process of pig iron production.
- * The recent relative rise in the exports of manufactured goods. Thus Manufactures By Material (Sec. 6) decreased from 14% in 1970/71 to 13% in 1980, then to 12% in 1990/91 and then rose to 14% in 1994/95. This was mainly the result of, during 1985/86 to 1989/90 period, restructuring in the international manufacturing industries, early stage processing of minerals began to be relocated from the most developed industrial economies to Asian NICs or resource-based economies such as Australia. This entailed an increase in the Australian volume of STM exports though growth in value terms was restricted by increased competition from other countries with large mineral resources and depreciating exchange rates such as Brazil and South Africa and from Asian NICs which were expanding their own heavy industries. Machinery and Transport Equipment (Sec. 7) decreased from 7% in 1970/71 to 5% in 1980/81, then rose to 7% in 1990/91 and then to 12% in 1994/95. From the mid to the late 1980s Australian ETM exports not only benefited from a lower exchange rate but also from strong import growth in the United States. From 1990/91 onwards, international demand for Australian manufactures was further reinforced by strong domestic growth in Japan and other developed economies. Miscellaneous Manufactures (Sec. 8) rose from 1% in 1970/71 to 3% in 1990/91, where it maintained its share of 3% in 1994/95.

- * An increase in Other (Sec. 9) exports which rose from 2% in 1970/71 to 9% in 1990/91 and to 10% in 1994/95. This is partly explained by the reclassification of a number of items within this section. Non-monetary gold, Excluding Gold Ores and Concentrates (Div. 971), and Combined Confidential Items (Div. 98) accounted for 64% and 27% each respectively of their sub-divisions share of Australian total exports, during 1994/95.

Table 5.2 Australia's Global Merchandise Imports By Major Categories Percentage (%) of Total 1970/71 to 1994/95 (Selected Years)

Sections ^a	Commodity Description	AUSTRALIAN ^b IMPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/94
0	Food and Live Animals	4	4	4	4
1	Beverages and Tobacco	1	1	1	1
2	Crude Matrls & Inedible Except fuel	6	4	3	2
3	Mineral Fuels	7	13	5	5
4	Animal and Vegetable Oils	*	1	*	*
5	Chemicals	9	10	10	11
6	Manuf. Goods Classified by Mat.	20	18	16	15
7	Machinery and Transport Equipment	40	35	45	47
8	Miscellaneous Manufactures	9	12	13	14
9	Other	3	1	2	1

Notes: ^a Data to 1987/88 are classified according to SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.
^b Total Australian imports from all destinations, for all sections as a percentage of Australia's total imports. Percentages may not add to 100.0 due to rounding error.

Source: ABS, *Foreign Trade, Australia, Comparative and Summary Tables*, ABS Catalogue No. 5410.0, AGPS, Canberra, ACT, various issues.

In relation to Australian global imports, the following can be observed (Table 5.2):

- * The Decline in Crude and Inedible Materials (Sec. 2) imports from 6% in 1970/71 to 4% in 1980/81, then to 3% in 1990/91 and then to 2% in 1994/95.

- * A temporary rise in Mineral Fuels (Sec. 3) imports from 7% in 1970/71 to 14% in 1980/81 and subsequent fall to 5% in 1990/91 and 1994/95. This was mainly due to the development of several new wells which became operational by 1985/86. Consequently, Australia reached 85% self-sufficiency in its crude oil requirements, lessening its dependence on the import of crude oil.
- * The decline in Manufactures By Material (Sec. 6) from a peak of 20% in 1970/71 to 18% in 1980/81 then to 16% in 1990/91 and then to 15% in 1994/95.
- * The rise in Machinery and Transport Equipment (Sec. 7) imports from 35% of all imports in 1980/81 to 45% in 1990/91 and then to 47% in 1994/95. This was mainly attributable to the restructuring within the Australian car industry, with tariffs being reduced from the previous 57.5% to 45% in 1988/81 and to 35% in 1992/92 and,
- * The rise in Miscellaneous Manufactures (Sec. 8) from 9% of total imports in 1970/71 to 12% in 1980/81, then to 13% in 1990/91 and then to 14% in 1994/95.

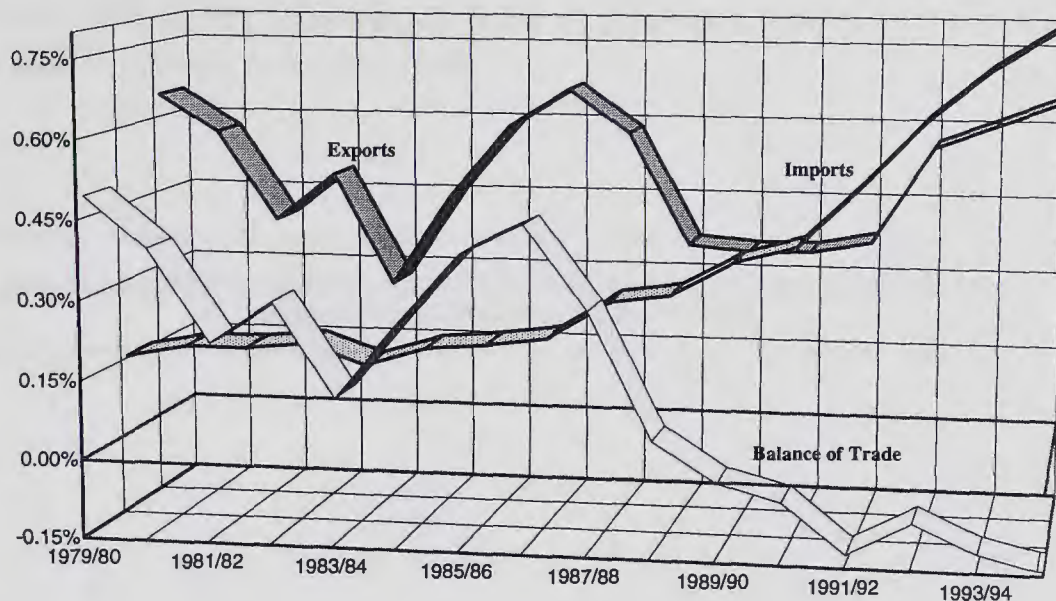
In general, Australia continues to import technology principally embodied in manufactured consumer and producer items, and exports raw materials. While Mineral Fuels, (Sec. 3, coal, petroleum and natural gas) and metalliferous ores (Div. 28) have become Australia's principal sources of export revenue, rural produce is still important.

There has been some evidence of a recovery in manufacturing (Sec. 6, Manufactured Goods by Material and Sec. 7, Machinery and Transportation Equipment) during the latter half of the 1980s which continued well into the 1990s, that by 1994/95, Sections 6 and 7 were still registering significant growth.

5.3 Australian Merchandise Trade With China

5.3.1 Overview

**Figure 5.2 Australia's Merchandise Trade with China As Percentage of Australia's GDP
1979/80 to 1994/95**



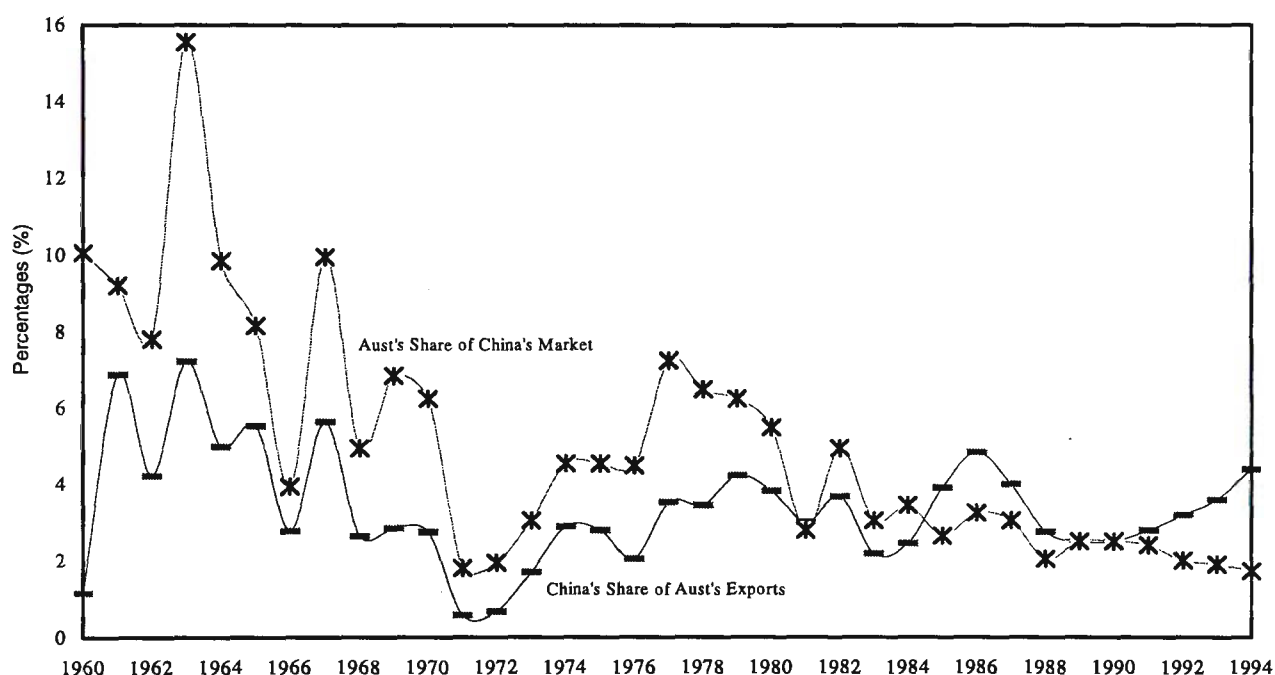
Sources: Australian Bureau of Statistics (ABS), *Foreign Trade, Australia, Comparative and Summary Tables*, Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues; ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Australia*, ABS Cat. No. 5437.0, AGPS, Canberra, ACT, various issues; ABS, *Australian Merchandise Trade*, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues; Reserve Bank of Australia 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

During the last fifteen years, Australia's general trading pattern with China has revealed a number of broad features. Australian exports to China have exhibited a relatively high degree of volatility (Figure 5.2). Australian exports, as a percentage of GDP, fell sharply during the late 1960s and early 1970s (refer to ch. 4). However, this decline was not confined to Australia alone. Generally, Chinese trade went into decline during this period. These were, of course, the years of the Cultural Revolution, during which Mao's policies of 'radical self-sufficiency' produced a movement away from attempts to open its trade to the outside world.

Since Mao's death in 1976, China has pursued a more active role in international trade. Between 1975-76 and 1994-95, China's exports plus imports of goods and services have risen from around 10% to 28% of its GDP. However, Australian exports to China have

not risen in the same manner. As Figure 5.2 indicates, Australian total exports to China has behaved erratically: rising sharply in 1979/80, falling sharply between 1980/81 and 1982/83, rising again during 1985/86 and 1986/87, then falling again to 1988/89, stabilising till 1991/92 and increasing from then onwards. However, Australian merchandise exports continued to lose their market share in China, as depicted in Figure 5.3. Australian products market share in China decreased from a high of 15.6% in 1963 to 6.3% in 1970 before increasing to 7.2% in 1977 and subsequently continued on a decline that in 1994/95, it stood at 1.7%.

**Figure 5.3 Australian Merchandise Exports to China: Share of Australia's Global Merchandise Exports
& As a Share of China's Market, 1960 to 1994/95**



Notes: Australian goods market share in China is the ratio of Australian total merchandise exports to China over China's global merchandise imports. China's market share of Australian exports is the ratio of Australian total exports to China over Australian global merchandise exports. Exchange rate conversion based on the end of year values for United States dollars per Australian dollar as released by the Reserve Bank of Australia.

Sources: Australian Bureau of Statistics (ABS), *Foreign Trade, Australia, Comparative and Summary Tables*, Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues; ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Australia*, ABS Cat. No. 5437.0, AGPS, Canberra, ACT, various issues; ABS, *Australian Merchandise Trade*, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues; World Trade Organization, 1995, *International Trade: Trends and Statistics, 1995*, Economic Research and Analysis Division and the Statistics and Information Systems Division, WTO, Geneva, Switzerland. Reserve Bank of Australia, *Exchange rates and Reserve Bank Foreign Exchange Operations, Daily* " Reserve Bank of Australia, Sydney, NSW, various issues.

The reasons behind Australia's market share decline in Chinese are mainly due to:

The virtual diminishing of Australian food exports to China over the 1971-1994 period. Over the 1960-1983 period, Australia's main commodity exports to China continued to be wheat, though this bulk commodity exports fluctuated as the Chinese found fit - both economically and politically (refer to ch. 3).

From 1973 onwards, as a result of the United States recognition of the Government of the People's Republic of China, trade between the two countries regained momentum. The Americans began to sell larger quantities of wheat to China - at the right price and in large quantities. In addition, other competitors, such as Canada and France, continued to put pressure on the Chinese wheat market by increasing their wheat sales to China.

From 1973 to 1983, volatile commodity prices resulted in Australia, on average, shipping the same quantities of wheat to China but with diminishing returns. From 1985/86 onwards, the volume of Australian wheat exports to China decreased substantially as China began sourcing larger quantities of its wheat imports from the United States, under favourable prices - as a consequence of the United States EEP policy. This will be further elaborated upon later in this chapter. As Australian mineral resources started becoming important in the export mix to China, these also suffered from volatile international prices which diminished the mineral resources contribution in Australian total value of exports to China, even though larger volumes of mineral resources were exported to China during 1983/84-1994/95.

Also, as a result of China opening its economy in 1979 and the ensuing emphasis on the importation of plants, equipment and technology, as China's total value of imports increased, as a percentage Australian exports continued to decrease. From 1980 onwards, as China's exports became more dependent on the United States market, more imports were sourced from the United States, with the United States being the third most important trading country for China during 1993-1995. The United States share of the Chinese market continued to increase, aided by expanding exports of wheat and manufactures.

5.3.2 Direct and Indirect Trade With China

Given that the fixed transactional costs are the basic reason for intermediations, countries with a long history of trade with China might have found it worthwhile to pay the fixed costs of establishing trade links, and be less dependent on Hong Kong. In terms of Chinese exports, this has indeed been the case.

Japan and Europe, with long histories of trade with China have their ratios of indirect to direct imports from China much lower than those of the new traders, such as the United States, Canada and Indonesia (Table 5.3).

Australia also had a long history of trade with China. In 1970, Australia's dependence on Hong Kong for Chinese imports was low - on a level comparable with Japan (Table 5.3). Subsequently, Australia's dependence on Hong Kong has grown rapidly, that by 1985, its level of dependence was comparable to that of the new entrants, such as the United States (Table 5.3). This not only indicates that Australia's failed to develop carefully its historical trading relationship with China, but any post-1997 instability in Hong Kong will have immediate and direct effect on Australia's trade with both Hong Kong and China.

In the case of Chinese imports, Indonesia confirm the expectation of greater dependency of new entrants on Hong Kong, but the dependence of the United States on Hong Kong for exports to China is low. This is because agricultural products constitute a substantial portion of US exports to China, and trade in agricultural products is usually handled directly due to its homogeneity. In addition, there is also a long history of direct state involvement in agricultural trade.

Over time, a decrease in dependency on Hong Kong might be expected with the political recognition of China and the conclusion of trade pacts. The decentralisation of China's trading system in 1979, however, increased dependency on Hong Kong. The dependence of Canada and the United States on Hong Kong for Chinese exports decreased in the early 1970s as each established political and commercial links with China. Indonesia established direct commercial relations with China in the late 1970s and its dependence on Hong Kong for both Chinese exports and imports declined in the 1980s.

Table 5.3 China's Exports: Direct and Indirect (via Hong Kong) - By Destination (US\$m)
1970 - 1989 (Selected Years)

Country/Region	Mode	1970	1975	1979	1983	1984	1985	1986	1987	1988	1989
Japan	(i)	224	1,403	2,764	4,544	5,326	6,079	4,729	6,401	7,922	8,362
	(ii)	15	23	120	129	232	315	357	618	1,224	1,633
	(iii)	(5.5)	(1.6)	(4.2)	(2.8)	(4.2)	(4.9)	(7.0)	(8.8)	(13.4)	(16.3)
United States	(i)	---	129	595	1,732	2,397	2,340	2,617	3,037	3,380	4,391
	(ii)	0.28	24	125	640	955	1,228	2,033	3,024	4,708	7,192
	(iii)	(100)	(15.7)	(17.4)	(27.0)	(28.5)	(34.4)	(43.7)	(49.9)	(58.2)	(62.1)
Singapore	(i)	101	238	296	570	1,294	2,061	1,206	1,326	1,485	1,693
	(ii)	17	42	85	138	128	133	173	224	304	364
	(iii)	(14.4)	(15.0)	(22.3)	(19.5)	(9.0)	(6.1)	(12.5)	(14.5)	(17.0)	(17.7)
West Germany	(i)	69	220	459	864	800	745	1,010	1,225	1,485	1,609
	(ii)	---	6	32	46	76	121	209	478	811	1,273
	(iii)	---	(2.7)	(6.5)	(5.1)	(8.7)	(14.0)	(17.1)	(28.1)	(35.3)	(44.2)
United Kingdom	(i)	104	242	479	605	345	358	1,424	532	659	635
	(ii)	---	---	14	37	52	73	133	315	554	853
	(iii)	---	---	(2.8)	(5.8)	(13.1)	(16.9)	(8.5)	(37.2)	(45.7)	(57.3)
Canada	(i)	20	82	145	209	264	233	302	409	389	412
	(ii)	3	6	15	54	73	94	130	230	356	542
	(iii)	(13.0)	(6.8)	(9.4)	(20.5)	(21.7)	(28.7)	(30.1)	(36.0)	(47.8)	(57.0)
Australia	(i)	32	70	156	182	228	184	208	298	362	423
	(ii)	2	9	25	55	85	79	119	207	332	487
	(iii)	(5.9)	(11.4)	(13.8)	(23.2)	(27.2)	(30.0)	(36.4)	(41.0)	(47.8)	(53.5)
Indonesia	(i)	---	---	0.02	49	72	124	140	188	236	223
	(ii)	14	48	116	190	166	140	196	200	234	264
	(iii)	(100)	(100)	(100)	(79.5)	(69.7)	(53.0)	(58.3)	(51.5)	(49.8)	(54.2)
All Countries*	(i)	1,790	5,881	10,620	16,338	19,008	19,782	20,480	24,661	28,134	27,272
	(ii)	97	300	962	2,185	2,826	3,434	5,161	8,511	13,350	19,201
	(iii)	(5.1)	(4.9)	(8.3)	(11.8)	(12.9)	(14.8)	(20.1)	(25.7)	(32.2)	(41.3)

Notes: * Excluding Hong Kong and China.
(i) China's direct exports.
(ii) China's indirect exports via Hong Kong (taken to be Hong Kong imports from China for re-exports).
(iii) Percentage share of indirect exports in total (direct and indirect) exports.

Sources: Indirect trade data: Census and Statistics Department, Hong Kong; Direct trade data: 1970-79, *Almanac of China's Foreign Economic Relations and Trade*, 1984, 1981 and after, *Chinese Customs Statistics*, Beijing, People's Republic of China.

The dependence of all countries, except Indonesia, on Hong Kong for China's exports increased in 1985 (Table 5.3). This confirms the importance of the impact of the 1984 trade decentralisation. The exception of Indonesia is probably due to its recent establishment of direct commercial links with China. Dependence of all countries, except Indonesia on Hong Kong for China's exports increased significantly in 1988, again confirming the impact of the 1988 trade liberalisation (Table 5.3).

Certain European Union countries,¹ Japan and the United States, with the exception of Australia and Indonesia, have become more dependent on Hong Kong for their exports to China since 1979. In fact, re-exports to China were insignificant before 1979. This again confirms the crucial impact of the 1979 decentralisation of China's foreign trade system, and later the 1988 trade decentralisation.

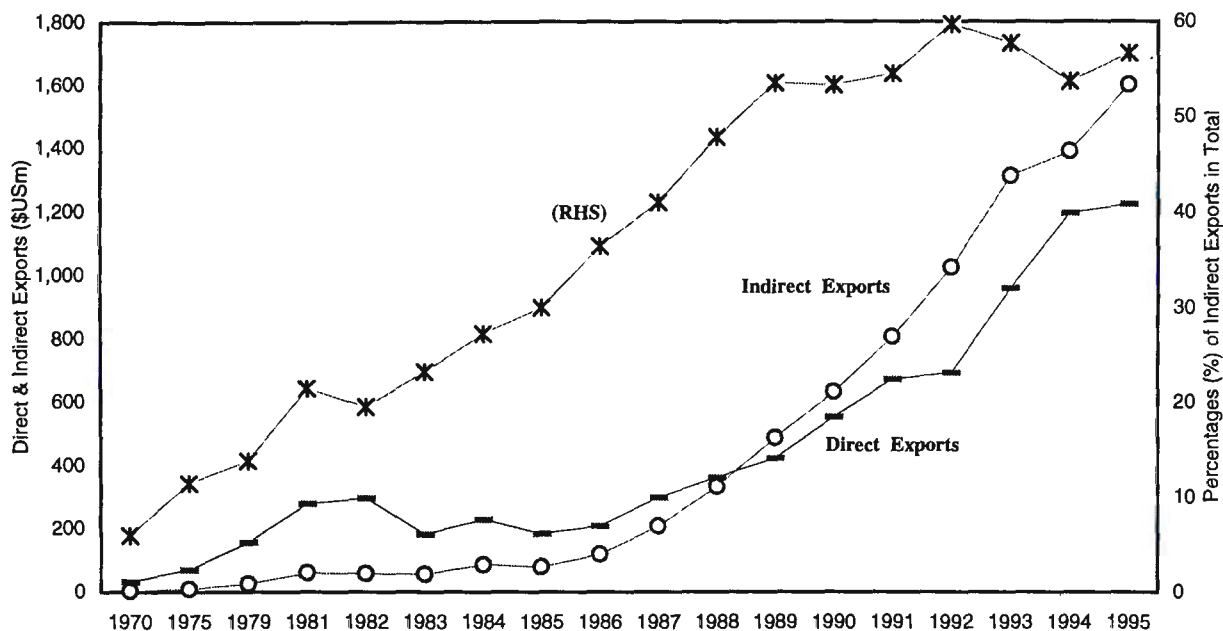
The commodity composition of China's indirect exports and imports through Hong Kong is made up of manufactures which form the bulk of entrepôt trade. The share of manufactures in Hong Kong's imports from China for re-exports has risen from 66% to 89% in the 1970-1989 period and the share of manufactures in Hong Kong's re-exports to China has risen from 76% to over 80% in the 1980s.

Prior to 1979, Australian indirect exports to China, via Hong Kong, were insignificant (Table 5.3 & Figure 5.4). This is explained by the fact that up to the late 1970s, agricultural products constituted a substantial portion of Australia's exports to China, and trade in these commodities was usually handled directly due to its homogeneity (refer to ch. 3). In addition, mainland China has a long history of direct state involvement in agricultural trade.

However, from the early 1980s onwards, a larger amount of Australian trade with China was directed through Hong Kong. This becomes evident from Figure 5.4 and Figure 5.5. China's indirect exports, via Hong Kong, as a percentage of its total merchandise exports to Australia increased from 21.4% in 1981 to 27.2% in 1984, then to 53.5% in 1989 and then to 59.7% in 1992. From 1993 onwards, the share of indirect exports, via Hong Kong, in China's total exports to Australia began to decline that by 1995, it stood at 56.6%. Australia's dependency on Hong Kong for its imports from China has grown rapidly, that by 1985, Australian exports dependency were comparable to those of the new entrants, such as the United States (Table 5.3). China's trade decentralisation measures of 1979, 1984, 1988 and 1992 resulted in significant increases in the dependence of all countries, including Australia, on Hong Kong for Chinese exports.

¹ United Kingdom, West Germany, France and Italy.

**Figure 5.4 China's Exports: Direct and Indirect (via Hong Kong) To Australia (\$USm)
1970 - 1994 (Selected Years)**



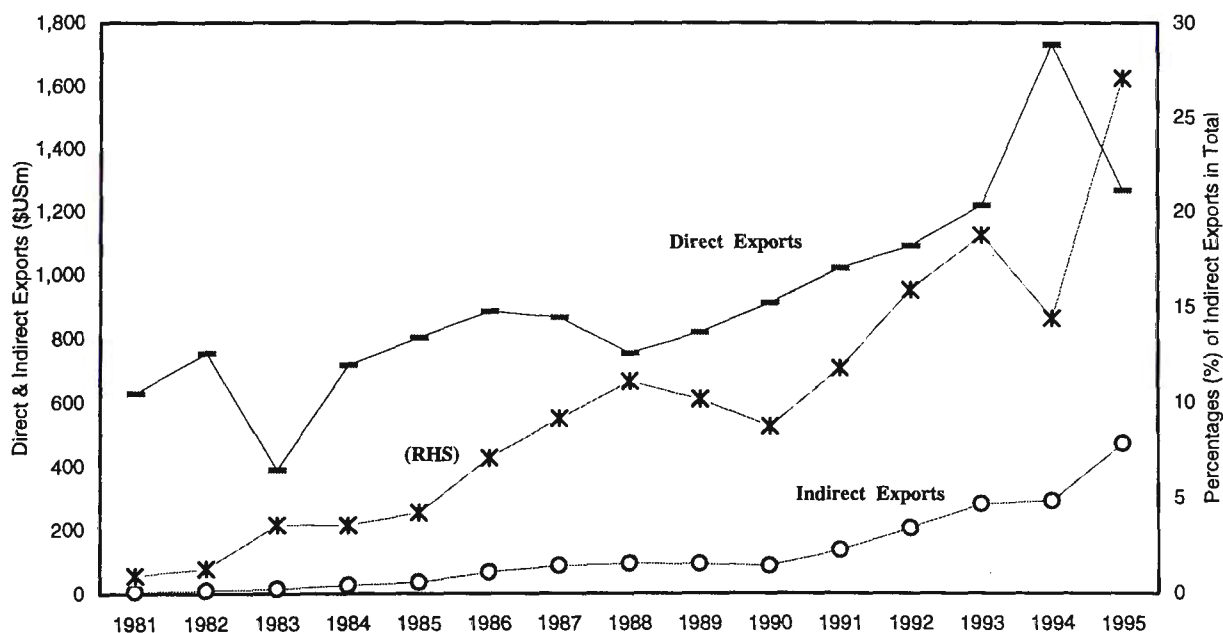
Notes: Year refers to calendar year.

China's indirect exports via Hong Kong, taken to be Hong Kong imports from China for re-exports.

Percentage share is the share of indirect exports in total (direct and indirect) exports.

Sources: Indirect trade data: Census and Statistics Department, Hong Kong; Direct trade data: 1970-79, *Almanac of China's Foreign Economic Relations and Trade*, 1984, 1981 and after, *Chinese Customs Statistics*, Beijing, People's Republic of China.

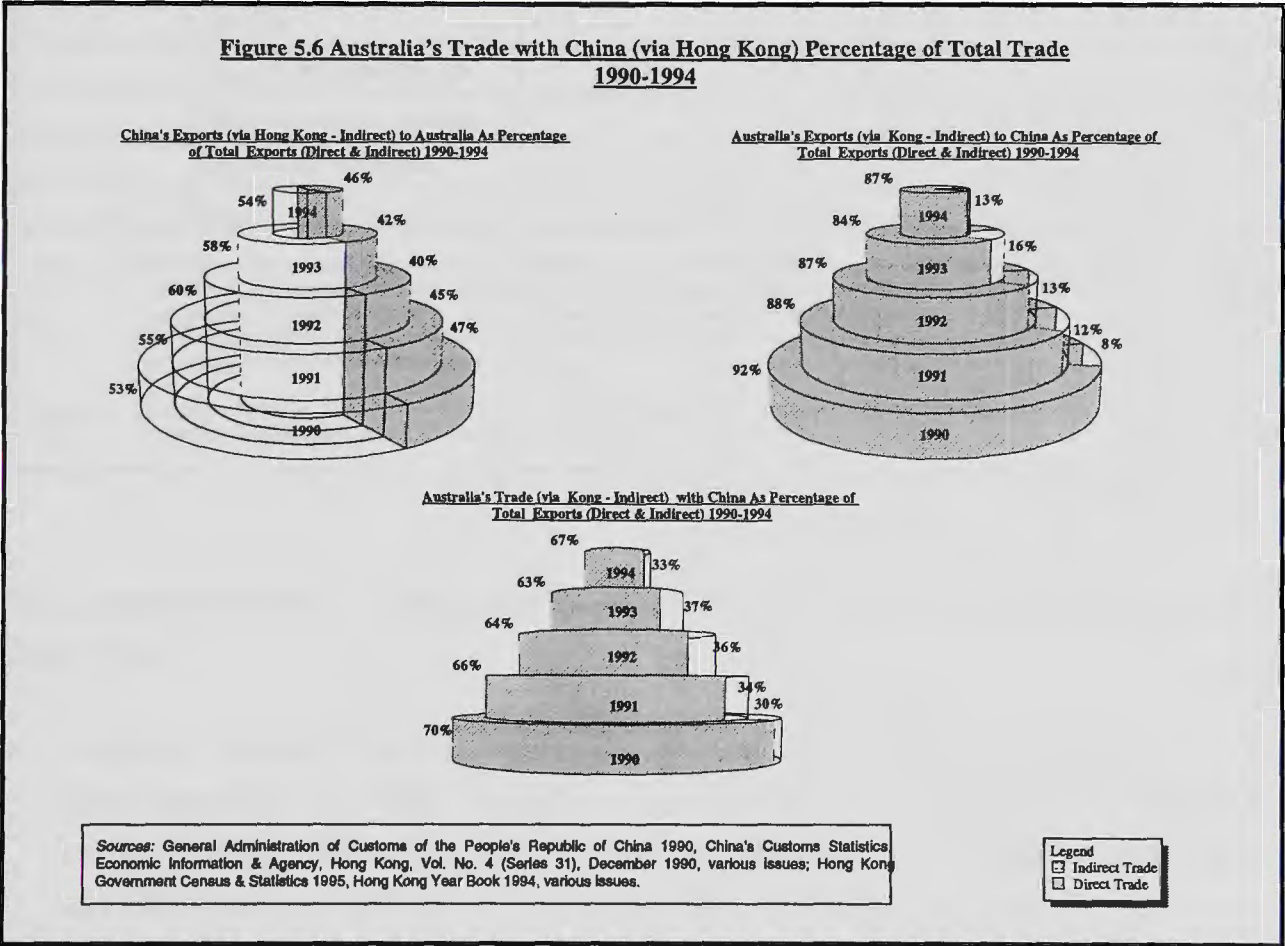
Figure 5.5 Australia's Exports: Direct and Indirect (via Hong Kong) To China (\$USm) 1981 - 1995



Notes: Year refers to calendar year. Australia's indirect exports via Hong Kong to China are the goods flowing from Australia (reporting country) via Hong Kong to China. The country of origin, in this case, Australia, is the reporting country and the country of destination, that is, China, is the partner. Percentage share is the share of indirect exports in total (direct and indirect) exports.

Source: International Electronic Database, *United Nations COMTRADE SITC Rev 1, International Trade Data*, Australian National University, Canberra, ACT, 12 July 1997.

When Australian exports to China are brought into perspective (Figure 5.5), it would be realised that Australian indirect exports, via Hong Kong, as a percentage share of Australian total exports to China were insignificant in 1981 and 1982, though, from 1983 onwards, their share began to increase from 3.6% in 1983 to 11.1% in 1988, then to 18.7% in 1993 and then to 27.1% in 1995. The increase in Australian exports dependence on Hong Kong's entrepôt trade is the result of changes which were taking place in China's economy. With the opening up of the Chinese economy in 1970s has once again made Hong Kong China's window on the world. While in 1981, Hong Kong re-exports increased to about one third of total exports, in 1992, re-exports accounted for 75% of Hong Kong's total trade. Over the 1979-1995 period, this rapid development in Hong Kong's entrepôt trade was as a result of China's booming economy.



During the 1990s, Australia's indirect trade (exports and imports), with China via Hong Kong continued to increase from 30% in 1990 to 37% in 1993 and then to decrease to 33% of total trade in 1994 (Figure 5.6). The decline in the importance of Hong Kong's entrepôt trade in Australia-China trade relations was mostly attributable to a decrease in the share of China's indirect exports to Australia. This is also indicative of Australia's failure to develop carefully its historical trading relationship with China.

5.3.3 Australian Merchandise Exports to China

Table 5.4 Australian Merchandise Exports to China: By Major Categories Percentage (%) 1970/71 to 1994/94 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b EXPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/94	1994/95
0	Food and Live Animals	94	63	28	1
1	Beverages and Tobacco	0	0	*	
2	Crude Matrls & Inedible Except fuel	3	13	24	50
3	Mineral Fuels	0	0	5	2
4	Animal and Vegetable Oils	0	3	1	2
5	Chemicals	0	0	1	1
6	Manuf. Goods Classified by Mat.	3	21	6	4
7	Machinery & Transport Equipment	0	0	3	7
8	Miscellaneous Manufactures	0	0	1	
9	Other	0	0	32	29
<p>Notes: ^a Data to 1987/88 are classified according to SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.</p> <p> ^b Australian exports to China, for all sections, as a percentage of Australian total exports to China. Percentages may not add to 100.0 due to rounding error.</p> <p>Sources: Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i>, ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.</p>					

As a general overview of Australian exports to China, it can be noted from Table 5.4 that there were:

- * A relative decline in the importance of Food and Live Animals (Sec. 0) exports to China from 94% in 1970/71 to 63% in 1980/81 then to 28% in 1990/91 and then to 1% in 1994/95. The decrease in the share of agricultural in Australia's total export mix to China is attributable to the United States targeting the Chinese market as a major destination for its agricultural produce -especially wheat.
- * Increases in the relative importance of Crude and Inedible Materials (Sec. 2) from 3% in 1970/71 to 13% in 1980/81, then to 24% in 1990/91 and then to 50% in 1994/95 of Australian total exports to China. In order to maintain its rapid economic growth, especially from 1980 onwards, larger volumes of Australian minerals were required as inputs for China's export-oriented manufacturing industries.

- * A temporary rise in importance of Manufactured Goods Classified By Material (Sec. 6) exports, from 3% in 1970/71 to 21% in 1980/81, and subsequent contraction to 6% in 1990/91 and then to 4% in 1994/95. The underlying reason for this contraction has been associated with a high growth in the export of iron and steel and non-ferrous metals in 1980/81 which subsequently declined to be very small in 1994/95.
- * A recent increase in Machinery and Transport Equipment (Sec. 7) exports from 3% in 1990/91 to 7% in 1994/95. This was mainly due to increases in the exports of Industry Specific Machinery (Div. 72), General Industrial Machinery (Div. 74) and Electrical Machinery and Appliances (Div. 77).

In order to better understand the changing patterns in Australian exports to China, a detailed analysis is undertaken which is based on Australian Bureau of Statistics data (SITC Revs 2 & 3).

It is to be noted that since 1983/84, Confidential Items (Div. 98) has grown very sharply and made trends' analysis in the various other divisions rather ambiguous, from the early 1980s onwards (Figure 5.8, *Panel viii*).

Section 0, Food and Live Animals, had been of major importance in Australian exports to China, though it continued to virtually diminish over time. This is illustrated in Figure 5.7, *Panels i and ii*. Prior to the 1980s, most of the variability of Australia's total exports to China appears to be explained by fluctuations in Sec. 0.

A major component of Sec. 0 is Cereals (Div. 04), as Figure 5.7, *Panel iii* clearly illustrates. Cereals refers principally to wheat. Cereal exports to China decreased in their relative importance during the 1980s. Some of the reasons attributable to the decline in the demand for cereals are as follows:

- * With the US implementing its Export Enhancement Program (EEP), in 1985, which supported exporters who had arranged sales of their goods having a drastic effect on the world wheat market. In order to increase its wheat sales, the United States expanded progressively the range of targeted markets and in 1986/87, China and the Soviet Union were also included. In 1987/88, over 60% of American wheat exports were being assisted under the program (Roberts & Love 1989). In monetary terms, assistance had reached \$US35 to \$US40 per ton, at a time when world prices were between \$US115 to \$US120 per ton (Kirby *et al.* 1988). This resulted in the United

States increasing its share of the wheat market in China from 4% in 1986/87 to 56% in 1989/90 and to 54% in 1992/93 (Crook *et al.*, 1993; USDA, 1993).

- * The wheat purchasing criteria for China's wheat importer, CEROILS, is (in descending order): price and then quality and availability of large quantities, which the United States was able to meet.
- * Another factor which influenced China's demand for Australia's exports, in general and in relation to cereals, relates to the exchange rate. In nominal terms, the Australian dollar almost quadrupled in value.² Moreover, Australia's inflation during the 1980s exceeded that of China.³ Thus, in real terms, the Australian dollar appreciated by about 140 per cent.
- * During the 1980s and early 1990s, the real exchange rate movements would have put Australia at a relative disadvantage to China's other trading partners whose currencies appreciated less against the Renminbi. In addition, China's domestically produced cereals would be much more competitive in comparison to Australian exports⁴ and,
- * The developments within mainland China itself. With the introduction of economic reforms in the late 1970s, China's rural sector witnessed a sharp increase in productivity, particularly from the early 1980s onwards.⁵ Perkins (1988a) concluded that:

"The transformation of rural China [during the early 1980s] from a system riddled with bureaucratic control to one based increasingly on market forces... was a clear success in increasing output and productivity and was perceived as such by much of China's leadership and probably by most farmers."

During the 1980s, China's rural sectors, with their greatly improved productivity, were not only able to meet the domestic demand, but would have also contributed to the decline in demand for imported rural produce.

² In 1979/80, the Australian dollar (\$) costed 1.69 Yuan; by 1994/95, the \$A costed 6.2655. During 1995/96 (till April 1996), the \$A was worth 6.2952 Yuan. After the cutting off of soft loans following the Tiananmen incident, China was under great pressure to expand its exports to pay off its foreign debt. As a result, China devalued the Renminbi against the US Dollar in December 1989 and in November 1990 by 21% and 9.6%, respectively. In step towards its role in GATT, in January 1994, China devalued the Renminbi against the \$US. This was an equivalent devaluation of 52.25% against the \$A.

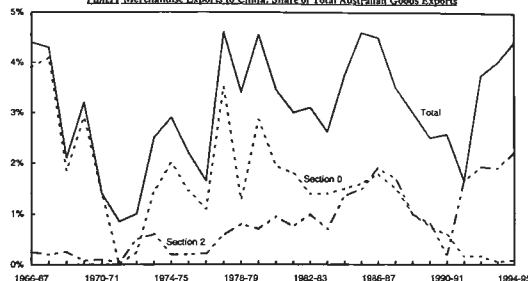
³ During the 1980s, Australia's inflation, as measured by the GDP deflator, averaged 8% per annum, while China's inflation averaged 6% per annum.

⁴ Throughout the period 1965 to 1996, the \$A has appreciated, in real terms, against the Yuan. From 1965 to 1980, the \$A appreciated, in real terms, by 4.6% p.a.; from 1980 to 1990, by 9.1% p.a., and between 1990 and 1996, by 9.57% p.a.

⁵ During the 1970s, China's agricultural sectors value added, on average, rose by 3.6% p.a., while during the 1980s, it grew by 5.5% p.a.

Figure 5.7 Australia's Merchandise Exports to China, People's Republic: 1966/67 to 1994/95

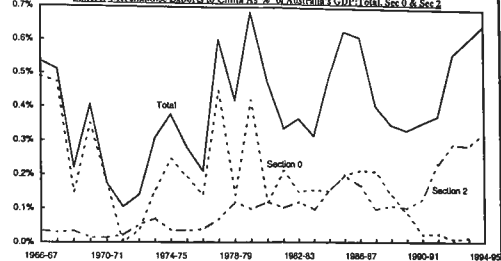
Panel I Merchandise Exports to China: Share of Total Australian Goods Exports



Note: Total exports to China as a percentage of Australia's global exports (Secs).
Exports of Sec. 0 to China as a percentage of Australia's global exports (Secs).
Exports of Sec. 2 to China as a percentage of Australia's global exports (Secs).
Sec. 0 - Food and Live Animals (SITC Rev 3 Classification).
Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification).

Sources: ABS, Australian Exports and Imports, Country By Commodity, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.
Preston, R.A., and Stewart, S.E. 1996. Australian Economic Statistics, 1949-50 to 1994-95, Reserve Bank of Australia, Sydney, NSW.

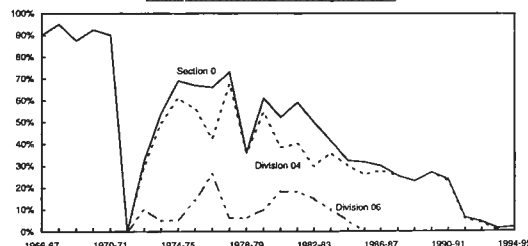
Panel II Merchandise Exports to China As % of Australia's GDP: Total, Sec 0 & Sec 2



Note: Total exports to PRC as a percentage of Australia's Gross Domestic Product (GDP).
Sec. 0 exports to PRC as a percentage of Australia's GDP.
Sec. 2 exports to PRC as a percentage of Australia's GDP.
Sec. 0 - Food and Live Animals (SITC Rev 3 Classification).
Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification).

Sources: ABS, Australian Merchandise Trade, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.
Preston, R.A., and Stewart, S.E. 1996. Australian Economic Statistics, 1949-50 to 1994-95, Reserve Bank of Australia, Sydney, NSW.

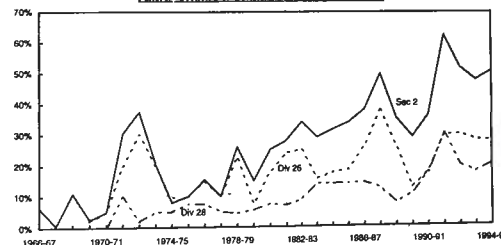
Panel III Section 0, Divisions 04 & 06 Exports to China*



Note: *Percentage of Australia's total exports to China.
Sec. 0 refers to Food and Live Animals (SITC Rev 3 Classification).
Div. 04 refers to Cereals and Cereal Preparations (SITC Rev 3 Classification).
Div. 06 refers to Sugars, Sugar Preparations and Honey (SITC Rev 3 Classification).

Sources: ABS, Foreign Trade Australia - Merchandise Exports and Imports By Commodity, International Merchandise Trade Australia, ABS Cat. No. 5437.0, Australian Government Publishing Service, ACT, Canberra, various issues.

Panel IV Section 2 & Divisions 26 & 28 Exports to China*



Note: *Percentage of Australia's total exports to China.
Sec. 2 refers to Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification) to Australia's Total Exports to China.
Div. 26 refers to Textile Fibres and Their Wastes (SITC Rev 3 Classification).
Div. 28 refers to Miscellaneous Ores and Metal Scrap (SITC Rev 3 Classification).

Sources: ABS, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5421.0, AGPS, Canberra, ACT, various issues.

The most important section of Australia's exports to China is Sec. 2, Crude Materials, Inedible, Except Fuel. Textile Fibres (Div. 26) which is dominated by wool, is the most important component, as Figure 5.7, *Panel iv* indicates. From 1970/71 to 1978/79, wool was the major commodity export within Sec. 2 though mineral exports began emerging in importance.

Metalliferous Ores and Metal Scrap (Div. 28) is also important and it is expected that, as China continues on its industrialisation, demand for this commodity will grow. Figure 5.7, *Panel iv* indicates that collectively, the commodities of Sec. 2 tended to become more important over time. However, Sec. 2 also displays a significant degree of volatility.

Fluctuations in China's expenditure on Australian fibres can be significantly linked to the fluctuating wool prices. For example, wool prices rose considerably in 1972/73 and 1987/88 with price increases coinciding with the rise in total outlays (refer to ch. 1 Figure 1.1, *Panel ii*). By 1982/83, China was taking 12% of Australian wool exports and remained as Australia's second largest market during the rest of the decade. However, other influences were also important. As previously discussed, fluctuations in the real exchange rate would have had a retarding long-term effect on Australia's exports of fibres to China. During 1986/87, when international demand for wool pushed prices up, China's response was to take lower quantities of Australian wool. During 1985/86 to 1988/89, as China acquired large stocks of Australian wool, it introduced contractionary economic policies which resulted in its import volumes of Australian wool over the January-June 1989 were less than half those over the corresponding period in 1988.

International prices for metals also varied. Prices grew relatively rapid during 1978/79 and 1979/80 (refer to ch. 1, Figure 1.1, *Panels iii and iv*). From 1983/84 onwards, mineral exports were almost on par with wool exports. Though wool exports were more susceptible to sudden economic policies in China, mineral exports were also effected. From 1989/90 to 1991/91, minerals and wool exports, as a proportion of Australian total exports to China were on par, mainly due to collapsing wool prices and favourable mineral prices which resulted in China increasing its imports of these commodities. During the 1980s decade, increases in the metal commodity prices were moderate, was it not for the exceptional low increases during the 1987-88 period. On the basis of Figure 5.7, *Panel iv*, it does not appear that the pattern of expenditure was predominantly associated with price changes.

