The Asian currency crisis and the Australian health industry

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Abstract

This article identifies linkages between the Australian health industry and the global economy. It discusses some of the consequences of the Asian currency crisis of 1997–98 for the Australian economy and health industry, with special emphasis upon exports. Devaluation of the Australian dollar will increase the cost of most pharmaceutical and medical imports, but may offer competitive advantages to some Australian exporters. The nascent engagement with Asia of many health industry enterprises is likely to be stifled. It is therefore important for Australian governments, as well as the Australian health industry, to provide intelligence and encouragement to those enterprises that wish to continue their engagement with Asia or resume it when economic equilibrium returns. Markets throughout the world must also be further developed. The crisis may therefore provide the stimulus for re-thinking and re-stating Australian health export policy.

Introduction

The Asian currency crisis has done much to weaken confidence in optimistic predictions for growth in the Australian economy, and has been a major factor in the devaluation of the Australian dollar against several historically strong currencies and the downgrading of Australia by at least one major international credit risk agency. The crisis has also raised reservations about the hitherto enthusiastic promotion of an Australian engagement with Asia. While some countries in Asia have been less affected by the crisis, others have experienced serious economic upheavals and, in the case of Indonesia, a major political crisis leading to the end of the Soeharto regime.

The purpose of this article is to explore some of the consequences of the Asian currency crisis for one important section of the Australian economy: the

Australian health industry. Of necessity, much of this exploration must be speculative since, at the time of writing, the Asian currency crisis is still in a state of flux and economic recession in Japan has added a further cause for concern.

The Australian health industry and the global economy

Whilst the Australian health industry is primarily domestic in its activities and fundamental concerns, it nevertheless is linked to the global economy. Aside from the fact that the prosperity of the overall economy has indirect consequences for the funding of the health system, the Australian health industry is, in a variety of ways, part of the international economy.

The Australian health system purchases a range of goods, ranging from high technology drugs and equipment to basic materials such as rubber gloves, from foreign suppliers. These imports must be paid for in foreign currency. The Australian health industry has also attracted foreign investment in a number of areas such as pharmaceuticals, private hospitals and pathology services. For example, the Malaysian conglomerate group Berjaya has a 50% stake in Gribbles Pathology and owns 10.3% of Alpha Healthcare. The United States-based Sun Health Care Inc. has also invested in Alpha Healthcare with 38.2% equity and has stated its intention to invest more substantially in Australia (Alpha Healthcare Limited 1997). Another Malaysian firm, Peremba, owns 26.3% of the shares in Australian Health Care (Australian Health Care 1997). A number major transnational pharmaceutical corporations have Australian subsidiaries, many of which export locally produced goods.

Such links with the global economy have not been in one direction, for many Australian enterprises have also invested in the health systems of other countries and have sought to export their goods and services. Listed companies with business interests in Asia include pharmaceuticals producer FH Faulding and Mayne Nickless, whose subsidiary, Health Care of Australia, has entered into joint ventures with two Indonesian hospital corporations. Pacific Dunlop has established plants producing surgical gloves and condoms in Malaysia, Thailand and Sri Lanka and has recently invested in a plant in India. Pharmaceutical and medical goods producers are well represented amongst Australia's exporters. According to an *Australian Business Weekly* survey, Faulding, Astra Pharmaceuticals, Cochlear, Bristol-Myers Squibb Australia, Bayer Australia, Sola Optica, Smith Kline Beecham and Delta West are among the top 300 Australian export earners (*Australian Business Weekly* 26 January 1998). The export potential of the Australian health industry was recognised by the award of Victorian Exporter of the Year 1998 to Compumedics Sleep Pty Ltd, a manufacturer of computer-based medical monitoring and diagnostic products.

