



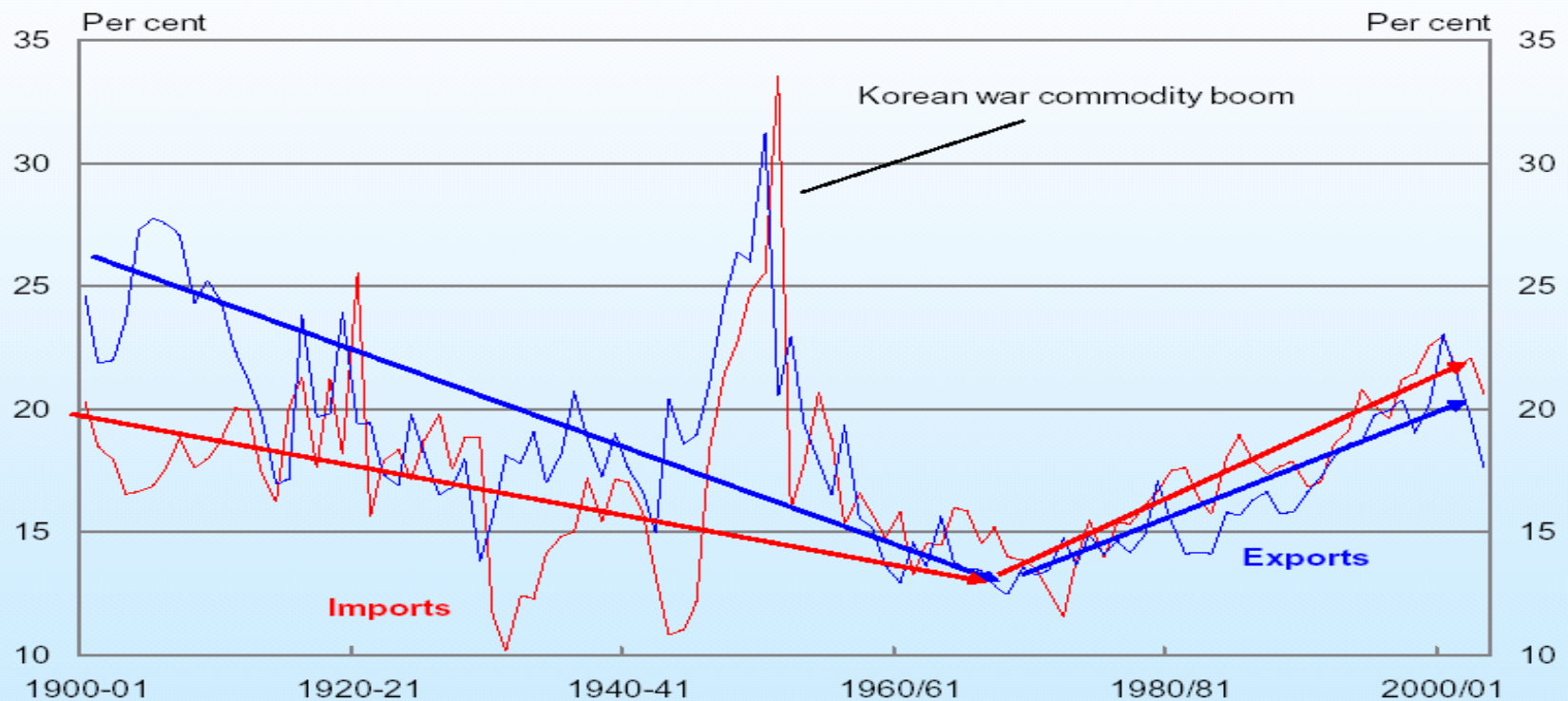
BEYOND OUR SHORES

Essays on Australia and the Global Economy

By Tim Harcourt, Chief Economist, Australian Trade Commission

Openness to trade is an important part of the Australian success story....