Section 9, Merchandise Trade Not Elsewhere Classified, which includes Combined Confidential Items of Trade (Div. 98), has only been documented from 1987/88 onwards. Div. 98 accounts for a high proportion of the total value within Sec. 9. During the 1980s, Sec. 9 merchandise percentage share of Australia's total exports to China rose from 1.5% in 1980 to 32.6% in 1989/90 and to 29.6% in 1994. Sec. 9 and Div. 98 render any attempts to advance an explanation for the structural changes in the Australia-China trade, from 1984/85 to 1990/91 very difficult as it cannot be established to which Sections and Divisions the classified goods pertain. In view of this, it must be noted that, from the late 1980s onwards, any interpretations in commodities' trade which are put forward could at best be assumed to be hypothetical.

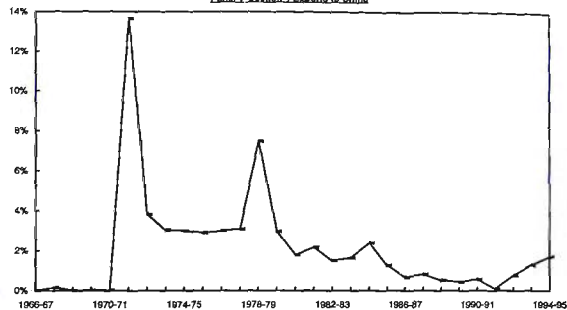
In reviewing Sections 4, 6, 7 and 8, it becomes evident that Animal and Vegetable Oils and Fats (Sec. 4) has become less significant over time, declining from 13.5% in 1971/72 to 1.8% in 1994 (Figure 5.8, *Panel v*). Manufactures Goods Classified Chiefly by Material (Sec. 6) basically refers to goods that are not elaborately transformed decreased its share of Australian total exports to China from 22.5% in 1974/75 to 18% in 1980/81 and to 3.9% in 1994/95. Due to the presence of Combined Confidential Items of Trade (Div. 98), it is not clear whether these figures have any significance (Figure 5.8, *Panel viii*). The only assumption that can be put forth is that the decline of Sec. 6 in the late-1980s could be an extension of an earlier, well-established decline; confirming a shift from STMs in raw materials (Sec. 6) towards a growth in basic raw materials (Sec. 2) (Figure 5.7, *Panel iv*).

Quantitatively, Sections 7 and 8 had been relatively small (Figure 5.8, *Panel vii*). During the 1980s, Machinery and Transport Equipment (Sec. 7) exports grew at the annual average rate of 38.5%, which declined to an average annual growth rate of 13.9% during 1990/91 to 1994/95 period. The overall performance of Sec. 7 was improved by increases from General Industrial Machinery and Equipment and Machine Parts (Div. 74), Telecommunications and Sound Recording and Reproducing Apparatus and Equipment (Div. 76), Electrical Machinery, Apparatus and Parts (Div. 77) and Transport Equipment (Excluding Road Vehicles) (Div. 79).

The main factor which effected the overall performance of Sec. 7 exports to China has been Machinery Specialised for Particular Industries (Div. 72) which accounted for an average 32.6% of Sec. 7 total exports to China during the 1980s but then declined to an annual average of 18.7% during 1990/91 to 1994/95.

Figure 5.8 Australia's Merchandise Exports to China, People's Republic: 1966/67 to 1994/95

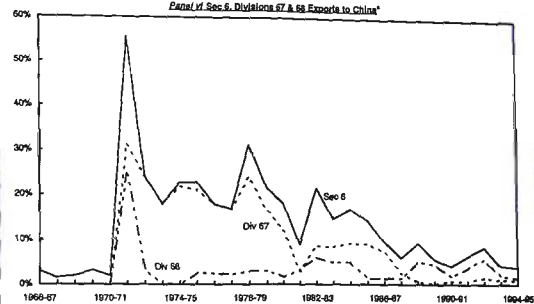
Panel v. Section 4 Exports to China*



Notes: *Percentage of Australia's total exports to China.
Sec. 4 - percentage share of Australia's total exports to China.
Sec. 4 - Agriculture and Vegetable Oils, Fats and Waxes (SITC Rev 3 Classification).

Sources: ABS, Australian Exports and Imports, Country By Commodity, Australian Bureau of Statistics, ABS Cat. No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.

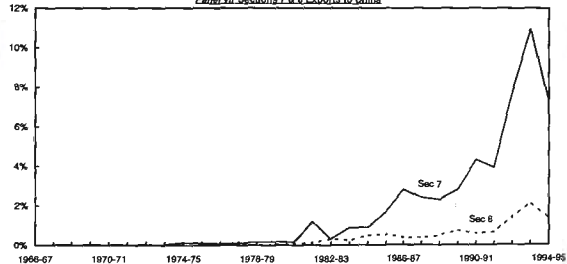
Panel vi. Sec 6, Divisions 67 & 68 Exports to China*



Notes: *Percentage of Australia's total exports to China.
Sec. 6 - Manufactures (Goods Classified Chiefly by Material (SITC Rev 3 Classification)).
Div. 67 - Iron and Steel (SITC Rev 3 Classification).
Div. 68 - Non-Ferrous Metals (SITC Rev 3 Classification).

Sources: ABS, Australian Merchandise Trade, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.

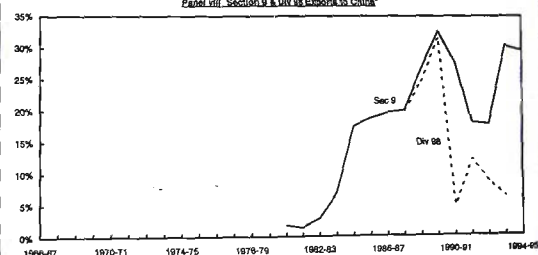
Panel vii. Sections 7 & 8 Exports to China*



Notes: *Percentage of Australia's total exports to China.
Sec. 7 - Machinery and Transport Equipments (SITC Rev 3 Classification).
Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev 3 Classification).

Sources: ABS, Foreign Trade Australia - Merchandise Exports and Imports By Country, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5437.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Panel viii. Section 9 & Div 98 Exports to China*



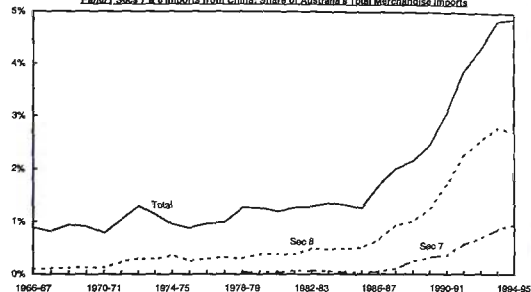
Notes: *Percentage of Australia's total exports to China.
Sec. 9 - Commodities and Transactions Not Classified Elsewhere in the SITC (SITC Rev 3 Classification).
Div. 98 - Classified Conditional Items of Trade (SITC Rev 3 Classification).

Sources: ABS, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5421.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Section 8, Miscellaneous Manufactured Articles, formed a quantitatively small share of Australia's total exports to China. From Figure 5.8, *Panel vii* it could be seen that during the 1980s, Sec. 8 only constituted an average of 0.5% of Australian total exports bound to China. Small improvements started becoming apparent from 1989 onwards. This was achieved by the contribution of Div. 87, Professional, Scientific, and Controlling Instruments and Apparatus, and Div. 89, Miscellaneous Manufactured Articles.

Figure 5.9 Australia's Merchandise Imports from China, People's Republic: 1966/67 to 1994/95

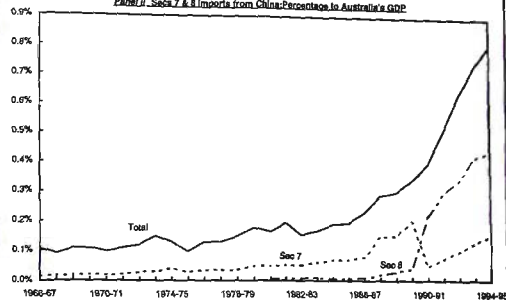
Panel I: Secs 7 & 8 imports from China: Share of Australia's Total Merchandise Imports



Notes: Total is total imports from China as a percentage of Australia's global imports (Gimp).
Sec. 7 as a percentage of Australia's global imports (Gimp).
Sec. 8 as a percentage of Australia's global imports (Gimp).
Sec. 7 - Machinery and Transport Equipment (SITC Rev 3 Classification).
Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev 3 Classification).

Sources: ABS, Australian Exports and Imports, Country By Commodity, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.
Posner, R.A., and Stewart, S.B. 1996, *Australian Economic Statistics, 1949-90 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

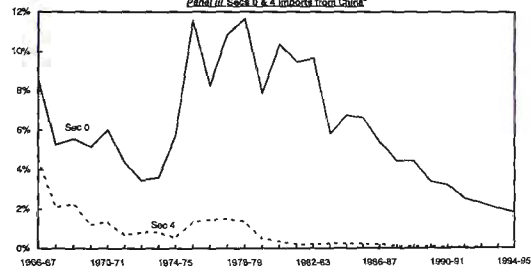
Panel II: Secs 7 & 8 imports from China: Percentage to Australia's GDP



Notes: Total: total imports sourced from China as a percentage of Australia's Gross Domestic Product (GDP).
Sec. 7 imports from China as a percentage of Australia's GDP.
Sec. 8 imports from China as a percentage of Australia's GDP.
Sec. 7 - Machinery and Transport Equipment (SITC Rev 3 Classification).
Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev 3 Classification).

Sources: ABS, Australian Merchandise Trade, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.
Posner, R.A., and Stewart, S.B. 1996, *Australian Economic Statistics, 1949-90 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

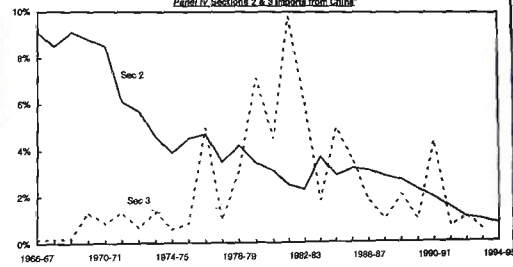
Panel III: Secs 0 & 4 imports from China*



Notes: *Percentage of Australia's total imports from China.
Sec. 0 imports as a percentage of Australia's total imports from China.
Sec. 4 imports as a percentage of Australia's total imports from China.
Sec. 0 refers to Food and Live Animals (SITC Rev 3 Classification).
Sec. 4 refers to Animal and Vegetable Oils, Tans and Waxes (SITC Rev 3 Classification).

Sources: ABS, International Merchandise Trade Australia, ABS Cat. No. 5417.0, AGPS, Canberra, ACT, various issues.

Panel IV: Sections 2 & 3 imports from China*



Notes: *Percentage of Australia's total imports from China.
Sec. 2 as a percentage of Australia's total imports from China.
Sec. 3 as a percentage of Australia's total imports from China.
Sec. 2 refers to Crude Materials, Inedible, Single Traps (SITC Rev 3 Classification) to Australia's Total Exports to China.
Div. 3 refers to Mineral Fuels, Lubricants and Related Materials (SITC Rev 3 Classification).

Sources: ABS, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5412.0, AGPS, Canberra, ACT, various issues.

5.3.4 Australian Merchandise Imports from China

Table 5.5 Australian Merchandise Imports from China: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b IMPORTS FROM CHINA: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food and Live Animals	5	8	4	
1	Beverages and Tobacco	*	*	*	
2	Crude Matrls & Inedible Except fuel	9	3	2	
3	Mineral Fuels	*	7	1	
4	Animal and Vegetable Oils	1	1	*	
5	Chemicals	4	8	4	3
6	Manuf. Goods Classified by Mat.	58	41	21	17
7	Machinery & Transport Equipment	1	1	13	19
8	Miscellaneous Manufactures	19	31	53	55
9	Other	2	*	*	1
Notes: ^a Data to 1987/88 are classified according to the SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items. ^b Imports from China, for all sections, as a percentage of Australian total imports from China. Percentages may not add to 100.0 due to rounding error. *Means less than 0.5%.					
Sources: Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i> , ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.					

In relation to Australian total imports from China, the following can be observed (Table 5.5):

- * A relative decline in Chemicals and related products (Sec. 5) imports from 8% in 1980/81 to 4% in 1990/91 and then to 3% in 1994/95. This was mainly attributable to a contraction in the share of organo-inorganic and heterocyclic compounds imports from China.
- * A significant decline in Manufactured Goods Classified By Material (Sec. 6) imports from a peak of 58% in 1970/71 to 41% in 1980/81, then to 21% in 1990/91 and then to 17% of total imports in 1994/95. This was mainly due to a contraction in the imports of non-ferrous metals (Div. 68) and Textile Yarns (Div. 651).

- * Significant growth in Machinery and Transport Equipment (Sec. 7) imports from 1% in 1970/71 and 1980/81 to 13% in 1990/91 and to 19% in 1994/95 of total imports. The main contenders for Sec. 7 increase in imports were: Household Equipment (Div. 775), Electrical Machinery and Appliances (Div. 77), Office Machines and Computers (Div. 75), Radio-broadcast Receivers (Div. 762), Television Monitors and Projectors (Div. 761) and Telecommunications Equipment NES (Div. 764).
- * A significant growth in Miscellaneous Manufactures (Sec. 8) imports from 19% in 1970/71 to 31% in 1980/81, then to 53% in 1990/91 and then to 55% in 1994/95 of Australian total imports sourced from China. This was the result of increases within Clothing of Textiles Fabrics NES (Div. 845), Sporting Goods, Toys, Games, etc. (Div. 894), Footwear (Div. 851) and Males' Clothing Not Knitted (Div. 841).

Australia's imports from China has grown quite rapidly during the last twenty years. As has been detailed in Chapter 4, Australia-China trade relations became more complementary with time. But, whereas the cumulative growth, in nominal value, of Australian exports to China was 15.5% per annum between 1966/67 and 1994/95, the annual growth rate of imports from China was 27.4%.

Figure 5.9 depicts the various components of Australia growth in imports from China. Figure 5.9, *Panel i* shows how the imports from China, as a proportion of Australia's total imports grew sharply, especially between 1985/86 to 1994/95. Within Figure 5.9, *Panel ii* a similar pattern emerges, as imports from China are expressed as a proportion of GDP. Figure 5.9, *Panels i and ii* reveal that during the 1980s to 1994, the two major import components sourced from China were Machinery and Transport Equipment (Sec. 7) and Miscellaneous Manufactured Items (Sec. 8).

Section 8, Miscellaneous Manufactured Items, have grown from approximately 12% in 1966/67 to 55.3% in 1994/95, of Australian total imports sourced from China. Sec. 8 encompasses goods which embody a relatively, high value-added composition or, elaborately-transformed manufactures (ETMs). The three major components of Sec. 8 are:

- * Articles of Apparel and Clothing Accessories (Div. 84) share increased from 21% in 1980/81 to 25% in 1994/95, of Australian total imports from China
- * Footwear (Div. 85) increased its share from 4% in 1980/81 to 5% in 1990/91 and to 7% in 1994/95, of total imports and,

- * Miscellaneous Manufactures nec (Div. 89), which decreased from 4% in 1980/81 to 3% in 1994/95 of Australian total imports from China.

The relative rise in prominence of Sec. 8 imports can be attributed to the real appreciation of the Australian dollar and the decline, during the last two decades, in Australia's average effective rate of tariff protection.

Australia's imports of Machinery and Transport Equipment (Sec. 7) is illustrated in Figure 5.10, *Panel vii*. From the late 1980s onwards, Sec. 7 sustained spectacular growth which was the result of growth within the following divisions (in descending order):

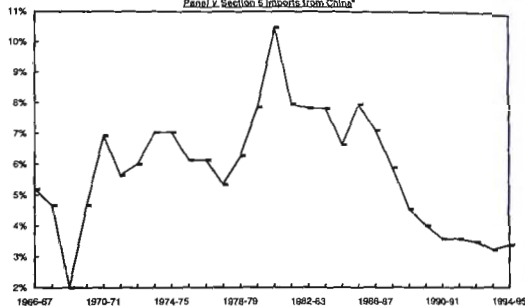
- * Telecommunications and Sound Recording and Reproducing Apparatus and Equipment (Div. 76)
- * Electrical Machinery, Apparatus, Appliances, Parts (Including Non-Electrical Counterparts of Electrical Domestic Equipment) (Div. 77) and,
- * General Industrial Machinery and Equipment, NES and Machine Parts, NES (Div. 74).

While in 1986/87, Divisions 76, 77, and 74 shares of Australian Sec. 7 imports sourced from China stood at 29.7%, 19.8% and 13.9% respectively, in 1994/95, Divisions 76 and 77 composite shares increased to 34.1% and 30.5%, each respectively. However, Div. 74 share decreased to 10.9%.

Section 7 is made up of goods which integrate a relatively high level of technology, that is, they are elaborately transformed manufactures (ETMs). The rapid growth in China's ETMs exports, especially from the late 1980s onwards, is indicative of China following the same path to industrialisation that had propelled its highly successful neighbouring NICs to prominence. Not only has China benefited in attracting investments from Japan, NICs, and other Western countries, including Australia (refer to ch. 8), in order to be able to develop its industries, but was capable of absorbing those manufacturing processes that the NICs abandoned as they reoriented their economies away from manufacturing towards the tertiary sectors.

Figure 5.10 Australia's Merchandise Imports from China, People's Republic: 1966/67 to 1994/95

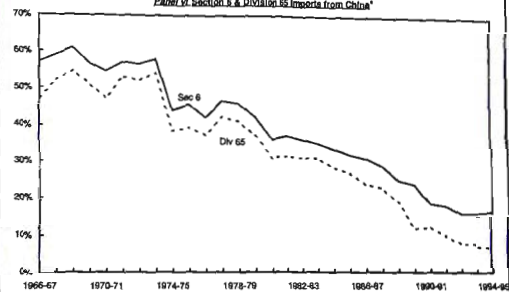
Panel v. Section 5 Imports from China*



Notes: *Percentages of Australia's total imports from China.
Sec. 5 is a percentage share of Australia's total imports from China.
Sec. 5 - Chemical and Related Products, MES (SITC Rev 3 Classification).

Sources: ABS, Australian Exports and Imports, Country By Commodity, Australian Bureau of Statistics, ABS Cat. No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.

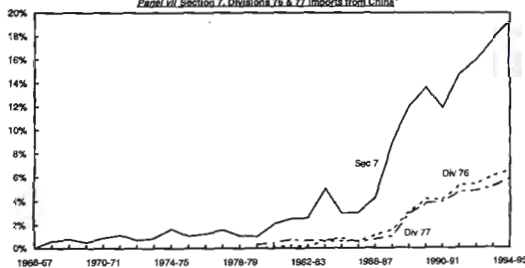
Panel vi. Section 8 & Division 65 Imports from China*



Notes: *Percentages of Australia's total imports from China.
Sec. 8 - Manufactured Goods Classified Chiefly By Material (SITC Rev 3 Classification).
Div. 65 - Textile Yarn, Fabrics, Made-up Articles, Hosi, and Related Products (SITC Rev 3 Classification).

Sources: ABS, Australian Merchandise Trade, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.

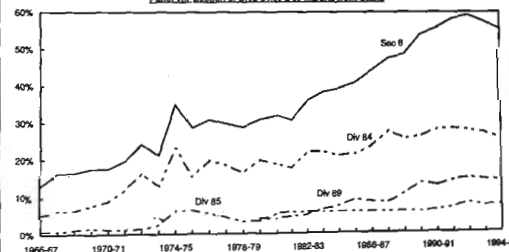
Panel vii. Section 7, Divisions 76 & 77 Imports from China*



Notes: *Percentages of Australia's total imports from China.
Sec. 7 - Machinery and Transport Equipment (SITC Rev 3 Classification).
Div. 76 - Telecommunications and Sound Recording and Reproducing Apparatus and Equipment (SITC Rev 3 Classification).
Div. 77 - Electrical Machinery, Apparatus, Appliances, Parts (Excluding Non-Electrical Components of Electrical Domestic Equipment).

Sources: ABS, Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Australia, ABS, ABS Cat. No. 5413.0, AGPS, Canberra, ACT, various issues.

Panel viii. Section 8, Divs 84, 85 & 89 Imports from China*



Notes: *Percentages of Australia's total imports from China.
Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev 3 Classification).
Div. 84 - Articles of Apparel and Clothing Accessories (SITC Rev 3 Classification).
Div. 85 - Furniture (SITC Rev 3 Classification).
Div. 89 - Miscellaneous Manufactured Articles, Nos.

Sources: ABS, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5422.0, AGPS, Canberra, ACT, various issues.

The relatively distinct rise of Sec. 7 imports is readily explainable, as was previously discussed with Sec. 8: by the real appreciation of the Australian dollar and the lowering of Australia's protection. In addition, the strengthening of the Japanese Yen and the NICs' currencies, during the 1980s, have facilitated China's entry into markets, such as consumer electronics,⁶ which have been predominated by Japan and the NICs.

It must be noted that between 1980 and 1994, the Australian dollar, in real terms, appreciated against the Chinese Renminbi by 165.3%. On the other hand, during 1980-1995 period, the Australian dollar, in real terms, marginally depreciated against the Japanese Yen (27.8%), the South Korea Won (6.9%), the New Taiwanese dollar (18.4%), and the Singapore dollar (13.3%), while marginally appreciated against the Hong Kong dollar (5.5%).

While the previous paragraphs concentrated on the goods for which there was a high growth in imports, this section will focus on those imported goods whose demand receded over time.

Figure 5.9, *Panel iii* reveals that imports of Animal and Vegetable Oils, Fats and Waxes (Sec. 4) and Food and Live Animals (Sec. 0), with time, have declined in their relative importance. From the early 1980s onwards, Sec. 4 share of Australian total imports from China became almost insignificant. On the other hand, Sec. 0 continued on a declining trend that by 1994/95, it accounted for 2% of Australian total imports from China.

In Figure 5.9, *Panel iv*, it is shown that Sec. 2, Crude Materials, Inedible, Except Fuels, imports declined from 9.1% in 1966/67 to 1% in 1994/95. On the other hand, the same panel shows that Mineral Fuels, Lubricants and Related Materials (Sec. 3) importance rose in the early 1980s by attaining a 9.5% share of Australian total imports originating from China, but have since declined to 0.4% in 1994/95. It must be noted that Sec. 3 imports were almost exclusively made of Div. 33, Petroleum, Petroleum Products, and Related Materials.

⁶ The dispersion phenomenon, in which one country after another shift into different technological markets is discussed in Dornbusch and Park (1987).

Figure 5.10, *Panel v* demonstrates a relative decline in Chemicals and Related Products (Sec. 5) imports from 10.2% in 1980/81 to 3.2% in 1994/95. This changing pattern within Sec. 5 is reasonably similar to the pattern observed for Mineral Fuels, Lubricants and Related Materials (Sec. 3)(refer to Figure 5.9, *Panel iv*). This pattern presumably reflects identical international forces, such as the high petroleum prices which were associated with petroleum shortages and the rise in oil price which were imposed by the OPEC countries, during the late 1970s and early 1980s.

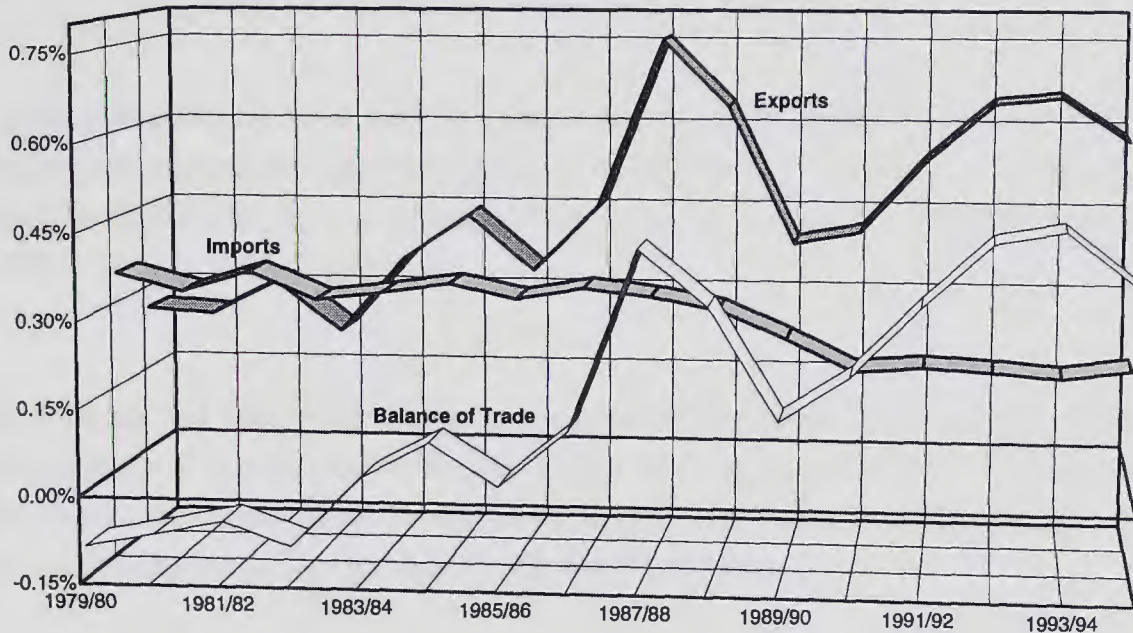
In Figure 5.10, *Panel vi*, it is to be observed that imports of Manufactured Goods Classified Chiefly By Material (Sec. 6) has declined from around 60% of Australian total imports in the late 1960s to just 17% in 1994/95. The most important component of Sec. 6 is Textile Yarn, Fabrics, Made-Up Articles, and Related Products (Div. 65). From the same panel, it would be realised that Div. 65 share of total imports declined from a high of 55.0% in the early 1960s to just 6% in 1994/95. This means that the overall decline in Sec. 6 imports was mainly due to the receding share of Div. 65.

The established trend in Sec. 6 (Figure 5.10, *Panel vi*) needs to be viewed in conjunction with the rise in the imports of Div. 84, Articles of Apparel and Clothing Accessories, (Figure 5.10, *Panel viii*). In combination, these panels indicate an increase in Australian imports of ETMs (Div. 84) from China, and a corresponding decline in the imports of less elaborately transformed merchandise, that is, Textile Yarn, Fabrics, Made-up Articles, and Related Products (Div. 65). Altogether, this indicates the progressive advance within China's manufacturing sectors as its economy continue on its path towards industrialisation.

5.4 Australian Merchandise Trade With Hong Kong Trade

5.4.1 Overview

**Figure 5.11 Australian Trade with Hong Kong as A Percentage of Australia's GDP
1979/80 to 1994/95**



Sources: Australian Bureau of Statistics (ABS), *Foreign Trade, Australia, Comparative and Summary Tables*, Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues; ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Australia*, ABS Cat. No. 5437.0, AGPS, Canberra, ACT, various issues; ABS, *Australian Merchandise Trade*, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues; Reserve Bank of Australia 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

During the last fifteen years, Australia's general trading pattern with Hong Kong has revealed a number of broad features. Australia's exports to Hong Kong have exhibited a relatively high degree of growth (Figure 5.11). Exports to Hong Kong, as a percentage of Australia's GDP increased sharply during the 1983/84 to 1994/95 period. Australia was incurring a trade deficit with Hong Kong during 1979/80-1982/83 period which turned into a surplus from 1983/84 onwards. As Figure 5.11 indicates, during 1979/80-94/95, the value of Australian exports to Hong Kong behaved irregularly: increasing during 1982/83 to 1984/85; decreasing in 1985/86; increasing sharply from 1986/87 to 1987/88; falling sharply between 1988/89 and 1989/90; stabilising during 1989-90; increasing during 1991-92, and decreasing from 1993/94 to 1994/95.

As has been previously discussed in Sec. 5.3.2, prior to 1980, Australian indirect trade, via Hong Kong, to China has been insignificant. However, from 1980 onwards, as China's economy became more outward oriented, Hong Kong's role as China's window on the world increased. By 1981, Hong Kong re-exports increased to about one third of its total exports. By 1992, re-exports accounted for three quarters of Hong Kong total exports.

As China embarked on expanding its global trade, it had to route a large percentage of its manufactured exports through Hong Kong as it lacked the container port facilities. This resulted in China's re-exports, through Hong Kong, to Australia to increase from 21.4% in 1981 to 64% in 1992 (Figure 5.4).

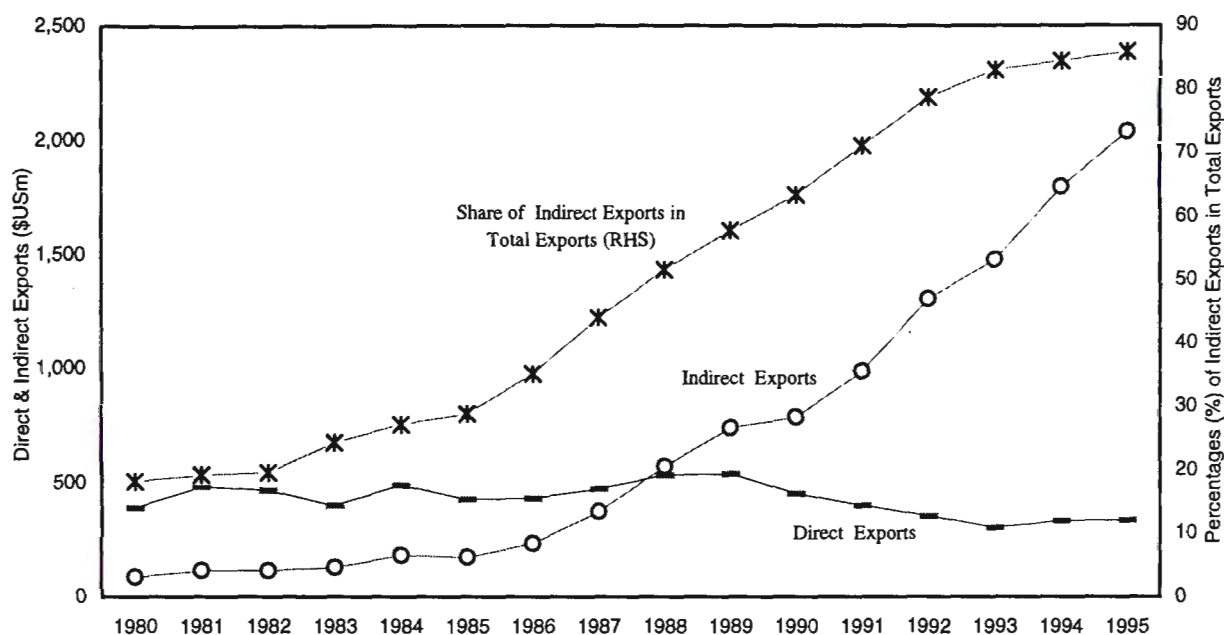
Though China had been undertaking many infrastructure projects to expand its container facilities, this will not jeopardise the importance of Hong Kong as China's major entrepôt in the foreseeable future because shippers will generally prefer to call at Hong Kong for its superior institutional support and professional services.

It also becomes evident that Australian exports to China are becoming increasingly dependent on Hong Kong's entrepôt role, having increased their share of exports, via Hong Kong, from 1% in 1981 to 27% in 1995 (Figure 5.5).

Australian indirect exports, via Hong Kong, to Taiwan had been insignificant over the 1981-95 period, increasing from 0.5% in 1983 to 1.5% in 1994 of Australian total exports. Australian indirect imports, through Hong Kong, from Taiwan also remained insignificant over the 1981-95 period, increasing from 0.8% in 1981 to 1.7% in 1994.

However, the real picture of Hong Kong-Australia trade emerges when Hong Kong exports to Australia were disaggregated using *UN COMTRADE SITC Rev. 1 Data*. When Hong Kong total exports to Australia were disaggregated, it was revealed that re-exports, from other countries other than China and Taiwan, to Australia constituted a significant share of Hong Kong's total exports to Australia which increased from 18.2% in 1980 to 28.8% in 1985, then to 63.4% in 1990 and then to 85.9% in 1995 (Figure 5.12).

Figure 5.12 Hong Kong's Exports: Direct Exports and Re-exports To Australia (\$USm) 1981 - 1995



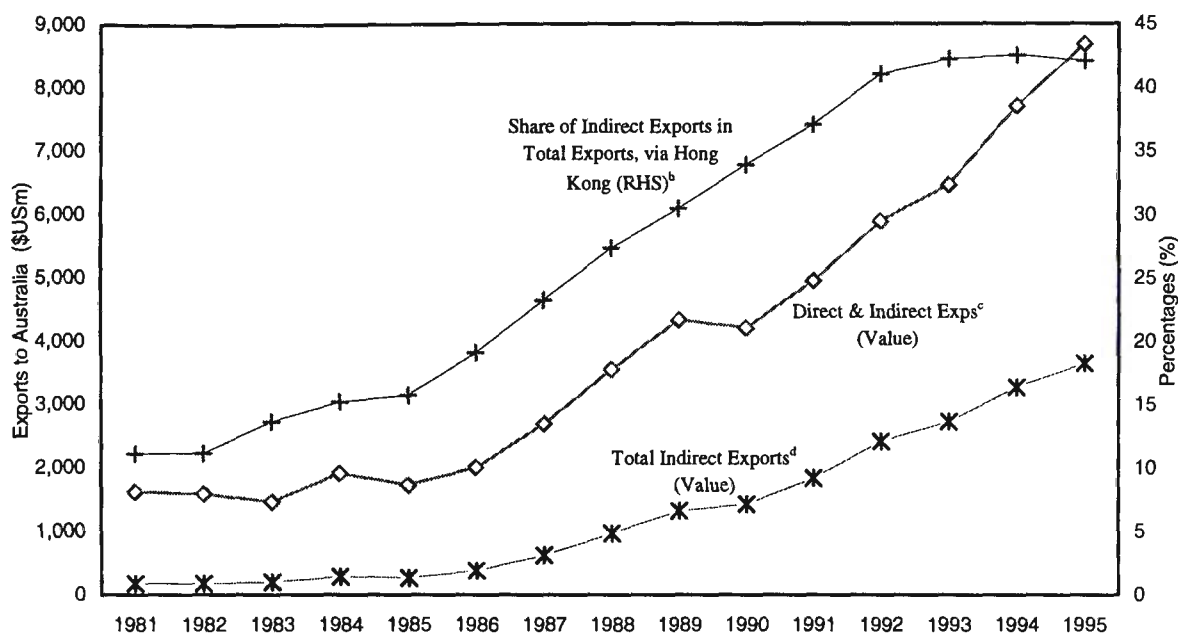
Notes: Year refers to calendar year. Hong Kong's re-exports are goods imported to the reporting country (Hong Kong) and subsequently exported to Australia with no further processing. The country of origin of the goods is not known. Percentage share is the share of indirect exports in total (direct and indirect) exports.

Source: International Electronic Database, *United Nations COMTRADE SITC Rev 1, International Trade Data*, Australian National University, Canberra, ACT, 12 July 1997.

Though Hong Kong's entrepôt role in China's exports to Australia is comparable to new entrants in China's market, as has been previously detailed, the main point that emerges is that Australian trade (imports and exports) with the Greater China Region has become highly dependent on Hong Kong. This becomes more evident when China, Taiwan and other countries re-exports, via Hong Kong, to Australia are combined (Figure 5.13).

Re-exports, via Hong Kong, as a percentage of the Greater China Region exports to Australia are presented in Figure 5.13. It becomes obvious that total exports from China, Taiwan and Hong Kong to Australia began increasing rapidly from 1986 onwards. This trend was mainly the result of the 1984, 1988 and 1991 trade liberalisation in China (refer to ch. 2).

Figure 5.13 Value & Share of Total Regional^a Exports to Australia, via Hong Kong (US\$m & %) 1981 - 1995



Notes:

Year refers to calendar year.

^a China, Taiwan and Hong Kong.

^b Indirect Exps as a share of total exports (direct & indirect), via Hong Kong, to Australia, which originated from China, Taiwan and exports of which the country of origin of the goods is not known but aggregated to Hong Kong exports. to Australia.

^c Total value of exports (direct & indirect - US\$m), via Hong Kong, to Australia which originated in China, Taiwan and goods whose country of origin is not known but whose value is aggregated with Hong Kong exports.

^d Total value of indirect exports (US\$m), via Hong Kong, to Australia which originated in China, Taiwan, and goods whose country of origin is not known but whose value is aggregated to Hong Kong exports.

Source: International Electronic Database, United Nations COMTRADE SITC Rev 1, International Trade Data, Australian National University, Canberra, ACT, 12 July 1997.

This reveals that Australia not only did not establish the right strategies for the conduction of its trade relations with China but continues to be dependent on Hong Kong not only for its merchandise import requirements but also for its exports to China. Australian trading companies may have incurred penalties - financial and experience - as costs are incurred in not dealing directly with your trade sources and in not getting the right feedback or receiving filtered information from the market they seek to penetrate or expand into.

Australia's trade dependence on Hong Kong reverberate the fear that if Hong Kong has to suffer from economic or political uncertainty as a result of its reversion to China in July 1997, the Australian economy will be directly effected as Australian trade with the Greater China Region is so dependent on Hong Kong's entrepôt role.

During Margaret Thatcher's visit to China, in September 1982, the subject of 1997 was brought to the fore, and the political kinship between Hong Kong and China became a major issue. The economic integration between Hong Kong and China had already begun to develop through trade and the flow of both tangible and intangible capital across the border. As a result of the unplanned economic transformation, there was a severe shortage of labour in Hong Kong's service sector.

This resulted in a rapid contraction within Hong Kong's industrial sector, which was accompanied by a active expansion of the service sector (refer to ch. 2, Sec. 2.6.3., Table 2.6). Over the years, Hong Kong's service sector have produced a reserve of professionals and established an effective infrastructure, an advanced international and local telecommunications system, and a reasonably well planned and constructed transportation network, which gave Hong Kong a comparative advantage. Thus, from the 1980s into the 1990s, the service sector was instrumental in facilitating the development of Hong Kong (refer to ch. 6).

Hong Kong was capable of developing into a multi-dimensional service centre, with activities which range from: finance to telecommunications, entrepôt trade, technology transfer, and regional headquarters. Such development has been heavily associated with the China factor. In the 1980s, with China's adoption of its open economic policies Hong Kong's role as a gateway to China was rapidly enhanced, in particular, as a trading partner, a foreign investor and a recipient of its investment.

The Colony had been constrained by the scarcity of arable land which limit agricultural production. Furthermore, Hong Kong lacks natural resources, such as coal, petroleum, or other mineral reserves and any raw material supplies. It has to import most of its food supplies and virtually all the raw materials and fuels that are required by its various industries. Its domestic market has not been large enough to absorb all its locally manufactured goods. Therefore, all major manufacturing industries in Hong Kong are export-oriented. Hong Kong's industrialisation owes its rapid growth to exports, that is, its rapid economic growth being initiated and sustained by a rapid expansion in exports.

Hong Kong's domestic exports has depended mainly on the economic conditions in its major markets, which have traditionally been the developed countries, particularly the United States. As Hong Kong's exports competitiveness is affected by exchange rates, another important influence has been fluctuations in the value of the Hong Kong dollar - in terms of other currencies. For instance, during 1983-86 period, the United States market absorbed over 40% of Hong Kong's domestic exports; thereafter the attained

percentage share started declining persistently. In the mid-1980s, the sharp appreciation of the Deutschmark and Japanese Yen was instrumental in Hong Kong's domestic exports being diverted to Germany and Japan. Most significant of all was the rapid economic development and reform in China, which opened up a sizeable market for Hong Kong's exports. In 1993, China became Hong Kong's largest market, accounting for 28.4% of Hong Kong's domestic exports. Thus, it overtook the United States which used to be the primary market for Hong Kong exports.

During the 1981-86 period, Hong Kong's rate of growth slowed, partly as a result of the world recession in 1982, and partly due to the symptomatic effect of Hong Kong's reversion to China, in 1997. A high-growth momentum was achieved in 1986, with a two-digit GDP growth rate. This was followed by a decline during 1989-91, as a consequence of the 4th June 1989 Tiananmen Square incident, the associated economic austerity programme in China and the beginning of a recession in the Western countries.

By 1989, while Hong Kong's economy was closely integrated with that of China, the political turmoil on the mainland hindered investments flow into China; inevitably disrupting Hong Kong's economic performance. It was not until 1992 that the general confidence was restored in Hong Kong. In the midst of the 1992 global recession, Hong Kong maintained a reasonably high rate of growth in its GDP which was primarily due to the abundant investment opportunities emerging in China and the ensuing inflow of funds.

During 1976-1995, Hong Kong's commodity exports fluctuated substantially. By 1994, the clothing industry (SITC 84) still accounted for 32.8% of Hong Kong's total exports (Table 5.6). The development of Hong Kong's clothing industry was also subject to overseas trade restrictions. The 1977 Multi-Fibre Arrangement set maximums on the volume of items Hong Kong could export which resulted in severe growth restrictions on both clothing and textile exports. In September 1984, the United States imposed the 'Country of Origin Regulation' on Hong Kong's clothing exports. The clothing industry became the subject to various restrictions, such as, various trade quotas, self-retraining policies, and the removal of the Generalised System of Preference (GSP) by the United States Government, with the consequence of heightening the pressure.

In spite of the stringency of these trade restrictions, the clothing industry had been able to sustain a remarkable growth, owing to three crucial factors: the 'up-market' route, use of higher technology, and the provision of appropriate institutional and technical support by the government (Hong Kong Government, 1996b).

By using the 'up-market' route, Hong Kong manufacturers increased their amount of clothing for exports which was in the high-priced range. In utilising higher technology, e.g., latest sophisticated sewing machines, Hong Kong clothing manufacturers were able to shorten the time taken to manufacture an item and could adapt their machines to undertake any type of order, that is, they became more versatile. By providing the appropriate institutions and technical support, in 1987, the Hong Kong Government Industry Department commissioned an in-depth research report on the clothing and textile industry in Hong Kong.

On the other hand, the relative importance of Textiles (SITC 65) was on a steady decline from 1976 to 1985, until it stabilised at 7% of total exports during 1988-94 (Table 5.6). This decline was due to several factors, namely: strong competition from other Asia-Pacific Region countries and growing pressure imposed on the growth of textile exports by the developed countries.

Table 5.6 Hong Kong Domestic Exports By Principal Commodity						
Year	Clothing	Textiles	Artif. Resins & Plastic Materials (SITC 58); Plastic Toys & Articles	Electrical & Electronic Products	Baby Carriages, Toys, Games & Sporting Goods	Watches & Clocks
	(SITC 84)	(SITC 65)	(SITC 893)	(SITC 75, 76, 77)	(SITC 894)	(SITC 885)
1976	43.8	9.3	0.7	12.9	7.4	3.7
1980	37.1	6.6	1.6	17.0	8.8	9.2
1981	35.2	6.6	1.7	17.6	9.2	8.8
1982	34.7	6.1	1.8	16.9	11.1	8.6
1983	32.9	6.8	1.9	20.8	8.5	7.9
1984	33.9	6.3	2.3	22.8	8.4	6.4
1985	34.5	6.0	2.4	20.0	7.8	7.1
1986	33.9	7.1	2.7	19.6	7.6	7.4
1987	33.5	8.2	3.1	19.8	6.5	6.9
1988	30.9	7.1	3.6	22.4	4.7	7.6
1989	32.1	7.5	4.0	22.1	3.2	7.3
1990	31.9	7.5	4.2	22.2	2.4	8.1
1991	32.8	7.6	4.0	22.9	2.1	6.9
1992	32.2	7.3	3.7	23.9	1.8	5.9
1993	33.0	7.4	3.6	22.9	1.5	6.6
1994	32.8	6.8	3.8	25.4	1.2	5.4
1995	31.8	6.1	3.8	24.8	1.1	5.3

Notes: For the years 1994 and 1995, UN data was used. UN STARS Data Base, Australian National University, Canberra, ACT.
Source: Hong Kong Government, Census and Statistics Department, *Hong Kong Trade Statistics Annual Supplement*, Hong Kong, various issues.

The Electrical and Electronics Industry (SITC 75, 76 & 77) remained a dynamic and flexible industry able to undergo significant product diversification and technological innovation (Table 5.6). Manufacturing of watches and clocks (SITC 885) played an important role in Hong Kong's economy, even though it remained relatively low in value-added as the movement parts were largely imported.

