Australia – Argentina:
Convergences and Divergences

Long-term trend and recent evolution

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Summary

The comparison between Argentine and Australian societies has given rise to academic interchange and speculation regarding the reasons for a dissimilar development. If the course of development of the two countries is analysed, differences regarding their economic levels and the quality of their institutions can be seen from the founding of each state. Undoubtedly, in Australia, this is due to the importance of mining in addition to agriculture and to the establishment of a British-like parliamentary system. This small early difference persisted almost unchanged from 1900 until well into the nineteen seventies, which means that during this long period both societies have grown at the same pace and given rise to a significant development of their human resources.

Since the mid-seventies, Argentina's economic growth has come to a halt and serious institutional problems that came from the 1930s substantially aggravated and led to the breakdown of the democratic system. From the economic side, economic policies of exchange rate appreciation, fiscal deficit, growing indebtedness to finance government expenditures, and continuous deficit of the balance of payments were the rule, with short intermissions, even after the definitive restoration of democracy in 1983. Over the past four years, a major reversal of those policies and the restoration of strong economic growth have taken place, changing the tendency of divergence between the two societies that extended from 1975 to 2001.

After analysing the long-term trend, this paper delves into the period of the past thirty years and, particularly, the most recent past, with the aim of providing some responses to the questions that have been posed by different people, especially from the academic sector, regarding the convergences and divergences between both countries.

1. Introduction

There are several comparative analysis studies on the evolution of Australia and Argentina which consider the period beginning in the second half of the nineteenth century up to recent decades. Similarly, the publication of newspaper articles and the broadcast of television and radio programmes dedicated to the subject are regularly observed in our society. The most important Australian work, which endeavoured to provide an answer to the questions about the convergences and divergences between the two countries regarding their economic and social progress, is the book entitled *Australia and Argentina: On parallel paths*, written in the mid-1980s by John Fogarty and Tim Duncan, professors at the University of Melbourne. This publication was the product of an intense intellectual interchange with Argentine colleagues and even of a sabbatical year John Fogarty spent in Argentina.

As to the similarities between the two countries, the aspects that chiefly call our attention are the vastness of their territories, on the one hand, and their natural and human resource endowments, on the other. A third feature is their participation in the world economy through the open model which characterised international relations between 1850 and 1930, based on the exchange of primary products for manufactured goods from European centres, particularly the UK. Politically, this model was reinforced in Australia as well as in Argentina by the respective constitutions enacted in 1853 in the former, and 1900 in the latter. Another significant characteristic was given by public investment in infrastructure, largely supported by external funding, as well as the formation of qualified state bureaucracies, the establishment

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of extensive systems of free and compulsory education and access to public health care, which laid the foundations for the integration of the new inhabitants coming from European immigration to their host countries.

The above-mentioned parallelism begins to blur in 1930, at the inception of the Great Depression, and clearly comes to a halt as of the mid-1970s. In 1930, Argentina entered a period of political instability with the irruption of *de facto* governments, which would last for over 50 years, compromising both democracy and the country's international relations. In the interim, the Australian democracy remained unaltered, while foreign relations evolved on the basis of the traditional bonds with the United Kingdom, the emergence of the United States as a dominant world power after World War II, and the increasing importance of Asia over the last three decades.

Economically, although the rates of growth of the two countries were not substantially different from the twilight of the Second World War until the early seventies, they do start to show a marked contrast ever since. The economic policy changes imposed by the military regime established in Argentina in 1976, evidenced by import liberalisation linked to a strong and avowed exchange rate appreciation, had severe consequences for the country's productive structure. The speculative capital flows attracted by the certainty of future exchange rates and the high rate of interest applied to curb inflation, grew in parallel with the drop in the industrial sector, the main generator of jobs, in the Gross Domestic Product (GDP). This structural change, which lasted with minor variations for over two decades, ended in a severe crisis towards the end of 2001. Its consequences were reflected in social indicators, namely, the level and distribution of income, the unemployment and poverty indices, the decrease in infrastructure, education and health care investment, the quality of the state bureaucracy and the reduction in research and development expenditures.

In the meantime, Australia moved to a floating currency system and adopted long-term policies for the promotion of investment in the resource sector, and for the expansion of defence-related industries and those involving heavy public investment in infrastructure.

Regardless of the above-mentioned divergences and of the results these have led to in the areas this work is dealing with, there are still common features and potential for development in the two countries which justify an analysis of the possibilities of a new future convergence. Bearing this in mind, it is worth pointing out some issues in connection with Argentina's recent past experience whose discussion is certainly also relevant in Australia. Among them, those that can be highlighted are the consequences of imbalances between domestic savings and investment, shown in the current account deficit of the balance of payments, the income distribution disparity among the different social strata, the socio-economic differences between large urban centres and rural communities, labour market insecurity and the quality of employment, the rights of minorities such as indigenous people and the Aboriginals, the improvement of the health care system and the financial support by governments to education, science and technology and innovation. The discussion of these matters by the political forces and the societies of both countries is prompting the search for responses with the aim of overcoming existing difficulties and promoting equitable economic development.

Looking towards the future and the possibilities of similar behaviour in the evolution of both countries, certain factors are contributing positively to convergence.

From the political point of view, the consolidation of democratic institutions in Argentina, as well as its policies of respect for human rights and the defence of the international legal order based on the United Nations principles are worthy of note. Economically, the most salient features have been, since the mid 2002, the adoption of sustainable policies that have led to a substantial and steady high rate of growth, the improvement of income distribution and to a more active role of the state.

At the same time, within a context of political stability and more than 10 years of continuous economic growth in Australia, one can speak of the greater interest this country is taking in Argentina and Latin America. Though not comparable to their focus on the United States, Asia or Europe, such interest is

revealed by growing political and cultural contacts, an increase in tourism and transport links, the channelling of reciprocal investments, the execution of joint projects and cooperation in academia.

Whether the previous factors are to prevail will depend on the strength of institutions, the economic and social policies and the integration of both countries into an international framework placing, at the domestic level, a strong emphasis on investment, the improvement of income distribution, the modernisation of infrastructure, the quality of public expenditure, and the efficient management of education, health care, and research and development.

2. The Secular Trend

a) Origins

Argentina and Australia were populated by Europeans. In the first case, contingents under the Spanish Crown spread all over the country, from the north to the centre of the territory, throughout the sixteenth century. In the case of Australia, prisoners were taken by military officers of the British Crown in the second half of the eighteenth century and, joined by Irish, English, Scottish and, to a lesser extent, German immigrants, settled along the east, south and south-west coasts and on the Island of Tasmania. The prisoners were sent with the aim of clearing British prisons; they were assigned productive tasks under custody in order to contribute to the consolidation of English presence in Australia. The Aboriginal population was either absorbed, as happened with some of the old civilisations from the north-east and the north-west of Argentina, or gradually displaced to the interior of the country. As the population was increasing in number, new cities or towns were founded and the land was used for agricultural, livestock breeding and mining activities. The resistance to the expansion of colonisers and their descendants was relatively important in the centre and in the south of Argentina, and almost nonexistent in Australia, where most actions taken by the original peoples were either individual or carried out by minor groups.

Throughout the first stages of colonisation, land availability favoured self-sufficiency and the generation of export surpluses, based on livestock breeding in the case of Argentina, and on agriculture and sheep breeding in Australia. The discovery of important auriferous deposits led to a leap in the population and economy of Australia since 1850, whereas in Argentina such a jump, produced by sheep breeding and agriculture, was delayed until the arrival of the major European immigration inflows in the 1860s and 1870s. The Spanish monopoly and the limits imposed on trade with third countries were one of the main reasons for the proclamation of independence in the second decade of the nineteenth century in Argentina, whereas in Australia, the establishment of government and judicial institutions and of open trade after the British fashion led to a gradual development culminating in a consensual independence in 1900. By 1870, after the first census, the population of Australia was 1,300,000 inhabitants whereas that of Argentina was 1,700,000. In the former, growth started practically from scratch and the country reached a substantial degree of development in less than 100 years, while it took almost three centuries to come about in the latter, waiting for the industrial revolution in Europe and the domestic political changes to play their role. Due to the contribution of immigration into Argentina during the second half of the nineteenth century and the beginning of the 20th, there was an exponential growth in population, which amounted to 4,500,000 and 11,900,000 inhabitants in 1900 and 1930, respectively. The result of this was that the population of Argentina almost doubled that of Australia, which at the time totalled 6,500,000 inhabitants. Later, the population growth rate in both countries showed a similar evolution, gradually falling to the proportions seen in the 30s –with slight variations. At the end of 2005, population estimates were 20,200,000 inhabitants in Australia and 38,900,000 in Argentina (Table 1).