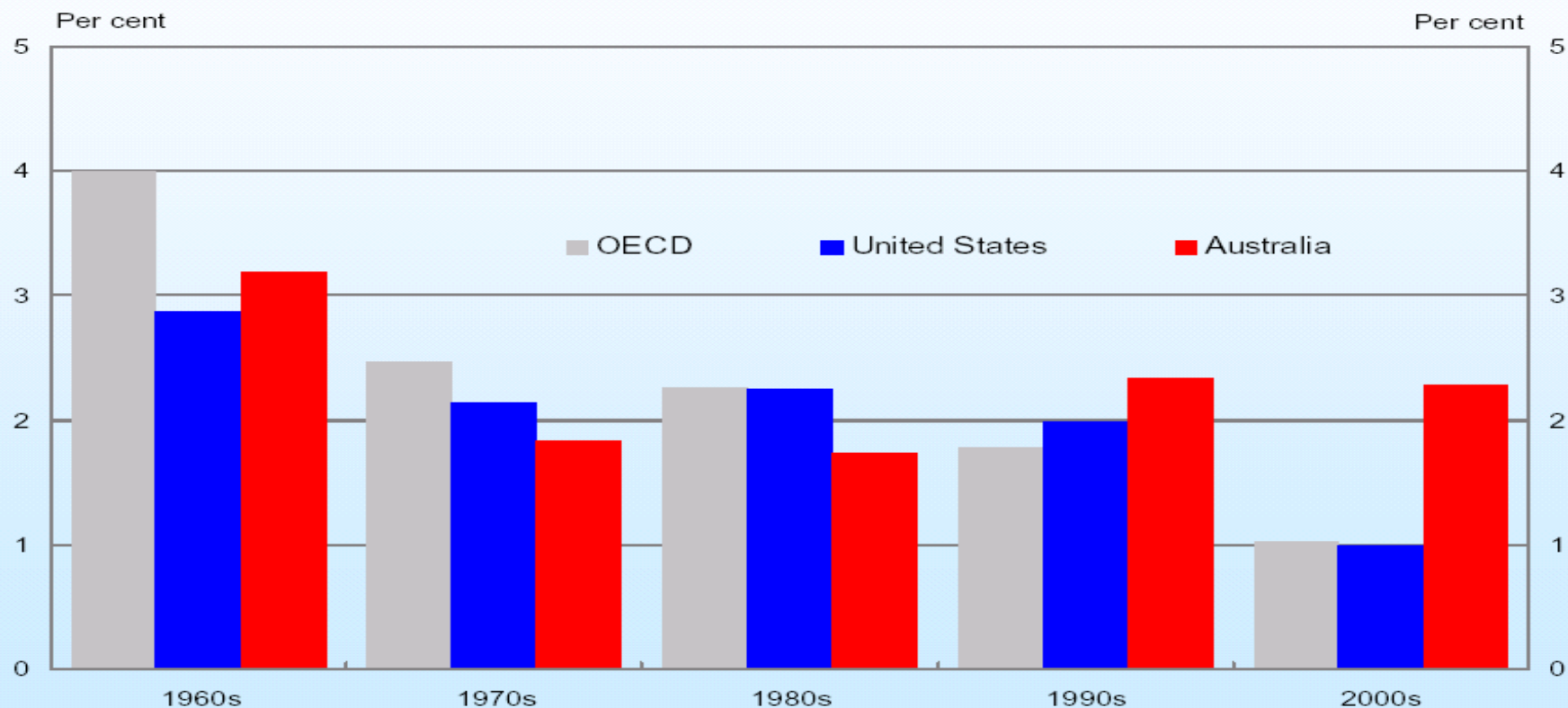
Exports and imports as a share of GDP



Source: RBA Preliminary Annual Database, ABS