From the mid-1970s to the early 1980s, the Plastic Toys and Articles (SITC 893) Industry continued to show remarkable growth, mainly due to strong overseas demand (Table 5.6). However, since 1984, this growth has stabilised, partly as a result of an increasing volume of work being subcontracted to China. In addition, the industry has been facing intense competition from other exporting economies, especially China, which has considerably reduced the profit margin.

As a consequence of the low profit margin resulting from the changing comparative costs, the decline of Hong Kong's manufacturing sector was inevitable. China's economic reorientation presented Hong Kong industrialists with the opportunities they were seeking - availability of land and a large reserve of labour. The crucial stimulus for the China-Hong Kong economic relations had been the factor of 'economic complementarity.'

Hong Kong's industries faced a severe lack of labour and land, resulting in the cost of production being pushed up; with losses in the competitiveness of Hong Kong's traditional industries, such as clothing, footwear, and toys. The relocation of the relatively low value-added, labour- and land-intensive processing operations to China has therefore become, a major aspect of the Hong Kong-China economic relationship. The relocated industries' products are mostly exported.

This resulted in the relocation of manufacturing processes into China, as a means of maintaining product competitiveness and profits. The end-result is a synergetic relationship between Hong Kong and China. Those manufacturing industries which opted to stay in Hong Kong shifted their basis from direct manufacturing to one that is manufacturing-related, e.g., the provision of support services, such as packaging, designing, and marketing of products manufactured elsewhere. This means that previously sourced Hong Kong-made items are now imported into Australia as China-made goods, with a higher percentage of China's goods being re-exported, via Hong Kong. That is why China's trade is making more use of Hong Kong entrepôt role.

5.4.2 Australian Merchandise Exports to Hong Kong

Table 5.7 Australian Merchandise Exports to Hong Kong: By Major Categories Percentage (%)
1970/71 to 1994/95 (Selected Years)

Sections ^a	Commodity Description	AUSTRALIAN ^b EXPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food and Live Animals	19	27	16	18
1	Beverages and Tobacco	1	1		
2	Crude Matrls & Inedible Except fuel	10	6	4	8
3	Mineral Fuels	*	3	12	6
4	Animal and Vegetable Oils	*	*		
5	Chemicals	3	*	5	8
6	Manuf. Goods Classified by Mat.	23	28	15	23
7	Machinery & Transport Equipment	8	7	10	16
8	Miscellaneous Manufactures	11	11	6	6
9	Other			1	1

Notes: ^a Data to 1987/88 are classified according to the SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.
^b Australian exports to Hong Kong, for all sections, as a percentage of Australian total exports to Hong Kong. Percentages may not add to 100.0 due to rounding error.
*Means less than 0.5%.

Sources: Australian Bureau of Statistics, *Foreign Trade, Australia, Comparative and Summary Tables*, ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Australia has sustained changes in its trade with Hong Kong. Within exports, it is to be noted (Table 5.7):

- * The relative stability of Food and Live Animal (Sec. 0) exports from 19% in 1970/71 to 18% in 1994/95, with an intermittent increase to 27% in 1980/81, of Australian total exports to Hong Kong. The decline in Sec. 0 exports was attributable to the US dominating the wheat market in Hong Kong, to the detriment of Australian wheat growers.
- * The alternating importance of Crude and Inedible Materials (Sec. 2) from 10% of total exports in 1970/71 to 4% in 1990/91 and to 8% in 1994/95. This was in line with Hong Kong firms shifting their production in Southern China.

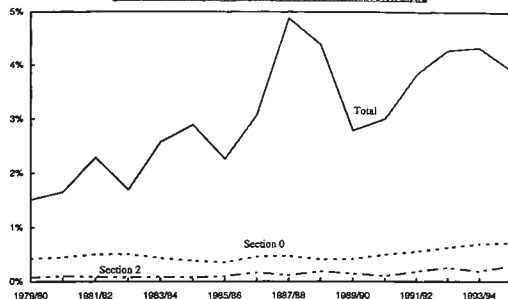
- * The relative importance of Chemicals (Sec. 5) from 3% in 1970/71 to 8% in 1994/95, of Australian total exports. Increases in Sec. 5 were achieved through increases in the exports of Medicaments, including Veterinary (Div. 541) and Paints, Varnishes Pigments (Div. 533).
- * The relative oscillation within Manufactured Goods Classified By Material (Sec. 6) exports, increasing from 23% in 1970/71 to 28% in 1980/81, then decreasing to 15% in 1990/91 and then increasing to 23% in 1994/95, of Australian total exports to Hong Kong. Improvement in Sec. 6 overall performance are associated with increase in the exports of Aluminium (Div. 684), Pearls and Precious Stones (Div. 667) and Zinc (Div. 686) while a decrease in the export of Flat-rolled Iron Steel Coated (Div. 674) was the cause of Sec. 6 share decrease in 1990/91.
- * The relative importance of Machinery and Transport Equipment (Sec. 7) whose share increased from 8% in 1970/71 to 16% in 1994/95 of Australian total exports. Sec. 7 performance was abided by increases within Rotating Electric Plant (Div. 716), General Industrial Machinery (Div. 74) and Computers (Div. 752).
- * The relative decline in Miscellaneous Manufactures (Sec. 8) exports from 11% in 1970/71 and 1980/81 to 6% in 1994/95. This is attributable to the decline within Clothing (Div. 84) and Jewellery (Div. 897) exports.

Within this section, the pattern of change within Australia's exports to Hong Kong are examined. The following analysis is based on Australian Bureau of Statistics data, SITC Revs 2 and 3, by Sections and Divisions.

It is to be noted that up to 1986/87, inclusive, Div. 9, Commodities and Transactions Not Classified Elsewhere, fluctuated considerably, making trend analysis for various export divisions rather ambiguous (Figure 5.15, *Panel viii*). ABS, SITC Rev 3 data has been adopted, with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.

Figure 5.14 Australia's Merchandise Exports to Hong Kong: 1979/80 to 1994/95

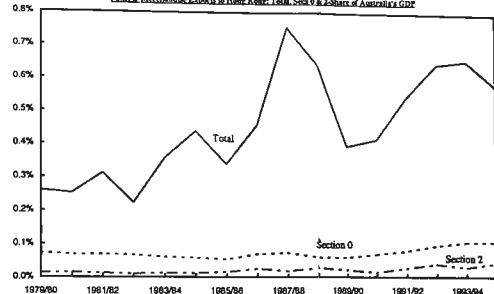
Panel I: Merchandise Exports to Hong Kong: Share of Total Australian Goods Exports



Notes: Total is merchandise exports to Hong Kong as a share Australia's global exports (\$m).
Sec. 0 exports to Hong Kong as a percentage of Australia's global exports (\$m).
Sec. 2 exports to Hong Kong as a percentage of Australia's global exports (\$m).
Sec. 0 - Food and Live Animals (SITC Rev 3 Classification).
Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification).

Source: ABS, Australia Exports and Imports, Country By Commodity, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.
Peters, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-90 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

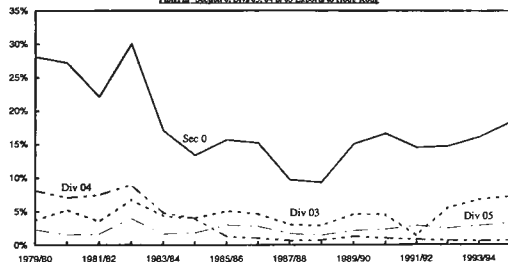
Panel II: Merchandise Exports to Hong Kong: Total, Sec 0 & 2-Share of Australia's GDP



Notes: Total exports to Hong Kong as a percentage of Australia's Gross Domestic Product (GDP).
Sec. 0 exports to Hong Kong as a percentage of Australia's GDP.
Sec. 2 exports to Hong Kong as a percentage of Australia's GDP.
Sec. 0 - Food and Live Animals (SITC Rev 3 Classification).
Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification).

Source: ABS, Australia Merchandise Trade, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.
Peters, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-90 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

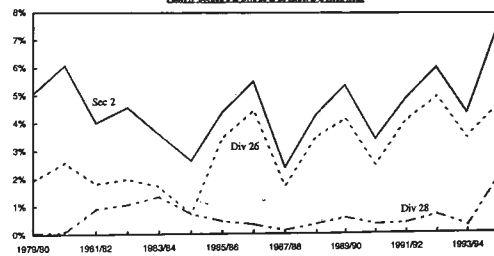
Panel III: Section 0, Divs 03, 04 & 05 Exports to Hong Kong



Notes: Percentage of Australia's total exports to Hong Kong.
Sec. 0 - Food and Live Animals (SITC Rev 3 Classification).
Div. 03 - Fish (Not Marine Mammals), Crustaceans, Molluscs and Aquatic Invertebrates, and Preparations thereof (SITC Rev 3 Classification).
Div. 04 - Cereals and Cereal Preparations (SITC Rev 3 Classification).
Div. 05 - Vegetables and Fruit (SITC Rev 3 Classification).

Source: ABS, Foreign Trade Australia - Merchandise Exports and Imports By Country, International Merchandise Trade Australia, ABS Cat. No. 5417.0, AGPS, Canberra, ACT, various issues.

Panel IV: Section 2 & Divs 26 & 28 Exports to Hong Kong



Notes: Percentage of Australia's total exports to Hong Kong.
Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev 3 Classification).
Div. 26 - Textile Fibres and Their Wastes (not Manufactured into yarn or Fabric) (SITC Rev 3 Classification).
Div. 28 - Miscellaneous Ores and Mineral Sands (SITC Rev 3 Classification).

Source: ABS, International Merchandise Trade Australia, Australian Bureau of Statistics, ABS Cat. No. 5422.0, AGPS, Canberra, ACT, various issues.

Section 0, Food and Live Animals, had been a major section in Australian exports to Hong Kong. This is illustrated in Figure 5.14, *Panels i and ii*. Prior to the 1980s, most of the variability in total exports is explained by fluctuations in Sec. 0. From the early 1980s onwards, there were oscillations in the share of Sec. 0 major divisions. This was mainly attributable to the US increasing its share of the Hong Kong wheat market to the detriment of Australian wheat exports.

Cereals refers principally to wheat. Prior to the early 1980s, Cereals (Div. 04) used to be the most important division within Sec. 0. But as Figure 5.14, *Panel iii* clearly illustrates, the importance of cereal exports was overtaken by Fish (Not Marine Mammals), Crustaceans, Molluscs and Aquatic Invertebrates and Preparations thereof (Div. 03) and Vegetables and Fruit (Div. 05).

Cereal exports to Hong Kong decreased in their relative importance during the 1980s. Some of the reasons attributable to the decline in cereal exports are as follows (in descending order):

- * In 1983, Australia and the United States held 20% and 80% (by volume) respectively of Hong Kong's wheat market. However, as a result of the United States implementing the EEP program, America continued to increase its share of the Hong Kong wheat market (by volume) from 88% in 1986 to 90% in 1987, then to 91% in 1990 and then to 94% in 1994 (USDA, 1993). The gains achieved by the United States in Hong Kong's wheat market were to the detriment of Australian wheat exports.
- * Another influence on Hong Kong's demand for Australian exports, in general and in relation to cereals, relates to the exchange rate. In nominal terms, during 1983/84-1994/95, the Australian dollar appreciated by 20 per cent against the Hong Kong dollar. This means that in real terms, the Australian dollar appreciated by 5.5 per cent
- * With China's economic reorientation and restructuring of its pricing system to better reflect supply and demand forces, even though, in the interim, commodities' prices were still based on three tiers system, Hong Kong was no longer in a position to receive subsidised commodities, especially agricultural produce, from China. Thus, Hong Kong found an alternative source, the United States, to supply its cereal needs - economically and in the quantities required.

- * In developments which have taken place within the colony itself, regarding the imports of foodstuffs. While in 1968, foodstuffs accounted for 20% of Hong Kong's total imports, by 1992, this has declined to less than 5% (Hong Kong Government, 1993b).
- * With significant increases in Hong Kong's level of income, the demand for foodstuffs will normally increase less than proportionately since the income elasticity of demand for foodstuffs is low. That is, there would be a shift in the dietary conditions of the population. However, cereals intake requirements were maintained with imports of American wheat. In effect, Figure 5.14, *Panel iii*, to some extent, reflects this tendency: less Australian exports of Cereals (Div. 04) was compensated for by an increase in the exports of more Fish (Div. 03) and Vegetables and Fruit (Div. 05).

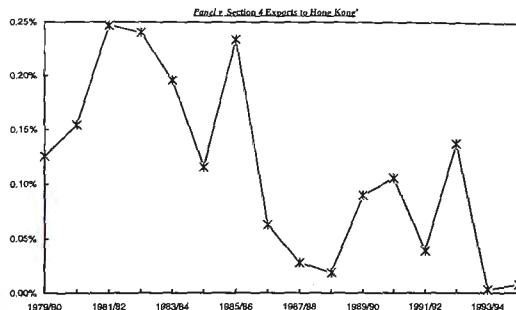
The second most important section of Australian exports to Hong Kong has been Manufactures Goods Classified Chiefly by Material (Sec. 6) which basically refers to goods that are not elaborately transformed, such as Zinc (Div. 686), Aluminium (Div. 684), Copper (Div. 682), Flat-rolled Iron Steel Coated (Div. 674) and Pearls and Precious Stones (Div. 667). Sec. 6 share declined from 35% in 1979/80 to 6.1% in 1987/88, then increased to 14.5% in 1990/91 and then to 23.1% in 1994/95, of Australian total exports to Hong Kong (Figure 5.15, *Panel vi*). From 1984/85 onwards, Sec. 6 overall performance was improved by a greater contribution from within Div. 68, Non-Ferrous Metals.

The only assumption that can be put forth is that the increase in Sec. 6 in the late-1980s could be ascribed to the alignment of Hong Kong's industries, such as construction, whose share of GDP, at current factor cost, increased from 4.8% in 1986 to 5.6% in 1991. Another explanation is that Hong Kong is too small a region to accommodate any serious processing of raw materials. This pattern is an extension of an earlier, well-established decline, confirming a shift towards an increase in Hong Kong's imports of STMs, such as aluminium, zinc and copper (Sec. 6) and a simultaneous decline in Basic Raw Materials (Sec. 2) (Figure 5.14, *Panel iv*).

The third important Section of Australia's exports to Hong Kong has been Sec. 2, Crude Materials, Inedible, Except Fuel. Division 26, Textile Fibres, which is dominated by wool, is the most important component - as Figure 5.14, *Panel iv* indicates.

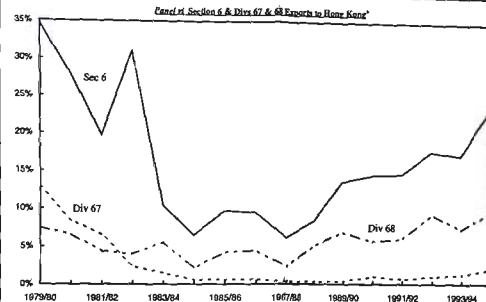
Division 28, Metalliferous Ores and Metal Scrap, gained some significance during the early- to mid- 1980s and then its share diminished. However, Div. 28 significance increased in 1994, by attaining a 2% share of Australian total exports to Hong Kong.

Figure 5.15 Australia's Merchandise Exports to Hong Kong: 1979/80 to 1994/95



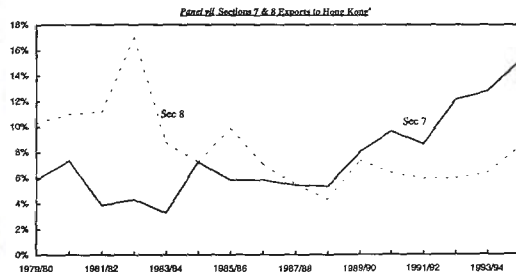
Notes: *Percentage share of Australia's total exports to Hong Kong.
Sec. 4 percentage share of Australia's total exports to Hong Kong.
Sec. 4 - Animal and Vegetable Oils, Fats and Waxes (SITC Rev. 3 Classification).

Sources: ABS, *Australian Exports and Imports, Country By Commodity*, Australian Bureau of Statistics, ABS Cat. No. 5410A, Australian Government Publishing Service, Canberra, ACT, various issues.



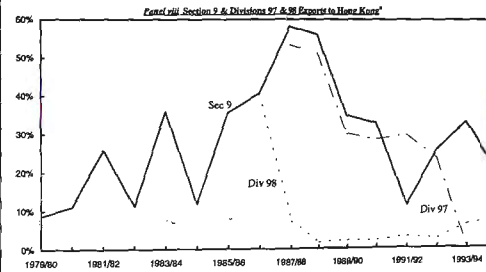
Notes: *Percentage share of Australia's total exports to Hong Kong.
Sec. 6 - Manufactured Goods Classified Chiefly by Material (SITC Rev. 3 Classification).
Div. 67 - Iron and Steel (SITC Rev. 3 Classification).
Div. 68 - Non-Ferrous Metals (SITC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*, Australian Bureau of Statistics, ABS Cat. No. 5411A, AGPS, Canberra, ACT, various issues.



Notes: *Percentage share of Australia's total exports to Hong Kong.
Sec. 7 - Machinery and Transport Equipment (SITC Rev. 3 Classification).
Sec. 8 - Manufactures Miscellaneous (SITC Rev. 3 Classification).

Sources: ABS, *Foreign Trade Accounts - Merchandise Exports and Imports by Commodity*, *International Merchandise Trade Australia*, Australian Bureau of Statistics, ABS Cat. No. 5437.0, AGPS, Canberra, ACT, various issues.



Notes: *Percentage share of Australia's total exports to Hong Kong.
Sec. 9 - Commodities and Transforms Not Classified Elsewhere in the SITC (SITC Rev. 3 Classification).
Div. 97 - Gold, Non-Monetary (Excludes Gold Ore and Concentrates) (SITC Rev. 3 Classification).
Div. 98 - Constant Commodity Basis of Trade (SITC Rev. 3 Classification).

Sources: ABS, *International Merchandise Trade Australia*, Australian Bureau of Statistics, ABS Cat. No. 5472.0, AGPS, Canberra, ACT, various issues.

Figure 5.14, *Panel iv* indicates that collectively, Sec. 2 commodities tended to become more important over time. However, Sec. 2 also displays a significant degree of volatility.

Hong Kong's alternating expenditure on Australian fibres can be significantly linked to the fluctuating wool prices. For example, wool prices rose considerably in 1973/74 and in 1988/89 (refer to ch. 1, Figure 1.1, *Panel ii*); with price increases coinciding with a decrease in total outlays. However, other influences were also important. For example, as discussed earlier, fluctuations in the real exchange rate would have had a retarding long-term effect on Australia's exports of fibres to Hong Kong. The 'Country of Origin' regulation imposed by the United States on Hong Kong in September 1984, as well as various trade quotas, self-restraining policies, and the removal of the Generalised Preference Scheme by the United States had added extra pressure to the industry. The Hong Kong industry had to adjust to these forces and re-orient its strategies, e.g., by going 'up-market' and in finding new markets.

International prices for metals also varied. Prices grew relatively rapid during 1978-79 period (refer to ch. 1, Figure 1.1, *Panel iii and iv*). During the 1980s decade, metal commodity prices sustained reasonable increases if one excludes the exceptional low increase in prices during the 1987-88 period. On the basis of Figure 5.14, *Panel iv*, it does not appear that the pattern of expenditure was predominantly associated with price changes.

Section 9, Merchandise Trade Not Elsewhere Classified, which includes Div. 98, Combined Confidential Items of Trade, had only been documented from 1986/87 onwards. Div. 98 accounted for well over 95% of the total value within Sec. 9, in 1986/87 (Figure 5.15, *Panel viii*). From 1987/88 onwards, Sec. 9 was reclassified and included, among others, Div. 97, Gold, Non-Monetary, which explain the significant increases attained in this section. In 1987/88, Div. 97 made up 90% of Sec. 9 exports to Hong Kong. From Figure 5.15, *Panel viii* it becomes clear that Div. 97 had a significant effect on the overall performance of Sec. 9. During the 1980s, Sec. 9 share of Australian total exports to Hong Kong rose from 8.5% to 34.4% in 1994/95; peaking at 58.2% in 1988/89.

Sec. 9 and Div. 98 render any attempts to advance an explanation for the changes in the structure of trade between Australia and Hong Kong, from 1979/80 to 1986/87 impossible, as it cannot be established to which sections and divisions the classified goods pertain. In view of this, it must be noted that during 1979/80-1986/87, any interpretations in commodities' trade which are put forward could at best be assumed to be hypothetical.

From 1987/88 to 1992/93, the significant increase in the share of gold (Div. 97) in Australian total exports to Hong Kong may be associated with the Wall Street Crash of 1987; with the government and corporations in Hong Kong buying gold as a hedge, that is, as a form of investment (Numa, 1995). By buying gold, they may have been alleviating a potential blow-out in the balance of trade with Australia and possible retaliatory implications, e.g., media coverage and the ensuing public pressure which might have forced the Australian government to take steps in tightening its immigration intake from Hong Kong. Hong Kong's immigration and investment phenomenon, during the 1980s and 1990s will be examined in chs 7 and 8, respectively.

In reviewing Sections 4, 7 and 8, it becomes evident that Sec. 4, Animal and Vegetable Oils and Fats, has become less significant over time; with its percentage share of total exports to Hong Kong diminishing from 0.12% in the late 1970s to 0.01% in 1994 (Figure 5.15, *Panel v*).

Quantitatively, while Sec. 7 significantly increased its percentage share, Sec. 8 percentage share fluctuated and declined in an erratic pattern (Figure 5.15, *Panel vii*). This meant that Sec. 7 outperformed Sec. 8 - from the late 1980s onwards. During the 1980/81-1994/95 period, Machinery and Transport Equipment (Sec. 7) grew an average annual rate of 32.8%.

During the 1980s, Office Machines and Automatic Data Processing Machines (Div. 75) and Electrical Machinery, Apparatus, Appliances and Parts (Div. 77) had been the most consistent variables, accounting for an average share of 23.5% and 22.9%, each respectively, of Australian Sec. 7 exports to Hong Kong.

During 1990-94, Divs 72 and 77 average annual share stood at 22.7% and 21.7%, each respectively of Sec. 7 exports to Hong Kong. The overall improvement in the performance of Sec. 7 was achieved by significant increases within Transport Equipment (Excluding Road Vehicles) (Div. 79). While Div. 79 grew at the annual growth rate of 12.1% during the 1980s, during 1990/91-1994/95 period, its annual growth rate increased to 19.7%. The 1990s average annual growth rate of Div. 79 was significantly influenced by the one-off sale of five large vessels, four ferries and a dredging ship (extraordinary items), in 1993/94, for the value of \$A41m.

Section 8, Miscellaneous Manufactured Articles, also contributed a significant share of Australian total exports to Hong Kong. The changes which have taken place during the 1979/80-1994/95 period are depicted in Figure 5.15, *Panel vii*. During the 1980s decade,

Sec. 8 share of Australian total exports bound for Hong Kong grew at the average annual rate of 8.9%. From the early- to late-1980s, there was a steady decline in Sec. 8 percentage share of Australian total exports to Hong Kong, with some improvements becoming conspicuous from 1988 onwards. This was attributed to an increase within Photographic Apparatus, Equipment and Supplies, and Optical Goods, Watches and Clocks (Div. 88) and Miscellaneous Manufactured Articles (Div. 89). During 1990/91-1994/95, Sec. 8 annual average share of Australian total exports to Hong Kong stood at 6.6%. This means that Sec. 8 continued to suffer from an imminent share decline when compared with its average annual export share of 8.9% during the 1980s decade.

In summary, during 1979/80 to 1994/95, Australian exports to Hong Kong continued to be composed of agricultural and mineral commodities. However, agricultural exports, especially wheat suffered as a result of intense competition from US wheat exports. At the same time, there were increases in the shares of STMs and ETMs in Australian total exports to Hong Kong.

5.4.3 Australian Merchandise Imports from Hong Kong

Table 5.8 Australian Merchandise Imports from Hong Kong: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b IMPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food and Live Animals	1	2	3	3
1	Beverages and Tobacco	*	*		
2	Crude Matrls & Inedible Except fuel	1	1		
3	Mineral Fuels		*		
4	Animal and Vegetable Oils	*	*		
5	Chemicals	1	1	2	3
6	Manuf. Goods Classified by Mat.	35	27	18	12
7	Machinery & Transport Equipment	3	17	31	51
8	Miscellaneous Manufactures	57	51	44	31
9	Other	2	2	2	1
<p>Notes: ^a Data to 1987/88 are classified according to the SITC Rev 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.</p> <p> ^b Imports from Hong Kong, for all sections, as a percentage of Australian total imports from Hong Kong.</p> <p> Percentages may not add to 100.0 due to rounding error.</p> <p> *Means less than 0.5%.</p> <p>Sources: Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i>, ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.</p>					

In relation to Australian imports from Hong Kong, the following can be observed (Table 5.8):

- * A relative increase in Australian imports of Food and Live Animals (Sec. 0) from 1% in 1970/71 to 3% in 1994/95, mainly due to increases in the imports of Seafood (Div. 03) and Edible Products (NES) (Div. 098).
- * A relative increase in the imports of Chemicals (Sec. 5) from 1% in 1970/71 to 3% in 1994/95.
- * A relative decline in the imports of Manufactured Goods Classified By Material (Sec. 6) from 35% in 1970/71 to 12% in 1994/95, mostly due to the decline in the imports to Textile Yarn (Div. 651), Cotton Fabric Woven (Div. 652), Knitted or Crocheted Fabrics (Div. 655) and Household Metal Equipment (Div. 697).

- * A relative increase in the imports of Machinery and Transport Equipment (Sec. 7) from 3% in 1970/71 to 51% in 1994/95. This increase is mostly attributable to substantial increases in the imports of Computers (Div. 752), Computers and Office Machinery Parts (Div. 759) and Cathode Valves and Tubes IC's (Div. 776).
- * The comparative decline in the imports of Miscellaneous Manufactures (Sec. 8) from 57% in 1970/71 to 31% in 1994/95, of Australian total imports from Hong Kong. The main reason behind the contraction of Sec. 8 share in Australian total imports from Hong Kong is due to a decrease in the imports of Males' Clothing (Div. 841), Females' Clothing not Knitted (Div. 842), Clothing of Textile Fabrics (Div. 845) and Plastic Articles (Div. 893).

As has been previously elaborated upon earlier in Sec. 5.3.4, 5.4.1 & 5.4.2, a substantial share of Hong Kong exports to Australia was made up of re-exports of which country of origin is unknown. On the basis of *UN COMTRADE SITC Rev. 1 data*, the share of indirect exports (excluding China and Taiwan) within Hong Kong total exports to Australia had increased from 18.2% in 1980 to 28.8% in 1985, then to 63.4% in 1990 and then to 85.6% in 1995. *ABS SITC Rev. 3 data* does not capture the share of re-exports within the total imports from Hong Kong as it relies on documentation provided by importers to the Australian Customs Service (ACS). The case may be that Australian importers may not know the country of origin at the time of shipment and put Hong Kong as such, thus, overstating Australian imports from Hong Kong on the basis of country of origin and understating imports from countries downstream from it.

The overall picture which emerges is not that Australian imports had declined but that goods previously sourced from Hong Kong began to be increasingly imported from China, as has been elaborated upon in Sec. 5.3.4). This was mainly due to the ongoing structural change within the Greater China Region, with Hong Kong firms shifting their production in Southern China in order to retain their comparative advantage and remain internationally competitive. The end-result was a symbiotic relationship which benefited both countries - economically. For business, the real date for Hong Kong's re-integration with China was in 1979 when Deng Xiaoping pushed through his Open-Door Policy (FEER, 1997). The reversion of Hong Kong to China in 1997 is just a political symbol - reaffirming the right of the Government of the People's Republic of China jurisdiction over its lost territory.

Australian imports from Hong Kong have developed quite rapidly during the last twenty years. As has been detailed in ch. 3, Australia-Hong Kong trade relations became more complementary with time. But, whereas the cumulative annual growth rate, in nominal terms, of Australian exports to Hong Kong was 20.3% during 1979/80-1994/95 period, Australian imports from Hong Kong grew at the annual rate of 6.6%.

Figure 5.16 depicts the various components of Australia growth in imports sourced from Hong Kong. Figure 5.16 *Panel i* shows how imports from Hong Kong, as a proportion of Australian global imports declined, especially from 1986/87 to 1994/95. Within Figure 5.16, *Panel ii* a similar pattern emerges, as imports from Hong Kong are expressed as a proportion of GDP. Figure 5.16, *Panels i and ii* reveal that from 1979/80 to 1994/95, the two major import components originating from Hong Kong were Machinery and Transport Equipment (Sec. 7) and Miscellaneous Manufactured Items (Sec. 8).

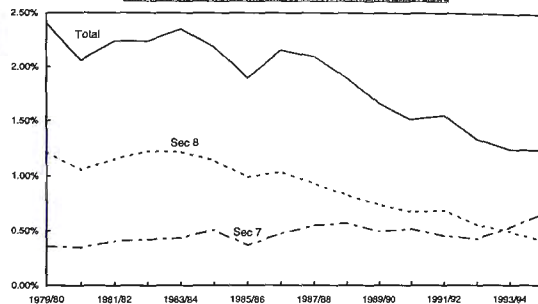
The share of Miscellaneous Manufactured Items (Section 8) imports decreased from 50.5% in 1979/80 to 32.9% in 1994/95, of Australian total imports from Hong Kong. Sec. 8 encompasses goods which embody a relatively, high value-added composition or, elaborately-transformed manufactures (ETMs). The three major components of this Section imports from Hong Kong are:

- * Articles of Apparel and Clothing Accessories (Div. 84) whose share decreased from 18.5% in 1979/80 to 12.2% in 1990/91 and to 5.7% in 1994/95 of Australian total imports from Hong Kong.
- * Footwear (Div. 85) whose share decreased from 0.7% in 1979/80 to 0.4% in 1990/91 and to 0.1% in 1994/95, of total imports and,
- * Miscellaneous Manufactures (Div. 89) whose share increased from 20.7% in 1979/80 to 23.4% in 1990/91 and then decreased to 16.2% of total imports.

The relative decline in Australian Sec. 8 imports from Hong Kong are mainly due to Australia sourcing most of its Sec. 8 needs from mainland China as a result of Hong Kong manufacturers shifting their operations to Shenzhen Special Economic Zone, in Southern China. That is, goods that were previously produced and exported from Hong Kong are now tallied with China's exports, since China is the 'Country of Origin.' (refer to Sec. 5.3.4, Figure 5.6, *Panel viii*).

Figure 5.16 Australia's Merchandise Imports from Hong Kong: 1979/80 to 1994/95

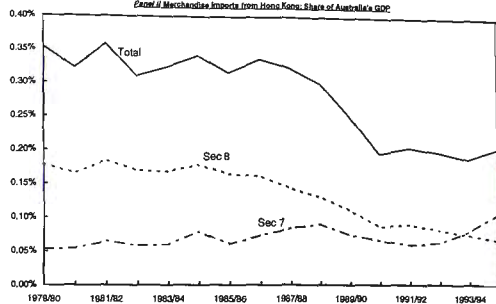
Panel I: Merchandise Imports from Hong Kong: Share of Total Australian Merchandise Imports



NOTE: Total imports from Hong Kong as a percentage of Australia's global merchandise imports (nm).
 Sec. 7 imports from Hong Kong as a percentage of Australia's global merchandise imports (nm).
 Sec. 8 imports from Hong Kong as a percentage of Australia's global merchandise imports (nm).
 Sec. 7 - Machinery and Transport Equipment (STTC Rev. 3 Classification).
 Sec. 8 - Miscellaneous Manufactured Articles (STTC Rev. 3 Classification).

SOURCE: ABS, *Australian Exports and Imports, Country By Commodity*, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.
 Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

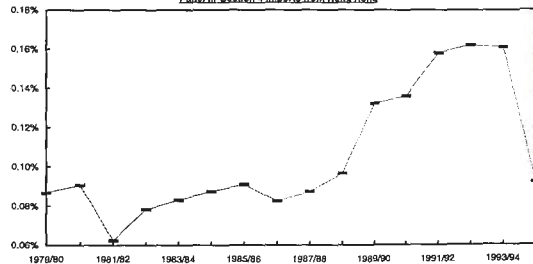
Panel II: Merchandise Imports from Hong Kong: Share of Australia's GDP



NOTE: Total imports from Hong Kong as a percentage of Australia's Gross Domestic Product (GDP).
 Sec. 7 imports from Hong Kong as a percentage of Australia's GDP.
 Sec. 8 imports from Hong Kong as a percentage of Australia's GDP.
 Sec. 7 - Machinery and Transport Equipment (STTC Rev. 3 Classification).
 Sec. 8 - Miscellaneous Manufactured Articles (STTC Rev. 3 Classification).

SOURCE: ABS, *Australian Merchandise Trade*, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.
 Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

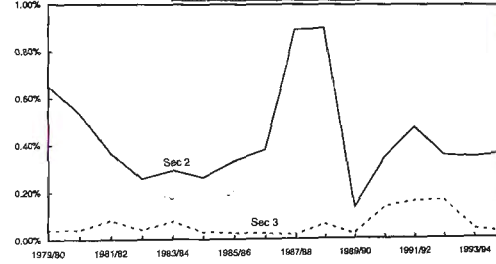
Panel III: Section 4 Imports from Hong Kong*



NOTE: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
 Sec. 4 as a percentage of Australia's total imports from Hong Kong.
 Sec. 4 - Animal and Vegetable Oils, Fats and Waxes (STTC Rev. 3 Classification).

SOURCE: ABS, *Foreign Trade Australia - Merchandise Exports and Imports By Country, International Merchandise Trade Australia*, Australian Bureau of Statistics, ABS Cat. No. 5437.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Panel IV: Sections 2 & 3 Imports from Hong Kong*



NOTE: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
 Sec. 2 - Crude Materials, Inedible, Except Fuels (STTC Rev. 3 Classification).
 Sec. 3 - Mineral Products, Lubricants and Related Materials (STTC Rev. 3 Classification).

SOURCE: ABS, *International Merchandise Trade Australia*, Australian Bureau of Statistics, ABS Cat. No. 5422.0, AGPS, Canberra, ACT, various issues.

Australia's imports of Machinery and Transport Equipment (Sec. 7) is illustrated in Figure 5.17, *Panel vii*. Section 7 striking growth, from the late 1980s onwards, was the result of intense growth within (in descending order):

- * Electrical Machinery, Apparatus, Appliances, Parts (Div. 77) and,
- * Office Machines and Automatic Data Processing Machines (Div. 75).

While in 1986/87, Divisions 77 and 75 shares of Australian Sec. 7 imports sourced from Hong Kong stood at 50.8% and 20.8% respectively, in 1994/95, Div. 77 composite share increased to 34.3% while Div. 75 share it stood at 54.2%.

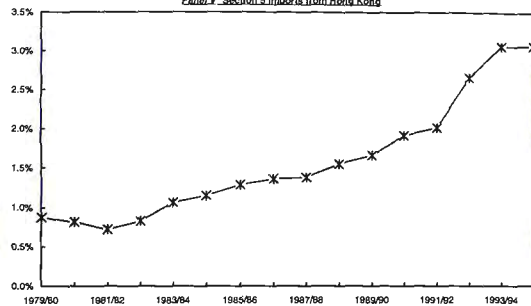
Section 7 is made up of goods which integrate a relatively high level of technology, that is, they are elaborately transformed manufactures (ETMs). Hong Kong's exports of Electrical and Electronic Products (SITC 75, 76 & 77; Table 5.6) showed a significant increase: from 17.0% in 1980 to 25.4% in 1994 of Hong Kong's total domestic exports. During 1990-95, Hong Kong's Sec. 7 exports stabilised at 24.0% of total exports. For Hong Kong, the electronics industry is the second largest export producer, after clothing. This was achieved through additional investment in research for higher technology and through industrial automation; with the scope of expanding in computer and telecommunications fields.

In addition, the share of electronic components in Hong Kong's domestic exports had increased very rapidly from the late 1980s onwards, that by 1992, it claimed 10% of its total domestic exports. Hong Kong's products are renowned for their sophistication and quality in a wide range of items such as toys, hi-fi systems, office machines, electronic watches and clocks, computers and computer-related products, hand-held games and telecommunication equipment. Division 76, Telecommunications and Sound Recording corresponded to 10% of Hong Kong's total domestic exports.

The relatively distinct rise of Sec. 7 share in Australian total imports from Hong Kong is readily explainable, as was previously discussed with Sec. 8, by the real appreciation of the Australian dollar, lowering of Australia's protection and Australians' demand for electronic consumer goods.

Figure 5.17 Australia's Merchandise Imports from Hong Kong: 1979/80 to 1994/95

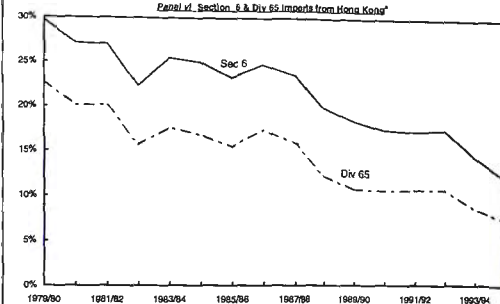
Panel V: Section 5 Imports from Hong Kong*



Notes: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
Sec. 5 as a percentage of Australia's total imports from Hong Kong.
Sec. 5 - Chemical and Related Products, NES (STTC Rev. 3 Classification).

Sources: ABS, *Australian Exports and Imports, Country By Commodity*, Australian Bureau of Statistics, ABS Cat. No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.

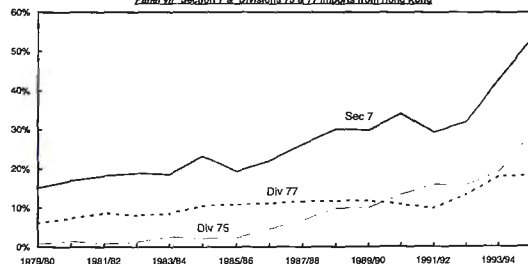
Panel VI: Section 6 & Div 65 Imports from Hong Kong*



Notes: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
Sec. 6 as a percentage of Australia's total imports from Hong Kong.
Div. 65 as a percentage of Australia's total imports from Hong Kong.
Sec. 6 - Manufactured Goods Classified Chiefly By Material (STTC Rev. 3 Classification).
Div. 65 - Textile Yarn, Fabric, Made-up Articles, NES, and Related Products (STTC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.

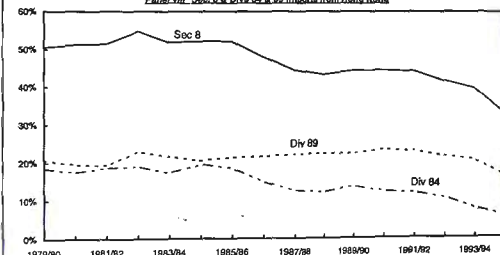
Panel VII: Section 7 & Divisions 75 & 77 Imports from Hong Kong*



Notes: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
Sec. 7 - Machinery and Transport Equipment (STTC Rev. 3 Classification).
Div. 75 - Office Machines and Automatic Data Processing Machines (STTC Rev. 3 Classification).
Div. 77 - Electrical Machinery, Apparatus, Appliances, Parts (Including Non-Electrical Components of Electrical Domestic Equipment).

Sources: ABS, *Foreign Trade Australia - Merchandise Exports and Imports By Commodity*, International Merchandise Trade Australia, ABS, ABS Cat. No. 5437.0, AGPS, Canberra, ACT, various issues.

Panel VIII: Sec. 8 & Divs 84 & 89 Imports from Hong Kong*



Notes: *Respective Sec. as a percentage of Australia's total imports from Hong Kong.
Sec. 8 - Miscellaneous Manufactured Articles (STTC Rev. 3 Classification).
Div. 84 - Articles of Apparel and Clothing Accessories (STTC Rev. 3 Classification).
Div. 89 - Miscellaneous Manufactured Articles, NES (STTC Rev. 3 Classification).

Sources: ABS, *International Merchandise Trade Australia*, ABS Cat. No. 5422.0, Australian Government Publishing Service, Canberra, ACT, various issues.

It must also be noted that between 1979/80 and 1994/95, the Australian dollar, in real terms, marginally appreciated against the Hong Kong dollar (5.5%), making it more viable to source some of Australian imports from Hong Kong.

While the previous paragraphs concentrated on the goods for which there was a high growth in imports, this section will focus on those imported goods whose demand receded or remained the same over time.

Figure 5.16, *Panel iii* reveals that imports of Animal and Vegetable Oils, Fats and Waxes (Sec. 4) has, with time, declined in its relative importance. From the early 1980s onwards, Sec. 4 share of total imports from Hong Kong remained insignificant, comprising on average, 0.1% of Australian total imports.

In Figure 5.16, *Panel iv*, it is shown that Crude Materials, Inedible, Except Fuels (Sec. 2) imports declined from 0.7% in 1979/80 to 0.4% in 1994/95, while Mineral Fuels, Lubricants and Related Materials (Sec. 3) sustained an insignificant rise from 0.04% in the early 1979/80 to 0.16% in 1991/92, of Australian total imports from Hong Kong. However, Sec. 3 share of imports receded back to 0.03% in 1994/95. It must also be noted that Sec. 3 imports were almost exclusively made of Petroleum, Petroleum Products and Related Materials (Div. 33).

Figure 5.17, *Panel v* demonstrates an insignificant increase in Chemicals and Related Products (Sec. 5) imports: from 0.9% in 1979/80 to 3.1% in 1994/95. This changing pattern within Sec. 5 is reasonably similar to the pattern observed for Mineral Fuels, Lubricants and Related materials (Sec. 3) (refer to Figure 5.16, *Panel iv*) which presumably reflects identical international forces, such as the high petroleum prices which were associated with petroleum shortages and the OPEC imposed increases in oil prices, during the late-1970s and early-1980s.

In Figure 5.17, *Panel vi*, it is to be observed that imports of Manufactured Goods Classified Chiefly By Material (Sec. 6) declined from 29.7% in 1979/80 to 12.2% in 1994/95, of Australian total imports from Hong Kong. The most important component of Sec. 6 is Textile Yarn, Fabrics, Made-Up Articles and Related Products (Div. 65). Within the same panel, it would be realised that Div. 65 share of imports declined from a high of 22.7% in 1979/80 to just 7.3% in 1994/95. This means that the overall decline in Sec. 6 imports was mainly due to a contraction within Textile Yarn, Fabrics, Made-Up Articles and Related Products (Div. 65). This decline is associated with Hong Kong firms shifting their production facilities to Southern China. Another factor has been a

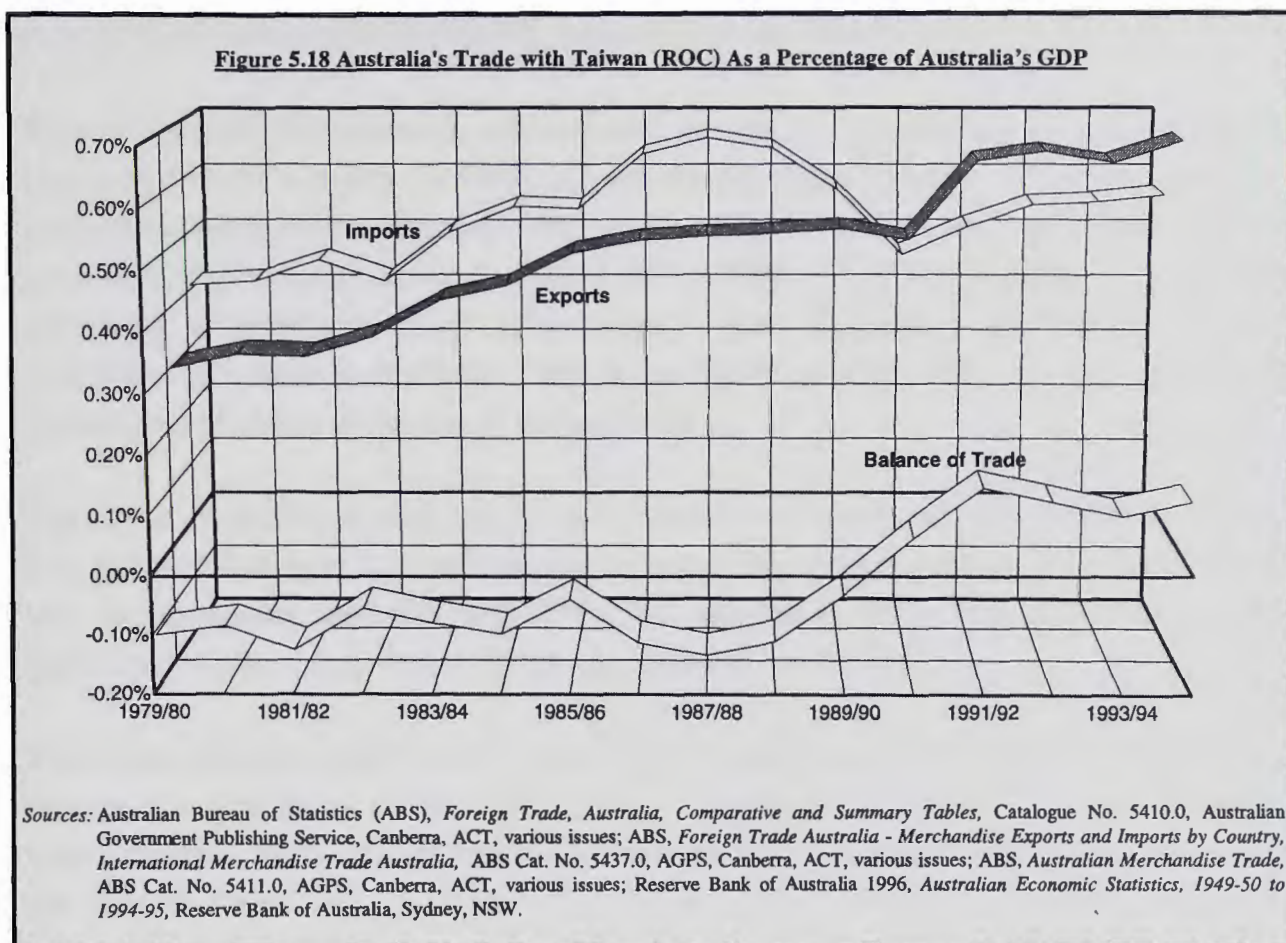
decrease in the value of unknown country of origin re-exports, via Hong Kong, to Australia. These factors were the result of the re-integration of Hong Kong with Southern China and in Australia sourcing more of its Sec. 6 import needs from China (refer Sec. 5.4.3).