In the past decade there have been increased efforts by Australian governments and the Australian health industry to develop an export potential (Barraclough 1997, pp 238–40). In Australia's search for areas of comparative economic advantage, the health sector has appeared in several government-sponsored initiatives aimed at encouraging exports. Proponents of the idea of further developing export markets for health-related goods and services regard Australia as possessing technologies and products with a ready market in the Asia–Pacific region, a competitive price advantage, and a strategic geographical position. Undoubtedly the Federal Labor Government's emphasis upon building links with Asia and the relative under-development of the health systems of many countries of this region have also influenced the health industry's thinking about potential export markets.

The Federal Labor Government sought to stimulate consideration of the export potential of health services and in 1991 ordered an Industry Commission inquiry into health services exports (Industry Commission 1991). The inquiry was narrowly focused and dwelt excessively upon medical treatment. There has subsequently been increasing recognition that there are many other health goods and services with a ready export potential.

The potential for Australian exports in the health field was recognised by the then Federal Labor Government's decision to assist in the establishment in 1994 of the Australian Health Industry Development Forum (1995) which was charged with developing a strategy based upon:

- recommending policies which will maximise health export growth opportunities
- enabling the Australian health industry to capitalise on its international competitive advantage
- recognising competition
- recognising the need to deal with impediments to the development of exports by the health industry.

Following the withdrawal of federal funding, the health industry itself continued the work of the forum under the auspices of Business Australia, based in Sydney. In 1998, however, the Federal Government once more undertook a degree of responsibility for the operation of the forum, with the participation of the federal departments responsible for health, industry and trade.

The potential of the Asian market has been of especial concern to the Australian health industry. In 1995 Booz Allen and Hamilton (Australia) Ltd was commissioned by several federal government departments to report on strategies

for maximising Australia's health industry export potential to Indonesia (Booz Allen and Hamilton 1995). In 1996 an Australian parliamentary committee concluded that important areas of opportunity existed for the export of health and medical services to Indonesia (Joint Standing Committee on Foreign Affairs, Defence and Trade 1996, p 161).

Within the Health Industry Development Forum, special interest groups for Malaysia, Indonesia, China and India have been established to exchange information and provide support for exports to these countries. The existence of these groups is also evidence of the growth in interest in the Asian market on the part of Australian health industry enterprises. Other groups such as the Australian Medical and Services Export Group and the Australian Medical Sales Network have also sought to raise awareness about Asian export opportunities.

A parallel development in health-related foreign policy was the signing of a number of memorandums of understanding on health cooperation between the Australian Government and the governments of Thailand, Indonesia and China. A memorandum has also been negotiated with Malaysia.

Individual Australian State governments have also sought to promote exports of health-related goods and services from their own States. Advisory committees and strategy forums have been established by several States and the Victorian Government has published a policy outlining its strategy for the export of health services (Department of Health and Community Services 1994). The New South Wales Government has established Aus Health International, a State enterprise dealing exclusively in exporting health sector consultancy services. This body has won contracts in several countries in the Asia–Pacific region. The Northern Territory Government has pursued active engagement with South East Asia and has negotiated provincial level health links with Indonesia. In 1994 a charter of cooperation for the development of community health services was signed by the Northern Territory Minister of Health and Community Services and the Governor of East Nusa Tenggara. In 1996 the Western Australian Government established a consortium of health industry organisations, known as The Australia Clinic, with a view to fostering exports from that State.

The need to avoid counter-productive rivalry between Australian States has been recognised by the Australian Health Ministers' Advisory Council, which convened a consultancy to investigate cooperation between the Federal Government and State governments on health export activities.

The Australian health industry directly and indirectly contributes to a range of export earnings. In the 12 months to June 1998, some A$1142 million worth of medical and scientific products were exported (Australian Bureau of

Statistics 1998). An estimated A$20 million is earned annually in providing health services to overseas visitors, and health represents 1% of the value of all exports from the government sector (Industry Commission 1997, pp 6–7). In the period1995–1996, some 4300 medical visas were issued to people coming to Australia specifically for treatment (Department of Immigration and Multicultural Affairs 1997).

