



Open for Business Down Under

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Swiftly after fighting off what most observers deemed to be a fairly weak incumbent Labor opposition in the recent Australian election, the leader of the Conservative coalition and the country's newly crowned Prime Minister, Tony Abbott, firmly declared Australia to be "once more open for business."

To some, the comments of a self-proclaimed "junkyard dog" may sound strange. After all, we're talking about a country with one of the developed world's lowest unemployment rates at 5.8%, and an enviable GDP growth rate of 2.6% year-over-year in the second quarter of 2013. It also has government debt-to-GDP of only 21%. Further, Australia was one of the few countries to sail through the 2008 global financial crisis with little impact — helping the land Down Under to achieve more than 22 years of unabashed economic growth. So why did the new Australian premier feel the need to make such a proclamation?

In truth, the macroeconomic statistics of a healthy economy belie the reality of what many Australian households and companies are feeling. China's previously insatiable and now somewhat waning demand for Australia's commodities, such as iron ore and coal, has driven a large proportion of past total economic growth, with mining investment hitting a recent peak of 8% of GDP against an historic average of 2%. Whilst the mining boom has generally been positive for large parts of the economy, it has also helped spark an appreciation in the Australian dollar by over 40% against the U.S. dollar during the last five years. The implications of this have been to weaken the competitiveness of domestic non-resource industries against foreign alternatives. To make matters for capital, the previous Labor government's more trade union-friendly approach has left the cost of labor at levels that are often prohibitive for some companies to compete.

These structural challenges have been compounded by a Labor government that has done little to help consumer or business confidence in their six years in power. A persistent rise in government spending certainly didn't help, nor did the passage of controversial carbon and mining taxes. Probably most troubling for Labor's term in office, however, was the constant in-fighting amongst the party, which has led to not one but two instances of leadership oustings.

So what will be Abbott's first order of business to help kickstart the domestic economy? Although many policies have yet to be fleshed out, scrapping the carbon tax, specifically, will be high on his agenda. It also seems likely that we will see an attempt to cut both the red tape and business taxes, particularly for manufacturing industries hurt by the high currency. The withdrawal of regulatory risk and wasteful government spending has also been much talked about.

Despite being only a few days into the job, Abbott can take some heart from an almost instantaneous jump in business and consumer confidence upon his party's arrival and Labor's worst showing in almost two decades. A solid early start for someone once thought of as unelectable.

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