The established trend in Sec. 6 (Figure 5.17, *Panel vi*), needs to be viewed in conjunction with the decline in the imports of Articles of Apparel and Clothing Accessories (Div. 84) (Figure 5.17, *Panel viii*). In combination, these panels indicate a decrease in Australian imports of both ETMs (Div. 84) and STMs (Div. 65) from Hong Kong. This again reinforces the point that that Australia is sourcing more of its Sec. 6 merchandise needs from other countries, especially China (refer to Sec. 5.3.4).

Figure 5.17, *Panel viii* also demonstrates that Miscellaneous Manufactured Articles (Div. 89) imports from Hong Kong maintained an average of 21.3% of Australian total imports from Hong Kong. This was as a result of Hong Kong's manufactures shifting its production to Shenzhen SEZ, in Southern China. The main factor behind Div. 89 maintaining its share of Australian total imports from Hong Kong, over the 1980/81 to 1989/90 period, was that a higher percentage of this division were re-exports from country of origin unknown which were aggregated as Hong Kong exports to Australia (*UN COMTRADE SITC Rev. 1 data*). However, the contraction within Articles of Apparel and Clothing Accessories (Div. 84) clearly reflects the pervasive nature of what was taking place in the Greater China Region: Hong Kong firms shifting their production to Southern China with the consequence that there was a decrease in Australian Div. 84 imports sourced from Hong Kong and a simultaneous increase in China Div. 84 exports to Australia (refer to Sec. 5.3.4).

5.5 Australian Merchandise Trade With Taiwan (ROC) TRADE

5.5.1 Overview



During the last fifteen years, Australia's general trading pattern with the Republic of China on Taiwan has revealed a number of broad features. Australia's exports to Taiwan have exhibited a relatively high degree of growth (Figure 5.18). Exports, as a percentage of GDP, increased sharply from 1979/80 to 1994/95. As Figure 5.18 indicates, Australian exports to and imports from Taiwan, as a share of Australian GDP, grew at the annual rate of 5.3% and 2.1% respectively during the 1979/80-1994/95 period.

While Australia was incurring a trade deficit with Taiwan during 1979-89 which turned into a surplus from 1990/91 onwards. A trend was established in which a larger amount of Australian exports was directed to Taiwan. It is also to be noted that during 1979/80 to 1985/86 period, an upward trend was established in Australian imports from Taiwan which was interrupted by Australia's economic slowdown, e.g., the recessions of 1982/83 and 1985/86. From 1989/90 onwards, imports sourced from Taiwan have decreased

substantially, both as a consequence of Taiwanese manufactures shifting their production on to Fujian and Shenzhen SEZs, in Southern China, for comparative advantage, and in Australia sourcing a greater part of its previously Taiwan made goods from mainland China. The early 1990s recession which hit Australia further depressed Australian imports from Taiwan that in 1990/91, imports were on 1982/83 levels.

Taiwan's successful economic achievement has been accomplished by reorienting its import-substitution policy towards an export-expansion strategy. Taiwan's export-promotion policies had a profound effect on its exports. In 1980, Taiwan's global exports reached \$US19.8bn, increasing to \$US66.3bn in 1989 and to \$US111.7bn in 1995. The ratio level of exports of goods and services to gross domestic product (GDP) rose by 56.2% in 1984, then to 49.5% in 1989 and to 48.9% in 1995. That is, exports' rate of growth exceeded that of the rest of the economy.

The export-expansion strategy was clearly catalytic and instrumental in Taiwan's success. It is not just that export expansion overwhelmed the import-substitution policy, which was not dismantled until the early 1990s, but that the economy was greatly freed from government control and market forces were allowed to take over.

Taiwan has also benefited from the freedom it was accorded in the United States market, through the application of the United States Generalised Scheme of Preferences, which was revoked in 1989. The diplomatic recognition of the Republic of China on Taiwan by the United States, in 31 December 1978, had little effect on Taiwan's economy, principally due to the precise safeguards which were drafted into the *Taiwan Regulations Act of 1979*.

However, as labour became more expensive relative to capital, capital intensity (as measured by the capital-labour ratio) in the export sector gradually deepened. The ratio of industrial exports to total exports has gradually gone up (Ministry of Economic Affairs, 1994). This led Taiwan to undergo a fundamental transition: from a labour-intensive economy which is highly dependent on the international market, to a semi-technological and capital-intensive economy with a rapidly growing domestic market. From a macroeconomic viewpoint, Taiwan factor endowment positions it intermediately between developed and less developed countries.

Traditionally, Taiwan ran large trade surpluses with the United States, while simultaneously running large trade deficits with Japan. This trend expanded greatly during the 1980s. Taiwan trade surplus with the United States increased from \$US3.4bn in 1981 to \$US16bn in 1987, then to \$US9bn in 1990 and then to \$US6.8bn in 1993.

Theoretically, such trade surpluses and deficits would necessitate a depreciation of the \$US and appreciation of the ¥en in terms of the \$NT, both acting to move the system towards an equilibrium. However, theories of trade seldom consider the perverse nature of such three-way trade carried out almost exclusively in a single key currency such as the American dollar.

In the early 1980s, the Central Bank of China (CBC) made a determined effort to protect the New Taiwan dollar (\$NT) from appreciating in terms of the United States dollar (\$US). Over time, Taiwan continued to accumulate large foreign exchange reserves: \$US46.3bn in 1986; \$US72bn in 1990, and \$US91.2bn in 1995. After accumulating large sums of foreign exchange, the CBC was forced to choose between holding over higher amounts of \$US or allowing natural upward adjustments in the \$NT. The CBC opted for a substantial appreciation in the \$NT in terms of the \$US. This decision led to an extraordinary flow of “hot money” into Taiwan, seeking speculative gains, and an even steeper appreciation in the local currency occurred.

Substantial appreciation of the currency from \$US1=\$NT40 in 1985 to about \$US1=\$NT26 in 1989 had undoubtedly affected exports. Taiwanese exporters responded to the appreciation in the local currency by reducing their export prices and cutting profit margins. Since, in Taiwan, most export companies are not publicly traded, there was no explicit binding constraint on maintaining stockholder dividends.

Due to the long-term macroeconomic imbalance and the rapid political and social changes brought about by the lifting of martial law in 1986, Taiwan’s industrial competitiveness has declined, as has its exports. Investments had deteriorated enough to create a crisis of confidence. Concomitantly, deterioration of the domestic investment climate has been accompanied by a considerable outflow of capital, with domestic industries moving their production offshore, specially in Fujian and Guangdong SEZs, Southern China, and in South East Asia.

During the mid-1980s, it became clear that Taiwan’s economy became heavily dependent on the United States to support its economic growth. In 1980, Taiwan’s exports to and imports from the United States were 34.1% and 23.7%, each respectively; by 1987, they stood at 44.2% and 21.8% respectively. The trade surplus with the United States was the most important source of Taiwan’s trade surplus which reached an all time high of \$US16bn in 1987. Taiwan’s enormous surpluses with the United States remarkably changed Taiwan’s product structure, and gave rise to an imbalance in Taiwan’s trade account, as well as a large build-up of foreign exchange reserves. To correct these trade

problems, trade policies were freed, with greater scope placed on internationalisation and diversification of trade. The execution of these policies inevitably generated concomitant opportunity costs in improving Taiwan's trade status, such as the appreciation of the \$NT, rise in the protectionist sentiments among Taiwan's trading partners, and the potential for a rise in domestic inflation.

The Taiwanese Government greatest fear was that the United States may use retaliatory measures to combat its trade deficit with Taiwan. In order to reduce the possibilities that the United States may use *Super 301* of *The Omnibus Trade Act of 1988 (USTR)*, both as a negotiation instrument and to prevent sanctions against itself, Taiwan strengthened its "Buy American" missions to the United States.

The \$NT appreciation led to a steady decrease in the share of Taiwan's exports to the United States, decreasing to 44.2% in 1987, 32.4% in 1990, and 21.0% in 1995. It is clear that Taiwan's export dependency on the United States had been declining. Taiwan's imports from the United States, as a share of its total imports, was fairly stable at 24.0% during the 1980s and diminishing to 21.7% during the 1990s (1995 inclusive).

According to the generally accepted trade theory, both the appreciation of \$NT and the decrease in the average nominal tariff rate should have led to an increase in Taiwan's imports. However, total value of imports remained steady despite an approximate 30% reduction in the average nominal tariff rate, that is, a reduction from 31.2% in 1981 to 20.6% in 1987. The asymmetrical behaviour of Taiwan's exports and imports may be explained by Taiwan's market diversification policies, which began to emphasise the markets of Japan, the European Union, and Hong Kong.

Hong Kong's entrepôt trade has played an important role as an intermediary in the direct trade between Taiwan and China; with a considerable amount of Taiwanese foodstuffs, Chinese medicine and industrial raw materials exported to China via Hong Kong. For example, in 1992, 23% of Hong Kong total re-exports to China originated from Taiwan.

Trade across the Taiwan Strait has grown rapidly from \$US3.7bn in 1989 to \$US5bn in 1990 and to \$US9.8bn in 1992. China has become Taiwan's fifth trading partner, accounting for about 5% of its total foreign trade. More importantly, in 1992, Taiwan's trade surplus with China amounted to more than \$US6bn (*World Journal*, 1992).

5.5.2 Australian Merchandise Exports to Taiwan

Table 5.9 Australian Merchandise Exports to Taiwan: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b EXPORTS: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food and Live Animals	46	25	16	17
1	Beverages and Tobacco	*			
2	Crude Matrls & Inedible Except fuel	34	27	20	14
3	Mineral Fuels	1	18	21	20
4	Animal and Vegetable Oils	1	1		
5	Chemicals	3	2	3	4
6	Manuf. Goods Classified by Mat.	5	14	29	31
7	Machinery & Transport Equipment	5	1	3	4
8	Miscellaneous Manufactures	*	1	1	2
9	Other	1	12	6	2
<p><i>Notes:</i> ^a Data to 1987/88 are classified according to the SITC Rev. 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev. 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items.</p> <p> ^b Australia's exports to Taiwan, ROC, for all sections, as a percentage of total exports to Taiwan.</p> <p> Percentages may not add to 100.0 due to rounding error.</p> <p> *Means less than 0.5%.</p> <p><i>Sources:</i> Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i>, ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.</p>					

Within Australian total exports to Taiwan, it can be noted (Table 5.9):

- * The relative importance of Food and Live Animals (Sec. 0) exports had decreased from 46% in 1970 to 17% in 1994/95, mainly as a result of the United States implementation of its Export Enhancement Program (EEP).
- * A relative decrease of Crude and Inedible Materials (Sec. 2) exports from 34% of exports in 1970 to 14% in 1994/95 as Taiwanese firms moved their labour-intensive production to China and expanded their domestic operations towards the growth of sophisticated industries such as aerospace, advanced mass transportation, precision measuring and testing and industrial automation.

- * Significant improvements in Mineral Fuels (Sec. 3) exports from 1% in 1970 to 20% in 1994/95 which were mainly attributable to an increase in the exports of Coal (Div. 321) and Crude Petroleum and Oils (Div. 333).
- * Significant improvements in the exports of Manufactured Goods Classified By Materials (Sec. 6) from 5% in 1970 to 31% in 1994/95. This was achieved by an increased contribution from (in descending order): Aluminium (Div. 684), Iron Steel Primary and Semi-finished (Div. 672), Copper (Div. 682) and Flat-rolled Iron Steel not Coated (Div. 673).

Within this section, the pattern of change within Australia's exports to Taiwan are looked into. The following analysis is based on Australian Bureau of Statistics data, SITC Revs 2 and 3, by Sections and Divisions.

It is to be noted that since 1988/89, Div. 98, Confidential Items, has become significant, increasing sharply from 1992/93 onwards. This has made trend analysis in the various other sections and divisions rather ambiguous, from the late 1980s onwards (Figure 5.20, *Panel viii*).

Food and Live Animals (Section 0) had been a major export section to Taiwan. This is illustrated in Figure 5.19, *Panels i and ii*. During the 1980s, most of the variability of Australia's total exports to Taiwan appears to be explained by fluctuations in Sec. 0. The major components of Sec. 0 are Cereals (Div. 04), Meat (Div. 01) and Fish (Div. 03), as Figure 5.19, *Panel iii* clearly illustrates. Cereals refers principally to wheat.

During 1979/80-1984/85, cereals' exports to Taiwan fluctuated inconsistently. From 1985/86 onwards, Australian cereal sales to Taiwan continued to decrease, that by 1994/95, cereals contribution to Australian total exports to Taiwan were insignificant. This resulted in, over the 1979/80 to 1987/88 period, Sec. 0 share of Australian total exports to Taiwan to decrease at the average annual rate of 4% while, over the 1988/89-1994/95 period, it decreased at the annual rate of 0.2%. Some of the reasons attributable to this decline in the demand for cereals are as follows:

- * The United States has traditionally been Taiwan's major supplier of maize, wheat and soybeans while barley and sorghum came from Australia. Over 1979/80 to 1994/95, Taiwan not only maintained the volume of cereal imports but increased the total volume of imports.

- * Previously, Taiwan was interlocked in a series of cereal trade agreements with the United States that stretched back over 18 years and were terminated in 1991. However, in mid 1991, Taiwan Flour Milling Association (TFMA) re-entered into another long term agreement with the United States for the annual supply of 600,000 tons of wheat during July 1991 to June 1996. On the other hand, Australia was only able to secure an agreement with Taiwan for the supply of 15,000 tons of wheat for an unspecified period (IWC, 1994).
- * In effect, from 1982 onwards, the United States increased its shares (by volume) of the sorghum and wheat markets in Taiwan. These used to be two important commodities within Australian export mix to Taiwan. The United States share of the sorghum market increased from 41% in 1982 to 71% in 1987 and then stabilised at 70% during the 1990-95 period. The US share of the Taiwanese wheat market (by volume) increased from 82% in 1982 to 93% in 1987 and averaged 85.6% over the 1990-95 period. It also becomes evident that the US agricultural exports expansion in Taiwan became more pronounced after 1985 - the year that the US implemented its EEP policy. The EEP policy had a direct effect on Australian agriculture exports, not only in Taiwan but, as previously elaborated upon, also in China and in Hong Kong.

As a result of above mentioned points, Cereal (Div. 04) exports, as a share of Australian total exports to Taiwan, decreased at the average annual rate of 16.8% during 1979/80-1987/88 and 26.3% over the 1988/89-1994/95 period.

In the interim, new opportunities opened up for Australian agricultural exports to Taiwan. Imported seafood became increasingly popular in Taiwan. With growing affluence, a lowering of trade barriers, depleted marine resources in the seas around Taiwan and an international ban on driftnet fishing, demand on the island for all imported seafood has been increasing. In an effort to bring its agricultural policies more into line with GATT rules, the Taiwanese government opened its markets for a host of commodities. In effect, Figure 5.19, *Panel iii* reflects these changes: less exports of Australian cereals (Div. 04), compensated for by an increase in Meat (Div. 01) till 1989/90, and Fish (Div. 03). These trends are explainable by:

- * During 1979/80-1989/90, Meat (Div. 01) constituted an annual average of 7.8% of Sec. 0 exports. That is, Meat (Div. 01) exports grew at the average annual rate of 2.8% over the 1979/80-1989/90 period. Subsequently Div. 01 began to decline at the average annual rate of 4.8% that by 1994/95, its share of Sec. 0 stood at 5%. This was the result of the Taiwanese government perceiving beef as a product worthy of domestic promotion. In 1989/90, e.g., the quota for Australian beef, which had the largest market share, was cut back to reduce Taiwan's overall beef imports.

Fish (Div. 03) contribution to Sec. 0 became notable from 1986/87 onwards, increasing from 0.8% in 1985/86 to 2.7% in 1988/89, then to 5.6% in 1991/92 and then to 7.9% in 1993/94, of Sec. 0 exports. Fish (Div. 03) exports grew at the average annual rate of 30.0% over the 1979/80-1989/90 period. However, during 1988/89-1994/95 period, Fish (Div. 03) exports grew at the average annual rate of 12% - counterbalancing the decline in cereal and meat exports.

Though Taiwan fruit imports have been substantial and continued to grow - both in terms of volume and value, Australian apple exports continued to be poor. Taiwan lifted the ban on the imports of apples in 1979. Since 1985, the US had also dominated the apples market in Taiwan, increasing its market share (by volume) from 68% in 1985 to 82% in 1988 and to 100% in 1992 (USDA, 1993).

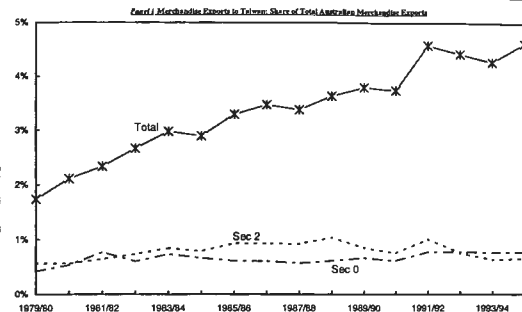
The second most important Section of Australia's exports to Taiwan has been Crude Materials, Inedible, Except Fuel (Sec. 2). Textile Fibres (Div. 26) is dominated by wool - Sec. 2 most dominant component - as Figure 5.19, *Panel iv* indicates.

Metalliferous Ores and Metal Scrap (Div. 28) share continued to decrease at the average annual rate of 7.4% during 1979/80-1987/88 and at of 6.5% over the 1988/89-1994/95 period. As the processing of aluminium, copper, brass, zinc, tin, lead and nickel is energy intensive and generates significant pollution, Taiwanese processing facilities began reallocating overseas, with few remaining domestically active, in 1994. It is therefore expected that Div. 28 exports will not grow in the future.

Figure 5.19, *Panel iv* indicates that collectively, Sec. 2 commodities tended to become more important over time, though there was a significant degree of volatility within this section.

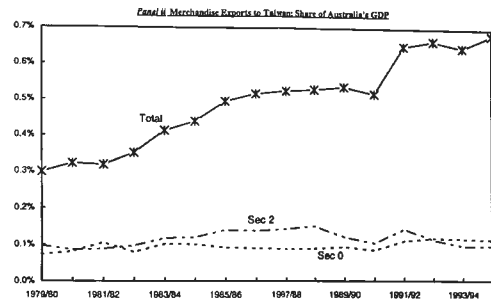
Taiwan's alternating expenditure on Australian fibres can be significantly linked to the fluctuating wool prices. For example, when wool prices decreased considerably during 1982/83-1987/88 period, there was a corresponding increase in the share of Div. 26 exports to Taiwan. In effect, while Div. 26 exports decreased at the annual average of 3.9% over the 1979/80-1982/83 period; from 1983/84 to 1988/89 Div. 26 exports grew at the annual rate of 6%. However, over the 1979/80-1994/95, Div. 26 exports to Taiwan fell at the annual rate of 4.1%. This is explainable by Taiwanese manufacturers shifting their production to China so that previous Div. 26 exports to Taiwan are now aggregated with exports to China.

Figure 5.19 Australia's Merchandise Exports to Taiwan, ROC: 1979/80 to 1994/95



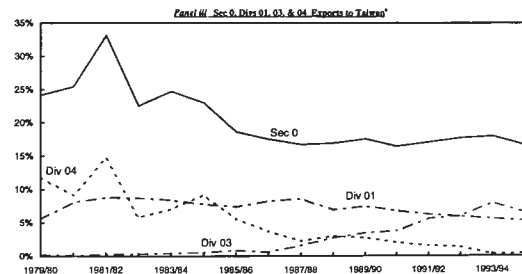
Notes: Total exports to Taiwan as a percentage share of Australia's global exports (Gmem).
 Sec. 0 - Exports of Sec. 0 to Taiwan as a percentage of Australia's global exports (Gmem).
 Sec. 2 - Exports of Sec. 2 to Taiwan as a percentage of Australia's global exports (Gmem).
 Sec. 0: Food and Live Animals (SITC Rev. 3 Classification).
 Sec. 2: Crude Materials, Inedible, Except Fuels (SITC Rev. 3 Classification).

Sources: ABS, *Australian Exports and Imports, Country By Commodity*, ABS Cat. No. 5410.0, AGPS, Canberra, ACT, various issues.
 Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.



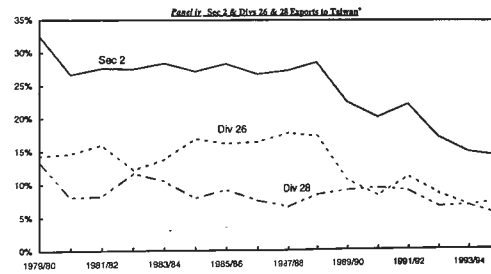
Notes: Total exports to Taiwan as a percentage of Australia's Gross Domestic Product (GDP).
 Sec. 0 - Exports of Sec. 0 to Taiwan as a percentage of Australia's GDP.
 Sec. 2 - Exports of Sec. 2 to Taiwan as a percentage of Australia's GDP.
 Sec. 0: Food and Live Animals (SITC Rev. 3 Classification).
 Sec. 2: Crude Materials, Inedible, Except Fuels (SITC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*, Australian Bureau of Statistics, ABS Cat. No. 5411.0, AGPS, Canberra, ACT, various issues.
 Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.



Notes: *Section or Division percentage share of Australia's total exports to Taiwan.
 Sec. 0 - Food and Live Animals (SITC Rev. 3 Classification).
 Div. 01 - Meat and Meat Preparations (SITC Rev. 3 Classification).
 Div. 03 - Fish (Not Marine Mammals), Crustaceans, Molluscs and Aquatic Invertebrates, and Preparations Thereof (SITC Rev. 3 Classification).
 Div. 04 - Cereals and Cereal Preparations (SITC Rev. 3 Classification).

Sources: ABS, *Foreign Trade Australia: Merchandise Exports and Imports by Country*, International Merchandise Trade Australia, ABS, ABS Cat. No. 5417.0, AGPS, Canberra, ACT, various issues.



Notes: *Section or Division percentage share of Australia's total exports to Taiwan.
 Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev. 3 Classification).
 Div. 26 - Textile Fibres and Their Waste (see Manufactured raw yarns or Fabrics, (SITC Rev. 3 Classification).
 Div. 28 - Miscellaneous Crude and Metal Scrap (SITC Rev. 3 Classification).

Sources: ABS, *International Merchandise Trade Australia*, Australian Bureau of Statistics, ABS Cat. No. 5422.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Section 9, Merchandise Trade Not Elsewhere Classified, includes Gold Non-Monetary (Div. 97) which only been documented from 1988/89 to 1992/93. Div. 97 accounted for an 81% share of Sec. 9 total exports, by value (Figure 5.20, *Panel viii*). It must be noted that in 1988, Taiwan purchased gold valued at \$US2.5bn (1988 figures) from the United States. This seems to be a Taiwanese tactic, deployed to counteract the effects of its large surpluses with its trading partners, especially the United States.

This may also explain why Australian Div. 97 exports became highly significant as Taiwan attempted to curtail its large trade surplus with Australia, by purchasing gold which it could use for long term investment purposes. Taiwanese interest in gold was also due to the lifting, in 1986, of a longstanding ban on the sale of gold to the general public, as well as the passing of legislation permitting domestic transactions in the metal.

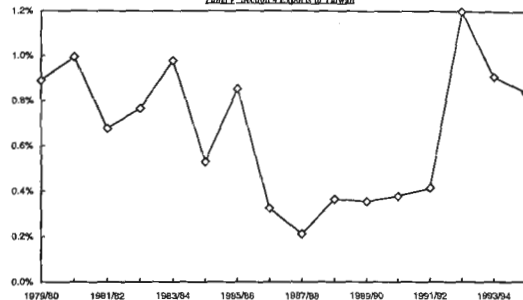
These steps were followed by the removal of a ban on the imports of gold in August 1992. Such liberalisation was intended to foster the development of gold spot and futures markets in Taiwan. During the 1980s, Sec. 9 merchandise share of Australian total exports to Taiwan rose from 0 in 1979/80 to 14.2% in 1986/87. Subsequently, Sec. 9 exports' share fluctuated considerable, reaching a 9.2% of Australian total exports, in 1994/95.

Section 9 and its Div. 98 render any attempts to advance an explanation for the changes in the structure of trade between Australia and Taiwan, from the early 1980s onwards impossible, as it cannot be established to which Sections and Divisions the classified goods pertained. In view of this, it must be noted that, from the late 1980s onwards, any interpretations in commodities' trade which are put forward could at best be assumed to be hypothetical.

In reviewing Sections 4, 6, 7 and 8, it becomes evident that not only was Sec. 4, Animal and Vegetable Oils and Fats, share of Australian total exports insignificant, but that it also showed volatility: decreasing from 0.9% in 1979/80 to 0.2% in 1987/88; increasing to 1.2% in 1992/93, and contracting from then onwards (Figure 5.20, *Panel v*).

Figure 5.20 Australia's Merchandise Exports to Taiwan, ROC: 1979/80 to 1994/95

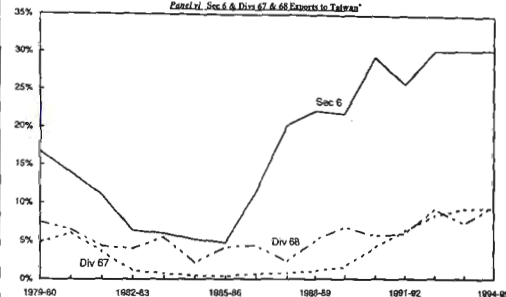
Panel I: Section 4 Exports to Taiwan*



Notes: *Respective Section and Division percentage share of Australia's total exports to Taiwan.
Sec. 4: percentage share of Australia's total exports to Taiwan.
Sec. 4 - Animal and Vegetable Oils, Fats and Waxes (SITC Rev. 3 Classification).

Sources: ABS, *Australian Exports and Imports, Country by Commodity*; Australian Bureau of Statistics, ABS Cat. No. 5411.0, Australian Government Publishing Service, Canberra, ACT, various issues.

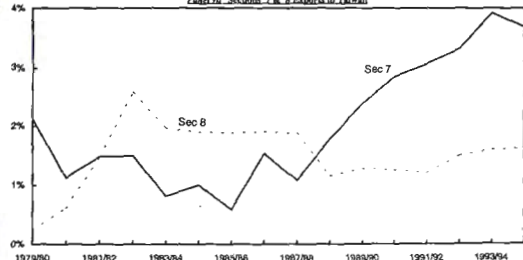
Panel VI: Sec 6 & Div 67 & 68 Exports to Taiwan*



Notes: *Respective Section and Division percentage share of Australia's total exports to Taiwan.
Sec. 6 - Manufactures (Goods Classified Chiefly by Material) (SITC Rev. 3 Classification).
Div. 67 - Iron and Steel (SITC Rev. 3 Classification).
Div. 68 - Non-Ferrous Metals (SITC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*; Australian Bureau of Statistics, ABS Cat. No. 5411.0, Australian Government Publishing Service, Canberra, ACT, various issues.

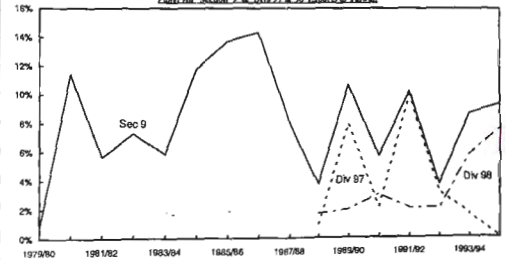
Panel III: Sections 7 & 8 Exports to Taiwan*



Notes: *Respective Section percentage share of Australia's total exports to Taiwan.
Sec. 7 - Machinery and Transport Equipment (SITC Rev. 3 Classification).
Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev. 3 Classification).

Sources: ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Commodity, International Merchandise Trade Australia*, ABS Cat. No. 5437.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Panel IIII: Section 9 & Divs 97 & 98 Exports to Taiwan*



Notes: *Respective Section and Division percentage share of Australia's total exports to Taiwan.
Sec. 9 - Commodities and Transactions Not Classified Elsewhere in the SITC (SITC Rev. 3 Classification).
Div. 97 - Gold, Non-Monetary (Excluding Gold Ore and Concentration) (SITC Rev. 3 Classification).
Div. 98 - Combined Commodity Items of Trade (SITC Rev. 3 Classification).

Sources: ABS, *International Merchandise Trade Australia*; Australian Bureau of Statistics, ABS Cat. No. 5422.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Section 6, Manufactured Goods Classified Chiefly by Material, which basically refers to STMs, has increased in importance: from 17% in 1979/80 to 30% in 1992/93, where it stabilised (Figure 5.20, *Panel vi*). During 1979/80-1985/86, Sec. 6 incurred substantial contraction in its share of Australian total exports to Taiwan, decreasing at the annual rate of 16.3%. This fall in Sec. 6 share in total exports was mainly due to contractions within Iron and Steel (Div. 67) and Non-ferrous metals (Div. 68) exports which decreased at the annual average rate of 30.7% and 7.9% each respectively. This was mainly due to Taiwan sourcing more of its iron and steel demand from Japan and Brazil.

From the mid-1980s onwards, increases in Sec. 6 share in total exports to Taiwan confirms a shift towards STM exports in raw materials (Divs 67 and 68, Figure 5.20, *Panel vi*) and a simultaneous decline in Basic Raw Materials (Sec. 2) (Figure 5.19, *Panel iv*). During 1986/87 to 1994/95, Sec. 6 share of Australian total exports to Taiwan grew at the annual rate of 11.6%.

Despite the fact that China Steel Corporation and various private-sector operations have expanded their capacity and turned out substantial quantities of steel, from 1989/90 onwards, they still could not satisfy burgeoning domestic requirements. This was more so, from 1991 onwards, as major infrastructure projects which formed part of the Six Year Plan commenced (refer to ch. 6).

As a result, downstream manufacturers have had to turn to imports of crude steel for rolling. With Australian steel producers becoming more internationally competitive, over the 1989/90-1994/95 period, Australian iron and steel (Div. 67) exports to Taiwan grew at the average annual rate of 33.9%. This was achieved through an increase in Australian exports of Iron Steel Primary and Semi-finished (Div. 672) and Flat-rolled iron Steel not Coated (Div. 673). The prospects for Australian iron and steel exports to Taiwan look promising as it had been forecasted by the Taiwan Steel and Iron Industries Association that Taiwan's demand for crude steel will reach 31.9m tons by the year 2000, an increase of 38% over Taiwan's consumption in 1994 (China External Trade Development Council, 1995). In 1994, Australian iron and steel exports to Taiwan ranked third, holding 5.9% of Taiwan's iron and steel market, trailing the leading suppliers, Japan (28.3%) and Brazil (6.3%).

Non-Ferrous Metals (Div. 68) pattern was more irregular than Sec. 6 overall performance. Div. 68 constituted 7.5% of total exports to Taiwan in 1979/80; thereafter, it went into a cyclical pattern that in 1994/95, its share was on par with that for Div. 67, that is, 10.0%

of Australian total exports to Taiwan. Div. 68 performance is attributed to (Figure 5.20, *Panel vi*):

- * Non-ferrous metals importance for Taiwan industries, with aluminium, copper, brass, zinc, tin, lead and nickel being utilised in the manufacture of key export products. As Taiwanese processing facilities began closing up their operations in Taiwan due to the pollution they created, for example, State-run Taiwan Aluminium Corporation and Taiwan Power's copper refining mill, the island became highly dependent on the import of the above mentioned and other transition elements.
- * Australian significant increases in the volume of the base metal (aluminium, copper, zinc and lead) exports to Taiwan.
- * Oscillations in the total volumes of zinc exports, which resulted in a significant impact on the total value of Div. 68 as zinc commodity prices continued to increase over time (refer to ch. 1 Figure 1.1, *Panel iii and iv*).
- * Fluctuations in both the volume and prices of metal exports, mainly attributable to lead and zinc during 1979/80 to 1989/90 and to zinc from 1990/91 onwards. This was in line with ongoing efforts to upgrade Taiwan's economy resulting in general strong demand for most of the base metals.

Quantitatively, Secs 7 and 8 have been small (Figure 5.20, *Panel vii*). Sec. 7 share of Australian total exports to Taiwan fluctuated during 1979/80-1987/88 period from 2.1% in 1979/80 to 0.8% in 1983/84 and to 1.1% in 1987/88. In effect, over the 1979/80-1987/88 period, Sec. 7 exports to Taiwan decreased at the average annual rate of 7.3%. From 1988/89 to 1994/95, Sec. 7 maintained an average of 2.75% share of Australian total exports to Taiwan by sustaining rapid annual growth of 11%.

Though Sec. 7 share of Australian total exports to Taiwan is small, it has been growing rapidly and prospects exist for more growth in exports. As Taiwan continue restructuring its industries, there continue to be a demand for equipment to be used in industrial upgrading, education, medical and health care and environmental protection. Demand for such products is foreseen to continue as it is perceived to upgrade Taiwan's industries and facilitate the development of high-end and high-technology products.

During the 1980s, General Industrial Machinery (Div. 74) has been the most consistent variable, averaging 19.5% of Sec. 7, while during 1990/91-1994/95 its annual average stood at 17.9% of Sec. 7 annual exports to Taiwan.

Sec. 7 overall performance was improved by increases in Office Machines and Automatic Data Processing Machines (Div. 75) which grew from an annual rate of 13.4% during the 1980s to an annual rate of 36.6% during the 1990/91-1994/95 period. Taiwan's office equipment and furniture imports have grown rapidly during the 1990-1994 period mainly due to lower import duties, higher per capita income, increased consumption and a widespread desire for more comfortable living and office environments. For example, in 1994, Taiwan imported \$US242.6m worth of furniture from abroad. Comfort, colour and modernity are receiving more emphasis in office furniture. As a result of the growth within the service industries, opportunities for Australian Div. 75 exports remain good.

Miscellaneous Manufactured Articles (Sec. 8), formed a quantitatively small share of Australia's total exports to Taiwan. From Figure 5.20, *Panel vii*, it could be seen that during the 1980s, Sec. 8 only made, on average, 1.7% of Australia's total exports bound for Taiwan. Sec. 8 sustained different growth rates over the 1979/80-1994/95 period: growing at the average annual rate of 53.6% during 1979/80-1983/84; decreasing to 1.1% during 1984/85-1987/88 and to 4.9% over the 1988/89-1994/95 period. This resulted that Sec. 8 sustained an average annual growth rate of 13% over 1979/80 to 1994/95. Sec. 8 performance was improved by contributions from Photographic Apparatus, Equipment and Supplies and Optical Goods, NES, Watches and Clocks (Div. 88) and Miscellaneous Manufactured Articles, NES (Div. 89).

5.5.3 Australian Merchandise Imports from Taiwan (ROC)

Table 5.10 Australian Merchandise Imports from Taiwan: By Major Categories Percentage (%) 1970/71 to 1994/95 (Selected Years)					
Sections ^a	Commodity Description	AUSTRALIAN ^b IMPORTS FROM TAIWAN: PERCENTAGE (%) OF TOTAL			
		1970/71	1980/81	1990/91	1994/95
0	Food and Live Animals	5	3	1	1
1	Beverages and Tobacco	*			
2	Crude Matrls & Inedible Except fuel	1	1		
3	Mineral Fuels				
4	Animal and Vegetable Oils	-	3		
5	Chemicals	2		5	6
6	Manuf. Goods Classified by Mat.	63	26	15	22
7	Machinery & Transport Equipment	3	23	40	50
8	Miscellaneous Manufactures	24	41	25	17
9	Other	2	3	11	2
Notes: ^a Data to 1987/88 are classified according to the SITC Rev. 2. From 1988/89, SITC Revision 3 has been adopted. This is to conform with the United Nations' Standard International Trade Classification Revision 3 (SITC Rev. 3) with the addition of dummy codes to take account of Australia's treatment of gold and other legal tender coin and confidential items. ^b Imports from Taiwan, ROC, for all sections, as a percentage of Australia's total imports from Taiwan. Percentages may not add to 100.0 due to rounding error. *Means less than 0.5%.					
Sources: Australian Bureau of Statistics, <i>Foreign Trade, Australia, Comparative and Summary Tables</i> , ABS Catalogue No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.					

The significant changes in Australian imports from Taiwan can be tabulated as (Table 5.10):

- * A decrease in Sec. 0 imports from 5% in 1970/71 to 1% in 1994/95.
- * A relative increase in Chemicals (Sec. 5) imports from 2% in 1970/71 to 6% in 1994/95.
- * The relative decline in the import of Manufactured Goods Classified By Material (Sec. 6) from 63% in 1970/71 to 22% in 1994/95.
- * A significant increase in the import of Machinery and Transport Equipment (Sec. 7) from 3% in 1970/71 to 50% in 1994/95 and,
- * A relative decline in the imports of Miscellaneous Manufactured Articles (Sec. 8), from 24% in 1970/71 to 17% in 1994/95.

Australian imports from Taiwan has grown quite rapidly during the last twenty years. As has been detailed in ch. 3, Australia-Taiwan trade relations became more complementary with time. But, whereas the cumulative growth, in nominal value, of Australian exports to Taiwan stood at 16.5% per annum during 1979-94, the growth of Australian imports from Taiwan was only 13.0% per annum.

Figure 5.21 depicts the various components of Australia growth in imports from Taiwan. Figure 5.21, *Panel i* shows how imports from Taiwan, as a proportion of Australia's total imports grew irregularly - especially during 1983-90. Within Figure 5.21, *Panel ii* a similar pattern is observed, as imports from Taiwan are expressed as a proportion of GDP. It becomes evident from Figure 5.18, *Panel ii* that the magnitude of Australian imports from Taiwan was closely related to the domestic economic cycle, with contractions in imports associated with Australia's recessions of 1982/83 and 1991/92. Figure 5.21, *Panels i and ii* reveal that during the 1979/80 to 1994/95, the two main import divisions sourced from Taiwan were Machinery and Transport Equipment (Sec. 7) and Miscellaneous Manufactured Items (Sec. 8).

Sec. 7 encompasses goods which embody a relatively high value-added composition or, ETMs. Over the period 1979/80-1994/95, Sec. 7 imports from Taiwan grew at the annual rate of 5.7%. The three major components of this Sec. 7 imports were (in descending order):

- * Div. 75, Office Machines and Automatic Data Processing machines which, in 1994/95, accounted for 28.9% of all imports sourced from Taiwan (Figure 5.22, *Panel vii*)
- * Div. 77, Electrical Machinery, Apparatus, Appliances Parts held 7.6% of total imports from Taiwan, in 1994/95 (Figure 7.10, *Panel vii*), and
- * Div. 74, General Industrial Machinery and Equipment, and Machine Parts which constituted 3.7% of Australian total imports from Taiwan, in 1994/95.

The relative rise in prominence of Sec. 7 can be attributed to, after allowing for demand pressures, for the declining competitiveness of the Australian manufacturing sector as measured by relative price indices (Wilkinson, 1992). In order to maintain their competitive edge, with the appreciation of the \$NT, Taiwanese companies were willing to reduce their export prices and profit margins. As a result, Taiwanese firms were able to capture the Australian electronic market which proved to be a weak industry in Australia.

Taiwanese import penetration was achieved through the rapid development of new products and Australia's propensity to consume these goods, especially computing products, while the fall in relative prices reflect the cost implications of those technological advances. Sheehan *et al.* (1994) found that over the 1979/80-1993/94 period, Australian global imports of Div. 75 grew at the annual rate of 19.4% (current prices). In comparison, Australian imports of Div. 75 sourced from Taiwan grew at the annual rate of 35.5% over the same period.

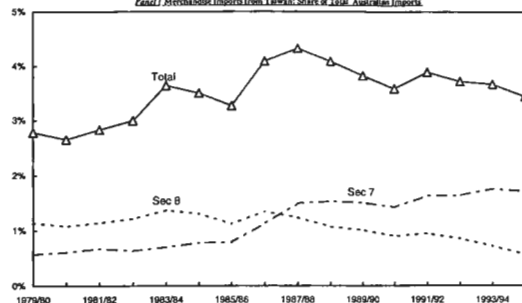
On the other hand, though Australian imports of Electrical Machinery, Apparatus, Appliances, Parts (Div. 77) from Taiwan grew at an average annual rate of 7.5% over the 1979/80-1994/95 period, this growth was well below that established by Sheehan *et al.* (1994) of an annual growth rate of 13.7% in Australian global imports of Div. 77. Moreover, during the last two decades, Australia's average effective rate of tariff protection declined substantially, that by 1994/95, it was almost insignificant on certain merchandise. This made the Australian market more accessible to Taiwanese exports.

Figure 5.22, *Panel v* demonstrates a relative increase in the imports of Sec. 5, Chemical and Related Products: from 3.3% in 1980/81 to 5.8% in 1994/95. Sec. 5 pattern is significantly different to the pattern observed for Sec. 3, Mineral Fuels, Lubricants and Related materials (Figure 5.21, *Panel iv*). This pattern presumably reflects Taiwan's heavy chemicals industries comparative advantage in meeting the needs of Australian industries. In addition, Taiwan is an importer rather than an exporter of mineral fuels. The most important categories within Sec. 5 have been (in descending order): Plastics in Non-Primary Forms (Div. 58), Plastics in Primary Form (Div. 57), Inorganic Chemicals (Div. 52) and Organic Chemicals (Div. 51).

While the previous paragraphs concentrated on the goods for which there was a high growth in imports, this section will focus on those imported goods whose demand receded over time.

Figure 5.21 Australia's Merchandise Imports from Taiwan, ROC: 1979/80 to 1994/95

Panel I Merchandise Imports from Taiwan: Share of Total Australian Imports



Note: Total imports from Taiwan as a share of Australia's global imports (Secs).

Sec. 7 as a share of Australia's global imports (Secs).

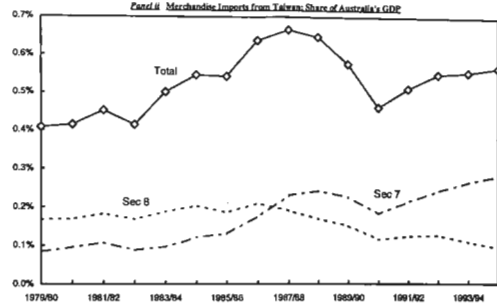
Sec. 8 as a share of Australia's global imports (Secs).

Sec. 7 - Machinery and Transport Equipment (SITC Rev. 3 Classification).

Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev. 3 Classification).

Sources: ABS, *Australian Exports and Imports, Country by Commodity*, ABS Cat. No. 5430.0, Australian Government Publishing Service, Canberra, ACT, various issues; Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

Panel II Merchandise Imports from Taiwan: Share of Australia's GDP



Note: Total imports from Taiwan as a share of Australia's Gross Domestic Product (GDP).

Sec. 7 imports as a share of Australia's GDP.

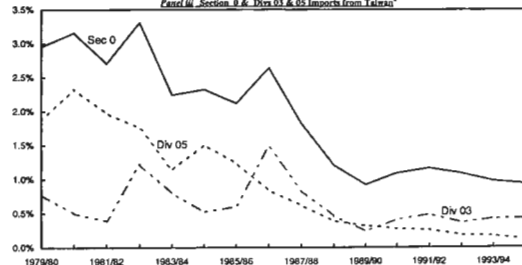
Sec. 8 imports as a share of Australia's GDP.