The impact of the Asian currency crisis on the Australian economy

The Asian currency crisis has had consequences for the Australian economy. While the Australian dollar has risen sharply against several Asian currencies, it has also experienced a substantial devaluation against the United States dollar and several other currencies (see Tables 1 and 2). An immediate impact has been in such areas as commodities and tourism. Sales of wheat, wool and meat to South Korea were temporarily halted and both Qantas and Ansett have suspended or curtailed many of their services between Australia and Asian destinations. The longer term consequences for Australia's hitherto lucrative provision of education services to Asians remains to be seen, although Australian competitiveness is likely to be enhanced by the devaluation of the Australian dollar.

Table 1: The relative depreciation of the Australian dollar against selected currencies, 20 March 1997 and 4 June 1998

	20 March 1997	4 June 1998
United States (cents)	78.73	61.08
United Kingdom (pence)	49.35	37.24
Japanese yen	96.70	84.45
German mark	1.32	1.08
French franc	4.45	3.62
Swiss franc	1.13	0.90
Chinese yuan	6.53	5.06
Singapore dollar	1.14	1.02

Source: OANDA currency converter.

Table 2: The relative appreciation of the Australian dollar against selected Asian currencies between 20 March 1997 and 4 June 1998

	20 Mar 1997	4 June 1998
Korea won	696	849
Malaysia ringgit	1.95	2.41
Indonesia rupiah	1893	7039
Thai baht	20.4	26.1
Philippines peso	20.7	23.9

Source: OANDA currency converter.

Under the auspices of the International Monetary Fund, the Australian Government has committed Australian taxpayers to underwriting some of the financial support offered to assist the economies of Thailand, Korea and Indonesia, in the event of these countries requiring further credit. Such assistance may be seen as demonstrating Australian *bona fides* while also doing something positive to assist these economies to regain their equilibrium and once more be able to afford Australian imports. Before the Asian currency crisis and its political turmoil, Indonesia was Australia's eighth largest export market. In an effort to revive commodities trade, and in particular beef exports, the Australian Government agreed to provide insurance underwriting worth A$300 million for exporters to South Korea. Before his resignation, President Soeharto sought a similar guarantee for Australian exporters dealing with Indonesia.

The international credit agency Moodys indicated global perceptions of the Australian economy's linkages with Asia by reducing Australia's credit rating for bonds, notes and credit ratings from 'positive' to 'stable' (*Age* 20 January 1998).

The Asian currency crisis and the Australian health industry

Events in Asia have had, and will continue to have, an impact upon the Australian health industry in terms of imports, exports and investment. This impact will be felt both materially and psychologically. There will also be both positive and negative consequences.

The depreciation of the Australian dollar against its United States counterpart, against the pound sterling and a range of European currencies means that imports from some countries could cost up to 20% more. This has affected such things as the price of pharmaceuticals, medical and other equipment, textbooks,

journals and the cost of attending overseas conferences. For example, the United Kingdom is Australia's largest single source of imported pharmaceutical and medical goods; but as of June 1998 Australian importers faced an exchange rate of 37.2 pence to the Australian dollar, compared with 49.1 pence in March 1997. Official trade data for the June quarter 1998 showed that the Australian dollar value of imported medicinal and pharmaceutical products had risen by 23% (Australian Bureau of Statistics 1998).

The Asian currency crisis might have a positive effect upon foreign investment in the Australian health care industry. United States, British and some European investors can buy considerably more equity due to the decline of the Australian dollar. Australian governments, both federal and State, are increasingly open to the idea of private investment in health care opening potentially lucrative opportunities for the future; the Federal Government continues to encourage foreign participation in the pharmaceutical industry. Moreover, the relative economic and political stability, as well as the advanced infrastructure of Australia, makes for an attractive base for the regional operations of transnational corporations, including those involved in the health industry. In June 1998 the Federal Government announced that tariffs on a range of inputs to medicinal and scientific instruments would be abolished. One of the reasons cited for this policy by the Industry Minister was to make Australia a more attractive location for establishing manufacturing capacity by reducing costs and enhancing competitiveness. To favourable political and economic factors can be added the appeal of Australia's relatively cleaner natural environment, since considerable negative publicity surrounded the smoke haze which originated in the burning off of forests in Indonesia but also seriously affected neighbouring countries.

