



1990

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David Lim  
Griffith University, [dlim@vtc.edu.hk](mailto:dlim@vtc.edu.hk)

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### Recommended Citation

Lim, D. (1990). The Garnaut Report: an overview. *Asian Studies Association of Australia. Review*, 13 (3), 49-54. <http://dx.doi.org/10.1080/03147539008712635>

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## The Garnaut Report : an overview

David Lim  
Griffith University

The Garnaut Report analyses the process of economic change in Northeast Asia and assesses the implication of this on Australia. It is an important report because of what it says, when it is said, and how it is said. Its findings are neither new nor surprising for those who have been studying Northeast Asian economic development and Australia-Asia relations. But they are nevertheless important findings and presented as they are now and in a report to the Prime Minister and the Minister for Foreign Affairs and Trade by someone who was the former's trusted chief economic adviser and the latter's effective representative in China, the findings are more likely to be heard, debated widely and acted upon.

### What the Report says

Basically the Report is in four parts. The first, in chapters 2-5, examines the economic record of Northeast Asia over the period 1950-88, attempts to identify the immediate and the fundamental reasons for the finding that "never before in human history have economies grown as fast for so long as in Northeast Asia over the past four decades" (p. 36), and makes some forecasts of future economic growth in Northeast Asia. The second part, in chapters 6-8, deals with the implications of rapid sustained economic growth in Northeast Asia on the international economic system, on international strategic issues and on political change and human rights in Northeast Asia itself. The third part, mostly contained in chapters 9-13 but some of it in earlier chapters, examines the impact of all these changes on Australia. They present opportunities and problems for the production and export of Australian primary, secondary and service products. They also present challenges to Australia in the way it conducts its political and economic diplomacy bilaterally and multilaterally. The fourth part, in chapters 14-16, deals with the ways in which Australia's migration and educational policies can be changed to maximise the benefits Australia can obtain from Northeast Asian economic growth. This part of the study discusses how Australians can become more Asia-literate and, to a much lesser extent, how Australia can present itself better in Asia. The main findings in these four areas may be summarised as follows:.

#### *The economic performance of Northeast Asia*

The real gross domestic product of Northeast Asia grew very rapidly over the period 1950-88. This resulted in a major shift in the world's output towards Northeast Asia. In 1960 the share of Japan, the People's Republic of China, the Republic of Korea, Taiwan and Hong Kong in world production, measured in current prices and in current exchange rates, was 8 per cent. By 1987 this had increased to 20 per cent. The share measured in real purchasing power rose from 13 per cent to 24 per cent over the same period.

In accounting terms, this rapid growth was due to high rates of investment and productivity growth. The former requires, in turn, high rates of saving, the latter a high valuation of

education, for the new information and technology it can produce, and the acceptance of painful structural change so that technological change can take place. These second-order requirements are seen to depend on the presence of certain cultural and social characteristics, which the Report argues are not unique to Northeast Asia. Other important second-order requirements for rapid economic growth are macroeconomic stability, political cohesion and an outward-looking policy with a firm eye on international comparative advantage. The Report asserts that most of these immediate and fundamental determinants of economic growth will remain in sufficient force in Northeast Asia in the future for its share in world production to continue to rise to the end of this century.

#### *Northeast Asia and the world*

Rapid economic growth in Northeast Asia has changed the commodity and geographical patterns of international trade flows. At the start of their modernisation programmes, they specialised in the production and export of natural resource-based products. Gradually they moved into the export of labour-intensive and low-technology manufactured goods, using generously their abundant labour resources and economising on their scarce natural resources and capital. As wages rose and capital was accumulated, more and more capital-intensive and technologically sophisticated manufactured goods were produced. These changes in Northeast Asian production and export led to significant changes in the commodity composition of world trade. They also led to important changes in the geographical composition of world trade. Together these changes led to changes in the international trading system itself as the rest of the world reacted defensively to Northeast Asian economic and trade dynamism by erecting barriers to protect their own producers.

The Report also points out that rapid economic growth in Northeast Asia has produced greater individual freedom, reduced political tension in the area and helped to decrease the importance of military spending in China, Taiwan and the Republic of Korea. At the same time it has produced a more complex strategic situation and has increased the military capacity of Northeast Asian countries themselves, developments which could produce the political instability of old.