Sec. 7 - Machinery and Transport Equipment (SITC Rev. 3 Classification).

Sec. 8 - Miscellaneous Manufactured Articles (SITC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*, Australian Bureau of Statistics, Cat. No. 5411.0, Australian Government Publishing Service, Canberra, ACT, various issues; Foster, R.A., and Stewart, S.E. 1996, *Australian Economic Statistics, 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, NSW.

Panel III Section 0 & Div 03 & 05 Imports from Taiwan*



Note: *Respective Section and Divisions share of Australia's total imports from Taiwan.

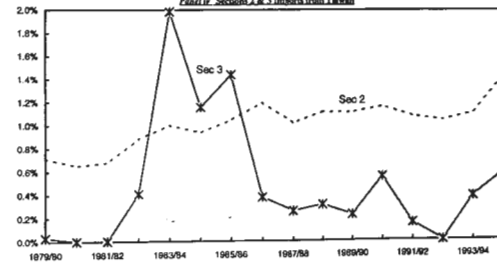
Sec. 0 - Food and Live Animals (SITC Rev. 3 Classification).

Div. 03 - Fish (Plus Marine Molluscs), Crustaceans, Molluscs and Aquatic Invertebrates, and Preparations thereof (SITC Rev. 3 Classification).

Div. 05 - Vegetables and Fruit (SITC Rev. 3 Classification).

Sources: ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Commodity*, International Merchandise Trade Australia, ABS Cat. No. 5417.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Panel IV Sections 2 & 3 Imports from Taiwan*



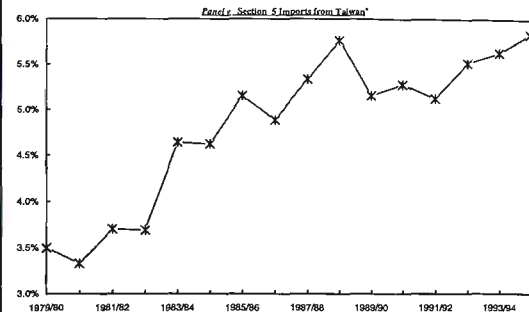
Note: *Respective Section share of Australia's total imports from Taiwan.

Sec. 2 - Crude Materials, Inedible, Except Fuels (SITC Rev. 3 Classification).

Sec. 3 - Mineral Fuels, Lubricants and Related Materials (SITC Rev. 3 Classification).

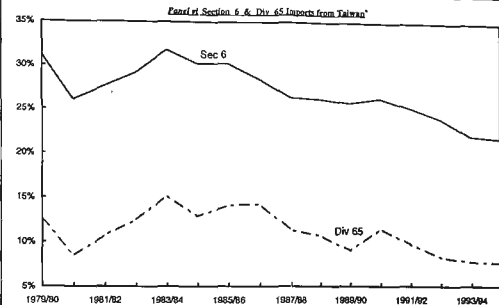
Sources: ABS, *International Merchandise Trade Australia*, ABS Cat. No. 5422.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Figure 5.22 Australia's Merchandise Imports from Taiwan, ROC: 1979/80 to 1994/95



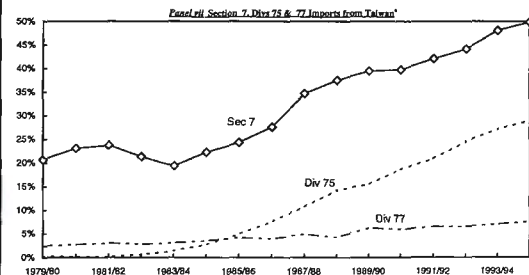
Notes: *Respective Section and Division percentage share of Australia's total imports from Taiwan.
Sec. 5 percentage share of Australia's total imports from Taiwan.
Sec. 5 - Chemical and Related Products, HS (SITC Rev. 3 Classification).

Sources: ABS, *Foreign Trade Australia - Merchandise Exports and Imports by Country, International Merchandise Trade Accounts*, ABS, ABS Cat. No. 5437.0, Australian Government Publishing Service, Canberra, ACT, various issues.



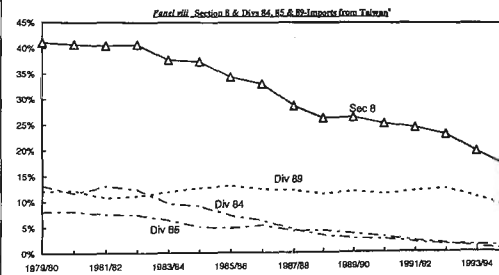
Notes: *Respective Section and Division share of Australia's total imports from Taiwan.
Sec. 6 as a rule is Australia's Total Imports from Taiwan.
Div. 65 as a proportion to Australia's Total Imports from Taiwan.
Sec. 6 - Manufactured Goods Classified Chiefly by Material (SITC Rev. 3 Classification).
Div. 65 - Textile Yarn, Fabrics, Made-up Articles, NES, and Related Products (SITC Rev. 3 Classification).

Sources: ABS, *International Merchandise Trade Accounts*, Australian Bureau of Statistics Cat. No. 5472.0, Australian Government Publishing Service, Canberra, ACT, various issues.



Notes: *Respective Section and Divisions share of Australia's total imports from Taiwan.
Sec. 7 - Machinery and Transport Equipment (SITC Rev. 3 Classification).
Div. 75 - Office Machines and Automatic Data Processing Machines (SITC Rev. 3 Classification).
Div. 77 - Electrical Machinery, Apparatus, Parts (Including Non-Electrical Components of Electrical Equipment).

Sources: ABS, *Australian Exports and Imports, Country by Country*, Australian Bureau of Statistics, ABS Cat. No. 5430.0, Australian Government Publishing Service, Canberra, ACT, various issues.



Notes: *Respective Section and Divisions share of Australia's total imports from Taiwan.
Sec. 8 - Miscellaneous Manufactures (SITC Rev. 3 Classification).
Div. 84 - Articles of Apparel and Clothing Accessories (SITC Rev. 3 Classification).
Div. 85 - Footwear (SITC Rev. 3 Classification).
Div. 89 - Miscellaneous Manufactures (SITC Rev. 3 Classification).

Sources: ABS, *Australian Merchandise Trade*, Australian Bureau of Statistics, Cat. No. 5411.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Australians imports of Miscellaneous Manufactured Items (Sec. 8) is illustrated in Figure 5.22, *Panel viii*. It could be observed that Sec. 8 imports declined at the annual rate of 5.5% of Australian total imports from Taiwan, over the 1979/80-1994/95 period. This was the result of sharp decreases within (in descending order):

- * Div. 84, Articles of Apparel and Clothing Accessories, sustaining an average annual decrease of 13.9%.
- * Div. 85, Footwear (average annual decrease of 15.5%) and,
- * Div. 89, Miscellaneous Manufactured Articles (average annual decrease of 1.7%).

While in 1982/83, Divs 84, 85, and 89 share of Australia's total imports from Taiwan stood at 12.3%, 7.5% and 11.1% respectively, by 1994/95, Divs 84, 85 and 89 composite share decreased to 1.2%, 0.6%, and 9.1%, each respectively of Australian total imports from Taiwan.

Section 8 is made up of goods which integrate a relatively high level of technology, that is, ETMs. The rapid decline in Australian imports of Taiwan-made Garments and Footwear, especially from the mid-1980s onwards, is indicative of Taiwan's industrial restructuring from labour-intensive manufacturing towards high-technology manufacturing and the tertiary sector. By the mid-1980s, as Taiwan continued to suffer from long-term macroeconomic imbalance and political and social changes which effected its economy, industrial competitiveness and exports, Taiwanese firms relocated their production in Fujian and Guangdong SEZs, Southern China, and in other South East Asian countries, in a concerted effort to hold their comparative advantage, especially in Divs 84 and 85 goods. This is reflected in a sustained decrease in Australian Sec. 8 imports sourced from Taiwan and a simultaneous increase in Sec. 8 imports from China (refer to Sec. 5.3.4). It must also be noted, that between 1980-94, the Australian dollar, in real terms, depreciated by 18.4% against the New Taiwanese dollar.

Figure 5.21, *Panel iii* reveals that imports of Food and Live Animals (Sec. 0), over time, has declined in its relative importance. Imports of Sec. 0 were mainly composed from two main divisions: Fish (Div. 03) and Vegetables and Fruit (Div. 05). It can be seen that imports of Sec. 0 had been irregular, with the major troughs corresponding to fluctuations within Div. 03. Sec. 0 share of imports declined from 3.3% in the early 1980s to 1% in

1994/95. During 1979/80-94/95, Animal and Vegetable Oils, Fats and Waxes (Sec. 4) share of Australian total imports from Taiwan had been insignificant.

In Figure 5.21, *Panel iv*, it is shown that Crude Materials, Inedible, Except Fuels (Sec. 2) declined from 1.98% of total imports from Taiwan in 1983/84 to 0.6% in 1994/95. On the other hand, the same panel indicates that Mineral Fuels, Lubricants and Related Materials (Sec. 3) registered some percentage points gains in 1983/84, to attain a 2% share of total imports. By 1994/95, Sec. 3 share decreased to 0.6% of total imports. It must be noted that Sec. 3 imports were almost exclusively made of Petroleum, Petroleum Products, and Related Materials (Div. 33).

In Figure 5.22, *Panel vi*, it is to be observed that imports of Manufactured Goods Classified Chiefly By Material (Sec. 6) had declined from 31.1% of total imports in 1979/80 to 21.8% in 1994/95. This means that over 1979/80-1994/95, Sec. 6 imports from Taiwan sustained an average annual decrease of 2.2%. The most important component of Sec. 6 is Textile Yarn, Fabrics, Made-Up Articles and Related Products (Div. 65). From the same panel, it would be realised that Div. 65 share of imports declined from its 15% share in 1983/84 to 7.7% in 1994/95, that is, this division sustained an average annual decrease of 3.0%.

The established trend in Sec. 6, Manufactured Goods Classified Chiefly By Material (Figure 5.22, *Panel vi*), needs to be viewed in conjunction with Div. 84, Articles of Apparel and Clothing Accessories, trend (Figure 5.22, *Panel viii*). In combination, these panels indicate a decrease in Australian imports of ETMs (Div. 84) and STMs (Div. 65), from Taiwan. Overall, this indicates that a shift have occurred within Taiwan's Secs 8 and 6 industries - moving their productions on to mainland China, in order to maintain their comparative advantage. This indicates that China and Taiwan economies have become more integrated than previously anticipated. In view of Sec.5.3.4, it becomes evident that Australian imports, previously sourced from Taiwan, have increasingly been sourced from China, with the difference that goods are cheaper and the goods' labels show China rather than Taiwan as 'Country of Origin,' though manufactured by the same Taiwanese companies in China.

5.6 Conclusion

Australian Global Merchandise Trade

In general, Australia continued to import technology, principally embodied in manufactured consumer and producer items and to export raw materials. While mineral fuels, coal, petroleum and natural gas, and metalliferous ores have become Australia's principal sources of export revenue, rural produce is still important. As a consequence of Australia's trade liberalisation, imports grew faster than exports, with an ensuing deterioration in the balance of trade, from 1983 onwards.

Since the 1980s, the share of minerals and metals in Australian global exports increased from 41% in 1980/81 to 45% in 1990/91 and then decreased to 38% in 1994/95. At the same time, agriculture's share of Australian merchandise exports fell from 34% in 1980/81 to 18% in 1994/95. On the other hand, the share of manufactures (other than processed primary products) has risen from 22% in 1980/81 to 33% in 1994/95 of global exports - almost twice the share of agriculture.

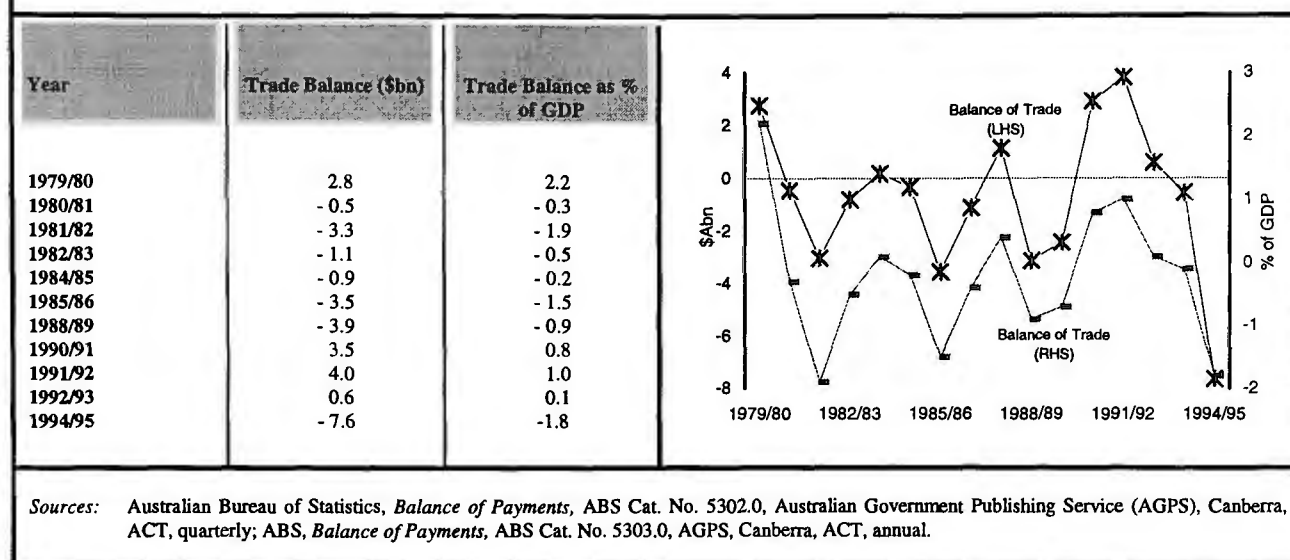
In 1994/95, the value of global merchandise exports had the following composition: agricultural goods - 11.9%; fuels, minerals and metals - 10.7%, and other merchandise - 77.4% (WTO, 1995a). Australia's shares for primary exports (imports) are clearly well above (below) those for the rest of the world and conversely for manufactures. The contrast is even more marked between Australia and other high-incomes countries. For North America, Western Europe and Japan, for example primary products accounted for only 14%, 11.8% and 1.0% respectively of their total exports in 1994, while manufactures accounted for 73.9%, 78.9% and 95.6% respectively of their global exports (WTO, 1995b).

There has been some evidence of recovery in Australian exports of manufactures (Manufactured Goods Classified Chiefly By Material (Sec. 6), and Machinery and Transport Equipment (Sec. 7)) during the later half of the 1980s and well into the 1990s, and by 1994/95 both sections were still registering significant growth. Secs 6 and 7 share of Australia's global exports increased from 12% and 7% respectively in 1990/91 to 14% and 12%, each respectively, in 1994/95.

Accompanying these changes in the composition of trade have been equally profound changes in the direction of Australia's commodity trade. The changes in the composition and direction of Australian trade have been influenced not only by changes in the standard determinants of comparative advantage, such as relative resource endowments, but also by policy changes, at home and abroad.

Australian Balance of Trade

Figure 5.23 Australian Balance of Trade (\$Abn) and As a Proportion of Australian GDP 1979/80 - 1994/95



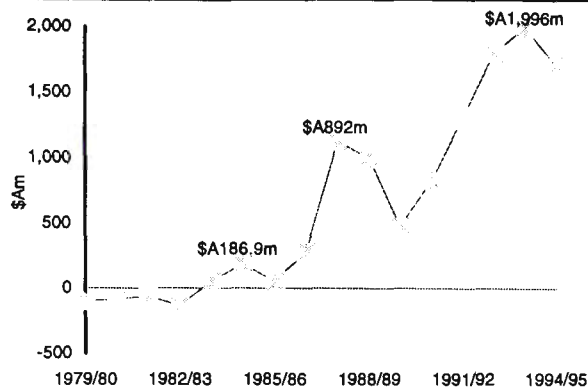
Australia's trade performance during 1979/80-1994/95 can be evaluated through the balance of trade (Figure 5.23). In 1979/80, Australia was enjoying a trade surplus of \$A2.8bn which turned into a deficit from 1980/81 to 1988/89. Australian trade was again in surplus in 1990/91 and 1991/92, corresponding to \$A4.5bn and \$A4bn respectively. However, by 1994/95, Australian incurred a trade deficit of \$A7.6bn. This pattern of underlying deficit with cyclical fluctuations provides the background for analysis of Australian trade balance with other countries, such as China, Hong Kong and Taiwan.

Australian balance of trade with the Greater China Region varied by Territory, as depicted in Figure 5.24. Australian trade with Hong Kong turned into surplus in 1983/84 and continued to increase over the period 1984/85-1993/94, achieving a surplus of \$A1.99bn in 1993/94 - the highest ever recorded with any of the three Territories constituting the Greater China Region. It also becomes evident that from 1988/89, improvement in Australian trade balance with Taiwan coincided with deterioration in Australian trade balance with China (Figure 5.24). This has been shown to be associated with Taiwanese firms shifting their production facilities to China and previously sourced Taiwanese goods are now aggregated as imports from China (country of origin).

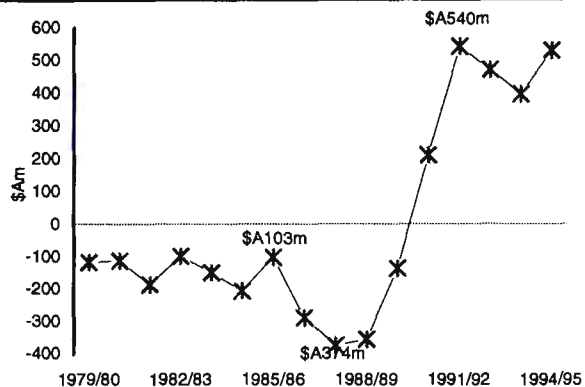
It is quite interesting that though Australia does not recognise diplomatically the Republic of China on Taiwan, trade relations between the two countries continued to improve, with Australia registering substantial trade surpluses, notwithstanding Taiwan's protective measures.

**Figure 5.24 Australian Balance of Trade with the Greater China Region: China, Hong Kong and Taiwan, (\$Am)
1979/80-1994/95**

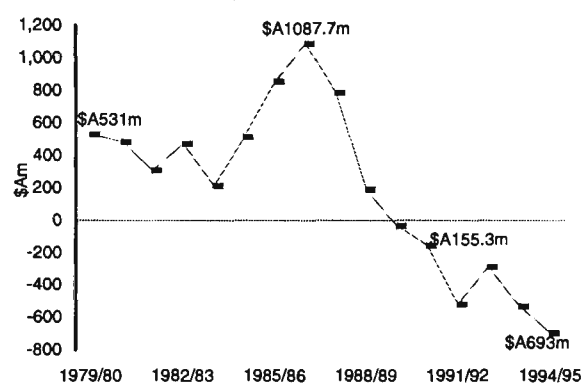
Australian Balance of Trade with Hong Kong 1979/80-1994/95



Australian Balance of Trade with Taiwan 1979/80-1994/95



Australian Balance of Trade with China 1979-1994



The Economic Integration of Hong Kong and Taiwan with Southern China Hong Kong

The economic integration within the Greater China Region was primarily achieved by firms which were established in Hong Kong and Taiwan shifting their production facilities to Southern China in order to remain internationally competitive. For business, the real reversion of Hong Kong to China began in 1979, with Deng Xiaoping pushing forward his Open Door Policy. The implications of China opening its economy to the world, in 1979, were more important for Hong Kong than the announcement, in 1983, of its reversion to China in 1997. In effect, the initial steps towards integration began in 1979 and were pushed further, over the next eighteen years, by political and economic dynamics which gave rise to the Greater China Region (China, Hong Kong and Taiwan) in 1989. So, the actual transference of Hong Kong to China began in 1979 while the political impetus of Hong Kong reversion to China cumulated in July 1997.

Most significant of all was the rapid economic development and reform in China which opened a sizeable market for Hong Kong's exports. In 1993, China became Hong Kong's largest market, accounting for 28.4% of Hong Kong's domestic exports. This cumulated to Hong Kong firms shifting their production in Southern China, in order to retain their comparative advantage and remain internationally competitive. The end-result was a symbiotic relationship which benefited both countries. Those manufacturing industries which opted to stay in Hong Kong shifted their basis from direct manufacturing to one that is manufacturing related - the provision of support services.

In 1985, in order to counteract the affect of the appreciation of the \$NT on their exports, Taiwanese exporters responded by reducing their export prices and cutting profit margins. As Taiwan's industrial competitiveness declined, so has its exports share. Concomitantly, deterioration of the domestic investment climate has been accompanied by a considerable outflow of capital, with domestic industries moving their production offshore, specially to Fujian and Guangdong SEZs, Southern China, and to South East Asia.

The Entrepôt Role of Hong Kong

Differences in the data for Hong Kong exports to Australia exist between ABS data using Australia as the reporting country and data from *UN COMTRADE SITC Rev. 1* using Hong Kong as reporting country. As Australian importers may not know the country of origin at the time of shipment, they may put Hong Kong as country of origin - thus overstating Australia's imports from Hong Kong and understating imports from countries downstream from them. On the other hand, *UN COMTRADE* data with Hong Kong as reporting country, relies on the collection of information from custom forms in Hong Kong and these may give a more precise statement of country of origin.

A central finding of this chapter is the magnitude of Hong Kong's role as an entrepôt in respect to exports to Australia, not only in respect to Australian imports sourced from China and Taiwan but also in respect to imports from other countries. A substantial share of Hong Kong exports to Australia was made up of re-exports of which country of origin is unknown. On the basis of *UN COMTRADE SITC Rev. 1* data, this share of indirect re-exports (country of origin unknown) in Hong Kong total exports to Australia increased from 18.2% in 1980 to 29% in 1985, then to 63.4% in 1990 and then to 86% in 1995.

As China embarked on expanding its global trade, it had to route a large percentage of its manufactured exports through Hong Kong as it lacked the container port facilities. This has resulted in China's indirect exports, via Hong Kong, as a proportion of its total merchandise exports to Australia increasing from 21.4% in 1981 to 27.2% in 1984 and to 59.7% in 1992. From 1993 onwards, the proportion of China's indirect exports to Australia (via Hong Kong) began to decline, so that by 1995 it stood at 56.6%. China's trade became more dependent on Hong Kong entrepôt role as a result of its decentralisation measures which were undertaken in 1979, 1984, 1988 and 1992.

Hong Kong total re-exports (China, Taiwan and country of origin unknown) to Australia, as a proportion of Greater China Region (China, Hong Kong and Taiwan) exports to Australia, increased from 11.1% in 1981 to 15.7% in 1985, then to 33.9% in 1990 and to 42.1% in 1995.

Not only has Australian imports from within the Greater China Region become highly dependent on Hong Kong entrepôt role, but so also has Australian exports to China, which increased from 1% in 1981 to 27.1% in 1995 of Australian total exports to China. The increase in the dependence of Australian exports on Hong Kong entrepôt role is the result of changes which were taking place in China's economy. The opening up of the Chinese economy in the late 1970s has once again made Hong Kong China's window on the world.

Not only does this indicate that Australia did not formulate the right strategies in conducting its trade relations with China, but also, that it continues to incur penalties - economically, by utilising Hong Kong's entrepôt role, and in its businesses not establishing the right links with their respective markets so to remain dependent on indirect feedback. This may also create both strategic and economic problems for Australia in the event that Hong Kong incurs any social, political or economic upheavals on its reversion to China in July 1997.

Australian Merchandise Trade with the Greater China Region *Exports to China*

Australian exports to China, Hong Kong and Taiwan continued to improve during the 1980/81-1994/95 period. During 1979/80-1994/95, Australian exports to China grew at the average annual rate of 10.1%. The composition of Australia's exports to China, however, changed considerably, with the agricultural products share decreasing from 66% in 1980/81 to 3% in 1994/95. This sharp drop was offset by the fuels and minerals share

increasing from 13% in 1980/81 to 52% in 1994/95, while other merchandise exports increased from 21% to 35% over the period. The decline in the share of Australian primary products exports to China was in line with China reorienting its wheat imports to the United States, as a consequence of the US implementation of its EEP policy in 1985, and as a result of improved agricultural management which made China more self-sufficient. The growth in the share of fuels and mineral exports partly reflects the collapse of agricultural exports, but was also linked to China's industrialisation, which required the import of mineral resources for its industries to sustain the country's growth in exports. China's rapid growth was facilitated, in part, by the integration of its economy with those of Hong Kong and Taiwan, as Hong Kong and Taiwanese firms moved their production facilities to China, to take advantage of lower cost factors such as labour and land.

Exports to Hong Kong

The Australian total value of merchandise exports to Hong Kong increased at the average annual rate of 16.1% during the 1979/80-1994/95 period. This was accompanied by changes in the export composition, with the primary produce share decreasing and the fuels and minerals, and other merchandise shares increasing. The decrease in Australian agricultural exports to Hong Kong was also linked to the US EEP policy, whereby US primary exports gained complete dominance of the wheat and apples markets in Hong Kong. There was also significant growth in Sec. 7 exports, the share of which increased from 7% in 1980/81 to 16% in 1994/95.

Exports to Taiwan

Over the 1979/80-1994/95 period, Australian exports to Taiwan also continued to grow at the average annual rate of 16.3%. However, there again were major changes in Australia's export mix. On the one hand, agricultural produce, and fuels and minerals shares of Australian total exports to Taiwan decreased. On the other hand, other merchandise exports increased the proportion of Australian total exports to Taiwan. The contraction in Australian agricultural produce exports to Taiwan was once again linked to the US EEP policy, which resulted in the US dominating the wheat, corn, soybeans and apples markets, in Taiwan.

What is highly conspicuous is the fact that Australia's exports of Div 97, Gold, Non-Monetary, to both Hong Kong and Taiwan were so significant and highly synchronised (refer to Figure 5.15, *Panel viii* and Figure 5.20, *Panel viii*). In Taiwan's case, the only

plausible explanations that could be rendered are its strategy to lower its trade surplus with Australia, as has been the case with the United States, in 1988, and in its anticipation in establishing its own gold spot and futures market. The stock market crash of October 1987 might also have influenced the purchase of Australian gold (Div. 97) as confidence in stocks plummeted - in both Hong Kong and Taiwan.

Australian Exports Market Shares

Australian exports not only did not maintain, but in effect, decreased their market share in China from 6.3% in 1979/80 to 3% in 1983, then to 2.6% in 1985 and to 1.7% in 1994. However, Australian exports continued to maintain their market shares in Hong Kong and Taiwan that in 1994, they stood at 4.3% and 2.6%, each respectively. In retrospect, Australian trade became more dependent on China, and to a lesser extent, on Hong Kong and Taiwan markets, than vice-versa.

Australian Global Merchandise Imports

The composition of Australian imports has been considerably more stable than the composition of its exports, with manufactures dominating and primary products being of minor significance. While the share of primary products in Australian total imports decreased from 23% in 1980/81 to 12% in 1994/95, machinery and transport equipment share increased from 35% in 1980/81 to 47% in 1994/95. However, other merchandise imports continued to sustain their 41% share of Australian total imports during the 1980/81-94/95 period, notwithstanding minor changes within the respective sections.

Merchandise Imports from the Greater China Region

Imports from China

Over time, Australia-China trade relations became more complementary. But, whereas the average annual growth, in nominal value, of Australian exports to China was 10.1% between 1979/80 to 1994/95, the annual growth rate of imports from China was 22.9%. Imports of machinery and transport equipment and other merchandise goods were the two major categories of imports. It also became evident that manufacturing goods previously sourced from Hong Kong and Taiwan became increasingly imported from China as a result of the economic integration of Hong Kong, Taiwan and Southern China. Imports of Machinery and Transport Equipment (Sec. 7) increased from 1% in 1980/81 to 19% of Australian total imports from China while Miscellaneous Manufactures (Sec. 8) increased from 31% to 55% over the same period. This means that Australia began to source a

from 31% to 55% over the same period. This means that Australia began to source a larger share of its ETM imports from China, with the combined shares of Sec. 7 and Sec. 8 constituting 74% of total imports.

In the short-term, Australian exports to China were strongly disadvantaged by the strong appreciation of the Australian dollar against the Yuan, from December 1993 onwards. In addition, given the emergence of China's electronics industry and Australia's strong demand for such products, not to mention other manufactured goods within Secs 7 and 8, Australian imports sourced from China are likely to sustain their relatively strong growth.

Imports from Hong Kong

During the 1979/80-1994/95 period, Australian imports from Hong Kong, as a proportion of Australian global imports continued to decrease from 2.4% in 1979/80 to 1.9% in 1985/86, then to 1.5% in 1990/91 and to 1.2% in 1994/95. There was a substantial increase in the imports of Machinery and Transport Equipment (Sec. 7), whose share increased from 17% in 1980/81 to 51% in 1994/95. Other merchandise imports decreased from 81% in 1980/81 to 46% in 1994/95. This decline in other merchandise imports is partially explained by Hong Kong firms shifting their production in Southern China.

Imports from Taiwan

Australian total imports from Taiwan, as a share of Australian global imports increased from 2.8% in 1979/80 to 4.3% in 1987/88 and then decreased to 3.4% in 1994/95. Australian merchandise imports from Taiwan also sustained changes with primary products and other merchandise shares decreasing while the share of machinery and transport imports increased from 23% in 1980/81 to 50% in 1994/95. Again, the contraction in other merchandise imports from Taiwan is associated with Taiwanese firms shifting their production to Southern China.

Australian Trade Retrospect

From an Australian perspective, it is clear that there was significant growth in the exports of Machinery and Transport Equipment (Sec. 7) to the Greater China Region (Table 5.11). However, when Australian imports of Sec. 7 from China, Hong Kong and Taiwan are compared with Australian exports to each of the countries, it becomes evident that Sec. 7 imports by far surpassed exports.

In addition, Sec. 8 exports as a proportion of Australian total exports to each respective country either diminished (Hong Kong) or remained insignificant (China and Taiwan) (Table 5.11). However, when Australian Sec. 8 imports from each of the countries are compared with each other, it becomes evident that there was a simultaneous and substantial contraction in the proportion of Sec. 8 imports from Hong Kong and Taiwan and an increase in Sec. 8 imports from China. This is indicative of the ensuing shifts which were taking place as a result of the economic integration of Hong Kong and Taiwan economies with that of China. This was brought about by Hong Kong and Taiwan firms shifting their production in Southern China, resulting in what was previously sourced from each of the countries being aggregated with merchandise imported from China (country of origin).

Table 5.11 Australian ETM¹ Exports to & Imports from China, Hong Kong and Taiwan (%)
1980/81-1994/95 (Selected Years)

Section ²	Year	Share of Total Australian Exports ³ to:			Share of Total Australian Imports ⁴ from:		
		China	Hong Kong	Taiwan	China	Hong Kong	Taiwan
Section 7 ⁵	1980/81	0	7	1	1	17	23
	1994/95	7	16	4	19	51	46
Section 8 ⁶	1980/81	0	11	1	31	51	41
	1994/95	-	6	2	55	31	17
Total ETM ¹	1980/81	0	18	2	32	68	64
	1994/95	7	22	6	74	82	63

Notes: ¹ETM - Elaborately Transformed Manufactures, Sec⁷ & 8.

²As defined within the United Nations Standard International Trade Classification Revisions 2 & 3 (SITC Rev² 2 & 3).

³Respective Section exports as a proportion of Australian total exports to each of the respective countries.

⁴Respective Section imports as a proportion of Australian total imports to each of the respective countries.

⁵Sec. 7 - Machinery & Transport Equipment, in conformity with UN SITC Rev² 2 & 3.

⁶Sec. 8 - Miscellaneous Manufactures, in conformity with UN SITC Rev² 2 & 3.

Source: Australian Bureau of Statistics, *Foreign Trade, Australia, Comparative and Summary Tables*, ABS Cat. No. 5410.0, Australian Government Publishing Service, Canberra, ACT, various issues.

Overall, Australia total ETM exports seem to have performed well in the Hong Kong market, though total ETM imports from each of the Greater China Region countries form substantial proportions of Australian total imports (Table 5.11). Australian imports from these countries is heavily biased towards ETMs which have sustained real growth in prices, as opposed to Australian rural and mineral resources exports, of which prices were depressed. This may also attest to Australia becoming increasingly dependent on the Greater China region for its Sec. 7 imports when compared to Australia's global intake of Sec. 7 (35% in 1980/81 and 47% in 1994/95).

While the share of other merchandise imports originating from Hong Kong and Taiwan continued to decline, though still well above Australian global share of other merchandise imports, China's share of other merchandise imports remains significantly high. This means that for other merchandise, Australian imports are also highly dependent on China, and to a lesser extent on Hong Kong and Taiwan, as firms from the respective countries moved their production operations to Shenzhen and Fujian SEZs, in Southern China.

Australian trade within the Greater China Region is highly dependent on Hong Kong's entrepôt role. This may indicate that in its long history of trade relations with China, Australia did not establish the right strategies in conducting its business with China. As a result, Australian businesses and the trade they generate may continue to be captive of Hong Kong, in its entrepôt role. It is anticipated that this may continue well into the turn of the century, as China's production become more specialised, China's dependence on Hong Kong's role as middleman will decline and more direct trade will be achieved. However, in the interim, this could have important implications for Australia trade relations with China and Hong Kong, and indirectly, with Taiwan, in the event that Hong Kong suffers from any social, economic or political turmoils on its reversion to China in 1997. While there were improvements in Australian trade with the Greater China region, the enormous potential of the Australian economy had not been realised as Australian exports continued to be mainly composed of agricultural and mineral resources.

A major point which came to light was that as the United States continue to intensify its exports of agricultural produce in the Asian region, as has already happened in China, Taiwan and Hong Kong, Australian agricultural exports will be more disadvantaged, not only in not maintaining their market share in the respective countries but also in being unable to compete with American produce. This will have implications to Australia's agricultural sector, in particular, and on the Australian economy - in general.

6. CHAPTER 6 AUSTRALIAN SERVICES TRADE WITH CHINA, HONG KONG AND TAIWAN 1983-1994

6.1 Introduction

Over the 1984-94 period, world trade in services continued on a rapid growth rate. The growing importance of the services sector to the world economy is demonstrated by its share of total world trade, which rose from 16.9% in 1984 to 19.2% in 1995 (WTO, 1995a, 1997). Simultaneously, China, Hong Kong and Taiwan have been experiencing a surging demand for services relating to telecommunications, education and training, tourism, transport, building and construction. Bottlenecks in transport, telecommunications and education infrastructure have been evident in Hong Kong, China and Taiwan, which have impeded economic growth and structural change. Governments have recognised the urgent need to draw on foreign skills to address these problems.

Over the 1984-1994 period, the share of the services sector in Australian trade has been modest. Not only did Australia export a small proportion (5%) of its overall services production, but the share of exports in total services output does not compare well with some of its key competitors, namely, Singapore and Hong Kong. The percentage share of Australian total services exports which went to Hong Kong, China and Taiwan has also remained small over time, even though, from the perspective of each of the three countries, it is significant in relation to their global imports and exports. The main impetus of Australian services businesses remained focussed on the United States and United Kingdom markets.

This chapter will concentrate on the opportunities and constraints that the North East Asian countries of Hong Kong, China and Taiwan have provided for the Australian services exports and imports over the 1983-1994 period. The pattern of Australian trade in services with these countries will be documented, and some reasons suggested for the major trends. The impact of the announced change in the status of Hong Kong will also be noted, where relevant.

Within Section 6.2, the effects, limitations and scope of trade in services will be given; Section 6.3 presents definitions of services as applied within this chapter; Section 6.4 will look at Australia's overall worldwide performance in its trade in services, while in Section 6.5 the structure of the services trade is considered. In Section 6.6, Australia's services trade with China will be outlined, commencing with a broad approach which leads to a detailed analysis of imports and exports of services. Relevant services agreements are also evaluated. The same layout and approach will be reproduced for Hong Kong in Section 6.7 and for Taiwan in Section 6.8. Sec. 6.9 will conclude with the main findings.

6.2 Agreements in Trade in Services

Government policies and multilateral agreements relevant to the service sector can, in principle, either be industry-specific or general in their application; the latter may apply equally well to other economic sectors. Australia has negotiated intensively with twenty four countries in the Asia-Pacific Region, with particular focus on securing better schedules of commitments in key service sectors.

In 1986, during the launch of the negotiations in Punta del Este, Uruguay, the United States had sought to achieve progress in four major issue areas. These were:

1. “new” areas involving matters not previously covered by the General Agreement on Tariffs and Trade (GATT), specifically,
 - (a) trade in services;
 - (b) trade-related aspects of intellectual property rights, and
 - (c) trade-related aspects of investment measures.
2. traditional areas that had initially been covered by standard GATT rules but had been excluded from GATT discipline for special reasons, namely, agriculture and textiles and apparel;
3. GATT rules covering “unfair” trade practices, mainly dumping by foreign firms and subsidisation by foreign governments, and safeguard measures to protect domestic industries from import competition causing serious injury and,
4. various other issues such as government procurement policies, technical barriers to trade, dispute settlement procedures, and a new multilateral organisation to replace the GATT.

The achievements of the Uruguay Round included, among others agreement to bring trade in services under GATT rules, general acceptance of governments’ obligation to protect intellectual property rights, gradual phasing out of domestic content requirements and export requirements (DFAT, 1994).

An important feature of the framework agreement negotiated in the Uruguay Round for services was that it covered not only cross-border trade in services, but also services supplied by foreign firms within a country to consumers in that country and services supplied by domestic firms to nationals of other countries who are visiting the country. The framework agreement also commits GATT members, including Australia, subject to

specified exceptions, to accord all other members treatment with regard to these services that is no less favourable than that accorded to any other country, that is, MFN treatment, to publish promptly all relevant laws and regulations, and to administer relevant domestic regulations in a reasonable, objective and impartial manner (DFAT, 1994).

The key part of the services agreement consists of schedules of commitment by GATT members in which they set forth specific terms and conditions on market access, conditions and qualifications on national treatment, and the time frame for implementing such commitments. By September 1994, the participants had reached agreements on these commitments. Consequently, specific liberalising commitments were made in such important service sectors as banking, insurance, brokerage services and audio-visual services.

In an effort to curtail free-riding and to bring together existing and new international trading rules, agreements, and associated legal instruments covering goods, services, intellectual property rights, and procedures for settling disputes and monitoring trade policies under a single institutional framework, the Final Act of the Uruguay Round established a new international organisation, the World Trade Organization (WTO), to become operational as of 1 January 1995. China and the Republic of China on Taiwan are not signatories to the General Agreement on Trade in Services (GATS), though both have applied to join WTO.

Since its inception in 1989, Asia-Pacific Economic Cooperation (APEC) has, through several meetings, e.g., Blake Island, Bogor and Osaka, set a number of specific goals and objectives which will result in making the Asia-Pacific region, freer and more open in the conduction of trade and investment. In November 1995, at the Osaka meeting in Japan, APEC members showed their firm commitment in achieving liberalisation and facilitation in trade and investment by establishing wide-ranging initiatives to accelerate the implementation of their Uruguay Round commitments and to deepen and broaden the outcome of the Uruguay Round through, e.g., acceleration of tariff reductions, early implementation of WTO agreements and pursuance of deregulation (APEC, 1995). Together with these measures, their collective actions included harmonising and enhancing the efficiency of customs procedures and promoting mutual recognition and improving conformity assessment capabilities which will yield immediate and tangible benefits for business.

6.2.1 Limitations of data

The lack of detailed information on government and non-governmental measures affecting international service operations precludes an accurate evaluation of trade in services. Problems associated with data accuracy and aggregation in measuring services trade, as reported in the balance of payments accounts have been reported by Tucker (1979), Shelp (1981) and Griffiths (1985).

Governmental and non-governmental measures bearing upon international service operations are likely to affect a broad range of key economic variables, such as domestic prices, production and consumption of services; the volume of trade in services; allocation of resources; the distribution of income and social welfare. Governmental measures can, in particular, have a potential influence on patterns and structural change in the national and international service sectors and on the choice made by transnational service firms between export, direct foreign investment and contractual arrangements with companies abroad. Restrictive business practices of transnational service firms can influence the formation of oligopolistic market structures, with adverse implications for global efficiency and welfare.

As with other government policies, measures concerning the establishment of foreign service firms raise the basic question as to whether or not such measures reflect general investment policy or are specific to the service sector. The regulation of the establishment of foreign service companies is very closely related to basic economic and non-economic issues.

Shelp (1981) and Riddle (1985) have stressed the importance of the global service economy, in promoting and facilitating trade and industrial restructuring. The concept of 'service-led' growth has replaced the traditional view of 'service-retarded' growth.

6.3 Definitions

As there is no universally accepted definition of services, two definitions are herewith presented, namely, one used by General Agreement of Trade in Services (GATS) and another by Australian Bureau of Statistics (ABS).

6.3.1 General Agreement on Trade in Services (GATS) Definition

Trade in services as defined by Article I of the General Agreement of Trade in Services (GATS) is the supply of a service through four modes of delivery: from the territory of one nation into the territory of another, in the territory of one nation to a consumer in another nation, by a service supplier of one nation through commercial presence in the territory of another nation, and by a service supplier of one nation through the presence of natural persons of a nation in the territory of another nation.

6.3.2 Australian Bureau of Statistics Services Definition

Australian Bureau of Statistics defines services as:

...everything other than goods, income and unrequited transfers - according to the international statistical standards. It is very much a residual category. We do not try to identify any services that might be bundled in with goods; they are covered in our merchandise trade statistics.¹

Australian Bureau of Statistics *Balance of Payments* definition of services differs from the one adopted by the General Agreements on Trade in Services (GATS)² in that the latter incorporates a commercial presence,³ which is not part of the balance of payments framework.

6.3.2.1 Data Sources

World Trade Organization (WTO) services data and Australian Bureau of Statistics (ABS) data both of which are based on balance of payment figures have been utilised in this chapter.

¹ Australian Bureau of Statistics, Transcript, 13 June 1995, p. 369. This transcript was submitted to a Joint Standing Committee on Foreign Affairs, Defence and Trade, December 1996.

² As listed within Article 1, Chapter 4 of General Agreement on Trade in Services of September 1994, Mode 3 is: Commercial presence, where services are provided through establishment in the other country (e.g., subsidiary or branch of a bank, insurance company).

³ Commercial presence or referred to as Establishment Trade is the supply of a service by a service supplier of one member through commercial presence in the territory of any other member. This refers to delivery of services through any type of business or professional establishments, such as corporations, representative offices and branches, owned or controlled by persons from other countries. GATS 1994, *Final Act - General Agreement on Trade in Services*, Geneva, Switzerland.

Australian Bureau of Statistics *Balance of Payments* data was primarily used in analysing Australian services trade with China, Hong Kong and Taiwan. However, IMF data was also used in order to evaluate the market share of Australian services with each of the respective countries. WTO imports (debits) and exports (credits) of commercial services⁴ are derived from statistics on international service transactions included in the Balance of Payments Statistics provided by the International Monetary Fund (IMF). They conform to the concepts, definitions and classification of the fourth (1977) or fifth (1993) edition of the IMF *Balance of Payments Manual*. For countries which do not report to the IMF, such as Taiwan and Hong Kong, data is mainly drawn from national statistics (WTO, 1995). However, it must be realised that the commercial services category was re-defined in 1995 to exclude labour income. It is now the sum of the following items: transportation, travel, and other private services. This change in definition was implemented because labour income refers to income transactions rather than service transactions. In the fifth edition of the *Balance of Payments Manual*, which provides for a clear separation between services and income, labour income has been renamed as compensation of employees and included under the income category.

Although in recent years the coverage and comparability of services trade have improved, recorded services trade figures still lack comparability and are subject to significant distortions. There are three main factors that lead to a significant overall downward bias in the reported country figures (WTO, 1995). First, some countries do not report statistics on specific service items. Second, some service transactions are simply not registered. If central bank records are used, situations where no financial intermediaries are employed are not counted. In the case of surveys, the coverage of trading establishments is often incomplete. A particularly serious problem is that services transmitted electronically are frequently unregistered, especially when the transactions take place between affiliates and parent multinational firms. Third, statistics may be reported on a net rather than on a gross basis, often as a result of compensation arrangements such as in rail transport or in communication services.

Among the other factors that affect data comparability, the following ones have a particular impact. First, the alternate sources used for countries which are not members of the IMF do not necessarily comply with the IMF concepts and definitions. Second, misclassification of transactions may lead to an underestimation of commercial services when service transactions are registered as factor income, transfers, or trade in merchandise, rather than trade in services or, conversely, to an overestimation of

⁴ The WTO category commercial services is newly defined to exclude labour income. It is now the sum of the following items: *transportation, travel and other private services*.

commercial services when transactions pertaining to factor income, transfers or official transactions are registered in the private service categories.