At the same time, this relative depreciation of the Australian currency should serve to make Australian exports more competitive, stimulate import substitution, and lead to increased exports as foreign countries which have also suffered losses in the value of their currencies seek cheaper suppliers of goods and services. For individual patients, the choice of whether to have an operation performed in the United States, United Kingdom or Australia may be strongly influenced by the relatively lower value of the Australian currency. Singapore will not gain a currency advantage over Australia in seeking foreign patients since its dollar has weakened only slightly against the Australian dollar.

It has been recognised that successful engagement with Asia requires Australian enterprises to do more than simply export to the region. In1995 a government-commissioned task force on Australian investment in Asia called on Australian firms to develop bases within their Asian markets (Market Penetration Task Force 1995). There may be opportunities for Australian health enterprises to

secure such bases at a greatly reduced financial cost in the weakened Asian economies which are now eager for foreign investment. Moreover, Australian enterprises might benefit from the terms of International Monetary Fund intervention in the cases of Thailand, Indonesia and South Korea, which have included the encouragement of foreign investment and administrative reforms designed to improve the performance of the economy. However, potential Australian investors will have to compete with those from stronger economies whose currencies have greater purchasing power. Nor is it certain that Australian companies will consider investment in Asia to be appealing. The managing director of the publicly listed drug manufacturer CSL has eschewed the purchase of assets in Asian countries affected by the currency crisis, observing that there are no quality pharmaceutical businesses worth buying in these countries (*Age* 12 February 1998).

An examination of Australian Bureau of Statistics data on the trade in medical and pharmaceutical goods reveals a steady growth in both exports and imports in the past decade. However, as Table 3 shows, throughout the last decade imports have always greatly outweighed exports, although this imbalance has been reduced in more recent years.

Table 3: Australian imports and exports of medicinal and pharmaceutical goods by selected financial year (in A$ millions)

Year	Imports	Exports
1987–88	647	206
1988–89	694	235
1989–90	820	270
1990–91	942	321
1991–92	1053	456
1992–93	1393	564
1993–94	1427	701
1994–95	1562	771
1995–96	1830	894
1996–97	1998	979
1997–98	2544	1142

Source: Australian Bureau of Statistics 1997a; 1997b; 1998.

Also important is the fact that, as is revealed by Table 4, the United States, United Kingdom and Japan have been the principal sources of such imports; yet these three nations have enjoyed comparatively strong currencies relative to the Australian dollar. Currency pressures will make the Federal Government's attempts to control expenditure on the Pharmaceuticals Benefits Scheme even more crucial.

Table 4: Australian imports and exports of medical and pharmaceutical products, year ending June quarter 1998 by selected country (in A$ millions)

Country	Imports	Exports
China	23	17
Japan	52	30
Korea	2	14
New Zealand	26	266
Singapore	16	48
Taiwan	5	57
United Kingdom	639	111
United States	415	67

Source: Australian Bureau of Statistics 1998.

Of crucial concern are the related issues of continuing demand for imported health-related goods and services in those Asian countries suffering economic reversals and the extent to which Australia is a competitive source for such imports. It must be recognised that in Thailand, Malaysia and Indonesia the growth of the private health care sector has been made possible by continuing economic prosperity, a growing middle class and public policy supportive of private health care provision. Public sector health expenditure to provide for the growing populations of these countries has hitherto also been linked to wider economic development. The currency crisis will undoubtedly reduce demand for private health care since these three countries do not have high levels of health insurance and most private care is paid for out-of-pocket. Moreover, in many cases new private hospital projects are linked to property development enterprises which have themselves experienced severe financial strains.