Table 1

| Population 1986-2005 | | | | Resource Endowments. Year 2005 | | |

millions

	Population				Resources	
Year	Australia	Argentina	Arg/Aus %		Australia	Argentina
1986	1.3	1.7	131			
1900	3.7	4.7	127	Area (million km2)	7.8	2.8
1930	5.7	11.9	209	Arable land	Moderate	Important
1950	8.3	17.2	207	Mineral deposits	Important	Moderate
1980	14.6	28.4	195	Energy deposits	Important	Moderate
2005	20.2	38.9	193	Population	Qualified	Qualified

Source: Population data: Angus Maddison. Australian Bureau of Statistics and National Institue of Statistics and Censuses of Argentina.

b) Political Institutions

1. Australia

The institutional configuration of Australia stems from political movements arisen with that purpose in the six states or provinces. After several years of negotiations, these territories decide to unite in the Federation or Commonwealth of Australia. In effect, since the first colonisation of New South Wales and Tasmania, both states –which used to be independently ruled– had a governor appointed by the British Crown. A few decades after the early settlements, the first parliaments, modelled after the Westminster system, were formed. Representatives of the different economic and political sectors were elected for these parliaments by popular preferential voting. A similar development was observed in the judiciary, also modelled after the British one. Laws passed by the parliaments as well as judicial decisions were subject to rejection by the institutions of the metropolis, should there be any conflict of interest with the crown. However, this possibility was rarely put into practice. The exercise of democracy, although selective at the beginning and broader later with the constitution of political parties, was prior to independence and was one of the grounds for the agreement between the crown and the states to form the Federation of Australia in 1900. The parties agreed to the Federation without any serious conflicts; only Western Australia, due to the long distances separating it from the centres in the east of the country (Sidney in New south Wales and Melbourne in Victoria), delayed its adherence to the very last moment. New Zealand, which had adhered at first, later decided to secede. The geographical distance, intensified in this case by the intervening ocean, was the main reason to justify the final decision.

The political parties founded in pursuit of class interests (traders and industrialists from the cities, farmers and livestock breeders from the countryside, industrial miners and workers) obtained their parliamentary representation since the introduction of the Federal Parliament in 1901 by the Duke of Cornwall, the future King Gorge V of the United Kingdom. The Labor Party representing the trade unions first led the government in 1904, alternating with the coalitions of nationals (with an agrarian base) and conservatives or liberals. The evolution from the colonial period onwards meant that all sectors had a chance of being elected and leading government, providing that they obtained an absolute majority in the House of Representatives of the Parliament.

As has been already pointed out, the political system was part of the British legacy, this is, a constitutional monarchy in which the British monarch, with the title of King or Queen of Australia, was Head of State. The representation of the Crown or the State is delegated to the Governor-General, who is responsible for the enforcement of the Constitution, passing the laws approved by the Parliament and appointing the cabinet of ministers, upon the proposal of the Prime Minister, who has the prerogative to elect the

Governor-General proposing the person in question (an Australian citizen since the Second World War) for formal ratification by the Crown. The Governor-General's term of office lasts five years, and they can be re-elected only once. Apart from assuming protocol duties, they also play a significant role as representatives of the Australian State, and as leaders of public opinion and consensus building, particularly in view of the major issues affecting society. The party or coalition that obtains the majority in the House of Representatives, even if they are in a minority in the Senate, makes up the government. It is presided by the head of the winning political force, in his/her capacity as the Prime Minister. This PM appoints the cabinet, which has to be ratified by the Governor-General. The House of Representatives is renewed every three years by a simple majority system, the Prime Minister being entitled to bring forward the elections; on the other hand, members of the Senate are elected every six years, by a proportional representation system, with one-half renewed every three years.

Over the 105 years that have passed since the creation of the Parliament, there was only one conflict of powers, in 1975, when Governor-General John Kerr decided to revoke the commission of the Labor Party Prime Minister Gough Whitlam. The latter had failed to obtain the passing of the budget bill by the Senate, where he was part of the minority. Once the decision was made, the Governor-General appointed the opposition leader, the liberal Malcolm Frazer, as caretaker Prime Minister. Immediately after that, he decided to dissolve the Parliament and call a general election in which the liberal-national coalition presided by Frazer obtained an overwhelming majority.

The abovementioned institutional problem led political parties to reach an understanding for the future regarding the Senate passing or not blocking bills relating revenues and expenditures, providing these had already been passed by the House of Representatives.

The stability of the political system and the British administrative and judicial structure inherited from colonial times helped to establish a governmental system and a stable professional bureaucracy who provides it with technical and advisory support and helps implement political decisions. This bureaucracy comprises the entirety of the staff of the ministries and government organisms, works jointly with ministerial political cabinets, which are mostly reduced and advise ministers on their legislative duties and in matters of specific political actions of the government.

2. Argentina

Argentina's experience stems from a different reality. Independence was not the result of an evolution but rather the product of political and military confrontation with Spain, which demanded all kinds of sacrifices in terms of both human and economic resources. From the very beginning, the new nation was faced with two conceptions, a centralising or Unitarian one, headed by Buenos Aires, and a federal one, supported by most provinces, which espoused different points of view, both on political and economic grounds, given the different productive structures and regional comparative advantages. Therefore, it is not surprising that the leadership of Buenos Aires, after severing links to the Spanish metropolis, was regarded with suspicion from the interior of the country. The differences that existed in the first two decades after independence in 1810 were settled by cyclical political and military struggles and later on by a tough dictatorship, which did not end until almost the 1850s. The modern institutions of the country actually started with the signing of the San Nicolas Agreement in 1852, the National Constitution in 1853 and the incorporation of the province of Buenos Aires into the new Republic of Argentina in 1870.

The selective voting system for the election of the President, members of the House of Representatives and Senate was abandoned in 1912 with the enactment of the Saenz Peña Law, which established the universal male suffrage by secret ballot. This happened more than a decade after the inauguration of the Australian Parliament and the incorporation of women into the political life of Australia. The constitutional governments in Argentina succeeded one another without interruption for 77 years, but in 1930, this continuity was interrupted by a military coup which marked the beginning of a long period of political instability (53 years) marked by frequent *coups d'état*. The *de facto* governments alternated in power with the elected ones, who ruled under the pressure exerted by the military. Women's right to vote was not granted until enacted into law by Congress in September 1947.

Not surprisingly, the instability that followed the 1930 constitutional breakdown had an impact on the institutional organisation, particularly on the design and implementation of policies, civil liberties, civic behaviour, the role of the state, the degree of professionalism and stability in civil service and the country's integration into the international community. The change from one government to the next and their frequently antagonistic goals and actions undermined popular trust and eroded the bureaucracy, which failed to establish itself as the administrative and advisory support for the management of public affairs. The State started to gradually lose its role as a mediator between social demands and the interests of economic actors, a situation that was particularly grave during the last *de facto* government, between 1976 and 1983, which brought about serious long and mid-term consequences for institutions, society and the economic development of the country.

The reconstruction of democracy beginning toward the end of 1983 has been complex and painful given the constraints imposed by the deterioration of the productive structure and the burden of the foreign debt accrued during the military government, apart from the persistence of pressures on the civil sector by the military until well into the nineties. Notwithstanding these circumstances, and in spite of the serious economic crises of 1989 and 2001, the democratic system was able to face the situation and live up to expectations that the country's governance would be restored. Over the years that followed the economic crisis of late 2001 and part of 2002, the power of the state became more established and grew in strength to face the challenges related to institutional rebuilding and modernisation, governmental efficacy, economic recovery and the search for social equality.

c) Economic evolution

1. The Open Trade Model

As from the second half of the nineteenth century, two events give rise worldwide to the generation of a development model based on the exploitation of the comparative advantages of the production of raw materials.

On the one hand, we find the consolidation of the colonised and emancipated territories as markets, joining international commerce with policies characterised by the absence or limited degree of barriers.

On the other hand, in industrialised countries, the second industrial revolution takes place, characterised by its international projection. Technical progress derived from capital accumulation in the manufacturing industry allows for production levels beyond the capacity of national consumption and requires a greater market to persist. At the same time, the growth in economic activity does not parallel the geometric growth rate of productivity as a consequence of technical progress, generating chronic domestic excess labour, worsened by the flow of unemployed population from the agricultural sector, whose costs make it unable to compete with import substitutes.

The policy of raw material import liberalisation is, on the one hand, instrumental to lowering the cost of living in central countries, favouring the containment of labour costs' incidence on industrial costs and, thus, the accumulation of capital. On the other hand, the purchasing power such said policy generates in the new exporting territories gives rise to new poles, able to absorb the manufactured goods from the centres and to attract, through emigration, their excess labour.

The economy of the United Kingdom provided the foundation on which the above-mentioned model was based; by the year 1900 the UK was absorbing 18% of world exports, mainly food and raw materials, and acting as the axis of the multilateral payments system. To the UK, this meant an abundance of financial resources, which were channelled as loans and investment for the development of foreign-trade-related infrastructure and services in countries exporting raw materials.

Another important factor was given by the parallel increase in the demand for both manufactured goods and raw materials, growing from a starting point marked by a low income level in central countries which

enabled a symmetrical growth in the production and trade of both types of products, also resulting in their relative price stability.

Both Australia and the Argentine Republic took part in this international division of labour, welcoming large contingents of European workers devoted to the development of production and receiving a significant volume of loans and investment, mainly from the United Kingdom, aimed at the expansion of the railway network and public utilities, as well as of trade, finances, and foreign-trade-related primary sector activities.

Immigration incentives targeted at Anglo-Saxons in the case of Australia and Europeans in that of Argentina, constituted the necessary domestic conditions for population growth in the respective territories and for the exploitation and commercialisation of products derived from natural resources, which constituted an important source of earnings and capitalisation, bearing in mind the favourable price ratio those products enjoyed until the 1930s. Public investment in infrastructure, largely supported by external funding, together with the establishment of a system of public, free and compulsory education, the promotion of research institutes, and the expansion of health care services laid the foundations for the integration of the immigrants to their host countries and for their full participation in economic activity.