#### *Northeast Asia and Australia*

Rapid economic growth in Northeast Asia has increased the demand for Australian primary products (iron ore, coal, wool, food grain and feed grain and beef). The trade between Northeast Asia and Australia has been characterised by a high degree of complementarity, which explains the relatively large share of Australia in the imports of Northeast Asia. The Report finds that the complementarity would be further increased if the high level of protection for agriculture in Northeast Asia and for motor vehicles, textiles, clothing and footwear in Australia were to be reduced.

The Report sees protection in Australia as the biggest barrier to greater productivity growth in Australian industry. The single most important step that Australia can take to increase its competitiveness is to reduce its protection. Thus Garnaut recommends that the "1988 program of reduction in protection should be continued beyond 1992 with a view to removing all protection by the beginning of the twenty-first century, with the new

programme being announced as early as possible to entrench expectations that protection will continue to fall" (p. 23). Garnaut also argues for much improved infrastructural facilities, especially on the waterfront, the maintenance of domestic expenditure on a steady trend, and high investment in education and training.

### *Australia and Asia-literacy*

As far as education and training is concerned, the Report calls for a greater emphasis on Asia. Trade opportunities in Northeast Asia, as a result of that region's rapid economic growth and as a result of Australia's greater competitiveness from trade liberalisation, will not be maximised if Australians continue to be ignorant about Asia. Knowing more about Asia would also enable Australia to benefit more from the migration of skilled Northeast Asians. Such migrants possess more of the cultural characteristics that led to rapid economic growth in Northeast Asia and provide the contacts needed for the successful penetration of Northeast Asian markets.

To make Australians more Asia-literate, students at the school level should be exposed to the serious study of Asian history, geography, economics, politics and culture and all secondary schools should offer at least one Asian language by the year 2000, with the highest priority being given to Japanese, Chinese and Indonesian, to be followed by Korean. At the tertiary level, the Report argues, among other things, that it would be desirable for 5 per cent of tertiary students to be studying an Asian language by 1995 and that the study of Asia be integrated into the mainstream courses.

### *Is it new?*

The discussion on Northeast Asian economic development is not new. Why these countries have grown so rapidly and performed well in most of the non-economic indicators of development has been studied many times by scholars the world over and the results published widely in books and leading economics journals. Garnaut and his colleagues at the Australian National University and elsewhere have themselves contributed to this literature.

Thus the Garnaut Report adds nothing new to the literature here. It can in fact be criticised for raising the role of cultural factors in economic development but never going very far with the discussion. The economists will see the reference to culture as a bit of a cop-out while the sociologists will see it as another example of economists treading where they should not. Another area where the Report is weak is its analysis on growth prospects in Northeast Asia. The analysis is far too impressionistic.

The discussion on the evils of protectionism in Northeast Asia and Australia is also not new. What Garnaut has to say has been said a hundred times over by economists in the university, business and government sectors. In more recent times as the impact of protectionism has become better understood more widely, welfare groups have also pointed out the adverse effect it has on the poor. Garnaut himself has written on the matter.

As far as the discussion on the need to be Asia-literate is concerned, the Report is only the most recent of a number of government-sponsored studies which emphasise the same need. The work of the Asian Studies Council comes to mind immediately and before this the work of the Asian Studies Association of Australia and the many scholars who have beavered away without getting many headlines.

What is important about the Garnaut Report is that it has all the above elements and has tied them together to produce a very powerful message: that Australia should realise that Northeast Asia has become a very important economic region and that it cannot benefit much from rapid economic growth there unless it is able to get its micro-economic and macro-economic policies in order first. Asia-literacy is not going to be much good if Australia does not produce goods and services that Northeast Asia wants at internationally competitive prices.

Lobby groups for the greater study of Asia in schools and tertiary institutions tend sometimes to forget this. Some of them believe rather naively that we will be able to penetrate the Japanese or South Korean market if we speak Japanese or Korean fluently and understand the way they do things over there. The possession of such Asian skills undoubtedly matters but it is only a necessary and not a sufficient condition for success. It would be sad if the Asian lobby were to use the Garnaut Report as supporting its cause without being aware of the important things it says on the economic reform front.

It would also be sad if the supporters of greater and more fundamental economic reforms were to use the Report to support their cause without taking into account the geographical context in which the Report is set. Economic reforms must produce enough flexibility for the producers to sell their goods and services in markets where the demand is greatest. And this means being aware of the economic significance of the Northeast Asian ascendancy.