On a positive note, the International Monetary Fund interventions in the region have sought to maintain the level of public expenditure on health and the Malaysian Budget for 1998 similarly preserved health spending. However, merely

maintaining public spending on health in the face of growing populations and greater reliance upon public health facilities does not bode well for an expansion in demand for goods and services on the part of the health sector. Many Asian health ministries have also curbed 'non-essential' expenditure such as overseas travel for training and conference attendance.

While a degree of 'economic nationalism' is understandable in countries which have witnessed their national sovereignty eroded by supra-national financial agencies, it is unlikely that campaigns against foreign imports will have much impact in the health sector since most Asian countries are still heavily reliant upon foreign technologies and expertise in the health field. Moreover, although there might be some resentment against foreign opportunists using their stronger currencies to invest in local Asian health enterprises, the International Monetary Fund reforms have placed considerable pressures on recipient nations to reduce controls on foreign investors and open up their economies to greater levels of foreign investment. The consequences of such reforms could well see some of the impediments to foreign investment in local Asian health enterprises significantly mollified.

The Asian crisis should not greatly alter opportunities for the Australian health industry to compete for contracts in the official foreign assistance program since almost all of such assistance is provided in Australian dollars and by Australian (or New Zealand) companies and organisations. Although the foreign aid budget was reduced from the levels of the two previous years, some A$1430 million was allocated for official development assistance in the period 1996–97, more than 40% of which has been designated for Asian countries. Of this total, an estimated A$130 million was to be spent on health (Australia 1997, p 17). Australian aid to the health sectors of Indonesia and Thailand will help to alleviate some of the hardships experienced by the poor in the wake of economic restructuring.

Expenditure on health-related aid has increased considerably in the past decade and offers some major contracts for Australian enterprises (Australian Agency for International Development 1997). Such contracts have the added appeal of being negotiated with Australian administrators and being guaranteed by the Australian Government. Foreign aid contracts in Asia therefore offer the twin advantages of engagement with Asia on a financially guaranteed basis.

The weaker Australian dollar should also place Australian enterprises in a stronger position to tender for the health-related business of international health bodies such as the World Health Organization and other United Nations (UN) agencies. Indeed, the Victorian Government has indicated its support for the location of UN agencies in Melbourne in order to provide the world body with a base of operations in Australia and open commercial opportunities for

Victorian companies. Australian companies have not been conspicuously active in seeking UN procurement contracts and in 1996 succeeded in supplying only A$5 million in goods and A$20 million in services (Industry Commission 1997, p 17).

Concluding observations

Australia's efforts to project an image of being economically part of Asia have contributed to foreign currency markets devaluing the Australian dollar in anticipation of a flow-on effect from the Asian currency crisis. It is clear that the depreciation of the Australian dollar relative to its United States counterpart and several European currencies will increase the running costs of the Australian health system, which imports considerable quantities of pharmaceuticals and medical equipment from countries with stronger currencies. At the same time, this devaluation should make a range of Australian goods and services more competitive, both in the domestic and international markets.

From a psychological perspective, the crisis has come at a bad time for Australian enterprises which have either thought about engagement with Asia or which have taken steps to do so. Many Asian financial institutions have been bankrupted, loans have been frozen, public expenditure cut, and several capital development projects in the health sector suspended. Many Australian companies were obliged to evacuate their staff from Indonesia as that country's political crisis escalated. Such developments have done little to give confidence to Australian exporters and investors.

Although there are some exceptions, most of the companies from the Australian health industry which have sought to engage with Asia have been smaller enterprises in search of niche opportunities. Such modest enterprises find penetrating the Asian market challenging at the best of times, given their limited financial and human resources. Engagement with Asian partners and markets takes a considerable period of time and a readiness to sustain some losses in the first years of operations. Indeed, even the relatively large company Faulding reported a loss of A$5.2 million on its operations in China in the 1996–97 financial year (Faulding 1997).