2. Structural Changes to the Model

The described parallelism is altered after the Great Depression, although the transformation stems from a pre-existent background. The most noteworthy aspects of the changes produced in international economic relations, sharply reflected in the 1930 crisis and which will have an impact on the participation of such countries as Argentina and Australia in international trade, are connected with the emergence of autonomous and demand-induced trends and with the transformation of world power.

The lessening importance of the United Kingdom and the new supremacy of the United States affect the international division of labour. In contrast to what happened with England and other European countries, the United States constitutes a more autarchic economy, as a major exporter of agricultural products, with an import coefficient slightly higher than 10% of GDP as compared to 36%, the figure for the United Kingdom at the end of the nineteenth century.

On the other hand, the increase in income in industrialised countries produces autonomous tendencies of direct correlation between said increase and the demand for manufactured goods, as well as an inverse correlation with the demand for raw materials, food and processed agricultural products. This means that, as income increases, the participation of food, raw materials and processed products in total expenditure decreases. Additionally, technological advances, through the improvement of the technical coefficients of exploitation of raw materials for industrial purposes, accentuate the effects of autonomous tendencies in the long run.

The appearance of tendencies induced by protectionism which, in the long run, will affect the trade of products facing a less dynamic demand, represents another important element, ever more noticeable since the crisis of the 1930s. There are various causes underlying the protectionist phenomenon, motives whose character is related to either economics (implementation of counter-cyclical policies), labour (maintenance of productive factors occupation), defence (securing supplies), ecology (preservation of natural resources), or income redistribution (from the industrial to the agricultural sector), and whose complexity and impact on the development of the most industrialised societies explain their persistence and inflexibility.

There is a noteworthy key difference between the impact of the spontaneous and induced tendencies mentioned above. The former affect the rate of production of primary and industrial products as income grows. The latter cause an increase in the domestic production of the first category of products, reducing the dynamism of the corresponding world trade. As a whole, they lead to a substantial change in the productive and demand structure in industrialised countries, which until recent years, before the formidable economic expansion of China, India and other Asiatic countries impacted heavily on the

international economy, have represented nearly two thirds of the world trade value. The significance of agricultural products in trade decreases, gradually leading industrialised countries to cease being importers and become net exporters of such products. Likewise, it is worth mentioning the dynamic character of these tendencies which impact in the same way on other goods as a result of income growth and technology change, creating an ongoing transformation of production and world trade patterns.

3. Impact on Argentina and Australia

When the effects of the structural changes described above are analysed specifically for Argentina and Australia, it is necessary to highlight some differences. On the one hand, since the mid nineteenth century, the Australian productive structure has been based not only on agriculture and livestock breeding, but also on mining, enabling the flourishing of such processing industries as iron and steel, and metal processing industries, as well as those for the production of the capital goods necessary for mineral exploitation. At the same time, Australia's participation in the First and Second World Wars as a British ally, and as a beneficiary of important trade preferences as a result of the Agreements reached at the Commonwealth Conference held in Ottawa in 1932, gave it the possibility to take part as an important supplier to the UK not only of food and raw materials, but also of industrialised products and military equipment. These circumstances laid the foundations for the establishment of important defence-related industries, taking advantage of the iron and steel industry infrastructure, the production of capital goods for mining, and the know-how acquired from the participation in war. This development was complemented by the multiplication of research institutes created during the 1920s together with heavy investment in education.

In the case of Argentina, except for the promotion of consumer and intermediate goods industries, there were neither long or mid-term objectives nor specific policies aimed at diversifying and expanding the productive base, taking into account the advantages of the domestic market as well as the country's integration into the international economy. This weakness, reflected in the failure of supply to adapt to a dynamic international demand, could be considered as one of the main reasons for the relative economic stagnation and the recurrent undesirable performance of the balance of payments for many years.

The efforts made as from the 1960s in certain sectors such as nuclear energy, power generation equipment and specialised capital goods have failed to consistently spread to other economic areas. The attempt to modify the above-mentioned situation is thus linked to long-term policies at the macro and microeconomic levels, policies related to relative prices and expected capital returns so as to favour the best possible allocation of resources in order to achieve the country's insertion in the most dynamic areas of the international demand.

In this sense, the State has a key role to play. In the case of Australia, it played a particularly active one. Budgetary expenditures, equally at the federal as at the state levels, have had a remarkably high investment component aimed at infrastructure maintenance and modernisation, education and research, still seen at present. Although the amount of the total level and the specific allocation of expenditures is still a matter of controversy, the conceptual importance given to investment in the areas mentioned before is common ground among the different political forces and within the society as a whole.

The experience of Argentina reveals that the State was characterised by strong interventionism in terms of income policy and by a poor handling of structural transformations. As the overall and sector budgets were focused on current expenditures, possibilities were reduced for service infrastructure modernisation (transports, energy, communications), and for investment in education, science and technology, health care and welfare. In turn, the decrease in the ability to finance investment became an indirect cause for current expenditures to rise, taking into consideration the reduction in employment alternatives this produces in the rest of the economy. The importance of the generation of current savings and capitalisation of external funds devoted to public investment in economically and socially profitable projects and to funding research and development stems from here. Another significant aspect related to the role of the Argentine State is the need for modernisation and rationalisation of the public sector, which implies providing this sector with the appropriate means and qualified staff so as to ensure efficiency in the provision of services, analysis capacity and decision-making.

3. Recent Evolution

The information, comments and thoughts included in the first part (section 2) have attempted to analyse and provide an explanation for the similarities and differences between the evolution of Australia and that of Argentina, both those manifest from the very beginning and those arising after the 1930s crisis. The moderate economic and social divergences until the mid 70s in the past century have increased considerably ever since. Notwithstanding the economic recovery evident in Argentina since the middle of 2002, the consequences are observable in the main economic and social indicators and the integration of each country into the international community.

a) Economic and Social Indicators

1. The Gross Domestic Product (GDP)

In 2005, the Australian Gross Domestic Product (GDP) was US$ 704,946 million at market price, while the GDP per capita was US$ 34,898. The corresponding figures for Argentina were US$183,230 million and US$ 4,710. Clearly, a more accurate comparison would entail considering the GDP purchasing power parity, this is, taking into account the differences between goods and services valuations in both markets and, consequently, between the purchasing power of the respective populations. In this sense, the United Nations Development Programme (UNDP) and the historical series by Angus Maddison together with the University of Groningen update, both contain less dissimilar figures than the previous ones, although they still include significant differences. According to the UNDP, the GDP per capita of Australia and Argentina in 2003 were US$ 29,632 and US$ 12,106, respectively. Keeping in mind the GDP and population growth rates in both countries, these indicators would amount to US$ 31,321 and US$ 14,406 in 2005. The second source, this is, the University of Groningen by its updating of Angus Maddison's historical series, estimates each 2005 GDP at US$ 479,008 and US$ 350.612 million at 1990 prices. The corresponding per capita estimates for Argentina and Australia reached US$ 24,045 and US$ 9,013, respectively. As can be seen, the percentage ratio between the Australian and Argentine GDP's per capita, which according to Maddison oscillated between 69% and 64% between 1900 and 1974, dropped to 37% in 2005, indicating that in that last year, the GDP per capita of Australia was 167% higher than that of Argentina. According to the UNDP, that ratio was 41% in 2003 and would be 46% in 2005, a fact that could be thought to imply that the Australian GDP per capita would be 117% higher than the Argentine (Table 2).

Table 2

Gross Domestic Product 1900-2005
1990 Geary-Khamis million dollars and dollars

Year	Australia (1) Total	Per capita	Argentina (2) Total	Per capita	(2)/(1) %
1900	15,014	4,013	12,932	2,756	69
1950	61,274	7,412	85,524	4,987	67
1974	176,584	12,985	213,739	8,334	64
2001	423,526	21,883	308,510	8,137	37
2005	479,008	24,045	350,612	9,013	37

Sources: Angus Maddison up to 2001. University of Groninger Data Base 2002-2005.

It is worth mentioning that the GDP per capita of both countries, which had evolved similarly between 1900 and the middle of 1974, begins to show a noticeable divergence as of 1975. Said divergence would last for slightly more than a quarter of a century. Between 1975 and 2002, the Australian GDP per capita grew at a rate of 1.7% cumulatively per year; on the other hand, that of Argentina, experienced a null growth

during the same period. As of 2003, this situation changes due to a major economic policy change in Argentina. Whereas in Australia the GDP per capita grew at a cumulative 2.4% per year from 2002 to 2005, which means that it did so according to the trend of the last ten years, the Argentine GDP per capita grew at 2.6% (Table 3). The last estimates for 2006 forecast a lower rate of growth for Australia, around 1% of GDP per capita, and a rate of growth similar to the 2003-2005 annual average for Argentina at 7.6% of GDP per capita.

The short period of four years corresponding to the latter evolution does not enable us to infer from the figures whether it represents a reversal of the divergent growth trend observed throughout the past thirty years. Nevertheless, some important elements reinforce the assumption that Argentina may be looking at a new stage of its long-term growth. The change in relative prices as a result of the 2002 devaluation and the subsequent exchange rate stabilisation, within a low inflation context, favoured by a strong fiscal discipline and the adjustment of money supply to its demand, has brought about a macroeconomic situation that had not been seen in a very long time. Export growth triggered by the change in relative prices and the higher competitiveness of domestic production *vis á vis* imports, drove up production, together with an increase in employment and tax revenues. The latter enabled a significant leap in public investment, complementary to the increase in private investment, stimulated by the expansion of exports and consumption. The restructuring of the foreign debt and its reduction as compared to GDP represent another factor contributing to freeing up resources for investment, expenditures in education and in science and technology, and meeting social needs.