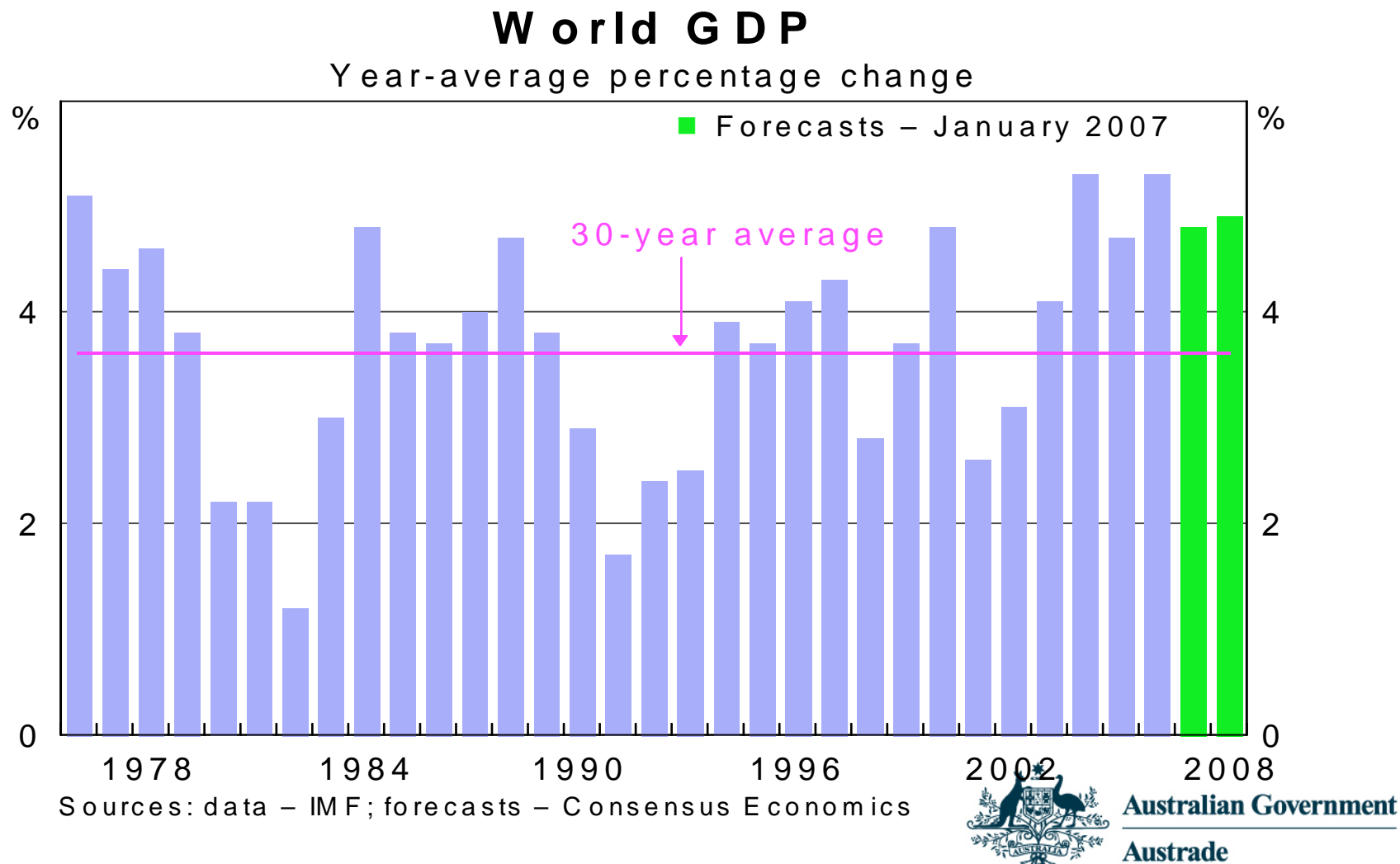
Trade has been associated with higher living standards