The Asian currency crisis can be traced to unsound and largely unregulated lending by financial institutions. Asian enterprises borrowed far more than they could sustain by their earnings and often borrowed in 'hard' currencies rather than local ones. Australian financial institutions are therefore likely to take some time to overcome an understandable aversion to providing loans for Asian enterprises. Moreover, most Australian entrepreneurs are, at the best of times,

unfamiliar with economic and political conditions in the region, as well as having to deal with cultural differences. It is likely that the Asian currency crisis will make a number of Australian enterprises think twice about continuing their efforts in Asia and will deter some of those considering commencing operations. The crisis will also reinforce the wisdom of developing markets throughout the world and not just in one region.

There is a very real danger, therefore, that the Asian currency crisis will seriously retard the efforts made by many enterprises in the Australian health industry to expand their operations into Asia (and in particular into Indonesia). With the exception of the possibility of extending some limited financial guarantee support which includes health sector exporters and assisting exporters to find alternative markets, it is unlikely that the Australian Government will offer any financial support to this specific sector of the Australian economy. However, it is vitally important that Australian governments (both State and federal) as well as the Australian health industry itself, take steps to keep members of the industry informed of regional developments and their consequences for health exports, and that they facilitate strategic advice to Australian enterprises. Care must be taken to differentiate between different Asian economies since not all have been as adversely affected by events in Thailand, South Korea and Indonesia.

Both the Australian Trade Commission and the Australian Health Industry Forum therefore have important roles in keeping their constituents advised of developments in Asia. A positive step in improved intelligence has been the establishment by Austrade of an Asia crisis unit and the inclusion of an 'Asia Update' page on its Internet site.

Events in Asia have also made it even more imperative that Australian governments pool their expertise in the task of promoting health industry exports. It is important that the Australian health industry takes stock of the lessons learned from the Asian currency crisis in order to strengthen future endeavours in the region. There is a pressing need for increased research into commercial opportunities in the health systems of the region, as well as for a survey of the consequences of the currency crisis for the Australian health industry.

For a decade, the economies currently suffering from the currency crisis have been extolled as 'tigers' for their rapid economic growth. At times the expectations of continued growth have undoubtedly been overstated. There have been periods in the past when this growth temporarily faltered. Both Singapore and Malaysia faced and overcame substantial economic slow-down in 1986. Ultimately, the economies of Asia will regain a degree of equilibrium. Given time, Indonesia will undergo a period of economic and political reconstruction and will once more become an attractive commercial partner for Australia. Australian exporters,

including the health industry, must be ready and strategically placed to take full advantage of restored opportunities. The Australian health industry must therefore not abandon its commitment to an Asian engagement and must continue to encourage those pioneering enterprises seeking to consolidate or explore markets in the region. It is therefore heartening to see that, despite Indonesia's political and economic crisis, a commercial agreement to send certain Indonesian patients for surgery in Darwin has been negotiated between the Northern Territory Health Service, the Australian company, Healthscope, and PT Askes, Indonesia's largest health insurance agency (*Asia Today* June 1998).

The currency crisis has also served to emphasise the need for a greater government role in the task of developing health exports. There have been perceptions that the Federal Government has not been sufficiently supportive of the efforts of the health industry to develop its export potential. Government funding was withdrawn from the Australian Health Industry Forum, the health exports unit within the Australian Trade Commission was abolished as part of extensive staff reductions in that organisation, and 'user-pays' charges have placed the Commission's services beyond the reach of many smaller enterprises. The Asian currency crisis provides an opportunity for the Federal Government and State governments to institute a major review of the issue of health exports and, in close consultation with the Australian health industry, develop forward-thinking policies.

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