Table 3

GDP per capita Growth Rates
percentages

Year	Australia	Argentina
1870-1913	0.9	1.9
1914-1950	0.7	0.7
1951-1974	2.4	2.1
1975-2001	1.7	0.0
2002-2005	2.4	2.6

Sources: Angus Maddison up to 2001. University of Groninger Data Base 2002-2005.

The estimates for 2006 are rates of growth of GDP of 8.5% and 2% for Argentina and Australia, respectively. This development for the fourth consecutive year in the case of Argentina represents the highest economic growth in the past 100 years, projecting positive expectations in the general population and the business sector and, therefore, encouraging the investment process.

2. The fiscal position

In 2005, the Australian government tax revenue level stood at US$ 161,000 million as compared to US$ 29,311 million in Argentina. The relative difference in terms of federal tax collection[2] with respect to GDP (22.9% and 16.0%, respectively) indicates that, in the case of Argentina, even with a lower GDP per capita, there is a significant margin for greater collection efficiency, so as to generate additional resources for investment in infrastructure and human resources (education and health care), including investment in

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[2] Excluding the states in the case of Australia and provinces in that of Argentina.

science and technology. The last estimates for 2006 confirm this assumption hinting at a 26% increase in tax revenues, which substantially overtakes the nominal growth in GDP.

Regarding the Federal Budget execution, Australia has had surplus since 1996 to date, which allowed for a substantial reduction in government debt (Table 4).

This was not the case for Argentina, which has seen high levels of budgetary deficit since then and until 2001. Such deficits were financed by means of increasing foreign public debt. Considering only the years 2000 and 2001, fiscal imbalances of US$ 6,049 and US$ 10,729 million are found in the national budget. These amount to 2.1% and 4.0% of GDP, respectively, to which provincial budget imbalances of around 2% of GDP should be added. The greater risk arising from an important public debt accumulation[3] gave rise to a depletion of voluntary funding sources and, subsequently, to the suspension of payments by the Central Administration, which ended in the debt crisis at the end of 2001.

As a result of the economic policy change and the strong fiscal adjustment already mentioned, the budget deficit plummeted dramatically to just US$ 618 million in 2002 and changed into a surplus of more than 3% of GDP from 2003 onwards. The surplus thus obtained made it possible to reschedule the foreign public debt, to start repaying the debt service and increasing the investment component in the public budget.

Table 4

Australia and Argentina. Federal Budget Execution
million US dollars

Year	Australia			Argentina		
	Revenue	Expenses	Balance	Revenue	Expenses	Balance
2000	101,715	96,020	5,695	43,189	49,238	-6,049
2001	84,285	83,508	777	37,176	47,905	-10,729
2002	96,441	98,503	-2,062	14,403	15,021	-618
2003	122,574	121,645	929	19,244	18,935	309
2004	132,767	130,606	2,161	24,363	21,425	2,938
2005	161,165	158,797	2,368	29,311	25,992	3,319

Source: Reserve Bank of Australia and Public Budget Secretariat, Ministry of Economy and Production of Argentina.

3. Employment

At the end of 2005, the Australian unemployment rate was 5.2%. In Argentina, counting welfare recipients as employed workers, this rate was 10.1%. Excluding the latter, the rate was 12.7% of the workforce.

Unemployment has decreased steadily in Australia since 1990-91, when it was 10.9%, a figure similar to the current one for Argentina. A floating exchange rate, moderate interest and inflation rates, and three-year employment contracts facilitated the domestic economy's adjustment to the variable conditions of the international economy, which has gone through subsequent crises over the past fifteen years. The particular case of Asia in 1997-98 is especially worthy of note, since it represents the natural market for

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[3] It had to be calculated in foreign currency due to the currency board in place from 1991 until 2001, when there was a peso-US dollar exchange parity.

Australia by virtue of its geographical proximity, in addition to the dimension and dynamism of its demand. The impact of the Asian recession was not as serious as had first been feared, probably due to currency floating and the US economic expansion, absorbing more Australian exports, as well as the privileged fiscal position, which enabled the Australian federal government to implement counter-cyclical policies expanding public expenditure until the crisis was overcome. As from the present decade, the strong growth of China and other Asian countries encouraged investment in mining and energy resources, which resulted in an increase in production and exports. It also stimulated educational services exports, traditionally addressed to that continent. The low interest rates, abundance of liquidity and incentives to investment in real estate meant an unremitting dynamism for the construction sector which, together with the remaining factors, allowed for an increase in consumption and investment demand and, therefore, in labour demand.

In Argentina, the unemployment rate, traditionally within one digit, suddenly soared from 6% in 1991 to 12.1% in 1994 and 18.1% in 2001. The one-to-one peso to US dollar peg, adopted by a convertibility statute enacted in 1991, was in place during a period when the United States currency showed a significant appreciation. Consequently, it resulted in a loss of competitiveness of the economy and hindered the adjustment to the changeable conditions present in the international scenario, such as the crises in Mexico and Asia in 1995 and 1997, respectively, and the strong currency devaluation in Brazil (the country's main trade partner) in 1998. As a result, there was an increase in fiscal and balance of payments deficits, foreign debt and interest rates due to a higher country risk and declining economic activity. Therefore, it is not surprising that the highest unemployment peak was observed in 2001, with the explosion of the economic, social and institutional crisis, characterised as one of the worst the country has ever suffered.

The strong devaluation of the peso, fiscal discipline, monetary expansion and temporary suspension of public debt payments in 2002 made it possible to gradually reverse the drastic plunge in the GDP. As has been pointed out, strong growth rates in output and services have arisen since 2003, which, together with the budgetary consolidation, higher expenditure in investment, and debt refinancing have produced the conditions necessary to create jobs and reduce the unemployment rate, which by the end 2006 could return to the single-digit level.

When assessing the unemployment level, an important aspect to bear in mind is one connected with the stability of the Australian participation rate, traditionally much higher than that of Argentina, together with the substantial increase in the Argentine rate since 2001 onwards. The latter indicates that an increase in labour demand gradually stimulates a higher supply, attracting people who previously had no expectations and were outside the labour market (Table 5).

Table 5

Employment and Unemployment
percentages

Year	Participation Rate (1)		Unemployment Rate (2)	
	Australia	Argentina	Australia	Argentina
1991	63.0	39.5	10.7	6.0
1996	63.5	41.9	8.4	17.3
2001	63.2	42.2	6.3	18.3
2005	64.4	45.9	5.2	10.1

(1) The coefficient resulting from dividing the number of people seeking employment in the labour market by the number of people who can work, this is, between ages eighteen and sixty-five.

(2) The coefficient resulting from dividing the number of people who cannot find a job by the number of people seeking employment in the labour market.

Source: Australian Bureau of Statistics and National Institue of Statistics and Censuses of Argentina.

4. Currency and Prices

Australian economy monetization is high. In 2005, currency in circulation and sight and time deposits in the financial system (M3) represented 72.2% of GDP. This ratio has traditionally been much lower in Argentina. It amounted to 12.7% and 17.1% in 1991 and 1996, soaring to 34% in 2005, given the economic recovery and the consolidation of the financial system that followed the 2001 and 2002 crisis (Table 6).

The monetization of the economy depends on various factors, especially on the confidence in economic growth within a context of price stability and fiscal equilibrium. Expectations of this kind lead to a preference for higher liquidity, this is, the decision to maintain liquid assets, either as currency in circulation or bank deposits. The higher monetization is, the greater the margin for loans offered by financial intermediaries for production and service activities, and also the greater the freedom of action in monetary policy, by means of interest rate manipulation. Reduced real interest rates tend to favour the credit and investment multiplier, leading to an expansion of economic activity. In a context of inflationary expectations, a restrictive monetary policy of interest rate increases negatively affects the demand for credit, reduces consumption and investment and consequently, hinders the economic growth rate.

Throughout Argentine history, significant price variability has been observed, with hyperinflationary periods such as those in 1989 and 1990. The exchange rate anchor derived from the convertibility in place between 1991 and 2001 brought about price stability and an increase in monetization, but also heavy public debt, given the lack of fiscal discipline. Over this period, especially between 1995 and 2001, the imbalance, being unsustainable, had to be corrected by currency devaluation, fiscal policy reversion and debt restructuring and repayment. The inflation that followed the strong 2002 devaluation could be contained to tolerable levels by virtue of the recession and subsequent increase in money demand generated by economic recovery and growth. However, in spite of being limited to manageable levels, inflation continues to be the main economic policy concern. Its long-term solution depends on structural questions related to the lack of investments suffered for many years, both in production and in infrastructure. Another significant aspect has to do with the need for harmonious agreement among the government, businessmen and trade unions regarding social policies, with the aim of controlling expectations regarding salary and price rises.

In Australia, the increase in prices measured by the retail index has been kept within the 2-3% annual band fixed by the monetary authority over the past 14 years. During this period, consumer prices went up

by 6% cumulative per year. In Argentina, although they did so at a pace similar to that of Australia between 1991 and 2001, subsequently showed a rapid acceleration after the devaluation of 2002, then returning to moderate levels in 2003 and 2004, being slightly over 10% in 2005 and losing acceleration once more in 2006, mainly due to the implementation of price and salary agreements between the social forces.