ABS data are published quarterly and represent services credits and debits which are based on the IMF *Balance of Payments Manual* 1977. Services include those rendered by Australian residents to non-residents (credits), and by non-residents to residents (debits), together with transactions in a few types of goods that, for practical reasons, are included with the services to which they relate. For example, travel covers the acquisition of both goods and services by travellers, while port services may include both goods and services procured by transport operators. Similarly, any service component embodied in traded merchandise is not recorded separately as a service.

Services delivered to non-residents through a foreign branch or subsidiary are not defined as a *Balance of Payments* transaction. But services delivered by a parent company to a foreign-resident subsidiary are defined as international services. Any profits or dividends remitted between an enterprise in Australia and a related enterprise abroad are regarded as an income transaction, not a service.

Services are mainly divided into four major categories:

- ◆ Shipment
- ◆ Other Transportation
- ◆ Travel and
- ◆ Other services.

Each of these categories can be broken down into a number of components, with components reflecting exports (credits) and imports (debits).

6.4 Australian Services Trade

Prior to 1984, Australia's growth in services trade had been complementary with merchandise flows while more recent developments are either accelerating new flows in services trade or altering the relative terms of trade between goods and services. A substantial part of the explanation of this shift in services trade lies with the fluctuation in investment income flows in the 1980s (refer to ch. 8), due to price and volume changes.

In the 1980s, the Australian economy became more outward oriented, contributing to the growth of trade in services. The financial system was deregulated and foreign exchange controls removed. There was a decrease in the levels of protection, a process which continued to accelerate in the 1990s. Deeply entrenched and inefficient practices were addressed as the pace of microeconomic reform accelerated.

As a result of their rapid economic growth and trade expansion, the North East Asian countries of China, Hong Kong and Taiwan have become more important in Australia's trade. For Australia, trade with these North East Asian countries became more important as these economies continued sustain rapid growth.

A major portion of Australia's services trade has been provided by the 'medium-of-trade' services - those that facilitate trade in goods and other services - rather than those that might be traded for their own sake, such as health, education or consulting services. This means that Australia became dependent on other countries for its services requirement, such as shipping. This resulted in Australia being a late entrant in the export of services.

Australia maintains a sizeable aid program, which is, in part, concentrated on the North East Asian region. This aid is almost entirely in grant form, with the secured component being non-burdensome, by international standards (Bilney, 1995). The case for aid is primarily a moral and humanitarian one (DFAT, 1992). But there are, in addition, a broad range of strategic, political and commercial considerations in the decisions to give aid. However, the ratio of the volume of Australia's official development assistance (ODA) flows to the Gross National Product (GNP), the ODA/GNP ratio,⁵ continued to decline, in real terms. This reduction in Australia's ODA directly reflects Australia's reduced capacity to provide assistance due to the urgent need to address its budget deficit problem (Downer, 1996). While the Australian Government supports, in principle, the United Nations goal of providing 0.7 per cent of GNP as aid, its primary intention is to put the domestic economy in order before it can achieve higher aid levels in the future.

Global trends from donors across the developed countries indicate that governments are finding it increasingly difficult to maintain the previous levels of official development assistant. The average ODA/GNP ratio for donor countries fell to an all-time low of 0.27% in 1995. Australia's ODA/GNP will be above that average at 0.29%.

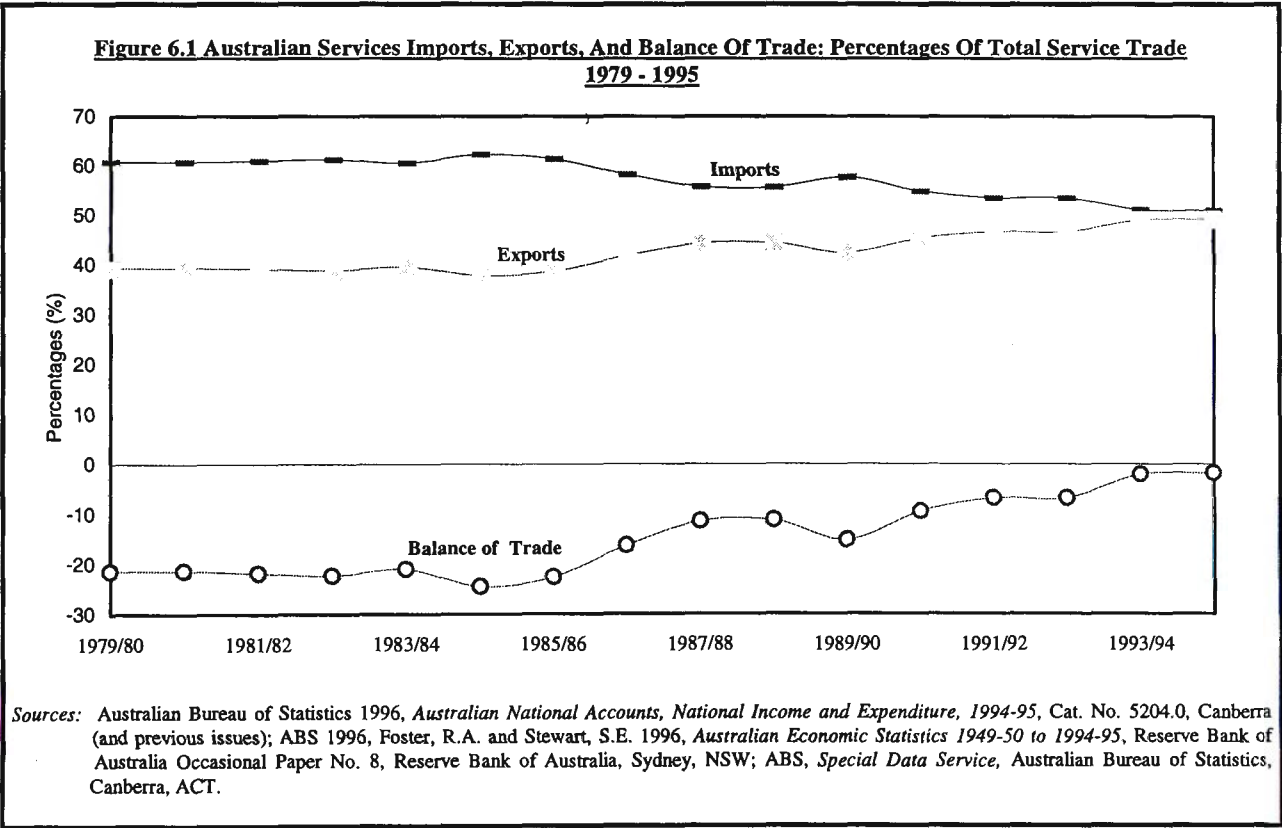
⁵ The ODA/GNP is the usual method of measuring the relative performance of aid donors.

Aid is a component within the miscellaneous services category which is estimated monthly from the Commonwealth Government ledgers. Quarterly and annual estimates are derived by summing monthly estimates.

6.4.1 Trends

In real terms, Australian total trade in services increased at the rate of 6.6% per annum between 1984/85 and 1994/95. In current prices, trade in services accounted for 16.4% of total goods and services exports in 1984/85 and 23.5% in 1994/95.

In 1994/95, the deficit in Australia’s service account was \$A749m or 1.8% of total services trade. This represents a significant decrease from the deficit of \$A3,780m or 24.5% of total services trade in 1984/85 (Figure 6.1).



At current prices, exports of services increased from \$A5.84bn in 1984/85 to \$A20.4bn in 1994/95. On the other hand, imports of services increased from \$A9.62bn in 1984/85 to \$A21.1bn in 1994/95. Over the last decade, the terms of trade for services has been consistently stronger than that for merchandise trade. This means that the prices of services' exports rose more quickly than import prices. As seen from Figure 6.1 and Table 6.1, trade in services has been in deficit from 1979/80 onwards, ranging from 21.4% in 1979/80 to 1.8% in 1994/95, although approaching balance.

Services imports comprised 22.0% of total goods and services imports in 1994/95. This share has dropped from 24.2% in 1984/85, reflecting the slow growth in the imports of services relative to merchandise imports.

Table 6.1 Australian Services Imports, Exports, & Balance of Trade: % of Total Service Trade 1979-1995			
Year	Imports of Services As % of Total Trade in Services %	Exports of Services As % of Total Trade in Services %	Balance of Trade in Services %
1979/80	60.71	39.29	-21.42
1980/81	60.67	39.33	-21.34
1981/82	60.91	39.09	-21.81
1982/83	61.17	38.83	-22.34
1983/84	60.52	39.48	-21.03
1984/85	62.23	37.77	-24.47
1985/86	61.30	38.70	-22.60
1986/87	58.16	41.84	-16.31
1987/88	55.74	44.26	-11.49
1988/89	55.62	44.38	-11.25
1989/90	57.61	42.39	-15.21
1990/91	54.76	45.24	-9.52
1991/92	53.42	46.58	-6.85
1992/93	53.41	46.59	-6.82
1993/94	51.06	48.94	-2.12
1994/95	51.73	48.27	-3.46

Sources: Australian Bureau of Statistics 1996, *Australian National Accounts, National Income and Expenditure, 1994-95*, ABS. Cat. No. 5204.0, AGPS, Canberra, ACT (and previous issues); ABS 1996, *Australian National Accounts, National Income and Expenditure, September Quarter*, ABS Cat. No. 5206.0, AGPS, Canberra, ACT; Foster, R.A. and Stewart, S.E. 1996, *Australian Economic Statistics 1949-50 to 1994-95*, Reserve Bank of Australia Occasional Paper No. 8, Reserve Bank of Australia, Sydney, NSW.

6.4.1.1 Travel Services

The reduction in the balance of trade in services was brought about primarily by a strong growth in travel services exports over the decade. Over this period, the sustained strong demand for travel services has had the effect of arresting the decline in services exports, as well as contributing to its annual growth of 5%. Travel services share of total services exports increased from a 27.3% in 1984/85 to 44.5% in 1994/95 (Table 6.2).

Table 6.2 Australian Services Exports: By Main Categories 1984/85 to 1994/95 (\$Am - Current Prices)

Year	Shipment		Other Transportation		Travel		Other Services		Total
	Value	%	Value	%	Value	%	Value	%	\$Am
1984/85	548	9.4	2,131	36.5	1,592	27.3	1,565	26.8	5,836
1985/86	578	8.5	2,445	36.0	2,005	29.5	1,760	25.9	6,788
1986/87	700	8.7	2,656	32.9	2,685	33.2	2,040	25.2	8,081
1987/88	820	8.0	3,044	29.8	3,777	37.0	2,571	25.2	10,212
1988/89	869	7.5	3,178	27.4	4,577	39.5	2,971	25.6	11,595
1989/90	917	7.4	3,402	27.3	4,639	37.2	3,507	28.1	12,465
1990/91	1,029	7.3	3,811	26.9	5,351	37.8	3,954	28.0	14,145
1991/92	1,112	7.3	4,069	26.8	5,939	39.1	4,081	26.8	15,201
1992/93	1,241	7.5	4,614	28.0	6,407	38.9	4,223	25.9	16,485
1993/94	1,455	7.9	4,625	25.2	7,668	41.8	4,588	25.0	18,336
1994/95	1,533	7.7	4,473	22.4	8,879	44.5	5,052	25.4	19,937

Sources: Australian Bureau of Statistics, *Australia's Balance of Payments, 1992-93*, Cat. No. 5303.0, Australian Government Publishing Service (AGPS), Canberra (and previous issues); ABS, *Australia's Balance of Payments, June quarter 1994* Cat. No. 5302.0, AGPS, Canberra, ACT; ABS, *International Trade in Services, 1994-95*, ABS Cat. No. 5354.0, AGPS, Canberra, ACT (and previous issues); ABS, *Special Data Service*, Australian Bureau of Statistics, Canberra, ACT.

Imports of travel services increased marginally, from 27.1% in 1984/85 to 27.03% in 1994/95. As a result of Australia's economic downturn of the early-1990s, there was a decline in the imports of travel services: from 30.5% in 1989/90 to 27% in 1994/95 (Table 6.3). However, over the decade, travel services imports increased only by 2.1%.

Table 6.3 Australian Services Imports: By Main Categories 1984/85 to 1994/95 (\$Am - Current Prices)

Year	Shipment		Other Transportation		Travel		Other Services		Total
	Value	%	Value	%	Value	%	Value	%	\$Am
1984/85	2,539	26.4	2,330	24.2	2,608	27.1	2,140	22.3	9,617
1985/86	2,851	26.6	2,514	23.5	2,760	25.8	2,584	24.1	10,709
1986/87	2,808	25.0	2,510	22.4	3,108	27.7	2,798	24.9	11,224
1987/88	2,923	22.7	2,985	23.2	3,749	29.1	3,206	24.9	12,863
1988/89	3,250	22.4	3,467	23.8	4,363	30.0	3,457	23.8	14,537
1989/90	3,443	20.3	4,058	24.0	5,164	30.5	4,260	25.2	16,925
1990/91	3,188	18.6	4,156	24.3	5,253	30.7	4,522	26.4	17,116
1991/92	3,257	18.7	4,432	25.4	5,148	29.5	4,607	26.4	17,444
1992/93	3,772	20.0	4,637	24.5	5,552	29.4	4,938	26.1	18,899
1993/94	3,831	19.4	4,934	25.0	5,745	29.2	5,194	26.4	19,704
1994/95	4,384	20.5	5,333	25.0	5,774	27.0	5,878	27.5	21,369

Sources: Australian Bureau of Statistics, *Australia's Balance of Payments, 1992-93*, Cat. No. 5303.0, Australian Government Publishing Service (AGPS), Canberra (and previous issues); ABS, *Australia's Balance of Payments, June quarter 1994* Cat. No. 5302.0, AGPS, Canberra, ACT; ABS, *International Trade in Services, 1994-95*, ABS Cat. No. 5354.0, AGPS, Canberra, ACT (and previous issues); ABS, *Special Data Service*, Australian Bureau of Statistics, Canberra, ACT.

6.4.1.2 Shipment Services

Australia is a large importer of shipment services due to its geographic isolation from many of its major suppliers and markets and its lack of a substantial shipping fleet. Imports of shipment services exceeded exports by \$A2.9bn in 1994/95. In 1985/86, Australia's share of the world's maritime task, in tonne-km terms, was approximately 14%. However, Australian flag ships met only 0.6% of this task. In 1986/87, total freight earnings by all shipping carrying Australian trade, whether the shipping was Australian or foreign-owned, totalled \$A6.2bn (Australian Shipping Owners Association, 1995). Of this, Australian operators earned 10% of Australia's seas freight bill, carrying approximately 4% of the tonnage task. That is, there is a high level of foreign penetration and competition into markets that are within Australian reach.

In 1994/95, exports of shipping services were valued at \$A1,533m and imports were worth \$A4,384m - resulting in a deficit of \$A2,851m (ABS, 1995).⁶ In real terms, the deficit increased in 1994/95, with exports of shipping services increasing by 3.4%, and imports increasing by 15.8% from a high base. Notably, exports of shipping services have increased over the last decade, at the annual trend rate of 9.3%, while imports have grown much slower at 5.2%.

Australia's international trade increased by 4.9% in 1993/94. As a result, the Australian contribution to the world seaborne trade increased marginally to 8.6%. All other vessel types increased their share of the national shipping task, with the largest increase, 290.3%, being achieved by multi-purpose, passenger and other vessels. During the same period, that is, 1993/94 to 1994/95, the unit value of Australia's bulk carrier shipping task, which constitutes 81% of the national task, declined by 40.0% to \$A63.9 per tonne. In addition, the shipping services share of total services' exports, on value basis, continued to decline; contracting from 9.4% in 1984/85 to 7.5% in 1994/95 (Australian Shipping Owners Association, 1995).

During 1994/95, while the task undertaken by Australian vessels increased by 3.9% to 12.9m tonnes, the share of Australia's international shipping task undertaken marginally declined by 0.08% to 3.15%, reversing the 1991/92 established growth trends. While the proportion of the maritime movement of imports carried by Australian shipping continued to increase to 9.9% in 1994/95, its share of exports declined further to 2.3%.

⁶ Australian Bureau of Statistics, 1991, *Shipping and Air Cargo Commodity Statistics, Australia*, ABS Cat. No. 9206.0, Australian Government Publishing Service, Canberra, ACT, June 1991, quarterly, various issues. Data in this publication was superseded by ABS, *Foreign Trade Australia: International Cargo*, ABS Cat. No. 5440.0, September 1991 to December 1992, quarterly, various issues, with final edition being in 1992. From then onwards, the relevant data was published in different ABS publications.

While the share of Australia's international maritime task generated by imports has been maintained at the 1991/92 level of 11.2%, imports now constitute 50.7% of the value of all cargoes. The increased significance of imports to the value of Australia's international shipping task predominantly arises from a 34.3% growth in the value of general cargoes.

Australia's maritime trade, when ranked within the major twenty two flags of registration servicing Australia's seafaring trade, declined from ninth in 1993/94 to eleventh in 1994/95 (Australian Shipowners Association, 1994). The Panamanian flagged vessels now transport the largest single proportion of Australia's maritime trade (16.7%), followed by Japanese flagged vessels (13.7%) and Liberian flagged vessels (9.3%). China, Taiwan and Hong Kong flagged vessels collectively transported a further 12.69% of the Australian international trade; an increase from the 8.12% share they held in 1984/85.

It must be realised that in shipping services, there is an essential intermediate service, with strong complementary links to the volume of merchandise trade. One must also take into consideration the large number of 'flags of convenience' ships in the shipment business (UNCTAD, 1996b). As a result, the available figures on freight service trade are unreliable, particularly as far as credits (exports) are concerned. Where ships are registered in countries offering lower tax rates or registration fees, many transactions go unreported or are reported in the country of registration while income accrues to owners in other countries. The problem is considered to be rather less severe for debits (imports).

The shipping industry influences net services as a result of the following transactions:

- * shipment - freight, freight forwarding and insurance
- * other transport services - including international passenger services, port services (goods and services procured in Australian and foreign ports), goods and services purchased by crew members, time and operational charter services and miscellaneous transport services and,
- * other services - agency and advertising services

The net transport services deficit increased by 52.9% in 1994/95. Fifty two percent of the annual growth in the net services deficit emanated from international air transport. The contribution of foreign shipping to the net shipping services deficit increased by 17.4% or \$A2.9bn, in 1994/95.⁷

⁷ Australian Bureau of Statistics, *Balance of Payments 1994/95*, ABS Cat. No. 5302.0, ABS, Canberra, ACT.

6.4.1.3 Other Transportation Services

Over the last decade, other transportation services was the slowest growing export category, increasing at an annual rate of only 5.9%, in real terms. The corresponding annual growth rate of imports was 6.0%, marginally exceeding exports over the same period. Other transportation services comprised 22.4% of total services exports in 1994/95, down from their 35.5% share in 1984/85 (Table 6.2). Exports of other transportation services decreased by 1% to \$A4.6bn in 1994/95.

Imports of services were more evenly spread amongst the four main services categories than exports: imports of shipment services accounted for 20.9% of total services imports in 1994/95; other transportation services contributed 24.8%; travel services 27.3%; and other services 27.0%. In effect, during the decade to 1994/95, imports increased at an annual growth rate of 4.2%. During the Australian recession of 1989, imports increased at an annual rate of only 0.4% (Table 6.3).

6.5 Australia's Structure of Services Trade

6.5.1 Australian Services Exports

Australia has experienced changes in the structure of its overall trade in services. Within services exports, it can be noted (Table 6.4):

- * The relative decline in the exports of shipping services, from 9.1% of total services exports in 1983/84 to 8.0% in 1993/94. This reflects on Australia's shipping fleet being highly specialised with much of its services provided to Australian companies. It also reveals that Australia's shipping mostly services Australian coastal waters.
- * A relative decline in other transportation services, from 34.7% in 1983/84 to 24.6% in 1993/94. This was mostly due to a contraction within the port services sub-category, diminishing its share from 16.7% in 1987/88 to 12.3% in 1993/94.
- * A relative increase in the travel services category, from 28.0% in 1983/84 to 40.1% in 1993/94 of total services exports. Travel services continued to be the main category accounting for the largest component of services exports, during 1987-93 period, and
- * A fluctuating pattern within the other services category, decreasing from 28.4% in 1983/84 to 24.8% in 1987/88, increasing to 27.9% in 1989/90, declining to 25.3% in 1992/93 and increasing to 27.3% in 1993/94. This means that other services grew at the average annual rate of 9.1% during the decade.

**Table 6.4 Distribution of Australian Services Exports: By Categories, (Percentages (%) of Australian Total)
1983/84 to 1993/94 (Selected Years)**

Service Description ^a	Australian ^b Exports %				
	1983/84	1987/88	1989/90	1992/93	1993/94
Shipment	9.05	8.06	7.39	7.56	7.96
Freight on Imports/Exports		7.98	7.29	7.48	7.89
Insurance on Imports/Exports		*	*	*	*
Other Transportation	34.65	29.94	27.40	28.10	24.64
Passenger Services		13.26	10.98	13.04	12.35
Port Services, etc.		16.68	16.42	15.06	12.29
Travel	27.94	37.15	37.36	39.04	40.14
Students' Expenditure		4.49	7.07	8.14	8.11
Other		32.65	30.29	30.90	32.04
Other Services	28.37	24.80	27.86	25.31	27.26
Official		2.04	2.24	1.68	1.84
Defence Services					
Financial Services					
Misc Services					
Non-Official		22.82	25.62	23.63	25.42
Exp of Aust Government Employees					
Exp on Non-Resident Employees					
Exp of Foreign Governments		0.87	0.85	0.76	0.67
Exp of Foreign Government Employees		0.60	0.56	*	*
Exp of Resident Entity Employees		1.43	2.74	1.52	1.19
Financial Services		1.83	1.54	1.61	2.27
Insurance Services (NES)		0.79	0.89	1.05	3.54
Miscellaneous Services		17.32	19.04	18.24	17.30
Telecommunications Services		4.00	3.75	np	np
Agency Advertising		3.31	4.18	3.88	4.00
Professional Services		1.95	2.04	1.71	1.37
Technical Services		2.36	1.98	1.76	2.01
Management Fees		---	2.00	1.97	1.95
Mining, Manufacturing, & Construction		0.60	0.81	1.18	0.94
Trade Related Services		1.36	0.74	0.87	0.78

Notes: ^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Total Australian exports to all destinations (for various categories and sub-categories) as a percentage of Australia's total exports.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

6.5.2 Australian Services Imports

In relation to total services imports (Table 6.5):

- * A relative decrease in the imports of shipping services from 25.9% in 1983/84 to 19.8% in 1993/94 of total services imports. This was mainly attributable to a contraction in the freight on imports.

**Table 6.5 Distribution of Australian Services' Imports: By Categories, Percentages (%) of Australian Total
1983/84 to 1993/94 - Selected Years**

Service Description ^a	Australia ^b Imports %				
	1983/84	1987/88	1989/90	1992/93	1993/94
Shipment	25.93	23.16	20.79	18.87	19.77
Freight on Imports/Exports		22.97	20.65	18.75	19.64
Insurance on Imports/Exports		0.19	0.15	0.13	0.12
Other Transportation	23.72	23.65	24.50	23.19	25.16
Passenger Services		12.26	13.42	12.58	12.93
Port Services, etc.		11.39	11.08	10.61	12.23
Travel	27.49	27.78	28.98	24.93	26.45
Students' Expenditure		1.02	1.67	1.67	1.72
Other		26.76	27.31	23.27	24.73
Other Services	22.86	25.40	25.73	25.19	28.62
Official		2.46	2.33	2.15	2.15
Defence Services		0.68	0.65	0.60	0.50
Financial Services		*	0.83	0.76	0.00
Misc Services		1.75	1.64	1.55	1.66
Non-Official		22.94	23.40	23.04	26.47
Exp of Aust Government Employees		0.90	0.69	0.76	0.73
Exp on Non-Resident Employees		0.97	2.00	2.23	2.35
Exp of Foreign Governments					
Exp of Foreign Government Employees					
Exp of Resident Entity Employees					
Financial Services		1.29	0.83	0.76	1.06
Insurance Services (NES)		1.93	1.48	3.33	5.19
Miscellaneous Services		17.86	18.39	15.98	17.14
Telecommunications Services		4.22	3.61	np	np
Agency Advertising		3.23	2.44	2.39	2.40
Professional Services		2.09	2.49	1.71	1.77
Technical Services		2.31	2.95	1.73	1.80
Management Fees		----	2.46	2.16	2.26
Mining, Manufacturing, & Construction		1.08	0.99	0.98	1.07
Trade Related Services		1.16	1.12	1.11	0.97

Notes:

^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Total Australian imports from all sources (for various categories and sub-categories) as a percentage of total Australian imports.

Sources:

Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

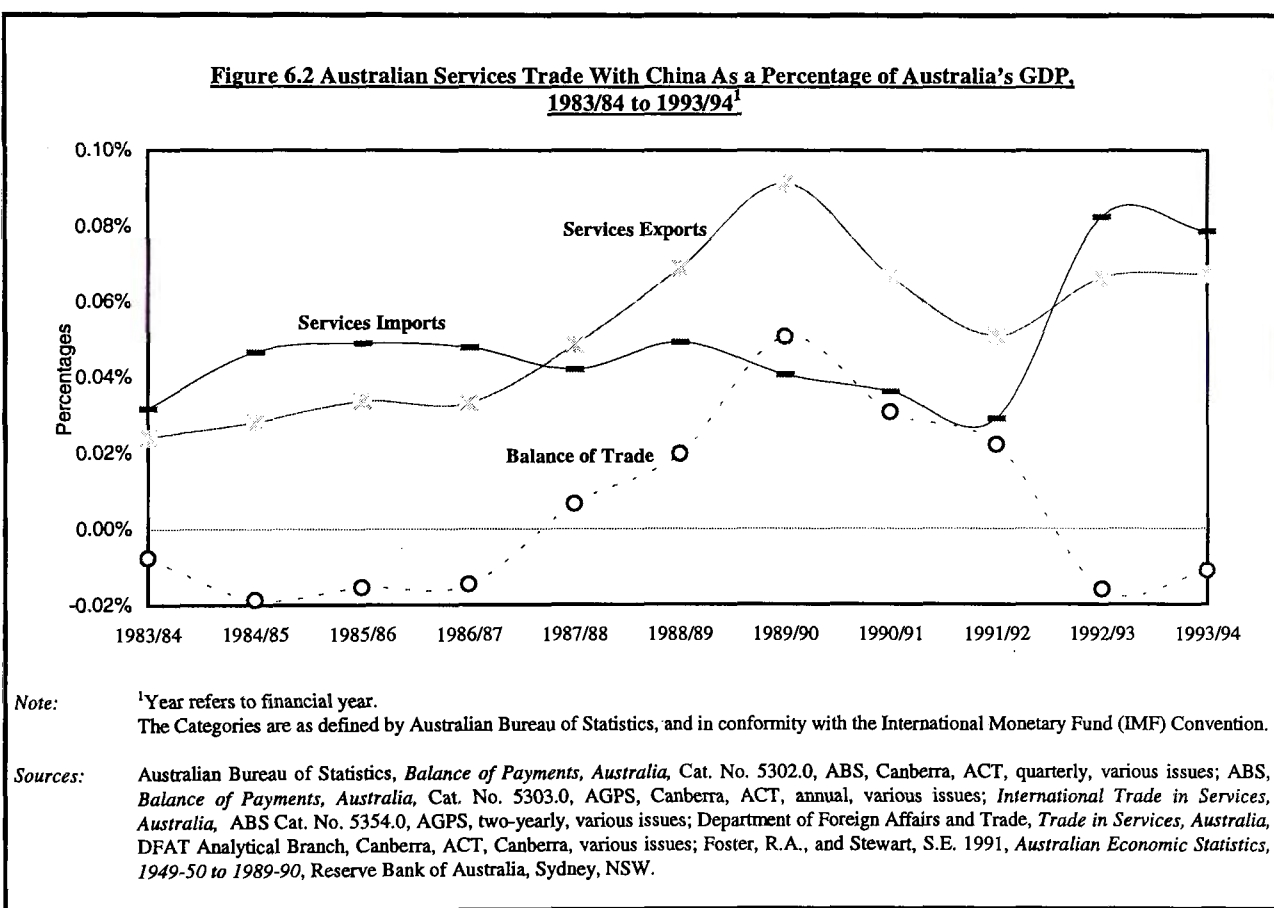
- * A relative increase in the other transportation category, from 23.7% in 1983/84 to 25.2% in 1993/94, being mainly due to an increase within the port services sub-category.
- * A cyclic pattern within the travel services category, increasing from 27.5% in 1983/84 to 29.0% in 1989/90, decreasing to 24.9% in 1992/93 and increasing to 26.5% in 1993/94. This was mainly attributable to fluctuations within the other services sub-category.

- * A relative increase in the other services category, from 22.9% in 1983/84 to 28.6% in 1993/94. This was mostly due to increases within the non-official sub-category, insurance services.

It must be noted that the matrix figures in Table 6.5 only touch on the real predicament of the Australian services sector, especially the shipping services category (refer to Sec. 6.4.1.2).

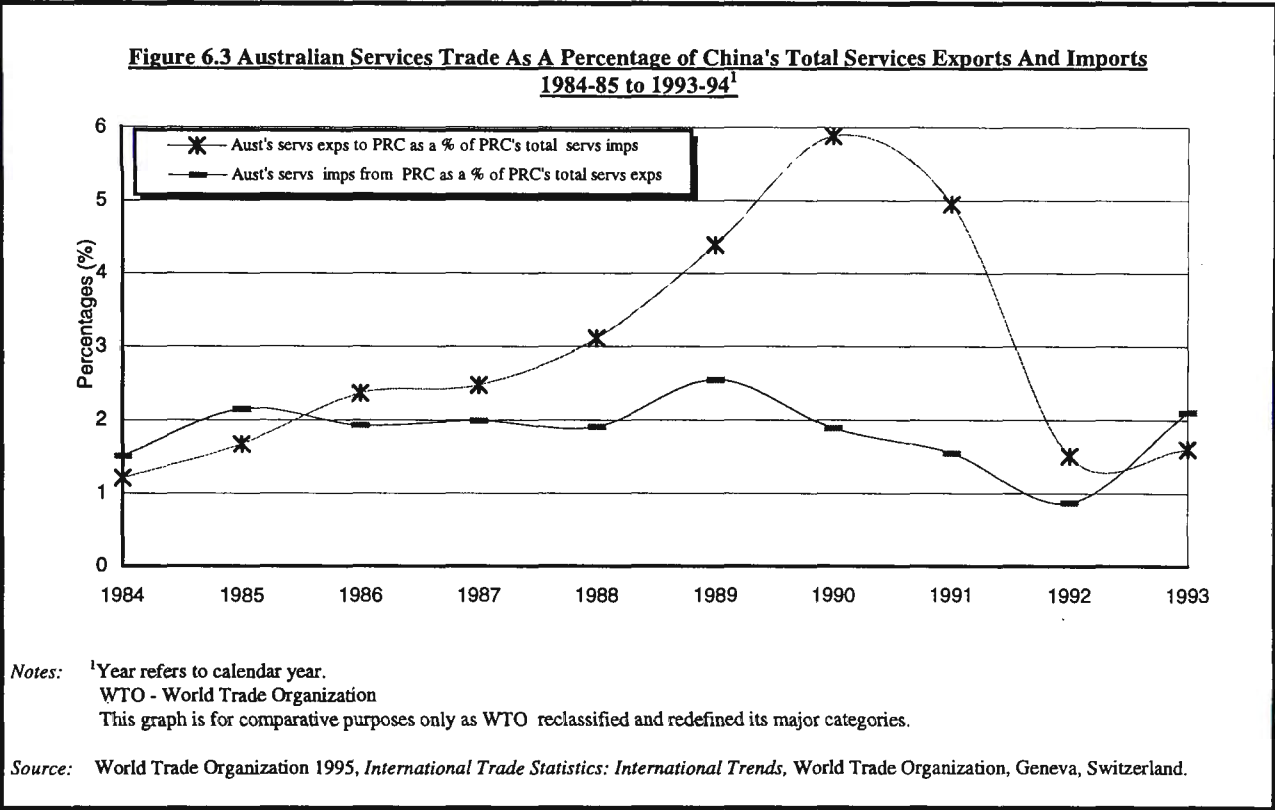
6.6 Australian Services Trade With China

6.6.1 Overview of Services Trade with China



Australian services exports to and imports from China, while small as a percentage of Australia's GDP, have shown an irregular pattern, as clearly depicted in Figure 6.2. During 1983/86/87 and 1992/93-1993/94 periods, Australia's balance of trade in services with China had been in deficit. It is also evident that over the 1987/88 to 1988/89, the

balance of trade was rising in line with increasing exports, but fell after the Tiananmen incident. This is indicative that Australian services trade with China has been highly susceptible to political forces, as will be elaborately upon later in this section.



It must also be realised that from China's perspective, its exports and imports of services to and from Australia had been highly significant, as depicted in Figure 6.3. As a share of China's total services imports, imports from Australia were relatively high, at around 6% of China's total services imports in 1990/91, but fell to just over 1.5% in 1992/93 and 1993/94. Australia has been a less important destination for China's services over the 1984-93 period, with an annual average of 2.5%.

6.6.1.1 Australian Services Exports to China

Table 6.6 Distribution of Australian Services Exports to China By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years)

Service Description ^a	Australian ^b Exports %				
	1983/84	1987/88	1989/90	1992/93	1993/94
Shipment	----	----	*	*	*
Other Transportation	----	----	0.21	0.38	0.40
Travel	0.12	0.76	1.98	0.80	0.74
Other Services	----	----	0.27	0.42	0.38

Notes:

^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Australia's exports to Mainland China (for various categories) as a percentage of total exports in that category to the world.

* Means less than 0.1%.

Sources:

Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

Within exports, it can be noted (Table 6.6):

- * From 1983/84 to 1987/88, data regarding Australian exports of shipping services to the Peoples' Republic of China is not available. From 1989/90 to 1993/94, the percentage share of the shipping services category remained less than 0.1% of Australian total services exports.
- * A gradual increase in other transportation category from 0.2% in 1989/90 to 0.4% in 1993/94 of Australian total services exports
- * An irregular pattern within the travel services category from 0.12% in 1983/84 to 1.98% in 1989/90, then to 0.80% in 1992/93 and then to 0.74% in 1993/94 of total services exports and,
- * An irregular pattern within other services category, increasing from 0.27% in 1989/90 to 0.42% in 1992/93 and then declining to 0.38% in 1993/94.

6.6.1.2 Australian Services Imports from China

**Table 6.7 Share of Australian Services Imports Provided By China (% of Total by Category)
1983/84 to 1993/94 (Selected Years)**

Service Description ^a	Australasian ^b Imports %				
	1983/84	1987/88	1989/90	1992/93	1993/94
Shipment	----	----	0.37	0.97	0.85
Other Transportation	----	----	*	0.12	0.13
Travel	0.27	0.37	0.20	0.40	0.44
Other Services	----	----	0.21	0.26	0.30

Notes:

^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Imports from Mainland China (for various categories) as a percentage of total imports in that category from all around the world.

Sources:

Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

In relation to Australian services imports from China, the main points to be noted (Table 6.7) are:

- * A relative increase in the shipping services category from 0.37% in 1989/90 to 0.85% in 1993/94, of Australian global services imports.
- * During the early 1990s, other transportation category share of total imports remained stable at 0.12%.
- * A relative increase in the imports of travel services from 0.27% in 1983/84 to 0.44% in 1993/94 and,
- * A relative increase in the imports of other services from 0.21% in 1989/90 to 0.30% in 1993/94.

6.6.2 Detailed Analysis of Australian Services Trade with China

6.6.2.1 Australian Services Exports to China

Australian services exports to China, as a percentage of Australian global services exports grew from 0.8% in 1983/84 to 2.5% in 1989/90, then decreased to 1.3% in 1991/92 and then stabilised at 1.6% over the 1992-93 period (Figure 6.4, *Panel i*).

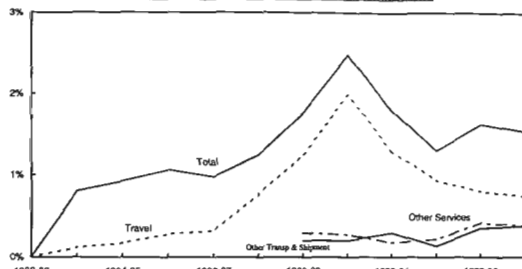
The major component of Australian services exports to China had been the travel services category. It is to be noticed that as a consequence of the 4 July 1989 Tiananmen incident and the political uncertainty that followed, Australian travel services share of total services exports to China decreased substantially. As will be detailed later in this section, this was due to a decline in the export of education services. From 1988/89 onwards, the importance of the other services category share in Australian total services exports to China began emerging. As a result of the Tiananmen incident, small changes were also conspicuous in the other services category.

The second most important category of Australian services exports to China has been other transportation (Figure 6.4, *Panel ii*). The share of other transportation services in total services exports fluctuated between 8.4% and 13.4% over the 1988/89-91/92 period, and then increased significantly to 24.7% of Australia's total services exports to China, in 1993/94. Fluctuations within other transportation services are mainly attributable to contractions within the port services sub-category which were counterbalanced by increases from within the passenger services sub-category. Until 1996, there was only one direct flight a week from each respective countries, servicing the Australia-China route. However, as will be detailed later, Australian passenger services exports to China continued to increase as a result of Landing Rights agreements reached with Hong Kong - the gateway to China.

In effect, in 1993/94, passenger services and port services contributed to 12.3% and 12.4%, each respectively, of Australian total services exports to China. The shipping services category continued to maintain a low share of Australian total services exports to China during 1988-93; the only exception being 1990/91, when shipping services share of Australian services exports to China stood at 4.3%.

Figure 6.4 Australia's Services Exports to the People's Republic of China 1983/84 to 1993/94

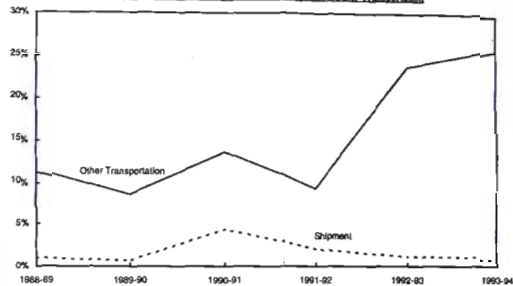
Panel I: Services Export to China: Share of Total Australian Services Exports



Notes: Australian total services exports to China as a proportion of Australia's global services exports.
Travel services exports to China as a proportion of Australia's global services exports.
Other services exports to China as a proportion of Australia's global services exports.
The categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

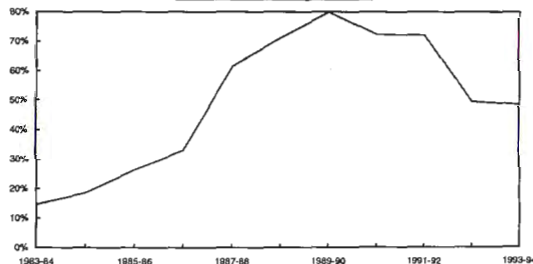
Panel II: Share of Services Exports to China: Shipment & Other Transportation*



Notes: *Other transportation as a proportion of Australia's total services exports to China.
Shipment as a proportion of Australia's total services exports to China.
The categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

Panel III: Travel Services Exports to China*



Notes: *Travel services as a share of Australia's total services exports to China.
The category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, NSW.

Panel IV: Other Services Exports to China*



Notes: *Other services as a share of Australia's total services exports to China.
The category is as defined by Australian Bureau of Statistics and in conformity with the International Monetary Fund (IMF) Convention.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, NSW.

This is explainable by the fact that when bulk commodities are bought from Australian sources, these contracts are usually specified free on board (fob), that is, all freight and insurance arrangements are the responsibility of the purchaser or his agents.⁸ As the bulk commodities are usually bought by or on behalf of China's State authorities, it is cheaper for them to utilise their own bulk carrier flag ships (COSCO) for transport. Some of the Chinese bulk carriers had been previously owned and operated by Australian companies during the 1970s and sold to China as they were considered unseaworthy. The Chinese bulk carriers continue to operate on the Australian (long) route, even though they could easily break-up and result in an environmental disaster. It is also to be realised that while China flagged ships loaded and discharged 4.4% of Australia's cargo market in 1982/83; in 1994/95, their share decreased to 4.2%.

The most significant increases were achieved in the travel services category, which increased from 14.6% in 1983/84 to 79.9% in 1989/90, of total services exports to China (Figure 6.4, *Panel iii*). From 1990/91 onwards, there was a decline in this category share, that by 1993/94 its share of total exports stood at only 48.4%. The post-1989 decline in the percentage share of travel services is mainly attributed to: (a) Australian authorities became stricter in enforcing Australian immigration regulations and (b) that with the granting of permanent residency to about 10,000 principal mainland Chinese students, previous expenditures that would have otherwise been credits are now expenditures by Australians.

In 1987, the number of PRC's students in Australia stood at 1,253, which significantly increased by 24,269 in 1989/90 (BIMPR, 1991). In 1990, the number of PRC's students in Australia stood at 15,568 (DEET, 1992). As a consequence of the Tiananmen incident, the Australian Government promised to give special consideration to PRC's students arriving in or already in Australia. It was proposed that 10,000 students would be either assigned temporary or permanent resident status. To be considered under any of the three Special Immigration Categories, Provisions 815, 816, and 818 applicants had to be lodged by November 1993. As of July 1996, under the Special Immigration Provisions, permanent resident status was granted to 24,272 students and 17,060 dependents (DIMA, unpub.). In effect, a major part of the discernible decline in travel services exports (*Panel iii*) is attributable to: the fall in the number and expenditure of PRC students in Australia, and the ensuing changes within Australia's immigration policy towards mainland Chinese students regarding their residency status in Australia. The outcome of the changes in the PRC students' residency status, from temporary to permanent, resulted in expenditures that would have otherwise been credits are now expenditures by Australians.

⁸ Personal communication with Australian Shipowners Association.

Furthermore, as of November 1992, additional requirements were introduced for students from China wishing to study in Australia. These requirements were considered necessary to control the high rate of abuse of Australia's immigration laws by students from the PRC; resulting in a significant reduction in the number of PRC's students travelling to Australia. In 1992, the number of PRC's students in Australia dropped to 5,287. Amendments to the criteria for students from China were introduced in 1 July 1994. These changes resulted in a significant decrease in the number of PRC students travelling to Australia that by the end of 1994 fiscal year, their number stood at 4,534 (BIMPR, 1995).

During 1992-93 period, there was a rapid increase in the number of mainland Chinese visiting Australia. In 1993/94, over 18,000 visitor visas were issued, 35% more than in 1992/93. More than 75% of visitors travelled for business purposes, but there were also substantial numbers of family visitors and tourists. However, the effect of the PRC visitors did not neutralise the counter-effect of the PRC students change of status; thus the overall decrease in Australian travel services exports to China (Figure 6.4 *Panel iii*).

While, since 1989/90, there has been a decline in the percentage share of Australian travel services exports to China, this was more than counterbalanced by the significant increases in the exports of other services. Among the sub-categories of other services is miscellaneous services (Figure 6.4, *Panel iv*).

Other services category refers to all services provided by residents to non-residents (and vice versa) other than those broadly relating to the transportation of people and goods. In the Australian balance of payments, other services is divided into those transactions in which the resident transactor is classified to (a) the official sector and (b) the non-official sector (the institutional sector classification)⁹. Other services is classified by the institutional sector of the resident entity involved in each of the recorded transactions as well as by country. In addition to classifying other services by institutional sector and country, this group of transactions is further broken down, in detailed statistics, into several components. Official sector other services credits include three sub-categories: (a) defences services; (b) aid services; and (c) miscellaneous services.

Aid services are included within other non-defence services provided by the Australian Government to non-residents where those services are financed by official aid. Examples are professional and technical services such as surveys, research, technical know-how and

⁹ Australian Bureau of Statistics, *Balance of Payments Australia: Concepts, Sources and Methods*, , ABS Cat. No. 5331.0,

provision of instruction. The annual Australian Agency for International Development (AusAID)¹⁰ Statistical Summary is used to allocate to countries those components of aid services which cannot be directly allocated from information in the Commonwealth Government ledgers and Budget Related Papers.

In 1987, AIDAB began funding the Australia-China Education Program which was administered by DEET. The program had four components: institutional links; preparatory English training; teacher training and vocational/technical education. AIDAB would pay DEET the overseas student charge for degree students studying in Australia and sponsored by the Chinese Government (a revolving-door arrangement). Following a review of the Australia-China Education Program in 1988, the institutional links program was transferred to another contractor and the other components were discontinued in 1991, except for the payment of the overseas student charge which continued until 1992.