*How it is said* There are many academically sound and well-written reports which are read only by a few, and spend the rest of the time sitting on shelves gathering dust or end up by being pulped by their publishers. The Garnaut Report is not one of those reports. Its release was front-page and prime-time news, with the major national newspapers each devoting a number of pages on it. The first print-run of the Report was sold in a matter of days. The Report was lodged with Cabinet on 20 November 1989 and the Government's initial response was announced two days later. Thus the Report was read and read quickly by influential people and the huge publicity it generated will ensure that it will continue to be read and discussed very widely.

The Government's response to its major recommendation on trade liberalisation has been positive. The Prime Minister voiced sympathy for the reduction of domestic protection and Cabinet called for the Prime Minister and the Minister for Industry, Technology and Commerce to agree on the post-1992 protection arrangements and to make a submission on this to the Structural Adjustment Committee of Cabinet in early 1990. The Prime Minister has since appeared to back-peddle a little on the protection issue but this is to be expected in an election year.

The Government's response to the Report's recommendations on education issues has also been swift and favourable. The Prime Minister has already announced three programmes. The first is the establishment of a Korean Studies Centre to spearhead the study of Korea in Australia and to establish links with key universities and research institutions in Korea. The second is the provision of postgraduate research scholarships for Korea and Taiwan, and the third the establishment of a teacher exchange programme with these two countries.

It may be that the programmes announced so far by the Government will come to very little in transforming Australia into a more ship-shape economy and in turning it towards Northeast Asia on a more informed basis. But the point of the argument is that the Garnaut Report stands a better chance of having its recommendations heeded and implemented than most other reports. The first and most important reason for this is that the author has the ear of powerful figures in Canberra because of what he had done in the past and is doing at the moment. The second is that the plea for trade liberalisation has come at a time when the need for greater export competitiveness has never been more urgent. The third is that the call for a geographical re-orientation of Australia's economic strategy has come in the wake of the sustained effort of the Asian Studies Council and other bodies in pushing this change. The point is that if this combination of extensive contacts and good timing cannot do the trick, then very little else would. And herein lies the Report's importance.

#### *What it does not say*

Among the most lauded aspects of the Report is its timeliness in pointing out the need for Australia to be more internationally competitive, to be more aware of the enormous benefits arising from rapid economic growth in Northeast Asia and to be more Asia-literate. Against that one might argue that such advice has been given before by many others and by Garnaut himself in another forum and that it has come twenty years too late. While we slept in ignorant bliss, other countries have marched on with the result that we have become more dependent on countries in Northeast Asia and Southeast Asia while they have become less dependent on us.

It can be argued that it is better late than never. But there is no substitute for seeing and saying things early so that plans can be made, especially if there are strong indications of the impending change and its consequences. Northeast Asian economic growth did not materialise unexpectedly or overnight and the assured British market for Australian primary products disappeared when Britain joined the European Common Market some years ago.

In this respect the Garnaut Report is not timely. Nor has it sounded the dangers for Australia of the probable rise of trading blocs after 1992. The European Community plans to become an integrated common market by then, with an estimated market of 350 million people. Such a large market brings to its members extraordinary bargaining strength and drawing power. It is quite likely that a North American trading bloc will be established to counter this. It would be surprising if Northeast Asian countries, especially Japan, South Korea and Taiwan, were not subjected to enormous pressure from these trading blocs to reduce their level of protection against European and North American export of primary products in return for greater access to their huge markets for manufactured goods. There

are already signs that the European Community has been flexing its muscles against the Japanese and the South Koreans.

The implications of these threats of inter-bloc horse-trading for Australia are significant and very unpleasant. Even if we were to have a special relationship with Northeast Asian countries, and even if we were to know these countries intimately and speak their languages fluently, at the end of the day we would come out the loser, for what is 20-odd million people compared to the populations of Europe and of North America? What is the strategy for coping with this?

The Garnaut Report is silent on such issues because they fall outside its terms of reference. However, to be a report of the times it should at least have flagged the issues. It would be unfortunate to begin the process of knowing a great deal more about Northeast Asian countries only to find such countries turning their backs on us just when we are able to communicate effectively with them.