Table 6

Year	M3 to GDP Coefficient (1)		Consumer Price Index (2)		Exchange Rate (3)	
	Australia	Argentina	Australia	Argentina	Australia	Argentina
1991	50.7	12.7	100.0	100.0	1.32	1.00
1996	58.8	17.1	111.5	133.3	1.26	1.00
2001	66.5	34.0	125.5	129.3	1.97	1.00
2005	72.2	33.9	139.6	225.1	1.31	3.03

(1) It includes money in circulation, sight and time deposits in the financial system.

(2) 1991=100 Index.

(3) Domestic currency units per US dollar.

Source: Reserve Bank of Australia and Central Bank of Argentina.

An interesting aspect has to do with the values of the Argentine peso and the Australian dollar. While the former was devaluated by 200% with respect to the US dollar, the latter remained stable between 1991 and 2005. In the interim, retail prices increased by 125.1% in Argentina and by 39.6% in Australia. According to this evolution, the Argentine economy shows a considerable improvement in terms of competitiveness derived from the exchange rate and price behaviour, while the opposite situation is observed in Australia, keeping in mind United States inflation measured by the retail price index and the US dollar depreciation with respect to the main currencies between 2001 and 2005 (Table 6).

5. Social Indices. Investment and Innovation

The position of Australia among the group of the 50 countries ranked by the UNDP as high human development countries has remained among the top ten. The 2006 report published by this organisation belonging to the United Nations, which includes figures for 2004, ranks Australia 3rd, whereas Argentina comes 36th.

According to Maddison's historical indices, in 1974, when the process of convergent evolution which characterised both societies for more than one century came to a halt, these two countries were 7th and 18th regarding human development, whereas at the beginning of the twentieth century they were 4th and 13th (Table 7).

Table 7

High Human Development Index (1)
Position in the ranking of countries

Year	Australia	Argentina
1900	4	13
1930	9	11
1950	4	14
1974	7	18
2004	3	36

(1) It includes the top 50 countries according to life expentancy, literacy, school enrolment, access to health care, GDP and other indicators.

Source: Angus Madison (1900-1974). UNDP Human Develoment Report 2005.

Income distribution measured by the Gini coefficient, where 0 represents a totally egalitarian situation and 100 a totally concentrated one, is 35.2 in Australia and 49.5 in Argentina. Health care expenditure amounts to 9.5% of GDP in Australia and 8.9% in Argentina; government expenditure in education is 4.9% and 4.0% of GDP, respectively. Innovation investment is 0.4% of GDP in Argentina, whereas it is 1.6% in Australia. As far as gross fixed investment is concerned, this is, plants and equipment for production and service activities, it reached 15.9% and 19.8% of GDP in Australia and Argentina in 2005, respectively (Table 8).

Table 8

Expenditure and Investment
GDP Share. Year 2002

Component	Australia	Argentina
Health Care	9.5	8.9
Education	4.9	4.0
Defence	1.9	1.2
Debt Service	1.5	5.7
Gross Fixed Investment	15.9	19.8
Gini Coefficient	35.2	52.2

Source: Human Development Report 2005, Reserve Bank of Australia and National Institute of Statistics and Censuses of Argentina.

Over the past years, the reduction in the burden of debt on the government budget has given rise to a higher availability of resources for government investment in Argentina, positively contributing to an increase in total investment after a long period of relative decline. The purchase of equipment and building of plants by the private sector, in view of the improvement of companies' debt to equity ratios as from 2002 has contributed in the same sense. Among the modifications to the government budget worth mentioning

is the increase in investment in education and in research and development, intended to reach 6% and over 1% of GDP in 2010. Since 2003, both areas present higher than average increases in expenditures.

The fulfilment of the established goals is linked to the persistence of economic growth and government fiscal revenues rise, targets that, at the same time, depend on the increase in the investment ratio over the current level at 20% of GDP.

b) Integration into the International Community

1. Participation in Multilateral and Regional Forums

Both Australia and Argentina take part in the main international and regional political and economic forums. They agree, as middle-sized states, on the intention to strengthen these institutions so that decision making is carried out on the basis of democratic values and according to the interests of all members of the international community. They take part in peacekeeping forces and different groups for disarmament, preservation of the environment and protection of human rights within the United Nations.

Whereas Argentina has exclusively followed the Security Council resolutions to make decisions regarding the deployment of military forces to conflict areas, Australia has also complied with the security and military alliance obligations (ANZUS) to which it has been bound with the United States since the Second World War. For this reason, since 1950 it has sent combat forces to Korea, Vietnam, Afghanistan, and, recently, Iraq. Its belonging to ANZUS gives continuity to its tradition of being a United Kingdom ally in the different military conflicts since the Boer War in South Africa at the end of the nineteenth century until the Second World War.

In terms of multilateral trade, both countries advocate non-discriminatory treatment and pursue trade liberalisation in resources, particularly agricultural raw materials and processed products. This position stems from the differences between the World Trade Organization (WTO) current disciplines for such trade, and those applicable to industrial goods and services. Australia and Argentina expect access to markets and multilateral disciplines to be equally beneficial for all members and not only for those with high industrial, service and technology development. Argentina, in particular, has insisted that the level of ambition regarding trade liberalisation has to be comparable between industrial and agricultural products. At the same time it promotes developing countries' aspirations to have flexibility margins for the implementation of policies tending to diversify their productive structure and protect themselves from subsidised imports from industrialised countries. Australia and Argentina both participate in the CAIRNS group of agricultural exporters and they maintain constant dialogue on the different issues related to WTO or included on the agenda of the Doha Round of Multilateral Trade Negotiations.

Regionally, Australia participates in the Asia-Pacific Economic Cooperation Forum (APEC). Bilaterally, it has an Agreement on Economic Relations with New Zealand (CER) and it has also signed free trade agreements with the United States, Singapore and Thailand. Furthermore, it is negotiating other agreements with Malaysia and China and maintains regular dialogue on trade-related issues with the European Union. The Free Trade Agreement with the United States, the most important of the treaties, entered into force at the beginning of 2005 and has been a matter of controversy as the fairness of its provisions has been challenged, particularly regarding agriculture.

Argentina is a member of the Southern Common Market (MERCOSUR), which unites it with Brazil, Uruguay, Paraguay and recently Venezuela in a tariff union. It is also member of the Latin American Integration Association, established in 1980, by which MERCOSUR has preferential agreements with all the other members. Together with the rest of the MERCOSUR countries, it carries forward trade negotiations with countries outside the region, South Africa and India among them. It has signed a preferential arrangement with the latter. Additionally, MERCOSUR has initiated negotiations relating the respective free trade agreements with the European Union and the United States. These negotiations are currently at an impasse due to critical differences regarding agricultural issues.

It can be stated that Australia has maintained a strong preference for multilateral negotiations since the creation of the GATT in 1947. During the 90s, it promoted APEC with the aim of encouraging economic cooperation and trade liberalisation in Asia Pacific on a Most Favoured Nation basis. Until the launch of the Doha Round at the end of 2001, it had only subscribed the Closer Economic Relations Trade Agreement with New Zealand (CER), a country with which it is linked by their common origin and strong bonds arising from their historical development. That stance has been gradually changing towards the combination of both multilateral negotiations and bilateral free trade agreements.

Argentina, in contrast to Australia, has not entered bilateral free trade agreements. Argentina develops negotiations of that kind jointly with the rest of the MERCOSUR, mainly with Latin American members of the Latin American Integration Association. At a multilateral level, it also takes part of the Generalised System of Preferences among Developing Countries. This participation, together with MERCOSUR, is based on the WTO Enabling Clause, which allows granting preferences among developing countries without requiring these preferences to be extended to developed countries. Argentina is currently chairing the third round of negotiations of the system launched in the city of Sao Paulo in 2004.
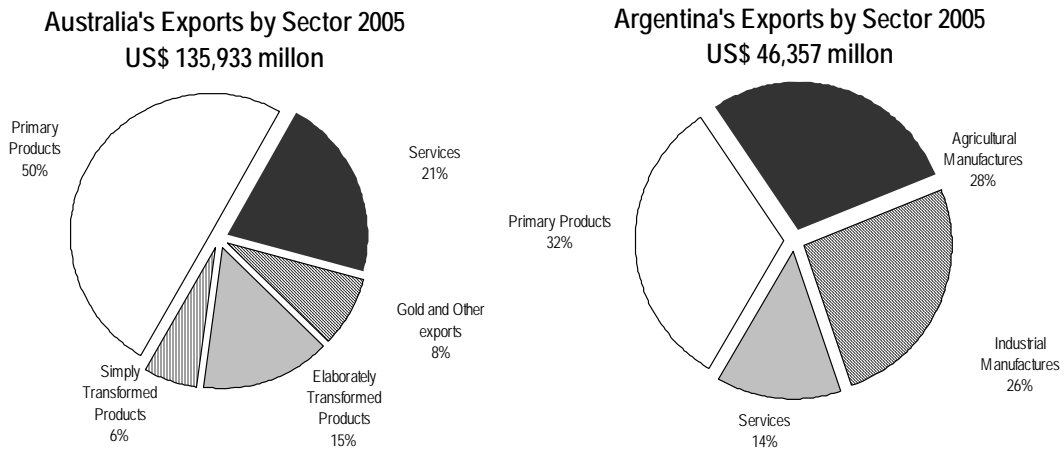
2. Trade

Although Australian exports of goods and services approximately triple those of Argentina, having reached US$ 135,933 million in 2005 as compared to US$ 46,357 million for Argentina, both countries have suffered a significant decrease in their share of world exports. Since 1950, when they came to 3.6% and 2.0% of the value of global exports of goods, their corresponding market shares dropped to 1.0% and 0.4% in 2005, respectively. The fact that their exports are not predominantly targeted at the most dynamic sectors of international demand, namely trade in industrial goods, has meant a loss in terms of their relative weight over time. Their lost of share has been gradually taken by European countries, the United States and Japan, and over the last two decades, increasingly by China and the countries of Southeast Asia.