Another point worth considering is that from 1987/88 to 1991/92, AIDAB's level of funding towards PRC students' education averaged 22.84% or \$A37.3m, of Australian total outlays. When compared with previous years, this constituted a significant increase. Expansion of the education program and the contraction of or lack of interest in Australia's Concessional Finance Facility (CFF), Export Finance and Insurance Corporation (EFIC), and Development Import Finance Facility (DIFF) arrangements coincided with the Organisation for Economic Cooperation and Development (OECD) imposing greater control and thoroughly scrutinising "soft loans" arrangements which were being concluded by its members with China, in an attempt to get preferential treatment in their exports. Expanding the education aid program to China would have been outside OECD "soft loan" investigations, while at the same time achieving the same objective: preferential treatment to Australian exports.

The Australian aid program has the dual objective: of assisting the Chinese people's social and economic advancement through modernisation, while fostering mutual economic benefits for both countries. AIDAB had estimated that prior to June 1992, for every dollar of aid given to China, three dollars of business has been generated for Australian organisations (AIDAB, 1993). This means that, while Australia continued to give substantial amounts of aid to China, benefits were flowing to the general Australian business community. As China's soft loans became under the closer scrutiny of the OECD, Australia preferred to increase its educational aid, in maintaining its good trade

¹⁰ Previously, Australian International Development Assistance Bureau.

relations with China. This assistance have been coordinated by AIDAB and the Chinese Ministry of Foreign Trade and Economic Cooperation.

In 1993/94, Australia's Development Cooperation assistance included: grant assistance under the Technical Cooperation (TC) Program, \$A21 million; concessional loan finance under the Concessional Finance Facility - \$A48 million; the Private Sector Linkages program to facilitate contact between Australian enterprises and their counterparts in China, \$A720,000; and training in Australia under the Australian Development Cooperation Scholarships, \$A2.3 million. There was also assistance for joint agricultural research projects conducted by the Australian Centre for International Agricultural Research (ACIAR), \$A3.1 million.

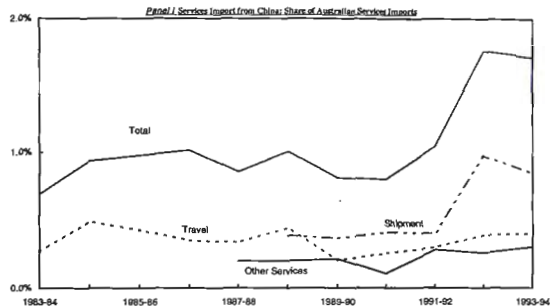
Since the commencement of the Concessional Finance Facility (CFF) program in China, in 1985, credit agreements for 44 projects valued at \$A501 million had been signed. Aid grants totalling \$A175 million have been used to settle the loans. This facility has funded a diversity of projects, from waste and sewage management; communications; animal husbandry technology and equipment; and port handling and navigational equipment.

Since 1979, EFIC has had several agreements for export credits with the Bank of China. The existing export credit facility provided by EFIC observes an OECD rate of around 7% per annum for an American dollar facility over ten years.¹¹ Under the new facility, commercial banks will provide 100% finance of the contract import value, while EFIC will provide an 85% guarantee to the commercial banks concerned. This can be considered as aiding China in providing soft loans for its development.

As has been detailed above, Australian aid services exports, as a share of Australian total services exports to the People's Republic of China were significant, during the 1983/84-1993/94 period.

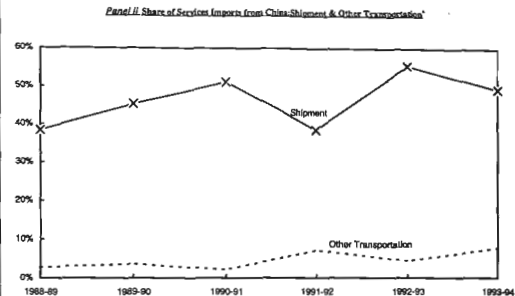
¹¹On requesting the conceptual framework and general formula used, this was not supplied; initially informed that the formula used was too complex and later that it was confidential.

Figure 6.5 Australia's Services Imports From China, P.R. 1983/84 to 1993/94



Note: Total is the percentage share of Australia's total services imports from China to Australia's global services imports. Travel is the percentage share of Australia's travel category imports from China to Australia's global services imports. Shipment is the percentage share of Australia's shipment imports from China to Australia's global services imports. Other Services is the percentage share of Australia's other services imports from China to Australia's global services imports. The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

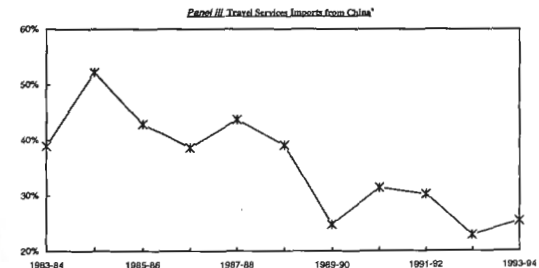
Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3302.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Posner, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-90 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Note: *Shipment and other transportation services imports as a proportion of Australia's total services imports from China. Other transportation is the category's share of Australia's total services imports from China.

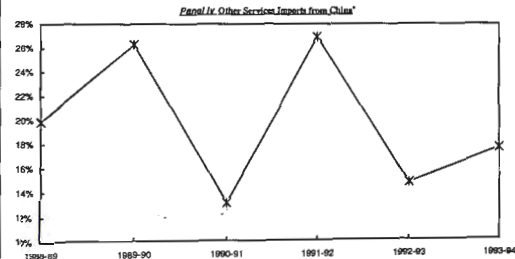
Shipment services is the category's share of Australia's total services imports from China. The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3302.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Posner, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-90 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Note: *Travel services as a proportion of Australian total services imports from China. The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3302.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Posner, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-90 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Note: *Other services imports as a proportion of Australian total services imports from China. The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3302.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Posner, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-90 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

6.6.2.2 Australian Services Imports from China, P.R.

From Figure 6.5, *Panel i*, it becomes evident that during 1983/84-93/94, services imports from China, as a share of Australian global imports increased from 0.6% in 1983/84 to 1% in 1988/89. Subsequently, China's share of Australian total services imports decreased to 0.8% in 1990/91 and then continued to increase, so that by 1993/94 it was 1.7%. In effect, during 1983/84-1993/94, Australian services imports from China grew at the average annual rate of 9.4%. This is mainly attributable to increases within the imports of other services, with an average annual growth rate of 4.3% over 1987/88-1993/94 and shipment services which grew at the annual rate of 17% during 1988/89-1993/94 period.

Australia's major categories of services imports from China were travel services and shipment services constituting 39% and 38.4%, each respectively, of Australian total services imports in 1988/89. It becomes evident that fluctuations within the shipping services category had a simultaneous and direct effect on Australian total services imports from China. Figure 6.5, *Panel ii* clearly portrays that shipment services imports increased their share from 38.4% in 1988/89 to 51.1% in 1990/91, then decreased to 38.5% in 1991/92 and then increased to 49.3% in 1993/94, of Australian total services imports from China. This means that over the 1988/89 to 1990/91 period, shipment services imports grew at the average annual rate of 15.4% which then fell at the average annual rate of 13.2% during 1991/92-1993/94. Altogether, during 1988/89 to 1993/94, shipment services imports grew at the average annual rate of 5.1%.

The trend of Australian travel services imports from China is depicted in Figure 6.5, *Panel iii*. Travel services share, which stood at 52.2% in 1984/85 has declined significantly to reach 39.0% in 1988/89 and 25.4% in 1993/94 of total services imports from China. The sharp fall in 1989 may be as a consequence of the Tiananmen Square incident. However, though travel imports recovered to 31.4% in 1990/91 and 30.2% in 1991/92, they continued to decline, falling to 22.9% in 1992/93. Altogether, the share of travel services imports declined at the average annual rate of 7.8% over the 1983/84-1993/94 period, with the most significant fall occurring during 1988/89-1993/94 (9%).

Australian imports of other services from China continued to fluctuate over the 1988/89-1993/94. Other services share decreased from 26.3% in 1989/90 to 13.1% in 1990/91, increasing to 26.9% in 1991/92 and then decreasing to 17.6% in 1993/94 of Australian

total services imports. This signifies that over the 1990/91-1993/94 period, other services imports from China declined at the average annual rate of 10.5%.

Overall, Australian services exports to and imports from China had been relatively small, when compared to Australian global services trade. It also emerges that services trade has also been susceptible to political influences, especially travel services, as the main contender in Australia's services trade. The Australian Government has been working towards ratifying its services agreements with China, in order for Australian airlines to have more access and capacity on the Australia-People's Republic of China route. As passenger travel falls within the other transportation services category, a brief overview of the agreements which were reached between Australia and China is given, as they affect the exports and imports of transportation services from each of the respective countries.

6.6.3 Landing Rights and Bilateral Aviation Relations China, P.R.

Air services were established as a consequence of an Air Services Agreement concluded between Australia and the Peoples' Republic of China on 7 September, 1984. This entails one airline from each country to serve the route linking Melbourne and Sydney with Beijing and Guangzhou, on a once-a-week service. In view of the inadequacy of these arrangements in meeting the needs of the market, a new Memorandum of Understanding (MOU) was signed on 26 March 1996. As a result of the new agreement, six airlines can now fly the route, with the frequencies for the respective parties increasing to nine a week; with planned increases to bring the total of frequencies to thirteen by 1998. Brisbane, Perth, Shanghai and Shenzhen were added as new points open to Australian and Chinese airlines, offering new opportunities for services to Queensland and Western Australia.

6.6.3.1 Reciprocity of the Agreement with China, P.R.

The Air Services Agreement (ASA) permits multiple designation (up to three airlines for each side). Qantas is the designated airline of Australia and Air China International is the designated airline of the Peoples' Republic of China. As a result of the March 1996 MOU, both sides now have substantially expanded rights and entitlements.

6.6.3.2 Country Rights Distribution within Australia's Airlines

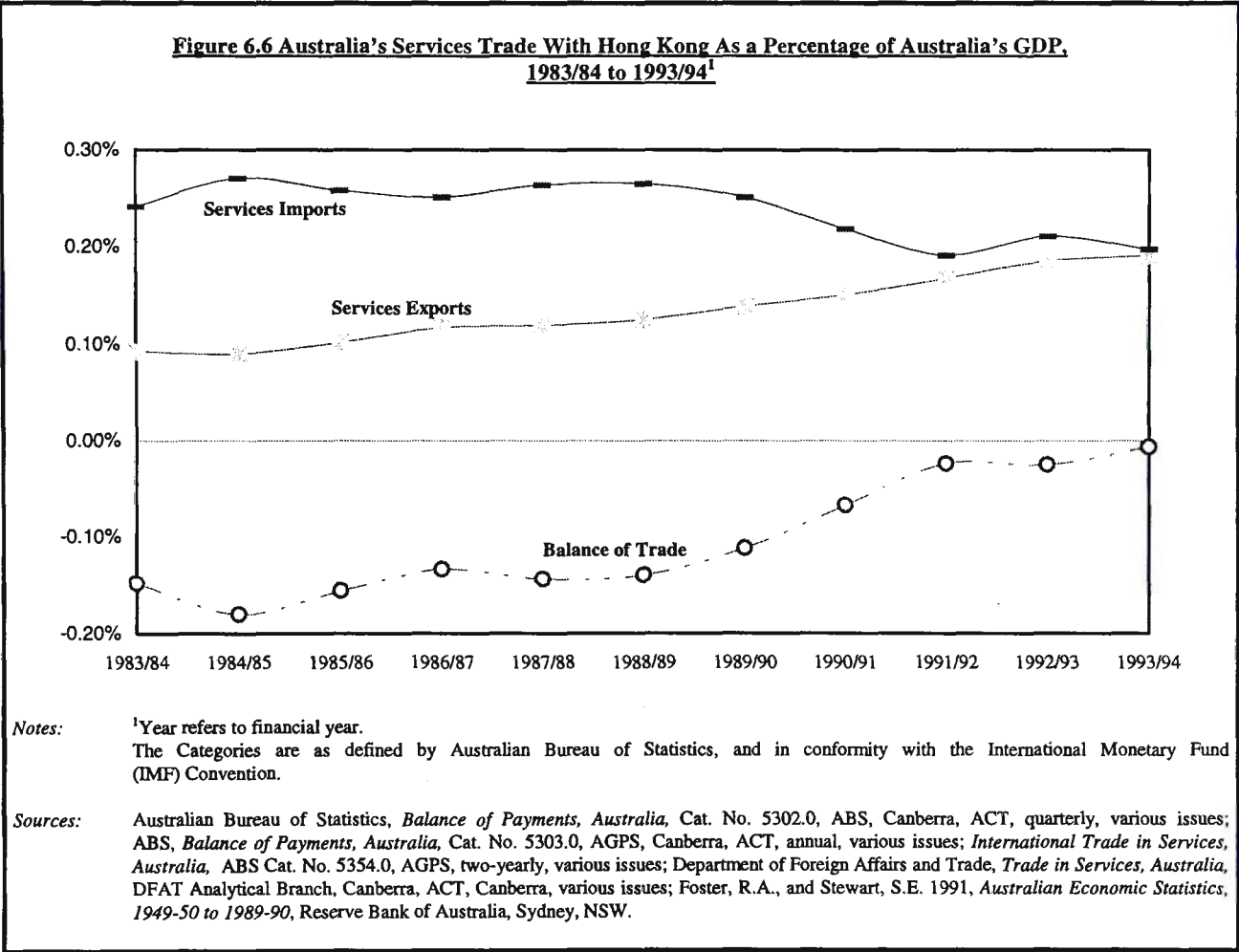
Previously, Qantas operated one scheduled B763 passenger service per week (capacity 228) between Sydney and Beijing which increased to 2 passenger services (capacity 456) from 20 August 1996. Both Qantas and Ansett have applications for capacity currently before the Australian International Air Services Commission; with a determination on the applications to be made in the near future.

6.6.3.3 Country Rights Distribution within China P.R. Airlines

Air China currently operates one B747SP passenger service between Beijing/Guangzhou and Melbourne/Sydney and a weekly B747SP passenger service between Beijing/Shanghai and Melbourne/Sydney. China Eastern is preparing to commence operations in the near future and China Southern has expressed a general interest in operating to Australia. Both flights have a seating capacity of 538.

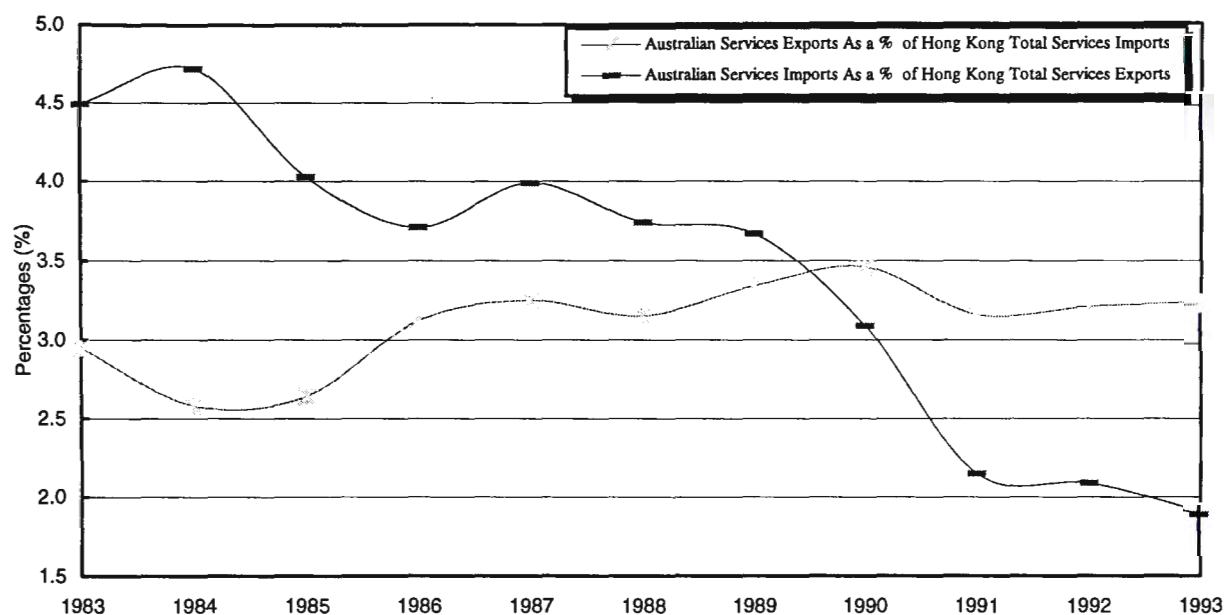
6.7 Australian Services Trade With Hong Kong

6.7.1 Overview of Services Trade With Hong Kong



During 1983/84-93/94 period, Australia suffered a deficit in its balance of trade in services with Hong Kong (Figure 6.6). It was not until 1993/94 that this deficit was almost eliminated. Australia has been dependent on Hong Kong’s entrepôt role in its trade with China (refer to ch. 5, Sec. 5.3.2). From 1988/89 onwards, Australian companies made more use of Hong Kong’s entrepôt role: brokerage, transportation, finance and insurance. In addition, Australian airlines did not have the same aircraft capacities to carry passengers, further increasing Australia’s services trade deficit with Hong Kong (refer to sec. 6.7.3.1). However, Australia was able to counterbalance its services trade deficit by an expansion in its travel services exports, mainly: by attracting substantial number of students to undertake their education in Australia, and in reaching agreement with Hong Kong regarding Landing Rights which placed Australian airlines in a better position to service the Northeast Asian market.

Figure 6.7 Australia's Services Trade As Percentage of Hong Kong Total Exports And Imports 1983-84 to 1993-94¹



Notes: ¹Year refers to calendar year.
For comparative purposes only as WTO reclassified and redefined its major categories.

Source: World Trade Organization 1995, *International Trade Statistics: International Trends*, World Trade Organization, Geneva, Switzerland.

From Hong Kong's perspective, Australia's services trade constituted a significant share of its total services exports and imports (Figure 6.7). During 1983-93, Australian services exports, as a share of Hong Kong global services imports, increased from 3.0% in 1983/84 to a high of 3.5% in 1990/91, and then averaged around 3.2% over 1991-93. Comparatively, Australian services imports from Hong Kong, as a share of Hong Kong total services exports, declined during 1983-93 period, from a high of 4.5% in 1983/84 to 1.9% in 1993/94. The trends depicted in Figure 6.7 are related to and explainable by what was happening in China. As China's opened its doors to international trade and market forces, the traditional links between the PRC's economy and that of Hong Kong were reinforced. Hong Kong's expanding services role has been closely linked with the rapid economic development in the Chinese hinterland, especially as China's export expanded, greater use was made of Hong Kong's entrepot role (refer to ch. 5). Hong Kong's re-exports have grown to dominate its manufactures trade, with China being the largest re-export market, followed by the United States, Japan, Germany and the United Kingdom. Moreover, as China's economy grew and in order to sustain its growth, Hong Kong played an important role, as a financial centre (refer to ch. 8), in facilitating and channelling investments into China. Thus, as Hong Kong became more integrated within China's southern region of Guangdong and Fujian, its services were more fully utilised there.

6.7.2 Overview of Services Trade with Hong Kong

6.7.2.1 Australian Services Exports to Hong Kong

Table 6.8 Distribution of Australian Services Exports to Hong Kong By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years)

Service Description ^a	Australian ^b Exports %				
	1983	1987	1989	1992	1993
Shipment	0.00	0.16	0.13	0.12	*
Other Transportation	1.45	1.12	1.04	1.18	1.24
Travel	0.88	1.05	1.69	2.34	2.34
Other Services	0.76	0.74	0.91	0.89	0.69

Notes:

^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Australia's exports to Hong Kong (for various categories) as a percentage of total exports in that category to the world.

* Means less than 0.1%.

Sources:

Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

From Table 6.8, it is to be noted:

- * Australian exports of shipping services to Hong Kong declined from 0.16% in 1987/88 to less than 0.1% in 1993/94, of Australian global services exports.
- * A fluctuating pattern within the export of other transportation services which decreased from 1.5% in 1983/84 to 1.0% in 1989/89 and then increased to 1.2% in 1993/94.
- * A relative increase in the export of travel services, from 0.9% in 1983/84 to 2.3% in 1993/94 and,
- * A decrease in the export of other services category, from 0.8% in 1983/84 to 0.7% in 1993/94, of Australian total services exports.

6.7.2.2 Australian Services Imports from Hong Kong

**Table 6.9 Share of Australian Services Imports Provided By Hong Kong (% of Total by Category)
1983/84 to 1993/94 (Selected Years)**

Service Description ^a	Australian ^b Imports %				
	1983	1987	1989	1992	1993
Shipment	0.74	1.02	0.96	0.78	0.81
Other Transportation	1.74	1.25	1.32	1.33	1.42
Travel	2.06	2.16	2.07	1.48	1.23
Other Services	0.72	0.93	0.65	0.90	0.85

Notes: ^aUntil the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^bImports from Hong Kong (for various categories) as a percentage of total imports in that category from all around the world.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

The main points worth noting in relation to Australian services imports from Hong Kong are (Table 6.9):

- * A relative increase in the shipping services category from 0.7% in 1983/84 to 1.0% in 1987/88, and declining to 0.8% in 1993/94, of Australian global services imports.
- * A fluctuating pattern in other transportation category, decreasing from 1.7% in 1983 to 1.3% in 1987/88, then increasing to 1.3% in 1989/89, and then to 1.4% in 1993/94.
- * A relative decline in the imports of travel services, from 2.1% in 1983/84 to 1.2% in 1993/94 and,
- * A fluctuating trend within the other services category which decreased from 0.7% in 1983/84 to 0.65% in 1989/90, then increased to 0.9% in 1992/93 and then decreased to 0.85% in 1993/94, of Australian total services imports.

6.7.3 Detailed Analysis of Australian Services Trade with Hong Kong

6.7.3.1 Australian Services Exports to Hong Kong

Australia's services trade with Hong Kong had been much more significant than with China during 1983/84-1993/94 period. Total services trade increased from 3.1% in 1983/84 to 4.5% in 1992/93, of Australian global exports, that is, total services grew at the average annual rate of 4.3% over the 1983/84-1992/93 period (Figure 6.8, *Panel i*). Australia's main export categories have been travel services and other services. While over the decade 1983/84-199/94, travel services share of Australian global services grew at the average annual rate of 10.3%, other services decreased at the rate of 3%. This means that any changes within the travel services category effected the overall performance of Australian total services exports, especially during 1988/89, as can be observed in Figure 6.8, *Panel i*.

Overall, the share of Australian transport services exports to Hong Kong continued to decline, with other transportation category showing the most significant decline: from 46.8% in 1983/84 to 28.4% in 1993/94 (Figure 6.8, *Panel ii*). Shipment services also incurred a contraction in its percentage share, but this was not of the same magnitude as observed in other transportation. That is, over the 1984/85-1993/94 period, while other transportation declined at the annual average rate of 5.7%, shipment services declined at the rate of 11.4%. The changes within the transport services category could be attributed to the following factors:

- * The Australian shipping fleet continued to decline, resulting in a diminishing capability to provide such services, to and from Hong Kong
- * A significant increase in the percentage share of Australian merchandise trade undertaken by foreign flagged vessels (in descending order): Panamanian, Japanese, Liberian and Greater China (China, Hong Kong and Taiwan) and,
- * For balance of payments purposes, exports are enumerated where the head office of the company is located; therefore, the figures can be unreliable, particularly as far as credits (exports) are concerned as more and more ships are 'flag of convenience'

The travel services share of Australian exports to Hong Kong continued to increase, from 28.5% of total services in 1983/84 to 53.8% in 1993/94 (Figure 6.8 *Panel iii*). That is, over the 1983/84-1993/94 decade, travel services exports grew at the average annual rate of 6.6%. This sustained strong demand for travel services has had the effect of arresting the decline in services prices, as well as contributing to the strong growth in travel services, in real terms. Travel services growth may be explained by:

- * A significant increase in the interest shown in Australia by Hong Kong residents, not only as a tourist and business destination, but also as a provider of education for their children and,
- * A significant increase in the number of Hong Kong residents who seek to pursue their education aspirations in Australia

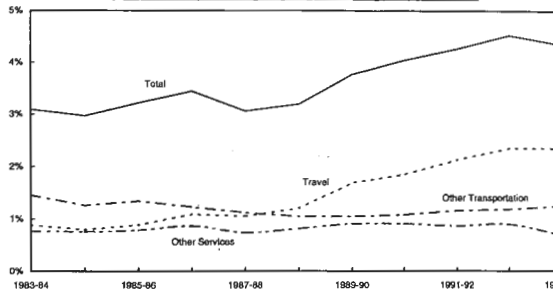
The fascination of the Hong Kong people with Australia, both as a tourist and business destination has increased over time. As Australian trade with China became more dependent on Hong Kong entrepôt role, Hong Kong residents continued to seek and maintain closer ties and relations with Australia, by means of more visitor and business trips. This is confirmed by the increasing number of visits that Hong Kong residents have been making to Australia. The number of short-term trips by Hong Kong residents to Australia increased from 40,000 in 1979/80 to 96,000 in 1984/85, then to 119,400 in 1986/87, and then to 140,000 in 1992/93 (BIMPR, unpub.) (refer to Section 6.7.4.2).

Another factor which has increased the overall performance of Australian travel services exports to Hong Kong has been education. In the 1980s, Australia has become a popular education destination with Hong Kong parents. During 1980-86, the number of Hong Kong full-fee paying students in Australia averaged 557 per annum. Subsequently, there was a significant increase, that in 1987, the number of Hong Kong students stood at 1,878 (Australian Education Centre, 1993). By 1988, the number of students has increased to 2,048; 6,943 in 1990; 9,721 in 1992; and 11,932 in 1994 (DEET, 1995).

The great majority of Hong Kong students come to Australian educational institutions to follow undergraduate and postgraduate degrees; with the minority undertaking secondary and vocational education. The Hong Kong students preferred tertiary fields of studies have been: Business, Administration and Economics, followed by Science; Health, Community Services; Engineering, Survey; and Arts, Humanities, Social Sciences.

Figure 6.8 Australia's Services Exports to Hong Kong 1983/84 to 1993/94

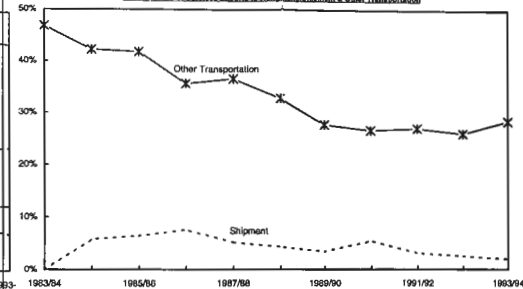
Panel I: Services Exports to Hong Kong: Share of Total Australian Services Exports*



Notes: Australian total services exports to Hong Kong as a proportion of Australia's global services exports.
Australian travel services exports to Hong Kong as a proportion of Australia's global services exports.
Australian other services exports to Hong Kong as a proportion of Australia's global services exports.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

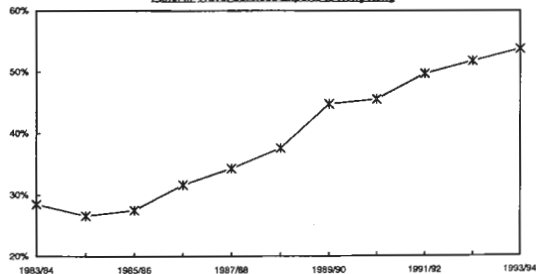
Panel II: Share of Services Exports to Hong Kong: Shipment & Other Transportation*



Notes: *Other transportation services exports as a proportion of Australia's total services exports to Hong Kong.
*Shipment services exports as a proportion of Australia's total services exports to Hong Kong.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

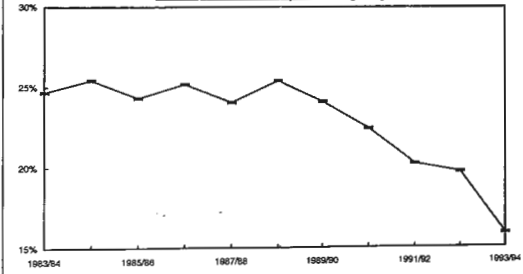
Panel III: Travel Services Exports to Hong Kong*



Notes: *Travel services exports as a proportion of Australia's total services exports to Hong Kong.
The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, NSW.

Panel IV: Other Services Exports to Hong Kong*



Notes: *Other services exports as a proportion of Australia's total services exports to Hong Kong.
The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, NSW.

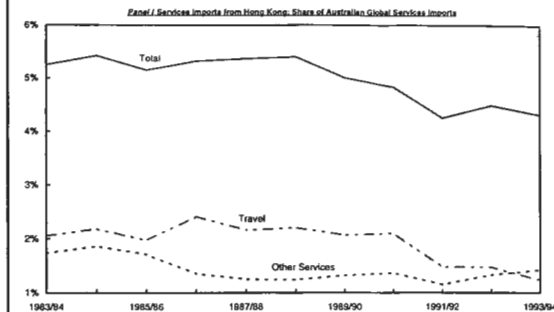
What is quite surprising is the fact that, while Hong Kong has, as far back as 1980, far bypassed the stage of an undeveloped country, and thus did not qualify for assistance (AIDAB, 1995b), the Australian Government, through its aid agency, AIDAB, deemed it appropriate, to grant aid to Hong Kong. In effect, in 1993/4 and 1994/95, AIDAB has fully sponsored 239 and 128 Hong Kong students, each respectively, to undertake higher education in Australia (AIDAB, 1995a; DEET, 1995).

The share of Australian other services exports to Hong Kong continued on a steady decline from 24.68% in 1983/84 to 15.87% in 1993/94 (Figure 6.8, *Panel iv*). That is, other services exports decreased at the average annual rate of 4.5% over the 1983-1993 decade. This may be attributable to the following:

- * As Australian firms established regional or head offices in Hong Kong, to be closer to the markets they were servicing, that is, Hong Kong and Southern China, there was less need for these services to be exported from Australia
- * Australian companies operating in Hong Kong were not only benefiting from closer exposure to the markets they were servicing, but were also profiteering from the tax differential that exists between the two countries: a flat corporate tax of 17% rate on corporate profits in Hong Kong to Australia's 39% (33% from 1993/94) rate (Hong Kong Government Census and Statistics Department, *various issues*; Australian Taxation Office, *various issues*).
- * As in-house services provided between companies are not caught within the Australian Bureau of Statistics survey (IMF convention), the other services category figures might not truly reflect the services exported
- * From the mid-1980s, Hong Kong industries re-oriented away from manufacturing *per se* and more towards services, not only being self sufficient in services, but were also able to service the emerging needs within Southern China, especially Guangdong and Fujian provinces SEZs.
- * The mid-1980s severe labour shortages and sharp increases in wages created profitable opportunities for Australian companies operating from Hong Kong, as they relied on in-house assistance from Australia as demands dictated and,
- * A reduction in the level of Australian official assistance given to Hong Kong.

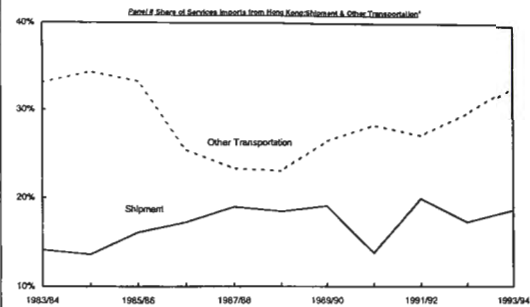
From 1980, the Australian Government, through its aid agency, AIDAB, has assisted Hong Kong through a number of programs, most notably, the Country Program Assistance (CPA). The granting of aid took place even though it was officially recognised that Hong Kong did not qualify. The level of Australian (CPA) aid to Hong Kong varied over time, from \$A0.047m in 1980, \$A12.68m in 1985, \$A9.99m in 1987, \$A4.212m in 1990, \$A2.13m in 1992 and \$A1.32m in 1993 (AIDAB, 1994).

Figure 6.9 Australia's Services Imports from Hong Kong 1983/84 to 1993/94



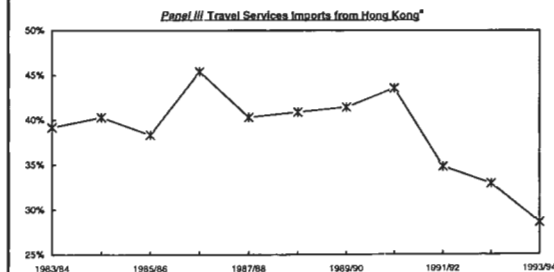
Notes: Australian total services imports from Hong Kong as a proportion of Australian global services imports.
 Australian Travel services imports from Hong Kong as a proportion of Australian global services imports.
 Australian Other services imports from Hong Kong as a proportion of Australian global services imports.
 The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Chalmers, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



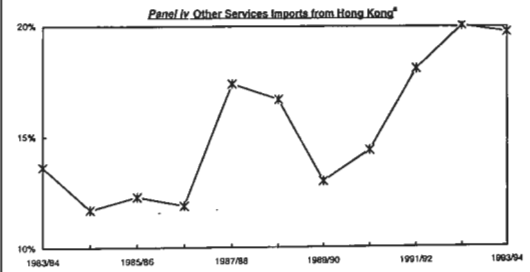
Notes: Other transportation services as a proportion of Australian total services imports from Hong Kong.
 Shipment services as a proportion of Australian total services imports from Hong Kong.
 The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Chalmers, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Notes: Travel services as a proportion of Australian total services imports from Hong Kong.
 The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Chalmers, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Notes: Other services as a proportion of Australian total services imports from Hong Kong.
 The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Chalmers, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

6.7.3.2 Australian Services Imports from Hong Kong

Australian total services imports from Hong Kong had been, from the early 1980s onwards, on a decline (Figure 6.9, *Panel i*). The main attributes for this decline are to be associated with contractions within the travel services category, and to a lesser extent, within the other services category. Over the 1983/84-1993/94, travel services and other services imports declined at the annual average rate of 5.3% and 2%, each respectively.

From Figure 6.9, *Panel ii*, it becomes evident that over the 1983/84-1993/94 period, the share of other transportation services varied from a high of 34.4% in 1984/85 to a low of 23.1% in 1988/89 and then to 32.9% in 1993/94 of Australian total services imports from Hong Kong. On the other hand, the share of shipment services imports behaved in the opposite direction: increasing from 13.6% in 1984/85 to 19.1% in 1989/90, and from then onwards behaving in an irregular pattern. This means that over the 1983/84-1993/94 period, while the share of other transportation imports decreased at the annual average rate of 0.03%, the share of shipment services imports increased at the annual average rate of 2.9%. The post-1989/90 changes within the shipment services could be attributable to a lag response to the Tiananmen incident of 1989. In addition, while Australia has become more dependent on Hong Kong entrepôt role for its merchandise trade with China, flag of convenience vessels had replaced Hong Kong flagged vessels in supplying transportation.

Imports of travel services from Hong Kong has fluctuated during 1983/84-93/94 period (Figure 6.9, *Panel iii*). From 1983/84 to 1985/86, travel services imports were on average 39.3% of total imports. While in 1986/87, travel services share increased to 45.4%, during 1987-90, travel services held an average share of 41.5% of total services imports from Hong Kong. This means that over the 1983/84-1990/91 period, the share of travel services imports increased at the average annual rate of 1.5%. However, from 1991 onwards, travel services share fell sharply that in 1993/94 it stood at 28.6% of Australian total services imports. This means that over the 1983/84-1993/94 decade, the share of travel services imports declined at the average annual rate of 3.2%. This decline is attributable to Australia's national airlines, QANTAS and later, ANSETT obtaining more favourable landing rights to service the Hong Kong route; thus reducing the need for travellers to use other airlines (less imports (debits)), and the intense marketing effort undertaken by both airlines in luring travellers to them (refer to Sec. 6.7.4).

Hong Kong's closeness to Southern China and its inextricably linked economy with that of China makes it an ideal place for Australian businessmen to visit, in establishing contacts (*Guanxi*) and as a gateway to China. With Australian airlines providing more regular service to Hong Kong, Australian businessmen and tourists were making more use of Australian national airlines due to their reliability and convenience. In addition, Australian corporations found it more convenient for them, for accounting purposes, to establish an account with any of the Australian national airlines which serviced both their domestic and international needs - the Asian region, particularly Hong Kong and China.

Imports of other services has behaved quite irregularly during 1983-93 period, from a low of 11.7% in 1984/85 to a high of 20.1% in 1992/93. While, during 1983/84-1987/88, other services imports grew at the average annual rate of 6.3%, over the 1988/89-1993/94 period, other services imports grew at the average annual rate of 4.7%. This means, that over the 1983/84-1993/94 period, other services imports grew at the average annual rate of only 3.8%. It becomes clear that other services category has been highly susceptible to political factors, as the trend line in Figure 6.9, *Panel iv* indicates.

In the 1980s, as Hong Kong, in competition with Singapore and Tokyo, continued in its drive to establish itself as an international financial and banking centre in Asia, Australians began to make greater use of the facilities it offered; more so as Australian merchandise trade expanded with the Greater China Region. Hong Kong's role as a gateway to China was of importance to Australian businesses due to the significant difficulties of doing business in China.¹² With Australia's deregulation of its banking and foreign exchange, Australian firms and individuals began to seek better means in raising, financing and spreading the risk of their operations. From 1986/87, Australian companies and financial institutions began to make more profound use of Hong Kong's financial and miscellaneous services, vis-a-vis, telecommunications, advertising, professional, and trade related services. More use was made of Hong Kong fund's management and loan syndication services. As a consequence of the Tiananmen Incident of 1989, Australian demand for such services declined temporarily, but resumed their growth as confidence and stability returned on mainland China. In the early 1990s, as Australian financial and corporate bodies intensified their activities in the North East Asian region, they increasingly sought Hong Kong's fund management services (Figure 6.9, *Panel iv*).

¹² Joint Standing Committee on Foreign Affairs, Defence and Trade 1996, Hearing into the Implications of Australia's Services Exports to Hong Kong, Canberra, ACT.

6.7.4 Landing Rights and Bilateral Aviation Relations with Hong Kong

Air Services are governed by the 1993 Australia-Hong Kong Air Services Agreement (basic framework), the 1991 confidential Memorandum of Understanding (capacity and traffic rights) and the 1995 Confidential Memorandum of Understanding (fifth freedom rights).

Up to 1991, Cathay Pacific operated 12 Boeing 747 services a week to Australia. Under the 1993 arrangements, they were able to immediately increase their level of service to 16 flights a week and, in stages, to 23 flights by 1995, with a capacity of 7,658.

Because Qantas operates a mix of Boeing 747 and small Boeing 767 services, it was able to increase its services to 21, leveling at 30 flights by 1995. Qantas' total seating capacity has been 6,487. Ansett International operates an additional 5 flights with a capacity of 2,070 on the route Sydney-Hong Kong.

In addition, the new capacity entitlements included a provision for both sides to operate two weekly all-cargo flights from 1992; increasing them to three in 1993. There was also a stipulation for airlines to be able to convert these all-cargo flights into passenger services.

These arrangements enabled Cathay Pacific to increase its weekly Boeing 747 freighter service to Australia and allowed the Hong Kong freighter carrier, Air Hong Kong, to introduce scheduled services.

As Qantas did not own all-cargo aircraft, provisions were set so that it could operate leased freighters on the route. Through such entitlement, Qantas is operating a twice weekly freighter service between Melbourne, Sydney and Hong Kong. This arrangement have and will continue to benefit Australia in that previously sustained debits in its shipment category (through freight and insurance) will be allocated in its favour as credits. As a result, from 1991/92, imports of travel services from Hong Kong have, and will continue to decrease (Figure 6.9, *Panel iii*).

6.7.4.1 Reciprocity of the Agreement with Hong Kong

The ASA permits multiple designation for each side. Qantas and Ansett International are Australia's designated airlines. Cathay Pacific Airways is the designated airline of the Government of Hong Kong. After 6 years of negotiations, the new agreement between Australia and Hong Kong gave Qantas greater access to Asian markets and increase flights to Hong Kong. The package of new capacity entitlements and traffic rights expanded opportunities for both sides.

These new rights had a significant bearing on Qantas long-term prospects and came at a time when the airline was preparing for privatisation.

6.7.4.2 Country Rights Distribution within Australian Airlines

Qantas operates 24 passenger services (B747/B767) between Hong Kong and Sydney, Perth, Brisbane, Cairns, and Melbourne, with daily services via Singapore and beyond Hong Kong to Bangkok. Qantas also operates a twice weekly freighter service between Melbourne, Sydney and Hong Kong.

6.7.4.3 Country Rights Distribution within Hong Kong Airlines

Cathay Pacific is currently operating 21 passenger services (B747/400) per week between Hong Kong and Sydney, Brisbane, Cairns, Melbourne, Adelaide and Perth and 3 B747 freighter services to Melbourne and Sydney.

6.8 Australian Services Trade With Taiwan

6.8.1 Overview of the Services Market in Taiwan

Taiwan, a small country, is in a weak bargaining position in defending its protected domestic market if large countries, such as the United States insist on liberalisation. Such a country can only identify its priorities for protection and set a defence plan so that lower-priority industries will be liberalised first and protection prolonged in the higher-priority sectors. At most, the small country can utilise the principles embodied in the multilateral trading system to defend its position. In this regard, bilateral negotiations bring the trading environment within the small country closer to that defined by GATT (WTO).

Pressure from the United States brought about liberalisation in the Taiwanese market. The domestic market was dominated by interest groups that were unchallenged internally due to their political influence. Given that most protected markets are monopolised or oligopolistic in nature, the entry or simply the prospect of such entry also makes the market more competitive. Furthermore, where state-erected entry barriers are in place, the entry of foreign firms paves the way for local entrants. In effect, this helps to improve the efficiency of markets.

6.8.1.1 Sectoral Restrictions

When the United States first initiated trade negotiations with Taiwan in 1978, its objective was to extend United States tariff concessions in the Tokyo Round of GATT negotiations to the country in return for trade concessions by Taiwan, which was not a member of GATT (Liu, 1990).

Although the United States demanded greater market access in both agriculture and financial services, the Taiwanese government has been more accommodative in agriculture than in financial services. Special-interest groups in the financial sector are more closely linked to the government and the ruling party than are special-interest groups in agriculture. Consequently, to protect the financial sector, the government has sacrificed agriculture and other service sectors on certain occasions. This policy sometimes proved to be unacceptable in a society where the political demography was dramatically changing.

Taiwan was better prepared to defend its financial sectors. The Taiwanese government was even willing to give American firms limited access to its domestic financial market without doing so for their European and Japanese competitors. This practice was a clear violation of the 1978 United States-Taiwan Trade Agreement, which calls for nondiscriminatory treatment of all trading partners in accord with GATT principles.

By following this policy, the Taiwanese government bought time for the domestic adjustments needed before the market was fully liberalised. These tactics were also practiced in the insurance and securities sectors. Taiwanese negotiators steadfastly defended this protected market. In essence, Taiwan's strategy was that of granting minimum concessions each year. Financial sectors have a plethora of entry barriers and government regulations, and small steps towards steps or deregulation did not substantially affect Taiwan's market conditions. Except for the insurance sector, the United States has not made significant inroads into Taiwan's financial markets. However, the US effort has helped remove entry barriers for local firms.

Faced with continuous United States pressure, the Taiwanese government rewrote the Securities Exchange Law in 1988, the Banking Law in 1989, and the Insurance Law in 1990. The amendments to these laws were aimed at reshaping the domestic market structure and the rules in preparation for further liberalisation involving all-out foreign competition. The most noteworthy amendment has been that related to the Banking Law, which opened the door for private citizens to establish commercial banks in Taiwan.

6.8.1.1.1 Insurance

Prior to 1987, the dominant issue in the United States-Taiwan trade negotiations regarding the insurance business was market access. In addition, there is considerable domestic sentiment against foreign ownership of local land. Foreign individuals are not allowed to own land in Taiwan, although foreign-owned firms incorporated locally are permitted to do so. In contrast, domestic insurance companies are allowed to invest up to 15% of their assets in real estate.

Another issue which has not been resolved and may be the subject of future negotiations is the limit on insurers' foreign portfolios. According to present regulations, only 5% of an insurance firm's assets can be invested abroad.

6.8.1.1.2 Securities

Prior to July 1987, foreign exchange in Taiwan was tightly controlled by the Central Bank. Under these conditions, internationalisation of Taiwan's security market was virtually impossible. However, the Taiwanese government attempted to do just that, by approving the establishment of four mutual fund management firms in the form of international joint ventures. The shareholders on the Taiwan side were financial groups with close ties to the KMT party, while those on the foreign side were American banking and security firms. The purpose of these joint venture firms was to establish mutual funds so that foreign investors could indirectly invest in Taiwan's stock market. It was also Taiwan's first move in response to the United States demand for opening up Taiwan's securities market.