If the structure of the world trade in goods is analysed on the basis of value, it can be found that of the US$ 10.1 trillion exports in 2005, 76% corresponded to industrial products, 15% to minerals and fuels and 9% to agricultural products. In the case of Australia, mineral, energy and agricultural products make up 73% of the exported value, whereas industrial products explain only 27% of such value. This represents a relation exactly inverse to the structure of world exports. The same happens to Argentina, whose value of exported goods comprises 32% of primary products (agricultural products, minerals and fuels), 28% of processed agricultural products, and 30% of industrial products (Figure 1).

Regarding imports, both countries are focused on industrial products, consumer goods, capital equipment and inputs for productive activities. The respective proportion, which is over two thirds of imports, shows a concurrence between those imports and the pattern of world exports such that, for the rest of the world, Australia and Argentina are complementary markets. This phenomenon is in opposition to that of their export trade, which has been competing in the least dynamic segment of world demand, although this situation may have begun undergoing transformations over the last few years. Trade specialisation can be observed in Figure 2, with net exports of resources for both countries at almost 90% while net imports of industrial products represented over 40% for Argentina and 56% for Australia.
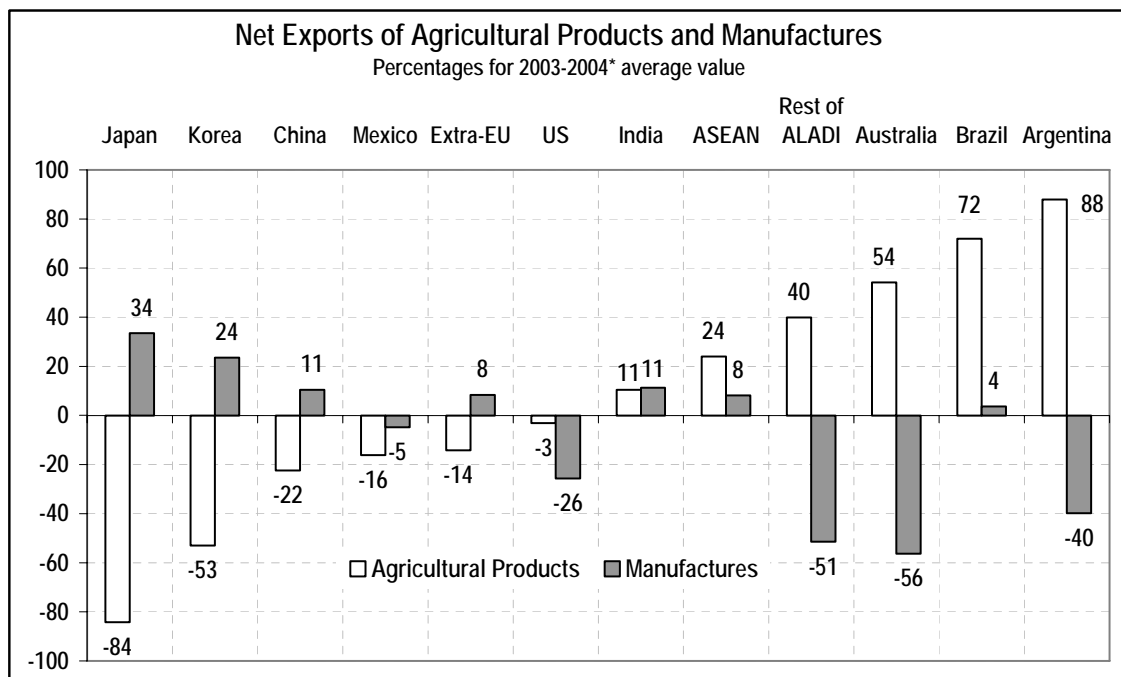
As for services, the value of Australian exports was US$ 28,545 million in 2005, representing 1.2% of the US$ 2.4 trillion world exports. Argentina sold US$ 6,490 million in the same year, falling short of 0.3% of world exports. While the ratio of exports of goods between Australia and Argentina is 2.6, that of services is 4.4. The importance of exports of educational, financial, transport, tourism and computer services explains the larger difference in the latter case.

Figure 1

Australia's Exports by Sector 2005
US$ 135,933 millon

Primary Products 50%

Services 21%

Gold and Other exports 8%

Elaborately Transformed Products 15%

Simply Transformed Products 6%

Argentina's Exports by Sector 2005
US$ 46,357 millon

Agricultural Manufactures 28%

Primary Products 32%

Industrial Manufactures 26%

Services 14%

Source: Australian Department of Foreign Affairs and Trade.

Figure 2

Net Exports of Agricultural Products and Manufactures
Percentages for 2003-2004* average value

	Japan	Korea	China	Mexico	Extra-EU	US	India	ASEAN	Rest of ALADI	Australia	Brazil	Argentina

Japan: -84, 34
Korea: -53, 24
China: -22, 11
Mexico: -16, -5
Extra-EU: -14, 8
US: -3, -26
India: 11, 11
ASEAN: 24, 8
Rest of ALADI: 40, -51
Australia: 54, -56
Brazil: 72, 4
Argentina: 88, -40

☐ Agricultural Products ■ Manufactures

* Net exports are the result of (X-M)/(X+M) for each product.

Source: CEI based on COMTRADE data.

Regarding economic openness measured as a function of exports and imports of goods in relation to GDP, it can be observed that Argentina's ratios in 2005 were 22% and 16%, respectively. In the case of Australia those shares were 15% and 17%. When trade in services is added, the ratios for Argentina reach 25% and 19% of total exports and imports over GDP, whereas in Australia such shares come to 19% and 21%.

The previous situation might lead us to consider that both economies have similar degrees of openness. Argentina is somewhat more open than Australia as far as exports are concerned, and slightly less open if measurement is based on imports.

3. Balance of Payments and Foreign Debt

The results of international trade in goods and services and monetary transfers –current account– together with factor remittances determine external savings over time and, therefore, the level of net foreign claims or liabilities. A positive result will determine an increase in gold and currency holdings and of the national assets abroad, or a decrease in nationals' liabilities to foreigners. On the contrary, a negative result will give rise to an increase in the country's net liabilities or to a decrease in nationals' claims over foreigners. It is worth highlighting that the level of net foreign assets or liabilities also has an impact on factor remittance flows, which, aggregated with the balance of goods and services and transfers, make up the autonomous balance of payments.

A common feature between Argentina and Australia has been the persistence of an autonomous balance of payments deficit between 1980 and 2001. Over that 22-year period, Argentina showed a surplus of 3.2% of GDP only in 1990. The average annual deficit was equivalent to 2.4% of GDP. Australia, which did not show surplus in any of the years of the aforesaid period, presented an average annual deficit of 4.4% of GDP (Table 9).

Table 9

Autonomous Balance of Payments or Current Account
As a percentage of GDP

Year	Australia			Argentina		
	Goods and Services Balance	Factor Remittances	Balance	Goods and Services Balance	Factor Remittances	Balance
1980	-0.8	-1.7	-2.8	-1.6	-0.7	-2.3
1985	-2.6	-2.6	-5.3	4.9	-6.0	-1.1
1990	-1.0	4.1	-5.1	6.1	-3.1	3.2
1995	-1.4	-3.8	-5.2	-0.4	-1.8	-2.0
2000	-1.1	-2.8	-3.9	-0.6	-2.7	-3.2
2005	-2.1	-3.8	-6.0	6.2	-3.4	3.0

Source: Reserve Bank of Australia and National Institute of Statistics and Censuses of Argentina.

After the crisis at the end of 2001, there was a reversal of the situation in Argentina. During the 2002-2005 period, the autonomous balance of payments has shown persistent surpluses, coming to an annual average of 4.5% of GDP. It is worth mentioning that the significant trade surplus of over 10% of GDP after the crisis, reaching 6% in 2005, has had an impact on this result. The economic policy change has led to an increase in the internal savings ratio, which has positively influenced the evolution of the foreign sector. At the same time, the restructuring and extension of payback periods mitigated the burden of factor remittances on account of interest payments. At the end of 2005, the public debt stock, which had represented about 130% of GDP after the crisis, was at 62.5%.

In Australia, unlike in Argentina, the autonomous balance of payments deficit has tended to increase with respect to the 1980-2002 average, reaching an annual average of 5.7% of GDP during the last four years. The incidence on the country's net foreign debt position, the private one in this case, since government indebtedness is at a very low level, can be observed both in the debt coefficient and in the net foreign liabilities coefficient. These two coefficients, representing 5.6% and 17.1% of GDP in 1980, have gradually increased reaching 51.0% and 60.4% of GDP in 2005, respectively.

The previous data show a noteworthy parallelism between the two countries regarding the evolution of their net foreign liabilities and debt from 1980 until 2001. They reveal that the generation of domestic savings has not been enough to finance investment demand during that period.