The 1987 liberalisation of foreign exchange controls effectively removed the barrier to outward remittance of foreign exchange, but the restriction on inward remittance was kept in place. Direct participation in Taiwan's stock market by foreign securities firms and investors remained technically and legally impossible. However, as the stock market in Taiwan boomed in 1986 and 1987, American pressure for access to Taiwan's greatly enlarged market for brokerage services intensified.

In 1988, the ROC government amended the Securities and Exchange Law so that foreign securities firms could operate in Taiwan in the form of minority-owned subsidiaries. The upper limit of foreign interest in the subsidiary was set at 40%. A further liberalising step was taken by the Ministry of Finance (MOF) in mid-1989 when regulations were introduced, allowing foreign securities firms to set up branches in Taiwan.

In the 1989 amendments to the Banking Law, provisions were also made to allow foreign banks in Taiwan to set up trust departments. These had been the exclusive privilege of domestic banks. Via their trust departments, foreign banks were then eligible to apply for brokerage licenses for the securities market.

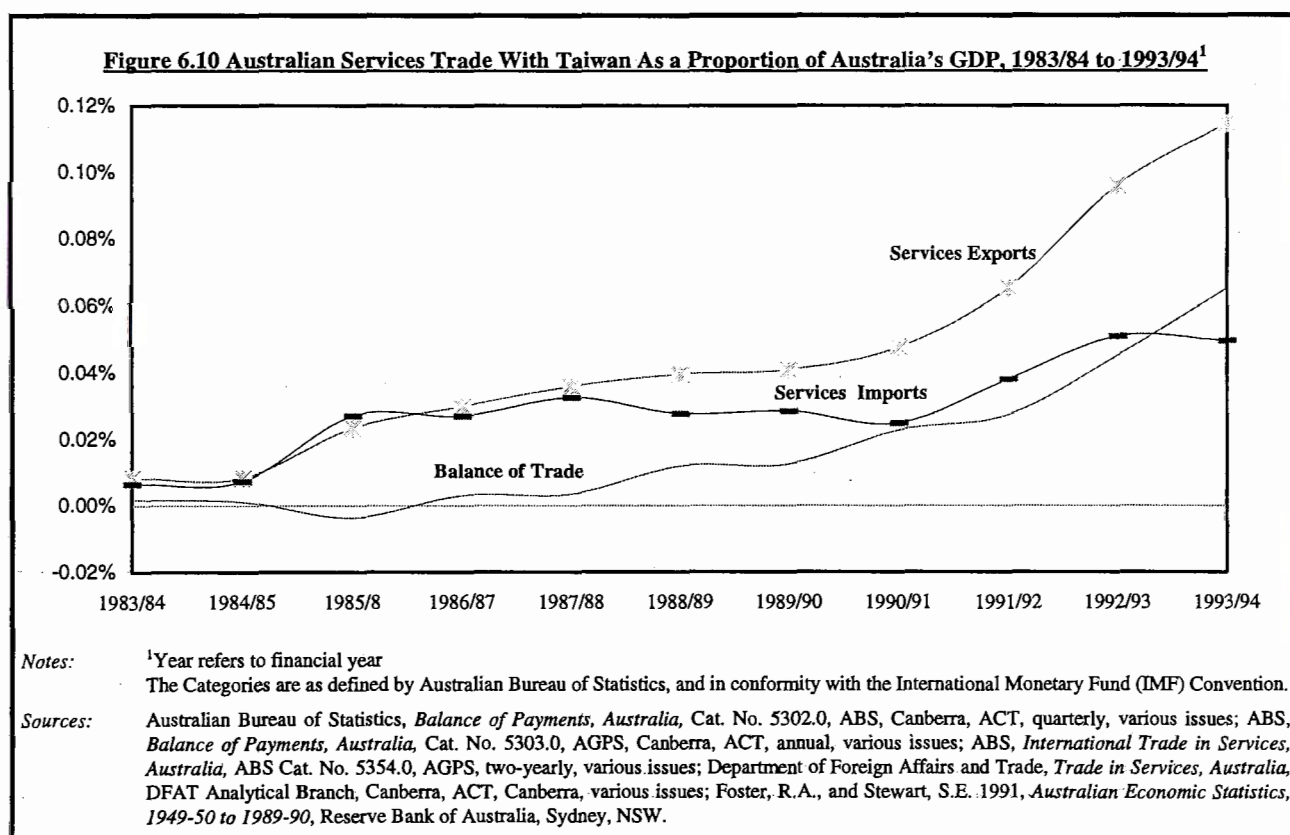
In December 1990, MOF adopted a regulation which paved the way for foreign institutional investors to invest directly in Taiwan's stock market. Although constraints on foreign investors were embodied in the regulation concerning the amount of investment and repatriation of capital and profits, this represented a significant step toward internationalisation. By the end of 1993, the accumulated sum of investment funds approved for remittance was \$US3.9bn. In 1993, foreign institutional investors accounted for 0.5% of transactions in the Taipei Stock Exchange.¹³

¹³ (*Ching-chek Jih-pao* [Economic Daily News] January 9, 1994)

6.8.1.2 Taiwan's Role as an Asia-Pacific Operations Centre

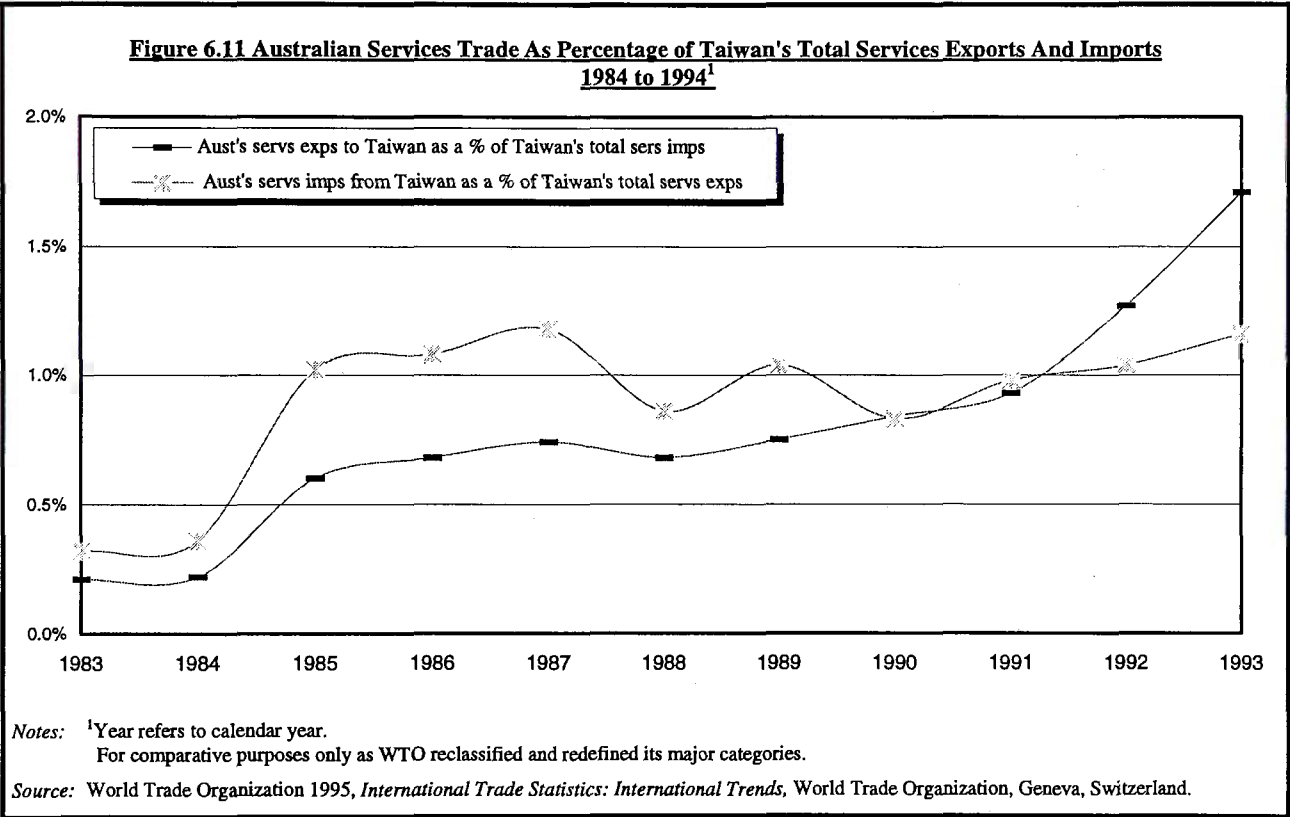
Six specialised areas of activities, including manufacturing, sea transport, air transport, financial services, telecommunications, and the media, will serve as the core of the Taiwan's efforts to develop into a regional operations centre. To assist in implementing plans for the six centres, Taiwan's Executive Yuan established the "Coordination and Service Office for the Asia-Pacific Regional Operations Center" (APROC) in March 1995.

6.8.2 Outline of Australian Services Trade with Taiwan



Over the 1983-94 period, Australian trade in services with Taiwan, as a percentage of Australia's GDP had been small, ranging from less than 0.01% in 1983/84 to just below 0.12% in 1993/94 (Figure 6.10). From 1985/86 to 1989/90, there was some growth in Australia's services exports which increased considerably, when compared to previous years, from the late 1980s onwards. This may have been due to the United States putting pressure on the Taiwanese Government, from 1987, to make its markets more accessible, as elaborated upon in Sec. 6.8.1. Thus, the Taiwanese Government began deregulating its markets as a consequence of which, Australian services exports to Taiwan began to grow.

Australian services imports from Taiwan exhibited a similar trend to services exports during 1983/84-1987/88: from less than 0.01% share of Australia's GDP in 1983/84 to just above 0.03% share in 1987/88 (Figure 6.10). However, from 1988/89 imports diverged from the services exports pattern, with services imports establishing a small decreasing trend that in 1990/91, its share of Australia's GDP stood at 0.02%. From 1990/91-1992/93, there was a slight growth in services imports from Taiwan, stabilising at just above 0.04% of Australia's GDP, in 1993/94. Overall, the balance of trade in services between Australia and Taiwan has been in Australia's favour from 1986/87 onwards (Figure 6.10).



It must also be realised that from Taiwan's perspective, its exports and imports of services to and from Australia has also been small, as a share of the services trade as a whole, as depicted in Figure 6.11. The graph shows that from 1985 onwards, Australian services exports, as a share of Taiwan's total services imports, sustained a slow growth, that by 1993, Australia's share stood at 1.7%. Australian services imports from Taiwan, as a share of Taiwan's total services exports, increased from 0.4% in 1984 to 1.2% in 1987 and then decreased from then on until 1990, when it constituted an 0.8% share. From 1991 onwards, the Australian share of Taiwan's total services exports began to increase that in 1993, it stood at 1.2% (on par with 1987 level).

Prior to 1987, Taiwan's services sector was heavily regulated and lacked transparency, e.g., all tenders were done in Mandarin. In addition, Australian businesses lacked the initiative to venture into this market. Australia's stand on non-recognising the Republic of China on Taiwan and the adoption of its "one-China policy,"¹⁴ meant that all trade matters between the two countries have to be done indirect, through a third-party. It was only in the early-1980s that Australian business interests in Taiwan became represented by the Australian Commerce and Industry Office (ACIO), Taipei whose main objectives were:

- * in promoting trade between Australia and Taiwan and,
- * encouraging investment into Australia.

The Taiwanese Government advantage has been the structural combination of unity, autonomy and institutional centralisation, resulting in more focus. In international negotiations, the Taiwanese Government has been able to closely approximate a rational decision maker. Clarity of purpose and the ability to make decision relatively independent of social pressures implies that Taiwan have well-ordered preferences over its major strategic objectives. By being able to implement agreements or to impose costs with a high degree of probability, Taiwan has been able to establish a reputation as a reliable bargaining partner. Another advantage of Taiwan's structure is that it economises on the internal costs of engaging in negotiations. Two significant sources of internal costs being managerial and political.

In comparison, Australian trade involve the coordination of several parts of the executive branch, each with its own preferences concerning the outcome of negotiations, as well as the legislative branch. This implies considerably higher managerial costs for Australian negotiators. The fragmentation of power implies that there is a domestic political process, as well as a managerial process, behind a negotiation.¹⁵ A more unified opponent can exploit division, not only increasing managerial and political costs, but enabling the opponent to promote its own agenda (Evans, 1979; Bennett & Sharp, 1979; Gereffi, 1983; Biersteker, 1986).

¹⁴ With the Australian Government formally recognising the Government of the People's Republic of China as the sole representative on mainland China, in December 1972, the 'one China policy came into effect.

¹⁵ This is derived from Marshak-Radier (1972), of a notion of a team; or according to Macdonald (1984), probably a notion of a principal agent problem.

Another bargaining advantage, independent of state structure, relates to Taiwan's ability to focus on its objectives, compared with that of Australia. One aspect of this is the extra costs Australia has to incur in keeping track of the additional issues and their relationship to one another. This has the potential of increasing Taiwan's ability to build a higher degree of resistance to manipulation.

In its drive to launch Taiwan towards the status of a developed economy by 1996, the Taiwanese Government has formulated Taiwan's Six Year National Development Plan (SYP), comprising 775 projects, with an anticipated cost of over \$US300 billion. The core of the SYP (1991-1996) was composed of extensive public works expenditure which the government hoped will drive Taiwan's economic growth in the 1990s. The projects were also expected to create demand for intermediate services, e.g., consultancies in architectural designs, engineering services, scientific analysis and interpretation, project management and construction.

In its report on the Taiwan's SYP, ACIO (1992) postulated that, not only were there commercial opportunities for Australian companies to participate in the physical infrastructure projects that make the plan, but more important, longer term opportunities in the 'pull-through' of products and services to meet the rapidly expanding demands of the market.

As noted by one of Taiwan's leading market research firms Bectech Consulting,

'The National Plan has not been invented to make foreign companies rich. The main beneficiaries will be Taiwan's own sons of toil and much of the National Plan's expenditure on road-building and sewerage is aimed at keeping local industry going. Major projects will require technology transfer, local content and local partners' (Osborne, 1992, p. 7).

Over the 1991-1994 period, \$US18.62bn worth of contracts were awarded to foreign companies - out of the projected sum of \$US300 billion in the SYP (ROC Economics, 1994). Only three Australian companies were awarded contracts, in total valued at \$US46.58 million. These were:

- * GGLO, Australia, in supplying TPC Taichung Thermal Power Project Units 5-8 with a Coal Conveyor System - contract worth \$US35.29m
- * Westinghouse Brake and Signal Co., Ltd, Australia, in providing Taiwan Railway Administration with a Centralised Traffic Control System at Changhua-Chunan - contract worth \$US4.64m and,

- * Hawker Pacific Ltd, Australia, in the purchase of an aircraft for aerial photography and remote sensing for the Agricultural and Forestry Aerial Survey Institute, contract valued \$US5.65m.

These figures fell significantly short of ACIO’s projected total of \$US1bn which could have been awarded to Australian firms, under projects related to the SYP. Australian companies were not awarded any contract for the delivery of intermediate services, such as engineering, project management, design, electrical or mechanical engineering.

This comes as no surprise, considering the extreme complexity of the tendering process for public works projects in Taiwan. While the Legislative Yuan is theoretically not part of the approvals process, it has considerable influence over the total implementation of the plan, particularly in areas which are sensitive with the Taiwan electorate or involve international relationships, that is, where members of the Yuan are bidding.

Tenders for SYP projects may or may not be open to participation by foreign firms. To complicate matters further, tenders which are theoretically only open to ‘domestic’ bidders, may sometimes involve a substantial amount of foreign content as part of the domestic supply contract. It is the interest of Australian companies to clarify early if they are welcomed as a prime or sub contractor.

6.8.2.1 Australians Services Exports to Taiwan

Table 6.10 Distribution of Australian Services Exports to Taiwan By Categories, As % of Total Exports in that Category to the World 1983/84 to 1993/94 (Selected Years)

Service Description ^a	Australian ^b Exports %				
	1983	1987	1989	1992	1993
Shipment	----	----	*	0.23	0.20
Other Transportation	----	----	0.35	0.52	0.46
Travel	0.22	0.39	0.55	1.41	1.71
Other Services	*	*	*	0.19	0.25

Notes:

^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Australia’s exports to Taiwan (for various categories) as a percentage of total exports in that category to the world.

* Means less than 0.1%.

Sources:

Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

Australian services exports to Taiwan has been low, especially prior to the late-1980s. It is to be noted (Table 6.10):

- * Exports of shipping services only emerged in the late 1980s, that by 1989/90, this category only constituted less than 0.1% of Australian total services exports, which only increased marginally to 0.2% in 1993/94.
- * There was a marginal increase in the other transportation category, from 0.4% in 1989/90 to 0.5% in 1993/94.
- * A relative increase in travel services, from 0.2% in 1983/84 to 1.7% in 1993/94 and,
- * A marginal increase within other services category, from less than 0.1% in 1983/84 to 0.3% in 1993/94.

6.8.2.2 Australian Services Imports from Taiwan

Table 6.11 Share of Australian Services Imports Provided By Taiwan (% of Total by Category) 1983/84 to 1993/94 (Selected Years)					
Service Description ^a	Australian ^b Imports %				
	1983	1987	1989	1992	1993
Shipment	----	----	0.24	0.18	0.16
Other Transportation	----	----	*	0.32	0.19
Travel	*	0.14	0.19	0.42	0.49
Other Services	*	0.22	*	0.16	0.24

Notes: ^a Until the end of 1985, Current Account items other than merchandise were collectively referred to as invisibles. By convention, services provided by foreign carriers and insurers to non-resident importers are excluded, even if the service is arranged, and paid for, by the resident exporter. The principle underlying this convention is that the importer ultimately pays for shipment. Also, ABS input-output tables do not allocate the expenditure on goods and services by tourists and foreign students to the individual producing industries.

^b Imports from Taiwan (for various categories) as a percentage of total imports in that category from all around the world.

* Means less than 0.1%.

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs and Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; ABS, *Australian National Accounts, Input-Output Tables*, Cat. No. 5209.0, Canberra, ACT, various issues.

In relation to Australian services imports from Taiwan, it is to be noted (Table 6.11):

- * A relative decrease in the imports of shipping services from 0.24% in 1989/90 to 0.16% in 1993/94.

- * A relative increase in travel services from 0.14% in 1987/88 to 0.49% in 1993/94 and,
- * A relative increase in other services category from 0.1% in 1983-84 to 0.24% in 1993/94.

6.8.3 Detailed Analysis of Australian Services Trade with Taiwan

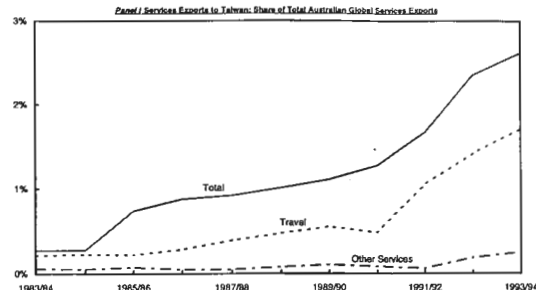
6.8.3.1 Australian Services Exports to Taiwan

Australian services exports to Taiwan remained small, by 1993/94 accounting for 2.6% of Australian global services exports. Australian services exports main categories have been travel services and other services which grew at the average annual rate of 23% and 15.7%, each respectively, over the 1983/84-1993/94 period. With the lifting of Marshall law in Taiwan, in 1987, Taiwanese people began venturing out of their country, visiting relatives on mainland China and other countries. At the same time, great interest was shown by the Taiwanese in Australia, not only as a tourist and business destination, but also, as a good education provider for their children. More Australian people began taking the opportunity to visit Taiwan. But more significant was the greater interest shown by Australian businessmen, who began visiting Taiwan to directly establish and maintain their business contacts.

In July 1987, the Taiwanese Government revised its foreign exchange regulation so that outward remittances of capital became virtually unimpeded. With mounting trade surpluses and speculative activities, the government had to abandon the limited float system in 1989 and allowed the exchange rate to float freely.

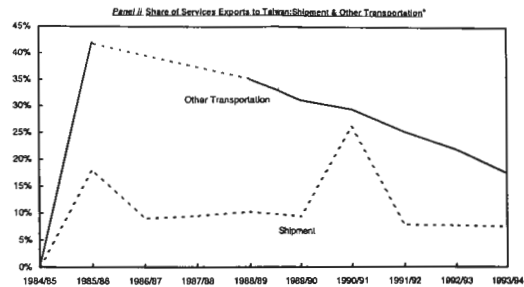
Figure 6.12, *Panel ii* depicts the changes that have taken place within the transportation services category. It must be noted that due to confidentiality, other transportation services data for 1986/87 and 1987/88 is not available. In 1985/86, the observed increases within the shipment services category were mainly attributable to a significant increase in the sales of airline tickets to Taiwanese nationals as they took opportunity of their government's relaxation of their overseas movements, while in 1990/91 it was due to the introduction of a direct flight service by Australia-Asia (a subsidiary of Qantas) on the Australia-Taipei route (refer to sec. 6.8.4). In effect, shipment services exports grew at the average annual rate of 7.7% over the 1985/86-1990/91 period. It is suffice to say that the irregular increases in the shipping services category, which is also observed within the other transportation trend line, could be attributed to the large consignment of metal ores and scrap metals (Div. 28) from Australia, of which Taiwan took possession of in 1985/86 and 1990/91 (refer to ch. 5, Sec. 7).

Figure 6.12 Australia's Services Exports to Taiwan, Republic of China: 1983/84 to 1993/94



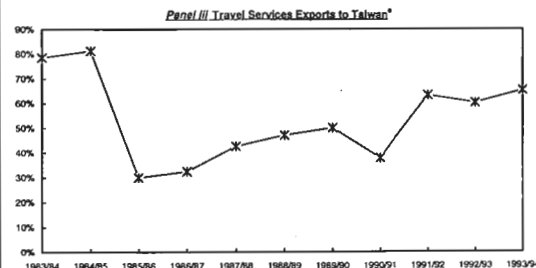
Notes: Australian total services exports to Taiwan as a proportion of Australian global services exports.
Australian travel services exports to Taiwan as a proportion of Australian global services exports.
Australian other services exports to Taiwan as a proportion of Australian global services exports.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3314.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



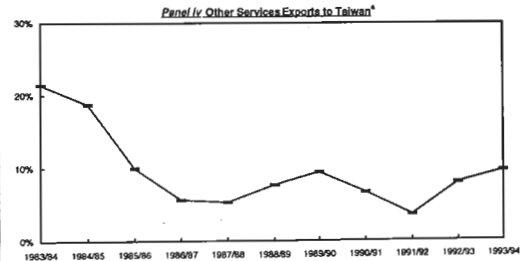
Notes: *Other Transportation services as a proportion of Australian total services exports to Taiwan.
*Shipment services as a proportion of Australian total services exports to Taiwan.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3314.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Notes: *Travel Services exports as a proportion of Australian total services exports to Taiwan.
The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3314.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.



Notes: *Other services as a proportion of Australian total services exports to Taiwan.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 3302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 3303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 3314.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Foster, R.A., & Stewart, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

Australian exports of travel services to Taiwan decreased from 81.3% of Australia's total services exports to Taiwan in 1984/85 to 30% in 1985/86 (Figure 6.12, *Panel iii*). Subsequently, this category's share began to improve, so that by 1990/91 its share of Australian total services exports to Taiwan stood at 50% share and further increased to 65.2% in 1993/94. The sharp decrease in 1990/91 could be attributable to a delayed response to the 1989 Tiananmen incident, on mainland China.

Since 1985/86, there has been a positive growth trend in the travel services category, which reflects the orientation of the Taiwanese people and business in establishing links and contacts with Australians, even though the Australian government does not formally recognise the Republic of China on Taiwan. In effect, during 1985/86-1993/94, Australian travel services exports to Taiwan grew at the average annual rate of 7.4%.

The travel services category includes within it the education services sub-category. Australian education institutions, in competition with the United States, the United Kingdom, Canada and Japan, have been trying to penetrate the Taiwan market. The Australian education drive in the Taiwanese market only commenced in 1987. In 1986, there were only 6 Taiwanese students studying in Australia; by 1988 this number had increased to 302. Significant increases were subsequently registered in the intake of Taiwanese students by Australian institutions so that in 1990, their number stood at 1,502, rising to 2,089 in 1992 and 2,749 in 1993. It must be realised that 65% of Australia-bound students are initially enrolled in English Language Intensive Courses for Overseas Students (ELICOS) courses, with the other 35% taking packages or formal courses. This reflects the easing of conditions for Student Visas,¹⁶ which can now be granted through ACIO, Taipei. In 1992, there were over 600 Taiwanese students enrolled in ELICOS courses in Australia.

Links between ELICOS and formal courses are essential, in order to improve on these figures. Until 1993/94, Australian education institutions continued to target secondary and undergraduate students rather than the lucrative post-graduate students. For example, in 1992, of 13,000 United States bound students, 8,000 were contemplating post-graduate studies.

¹⁶Till 1992, it used to be Category B visas.

There is no lack of places in Taiwan's secondary schools. However, parents will send their children to study at an overseas school for any of the following reasons:

- * to avoid the compulsory military service for their boys
- * to escape from the high pressure associated with entering a local university/junior college and,
- * to seek a better study environment for their children.

Australian education institution needs to formulate appropriate strategies in promoting and marketing Australian education services. This can be achieved by means of, e.g., student-exchange programs, an Australia-Taiwan Higher Education Conference, and scholarships - in fostering education collaboration with Taiwan. The Japanese government annually offers, through its Ministry of Education, 70 scholarships to Taiwanese students. The Canadian government has been offering awards to Taiwanese academics to undertake short-term studies on the Canadian education system and culture. Australia has to compete with other countries to attract students. The United States has a long established relationship, politically and commercially, with Taiwan, with over 70% of lecturers and professors being American graduates who, direct their graduate students to study in the country and education system which they are familiar.

The United Kingdom has a long history of serving the education needs of Commonwealth and other foreign countries, and has been seen as a quality education provider in Taiwan. Canada is a popular country in the eyes of the Taiwanese people. A large number of Taiwanese families have migrated to Canada and tuition fees in some Canadian universities are relatively lower than the United States, United Kingdom and Australian universities. The Canadian government has a long-term view on the promotion of education in Taiwan, encouraging reciprocity.

The Taiwanese generally perceive Japan as one of the most highly developed countries in the world and a provider of high quality education. Scholarships and grants play an important role in the encouragement of students to study in Japan, in view of the high cost of living.

Australian other services exports to Taiwan decreased over time: from a high of 21.4% in 1983/84 to a low of 8.0% in 1991/92 (Figure 6.12, *Panel iv*). During 1983/84-1993/94, other services exports to Taiwan decreased at the average annual rate of 8.4%. As previously elaborated upon in chapters two and five, as China, Hong Kong and Taiwan economies became totally integrated during the late 1980s, these domains became more

symbiotically dependent on each other for their trade - merchandise and services. This means that Taiwan began to source more of its services needs from within Hong Kong and China. However, what is surprising is that within the sub-category miscellaneous services, in 1985/86 and 1986/87, Taiwan received \$A0.19m and \$A0.23m, each respectively of Australian Country Program Assistance, a program managed by AusAid, an Australian Government agency.¹⁷ This is highly irregular due to the following:

- * in following its 'One China policy,' Australia does not recognise Taiwan¹⁸ and as such should not have been a beneficiary of Australian aid and,
- * Taiwan was not, by international definition, an underdeveloping country and as such should not have been the recipient of aid.

6.8.3.2 Australian Services Imports from Taiwan

On the whole, Australian services imports from Taiwan had been very small during 1983/84-1993/94, averaging 0.58% during 1985/86-1991/92 and reaching 1.08% of Australian total services imports in 1992/93. It is interesting to note that fluctuations within other services category had a direct effect on the total services trend (Figure 6.13, *Panel i*). Another important category of imports had been travel services, with growth already evident from 1985/86 onwards (Figure 6.13, *Panel i and ii*).

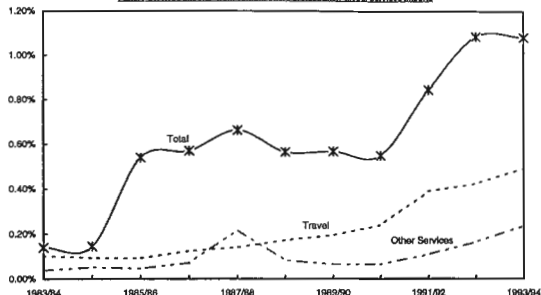
The shipment services share of Australian services imports from Taiwan decreased from 43.9% in 1988/89 to 15.2% in 1993/94, that is, shipment services decreased at the average annual rate of 23.7% during 1983/84-1993/94 which was mainly attributable to contractions within the sub-categories: shipping and airline services imports. On the other hand, other transportation services category share remained rather stable at 11.9% during 1988/89-91/92, then increased to 28.9% in 1992/93 and fell to 17.5% in 1993/94 of Australian total services imports from Taiwan (Figure 6.13, *Panel ii*). This corresponds to an annual average annual growth rate of 28.3% within other transportation services imports from Taiwan during the 1988/89-1993/94.

¹⁷ AusAid Summary Statistics.

¹⁸ While Australia does not recognise Taiwan, ROC under its "one-China Policy," and not supposed to have direct diplomatic channels with Taiwan, at the same time, it maintains a Diplomatic Mission in Taipei. DFAT 1996, *Australian Diplomatic Missions in North Asia*, DFAT, Canberra, ACT.

Figure 6.13 Australian Services Imports from Taiwan, Republic of China: 1983/84 to 1993/94

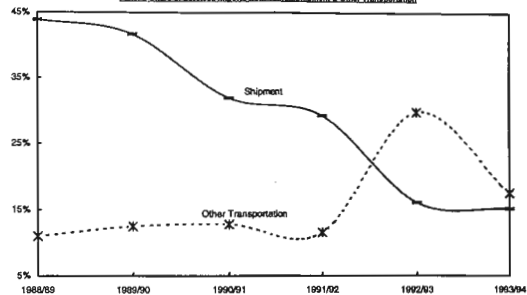
Panel I: Services Imports from Taiwan: Share of Australian Global Services Imports



Notes: Australian total services imports from Taiwan as a proportion of Australia's global services imports.
Australian travel services imports from Taiwan as a proportion of Australia's global services imports.
Australia's other services imports from Taiwan as a proportion of Australia's total services imports.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Pinner, R.A., & Sower, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

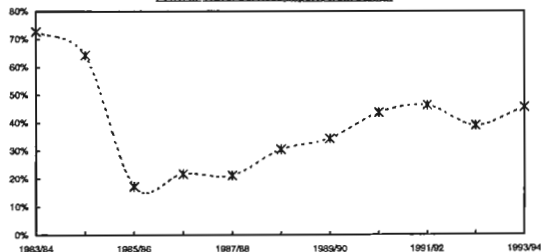
Panel II: Share of Services Imports from Taiwan: Shipment & Other Transportation*



Notes: *Other transportation services imports as a proportion of Australian total services imports from Taiwan.
Shipment services imports as a proportion of Australian total services imports from Taiwan.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Pinner, R.A., & Sower, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

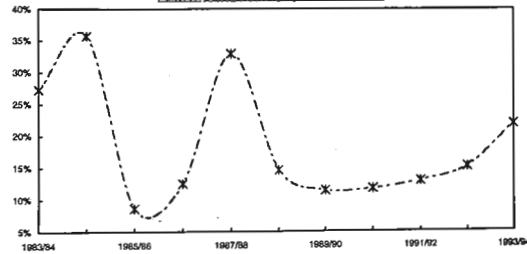
Panel III: Travel Services Imports from Taiwan*



Notes: *Travel services imports as a proportion of Australian total services imports from Taiwan.
The Category is as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Pinner, R.A., & Sower, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

Panel IV: Other Services Imports from Taiwan*



Notes: *Other services imports as a proportion of Australian total services imports from Taiwan.
The Categories are as defined by Australian Bureau of Statistics, and in conformity with the International Monetary Fund (IMF) Convention.

Source: Australian Bureau of Statistics, *Balance of Payments, Australia*, Cat. No. 5302.0, ABS, Canberra, ACT, quarterly, various issues; ABS, *Balance of Payments, Australia*, Cat. No. 5303.0, AGPS, Canberra, ACT, annual, various issues; *International Trade in Services, Australia*, ABS Cat. No. 5354.0, AGPS, two-yearly, various issues; Department of Foreign Affairs & Trade, *Trade in Services, Australia*, DFAT Analytical Branch, Canberra, ACT, Canberra, various issues; Pinner, R.A., & Sower, S.E. 1991, *Australian Economic Statistics, 1949-50 to 1989-90*, Reserve Bank of Australia, Sydney, NSW.

As competition intensified in the shipping industry, Taiwan's share of Australian total cargo decreased from 5.1% in 1989/90 to 4.1% in 1993/94 (ABS, 1994). There was also a significant decrease in airline services imports, especially from 1990 onwards, as Australia-Asia airline began servicing the Australia-Taiwan route. Other transportation services remained, on average, at the same percentage level, and showed a significant increase in 1992/93 as a result of port and airport services, rendered to Australian flagged ships.

The share of Australian travel services imports from Taiwan decreased during 1983/84-1985/86 but increased from 1986/87 onwards (Figure 6.13, *Panel iii*). That is, travel services imports grew at the average annual rate of 11.4% during 1985/86-1993/94. This growth trend in travel services imports is due to the larger number of Australians making Taiwan as their tourist and business destination. In 1985, 17,729 Australian residents visited Taiwan compared to 16,923 in 1983. The number of Australian visitors continued to grow: 19,773 in 1989 and 21,446 in 1993 (*Taiwan Statistical Data Book*, 1994).

As depicted in Figure 6.13, *Panel iv*, other services imports from Taiwan showed an irregular trend, from a high of 35.7% in 1984/85 to a low of 8.6% in 1985/86, then increasing to 32.9% in 1987/88 and then decreasing to 11.5% in 1988/89. From 1990/91 onwards, other services imports share of Australian total imports continued to increase that it stood at 21.8% in 1993/94.

Prior to 1987/88, Taiwan's services sectors were heavily regulated. As Australia significantly increased its manufactured goods imports from Taiwan (refer to ch. 5), more intermediary services were required to facilitate these transactions. The observed peaks and troughs (Figure 6.13, *Panel iv*) are quite similar to Australian merchandise imports from Taiwan (refer to ch. 5).

From 1989/90, as the Taiwanese tertiary sector became more liberalised, there was a slight increase in Australian imports of other services. But, while the services sectors were deregulated, Taiwanese manufacturers were shifting their operations to Southern China. As Australia reoriented its TCF and other manufacturing imports from China, its imports of intermediary services from Taiwan increased marginally.

6.8.4 Landing Rights and Bilateral Aviation Relations Taiwan, ROC

6.8.4.1 Reciprocity of the Agreement with Taiwan, ROC

Australian foreign policy precludes formal government to government aviation relations with Taiwan. Air Services between Taiwan and Australia are governed by:

- i. the Confidential Arrangements for Air Services between the Australian Commerce and Industry Office (ACIO) Taipei and the Civil Aeronautics Administration, Taipei (basic framework) and,
- i. the Annex to Confidential Arrangements for Establishment of Air Services (capacity and traffic rights) signed on 25 March 1994.

6.8.4.2 Reciprocity of the Agreement with Taiwan

The air services arrangement permits multiple designation for each side. Qantas and Ansett International are the nominated Australian airlines. EVA Airways and Mandarin Airlines are the nominated airlines of Taiwan.

6.8.4.3 Country Rights Distribution within Australian Airlines

Qantas currently operates 5 B747SP passenger services between Sydney, Cairns, Brisbane and Taipei (capacity 1,560), while Ansett performs 2 B747 passenger services between Sydney and Taipei (capacity 828).

6.8.4.4 Country Rights Distribution within Taiwan Airlines

EVA Air operates 5 B763 passenger services a week between Taipei and Sydney, Melbourne, Brisbane and beyond to Auckland (capacity 1,270). Mandarin Airlines operates 3 B747SP passenger services between Taipei and Sydney (capacity 897).

6.9 Conclusion

Australian Global Trade in Services

During the 1984-1995 period, the importance of global services trade to the world economy became more evident, with the services trade share of total world trade increasing from 16.9% in 1984 to 19.2% in 1995 (WTO, 1995a, 1997). At the same time, the North East Asian countries of Hong Kong, China and Taiwan were experiencing a surging demand for a whole range of services, from education and training to building and construction. This resulted in the demands for services imports within China, Hong Kong and Taiwan to grow at average annual rate of 17.8%, 15.3% and 16.1%, each respectively, over the period.

Australia's tertiary sector continued to export a small proportion (5%) of its overall services production. Over the 1983/84-1993/94 decade, Australian global services exports grew at the average annual rate of 11.5%. Australian services exports to China, Hong Kong and Taiwan not only grew in line with these countries' booming services imports, but increased at the average annual rate of 21.5%, 17.8% and 42.7% with each respective country. However, services exports to China, Hong Kong and Taiwan were and remained small over the decade, as a percentage share of Australian global services exports.

Australian Balance of Trade in Services

Comparatively, over the 1983/84-1993/94 decade, Australian total services imports grew at an average annual rate of 7.2%. However, Australian services imports from China, Hong Kong and Taiwan grew at the average annual rates of 20%, 7.4% and 34.4%, each respectively, although each country constituted a small percentage share of Australia's total services imports. This resulted in Australian's balance of trade in services being:

- a) in deficit with Hong Kong during 1983/84-1993/94, with the deficit being almost eliminated in 1993/94, and with China during 1983/84-1986/87 and 1992/93-1993/94 periods,
- b) in surplus with China during 1987/88-1991/92 period and with Taiwan from 1986/87 to 1993/94.

Australian Market Shares in the Greater China Region Territories

The Share of Australian Services in China Services Market

Over the 1983/84-1993/94 decade, Australian services exports share of China's market fluctuated considerably from 1.5% in 1984 to 3.75% in 1988, then to 7.5% in 1990 and then to 2% in 1992. Improvements in Australian share of China services market are attributable to an increase in the exports of travel and shipment services during 1984/85-1988/89. On the other hand, the decline in Australia's share of China's services market during 1989/90-1993/94 was mainly due to a fall in travel services exports as a result of Tiananmen incident in 1989, stricter enforcement of Australian immigration controls in the processing of mainland Chinese students in 1990/91, and a shift in Australian immigration policy regarding the residency status of mainland Chinese students.

Australian immigration laws became the target of abuses as no means of control were anticipated to monitor students' conformity to their obligations; in effect, the majority of mainland Chinese students were over-stayers and were working rather than studying. The problem became evident in the late 1980s. The PRC students dilemma was further exacerbated by the Tiananmen incident. Immediately afterwards, the Australian government announced that as a consequence of the Tiananmen incident, 10,000 four-years-temporary-resident-visas were to be issued to mainland Chinese students in Australia. Subsequently, those who qualified were granted permanent residents status. The full-effect of Australia's immigration policy change regarding the Chinese students became evident in 1996, when about 40,000 permanent residencies were granted to mainland Chinese students and their dependants. (refer to ch. 7). This meant that education exports to China (credits) became accounted for as expenditure by Australians.

Australian Share of Hong Kong Services Market

Australia's share of Hong Kong services market averaged 3.2% over the 1983-93 decade. Australia maintained its market share in Hong Kong mainly due to an increased effort, from the mid-1980s onwards, in marketing Australian education services, growth in other services category exports, and in the 1990s, the ratification of Air Services Agreements with Hong Kong over Australian airlines landing rights, which resulted in a substantial increases in the export of shipment and travel services. This helped Australian airlines to consolidate their services on the route between both countries and their positions within the North East and South East Asian region.

Australian Share of Taiwan Services Market

During 1983/84-1993/94, the Australian share of Taiwan's services market increased from 0.2% in 1983 to 0.75% in 1989 and subsequently grew rapidly to 1.7% share in 1993. The gains in Australia's market share are mainly attributable to the lifting of Marshall Law, in 1987; in Taiwan's economy becoming more outward oriented, and in the United States pressuring the Taiwanese government to make its services market more transparent. As a result of these two major factors, Australian services exports performance improved, aided by travel and other services categories.

Opportunities and Threats

Australia's specific trade in services with Hong Kong, China and Taiwan remained small relative to potential due to:

- * A divergence between Australian government's expectations and reality, especially with regard to the government's push into the PRC's market, through AusAID grants and DFAT commercial facilitating instruments, as these did not have the expected pull on Australian businesses. Australian firms became dependent on the government's aid programmes for their own survival.
- * Australian services firms faced major problems in doing business in China, problems which were due to the Chinese government regulatory barriers, the uncertainty of regulations, the excessive number and scope of the rules of law; the poor quality of business infrastructure; concerns about the repatriation of profits; the availability of finance; and life style problems for Australian staff. These and other points were highlighted by the Department of Foreign Affairs and Trade, in its submission to the Joint Committee on Foreign Affairs, Defence, and Trade during its preliminary session in December 1996 (DFAT, 1996). A major difficulty noted with the China market is identifying who has power and authority in the Chinese hierarchy and the nature of that power and authority.

Strategies

The strategies in place for Australian services trade were based on short-term rather than long-term basis, resulting in:

- * the sale of Australian ships to China in the 1960s, which had the long-term effect of making Australia dependent not only on China but also on other countries for its shipping services needs, and

- * services' agreements were taking too long to be ratified, especially with relation to Air Services arrangements with Hong Kong. This was mainly due to Australia's inability to accommodate the capacity given to Hong Kong airlines as its fleet was mainly composed of the smaller Boeing versions and more suitable for servicing Australia's domestic market than an international route due to their low capacity.
- * The Australian government policies were inconsistent. A major component of Australia's services exports to China was composed of AusAID¹⁹ funding which aimed at assisting the Chinese people's social and economic advancement through modernisation while doing so in ways which fostered mutual economic benefits for both countries. Hong Kong, though classified as a newly industrialised country, and as such not entitled for aid, was still granted aid through scholarships and subsidised education to its nationals. On the other hand, Taiwan, a country which was not only a NIC, but also not diplomatically recognised by Australia, received aid.

While Hong Kong, China and Taiwan are inextricably linked economically, the greatest source of uncertainty and potential instability regarding Hong Kong's future, that is, post-1997, is obviously China.

Emerging Issues

Hong Kong reversion to China in 1997 raises certain points pertaining to Australia-Hong Kong trade in services. Australia is a signatory to Landing Rights Agreements with both China and Hong Kong. However, as Hong Kong's Air Services Agreement was the last ratified, will Hong Kong's Agreement have precedence over China's Air Services Agreement? Though China promised that Hong Kong will be a Special Administrative Region post-1997, in the event of a dispute, which of the respective Agreements will be applicable, as technically, China retains jurisdiction over Hong Kong's foreign affairs?

The Hong Kong market is already extremely competitive but is expected to become even more so due to further competition from domestic service providers and from countries within the region, such as Malaysia, Singapore, Taiwan and South Korea. The opportunities which may be provided by the Hong Kong market to Australian companies are positive for most sectors and the associated opportunities with respect to third markets, especially China, are very important.

¹⁹ Name was changed from AIDAB to AusAID in March, 1996.

Australia's service exports to Hong Kong have been modest. However, they are important in some niche areas, particularly in engineering and the higher education sectors. A substantial component of services have been in serving the needs of other Australian businesses in Hong Kong, China and other parts of Asia.

Barriers and restrictions to entry in the Taiwanese market made Australia services exports to Taiwan very difficult to achieve. However, when the Taiwan government, under pressure from the US began to lower its services' protection, Australia's services exports began to increase marginally. The main factors which helped or hindered Australian services exports to Taiwan were:

- * as Taiwan's services sector became more efficient, Australian firms had to contend not only with local but also international competition, especially from the United States, Scandinavia and European countries;
- * Australian services providers began locating their offices in Taiwan (refer to ch. 8) to be closer to the markets they were servicing which led to a lower level of exports (credits) on Australia bop accounts, and
- * Landing Rights and Bilateral Aviation Relations between Australia (ACIO) and Taiwan (CAA) saw Australian airlines gaining more capacity to service the Australia-Taipei route, which resulted in a corresponding increase in shipment and travel services exports as more Taiwanese began looking to Australia, both as a business and as a tourist destination.
- * As Australian services exporters have not forged deep relationships with their counterparts in Taiwan, it was made harder for them to perceive and take advantage of opportunities as they arise (DFAT, 1996).

The Australian government should evaluate its role not only as a provider of services but also as a facilitator, assessing the manner in which it provides advice and information to small and medium sized companies, its strategies towards developing Australian services export markets and the nature and content of the collection and dissemination of commercial data.

Australian companies need to continue to demonstrate their capacity to produce competitively priced quality services in a range of skill and technology-intensive areas. This has to be done through both short-term as well as long-term objectives, both in knowing and anticipating the markets in the respective countries of Hong Kong, China and Taiwan and in following an aggressive approach in attaining their set goals.