In Argentina, in spite of the trend reversal over the past four years, the investment required by economic growth and that called for in order to overcome the social situation arising from the crisis, require an even higher savings coefficient than the current one, considering the public debt repayment needs, the need for sufficient investment to guarantee continuous growth, and the recovery of the social pattern which characterised the country in the past. In this respect, the fact that the normalisation of foreign borrowing will still take considerable time has to be taken into account, since this implies that investment financing will have to be based mainly on domestic resources and foreign direct investment.

In Australia, indebtedness and foreign liabilities indices are within manageable parameters. However, if the tendency described is to persist, it could compromise economic policy management in the future, requiring important social adjustments in order to restore the balance between domestic investment and savings.

4. The Future

1. A New Trend?

Over the past years, substantial political changes have taken place in Argentina. These changes followed the recession between 1998 and 2001 that ended in a social and economic crisis of almost unprecedented severity. The 2002 provisional government and the 2003 elected administration made a series of decisions with the aim of reversing the cyclical economic behaviour, modifying the regressive income distribution and improving the quality of institutions. The fourth implementation year of the execution plan is currently underway with significant results in the different fields mentioned.

At the institutional level, a far-reaching reform of the judiciary was undertaken, including the appointment of new justices. The goals were to consolidate the independence of powers, to guarantee the transparent operation of the judiciary, and to assure the rule of law for society and economic actors.

Economically, the most significant aspects have been a strong fiscal discipline, a floating exchange rate, implementation of export duties for tax collection and income distribution purposes, a moderately expansive monetary policy and the adoption of active industrial policies and infrastructure investment by the federal and provincial governments. Once the highest peak of the crisis was overcome, new long-term social policies began to be outlined, mainly regarding investment in public health care and education funding. The corresponding bill creates an increase in the budget share of education, from 4.5% to 6% of GDP over the following four years. The goals are the enhancement of teachers' professional wage parity, the coordination of programs at the federal and provincial levels, the eradication of any remaining illiteracy, universal secondary schooling, and the re-launch of technical education. Together with the increase in the budget for science and technology, this represents one of the first hints, after a long time, of the launch of long-and mid-term programmes, agreed upon through negotiations involving all the relevant social sectors.

As for economic policy, the investment component of the federal budget was gradually increased parallel to the implementation of exchange rate floating and strict fiscal discipline. The domestic and foreign government debt was restructured so as to obtain a substantial reduction in capital and the rescheduling of payments on a long-term basis. Relative price changes as a result of devaluation and greater investment in infrastructure favoured domestic production competitiveness, which was seen in the significant expansion of exports, the increase in consumption and investment demands, and in employment.

The early results, considering the indicators between 2002 and 2006, show that a slightly lower discrepancy can be seen in the large production, investment and consumption aggregates between Australia and Argentina. The GDP per capita growth in Argentina from 2001 to 2006 was in the region of 16.0%, including the effect of the crisis; while in Australia it amounted to 8.7%. Consequently, the ratio between both GDP's per capita at purchasing power parity climbed from 37.1% in 2001 to 39.8% at the

end of 2006. For the very first time in the past thirty years, a decrease in the income gap was verified. This situation would persist in 2007 due to the high growth rate the Argentinean economy continues to show. The same lower disparity effect is manifest in other indicators such as exports, which are growing annually at a two digit rate, the country's credit worthiness and the situation regarding welfare reflected in significant job creation, changes, though very gradual, in the regressive trend of income distribution, and the increase in investment in infrastructure, education and health care.

It is clear that four or five-year periods are not enough to reach definitive conclusions. They merely enable us to outline what may be a new scenario subject to the continuity of policies in Argentina and the development of the international economy on sustainable bases. The confirmation will depend on the responses to most of the questions mentioned throughout the previous paragraphs. Namely, the strengthening and quality of institutions, including the role of the State as a promoter of investment in infrastructure and human resources; the orientation of the economic policy to achieve growth in the long run, diversification of the productive structure and international integration into dynamic demand sectors; and, finally, the implementation of social policies for the sake of equity and to improve the people's quality of life.

2. The Role of Institutions

The last 23 years were of uninterrupted democracy in Argentina, marking a turning point with respect to the instability that characterised the constitutional system for more than 50 years, from 1930 until 1983. By ensuring a continuous political debate, the participation of citizens in issues of government administration, the respect for human rights and civil liberties, and more transparency, this exercise of democracy contributes to improving governance. An example of this is represented by the Education Financing Law recently enacted as a long-term programme. This Law is likely to be succeeded by others related to government administration, the role and professionalism of the civil service, the protection of the environment and the quality of social policies.

It is interesting to point out some substantial issues present in the public debate either in Australia, Argentina or in both countries simultaneously and which are relevant for the quality of institutions and territorial balance. These include the following:

- The advantages or disadvantages of a parliamentary system as opposed to a presidential one, an option which has been suggested but has not become the object of thorough analysis in Argentina so far. In Australia, this issue underlies the proposals to transform the monarchy into a republic and it is present in the role a future president would play in such an event; either strong, should he or she be elected by the people in a direct ballot, or more in the role of representation of the State, should the president be appointed by the Prime Minister subject to parliamentary ratification;

- Regionalisation as a means of making the federal system more efficient, reducing the number of states or provinces and promoting dialogue between the central administration and those of states or provinces. It has been argued that the smaller number of states or provinces in Australia, which total eight, simplifies ministerial management and regular coordination between the Prime Minister and state governors in order to make decisions on significant goals, strategies and problems relevant within society (biannual meetings are currently held at that level).

- The location of the national capital far away from the main urban centres, with the aim of buffering their relative weight on investment and territorial planning decisions. These reasons were particularly taken into account when the decision was made in 1911 to relocate the Australian federal government seat in Canberra. They also constituted the grounds for the bill of 1986, never put into force, to move the Argentinean Federal Capital to Viedma.

- The automatic allocation of certain taxes to states or provinces, on the basis of a mechanism which contemplates population criteria, GDP share, a reduction in income disparity, territorial

occupation and decentralisation of economic activity. In Australia, this measure was implemented in July 2000 by means of a tax reform creating the value added tax to be collected by the federal government and allocated to states. In Argentina, the Constitution enacted in 1994 stipulates the adoption of a tax revenue sharing system between the federal administration and the provinces, but said system has not been agreed upon yet; and

- The role of the civil service, arising from a rigorous and unbiased recruiting system, as a stable structure to counsel and manage the operation of the various State departments and institutions. In Australia, positions up to that of Secretary are filled by professional civil servants, while only the Ministers and their cabinets comprise political posts, coordinating management with the permanent administrative structure. In Argentina, a similar system is applied at the Ministry of Foreign Affairs, International Trade and Worship, but this does not extend to the different areas of government. For this purpose, several initiatives to be carried out by the National Institute of Public Administration are still pending.

3. The Macroeconomic Fundamentals

The investment coefficient, this is, investment in relation to GDP, is at 16% in Australia, slightly above the level required for capital replenishment. In Argentina, said coefficient, which had been slightly over 10% during the 2001-2002 crisis, rose to 19.8% in 2005, and has been higher than 20% during 2006. Nevertheless, that level is still not enough to ensure sustained economic growth in the long run, higher than 5%, in order to reverse stagnation, modernise physical infrastructure and solve the social aftermath of a long stagnation period and recurrent crises.

Both in Australia and in Argentina, the behaviour of the autonomous balance of payments is crucial for the generation of savings. In the case of Argentina, the decrease in external funding and the effect of debt repayment, with its negative impact on the capital account of the balance of payments, determine the need for a substantial increase in the domestic savings ratio and foreign direct investment in order to finance the investment rate increase on a sustainable basis. Companies' profitability, government's primary savings, and the behaviour of the financial sector as an intermediary to channel household savings to the production sector appear as necessary prerequisites to pursue this aim.

In view of this, a relevant aspect regarding companies' profitability and the generation of genuine savings to be allocated to investment has to do with relative prices of tradable goods and services and their relation with the domestic currency real exchange rate. In Argentina, since 2002, when the peso was devaluated, there has been a gradual improvement of competitiveness reflected in the increase in exports, particularly of industrial goods. In Australia, the significant expansion of the energy and mineral resource sector and the important capital inflow have given rise to a strong currency appreciation, which affects agricultural and industrial exports and induces a current account deficit of almost 6% of GDP. This evolution is connected with the role the exchange rate and capital flows play in an open economy. While in Argentina the fundamental question lies on the restructuring of debt repayment and services in order to obtain resources for investment in infrastructure and production, in Australia, capital flows and exchange rate fluctuations appear as the major constraints for the achievement of mid-term equilibrium in the current account and for the restoration of the goods and services sector competitiveness.

The above-mentioned exchange rate policies of a practically free floating and freedom of capital flows in Australia and of dirty float with controlled capital movements in Argentina can be observed in a divergent evolution of output and of the balance of payments current account over the past years. If this divergence is to persist, it will have effects on the potential for growth and supply adjustment to the international market and, additionally, on the long and mid-term macroeconomic equilibrium. While in Argentina the maintenance of a depreciated exchange rate represents an objective for the monetary and interest rate policy, in Australia, the target is to keep annual inflation within a 2% to 3% range creating a positive relationship between the interest and exchange rates, the former increasing and the latter appreciating. This promotes portfolio capital inflow, which at the same time contributes to maintain exchange rate appreciation.

Budget surplus has a counter-cyclical effect in the two countries, keeping in mind the growth seen in both economies. In Argentina, it is linked to debt reduction, the increase in the investment capacity of the State, and the need to bolster an interest rate compatible with the growth in economic activity as well as the need to discourage speculative capital flows. In Australia, the budget surplus increase has made it possible to sustain greater infrastructure and social expenditures, since the government debt, unlike the total one, is very low. This behaviour suggests a certain degree of both fiscal convergence and objectives.

4. Society and Human Resources

Health care, the public welfare, employment policies, education, and investment in science and technology are on the agenda of most political parties and coalitions, academic institutions and sectors representative of society in both countries. Ensuring an adequate safety net is a firm objective in Australia, on which there is a general consensus among the political forces and society as a whole. It has also acquired greater importance in Argentina, especially after the 2001-2002 crisis, based on the belief that the implementation of such a net is necessary to achieve equality, open opportunities and enable social mobility of the most deprived sectors.

Access to education from an early age through higher education is not only part of the goal of social protection, but also a major requisite for economic and cultural integration into the world, bearing in mind that education and investment in science and technology are tied to the people's level of education and training, their participation in ever more complex activities, and the generation of programmes to diversify the economic structure.

Although the Argentinean government budgets for education and innovation are substantially lower than those of Australia, the recent increases in these line items with the aim of reaching 6% of GDP in the first case, and 1% of GDP in the second one over the next years are clear signs of a political intention to reverse the trend observed so far. At first sight, these would confirm that there is also a trend towards convergence in this respect.

5. The Bilateral Links

It is not possible to draw conclusions regarding the future without mentioning the evolution and prospects of bilateral bonds between Australia and Argentina. The multiplication of both political and diplomatic contacts and those among different sectors of the two societies reveals a growing reciprocal interest, which contributes to promoting a better mutual knowledge and to taking advantage of the current potential for expansion of reciprocal relations. Such sectors as nuclear and space technology, air traffic control and equipment, biotechnology, nanotechnology, agricultural and livestock breeding technology, protection of the environment, tourism (infrastructure, hotels and related services), and mining prospecting, exploration and exploitation are the sectors which, among others, represent favourable conditions for the diversification of relations consistent with trade, mutual investment and the economic development of both countries.

Trade, though still not significant, amounted to US$ 275.0 million f.o.b. in 2005, according to data from the Australian Bureau of Statistics. Argentina's exports came to US$157.3 million, made up of 55.0% industrial manufactures (automobiles, equipment for reactors, agricultural machinery, electrical equipment, radioactive materials, steel pipes and tubes, and chemicals). Agricultural manufactured goods, particularly vegetable fats and oils, tanned leather, fruit juice and candy also had a significant share representing 25.0% of the total figure. Primary products, among them fresh and frozen fish, unprocessed tobacco, minerals and vegetable raw materials made up the rest. Australian exports, of the order of US$ 117.7 million, were made up by 71% of pit coal for the iron and steel industry. Vegetable raw materials and wool represented 7.0% while the remaining 22% corresponded to industrial manufactures, especially aircrafts and spare parts, civil engineering machinery, specialised industrial machinery, chemicals, drugs, transport machinery and equipment, and measuring instruments. Over the past three years, the total exchange has more than doubled. Argentinean exports have shown a 65.6% increase and Australian exports have soared by 239% (Figure 3).

As for transport, there are daily flights connecting Buenos Aires and Sidney, which contribute to the promotion of tourism, business, and educational and cultural exchanges. Likewise, several merchant marine lines connect the American Southern Cone with Australian ports, with transfers in Hong Kong or Singapore. There are initiatives in pursuit of a direct sea connection whose realisation will depend on the intensification of container traffic between South America and Oceania.

At a political level, from 1998 to the present, there has been one presidential visit and various ministerial visits, among them two of the Ministers of Foreign Affairs, International Trade and Worship as well as one visit of Argentinean Congress people to Australia. The Deputy Prime Minister of Australia has been to Argentina twice during this time; and we have also welcomed the Ministers for Foreign Affairs, Industry and Science, Trade, Agriculture, Transport and Communications, Immigration and Multicultural Affairs and several parliamentary delegations, one from the Committee for Foreign Affairs and Defence among them. The political contacts have propelled the signing of agreements on reciprocal protection of investments, another one to avoid double taxation, a cooperation agreement on the peaceful use of nuclear energy, the expansion of the agreement on air transport, and the signing of understandings on cooperation in the industrial, agricultural and educational areas and also on science and technology, and sports.

Figure 3

Bilateral Trade between Australia and Argentina
Thousand dollars
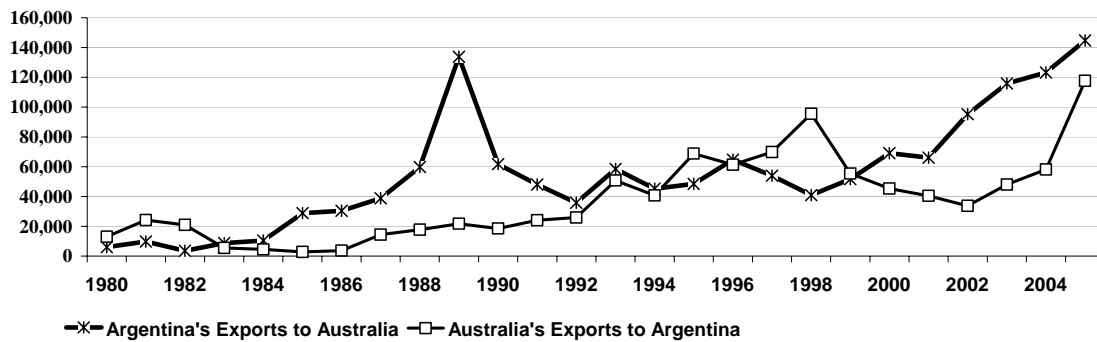
Source: Reserve Bank of Australia and National Institute of Statistics and Censuses of Argentina.

In the academic sphere, the Argentinean Ministers of Education and of Foreign Affairs were the keynote speakers at the ceremony launching the Centre for Latin American Studies at the Australian National University. This centre carries out permanent activities through seminars, conferences and academic exchange with Argentine universities. Since this year, it has become part of a Spanish language programme, specialised in literature, arts and business management targeted on Latin America. The dissemination of Argentine music, cinema and theatre, including the attendance to the most important Australian festivals over the past years, and the visits of Australian representatives from the arts to Argentina, are clear proof of increasing cultural contacts at different levels and of their multiplying effect on mutual relations. In August 2005, The Australian National University and the University of Buenos Aires signed a framework agreement on cooperation and approved the first working plan for the 2006-2007 period, which includes the joint participation in undergraduate and graduate activities, the exchange of students and teachers, research in several fields, and cooperation on language teaching.

In the field of economics, there has been a significant leap in investments. Argentina's greatest mining exploitation, namely *Bajo de la Alumbrera,* in the province of Catamarca, has been initiated by the Australian MIM. Additional capital inflows from Australia for production and services include, aside from exploration and prospecting of other mining beds, port container terminals, cotton fields and citrus fruit

plantations, food industries, cold storage plants, exhibition halls for cinematography, insurance companies and air transport businesses.

On Argentina's side, INVAP S.E., one of the leading nuclear and space technology companies, Bunge, one of its largest food companies of worldwide importance, and *Aerolíneas Argentinas*, the flag carrier, have branches in Australia. Since the signing of the supply contract in July 2000, the first of these three companies has been in charge of the construction of a nuclear research reactor at Lucas Heights, in the outskirts of Sidney. This reactor, named OPAL, is the world most modern of its kind and will be inaugurated in the first half of 2007. It is currently in the critical phase, this is, the final test period after fuel loading. It is worth mentioning that the corresponding international tender was won in competition with eight bids from Europe and North America. The project, valued at US$ 220 million, is the most important in the high technology area undertaken abroad so far by Argentina and entails a qualitative leap in bilateral relations. It is also generating an important flow of goods and services exports, fuels among them, as well as a noteworthy exchange of scientific personnel.

The progress made in mutual relations would not have been possible without the strengthening of democracy in Argentina over the past 23 years, favouring the country's integration into the international community and the coincidences with Australia in terms of principles and values. The trail blazed by authorities, economic agents, representatives of culture and citizens who pursue mutual knowledge has laid the foundations for this relationship, infusing reliability and offering a predictable scenario to guide future efforts. It has also contributed to the design of new forms of cooperation and investment, such as those implemented in relation to the peaceful use of nuclear energy, mining and energy exploration and exploitation, and cooperation in the academic world.

5. Conclusion

The previous chapters endeavoured to give an idea of the richness of features offered by a comparative analysis of Australia and Argentina, in view of the fact that, in the nineteenth century, these countries became part of an international economic model of excess supply of factors of production in the industrial centres, which resulted in a noteworthy development of their respective societies.

The above-mentioned integration to the international economy took place for both countries in absence of reciprocal links, which now appears as a novelty of the past decades. Therefore, it will be wise for further research to include not only an interpretation of the past evolution, but also of the recent one and, particularly, of the connections already referred to, which, as has been seen, entail a significant exchange in terms of trade and investments as well as in the scientific field.

In the light of the events and experiences that followed the works of John Fogarty and Tim Duncan and those of their Argentinean colleagues towards the end of the 1970s, new political, economic and social realities and questions have arisen. This situation has inspired the previous pages and it will definitely justify new academic exchanges aimed at finding new responses regarding the convergence or divergence between Argentine and Australian evolution.

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