Per Capita GDP Growth



Source: Groningen Growth and Development Centre and The Conference Board

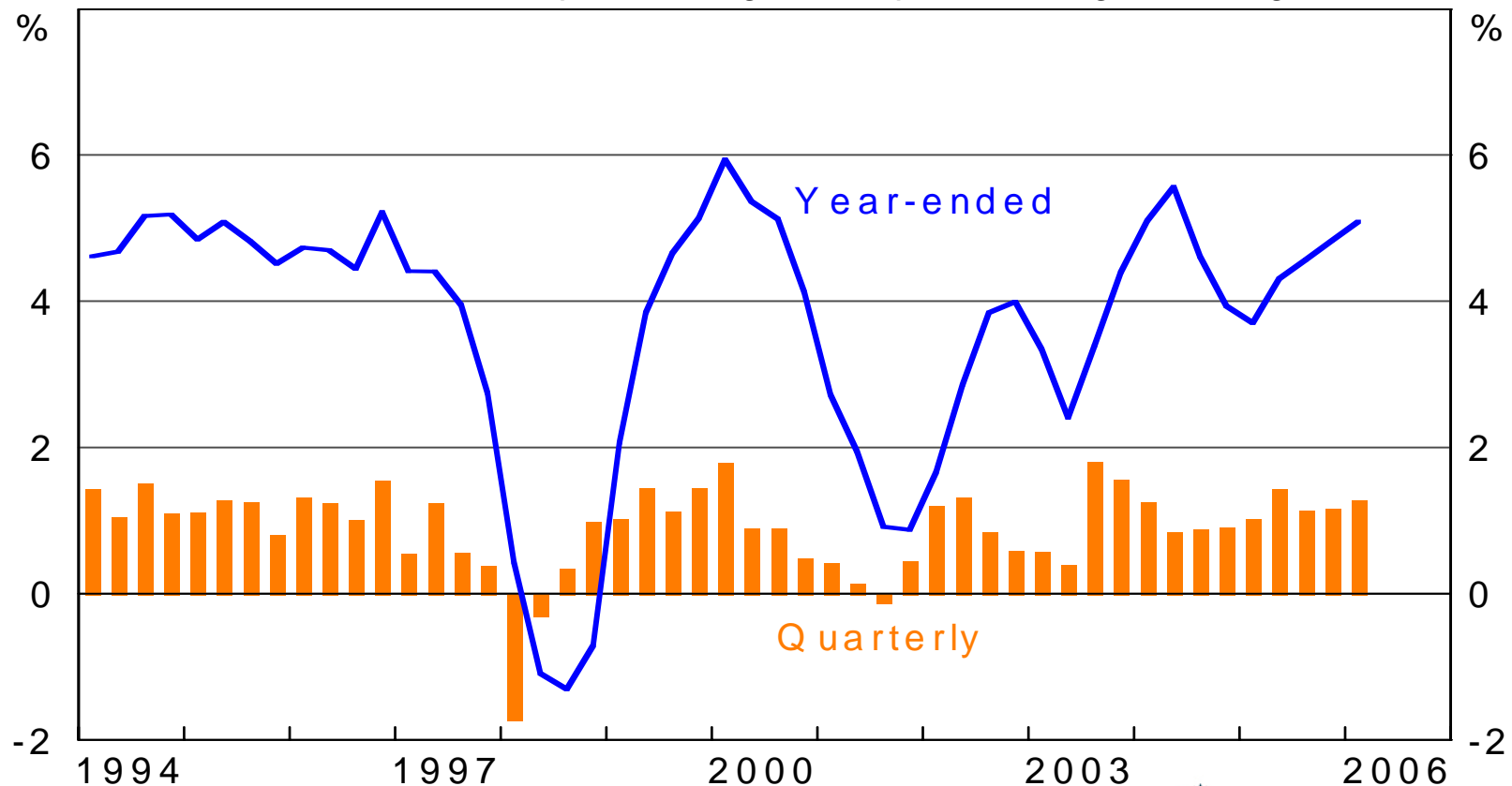
At the macroeconomic level the current outlook is a mixture of demand and supply influences



As there's been solid growth amongst our major trading partners

Australia's Trading Partner GDP

Merchandise export weighted, percentage change



Sources: CEIC; RBA; Thomson Financial

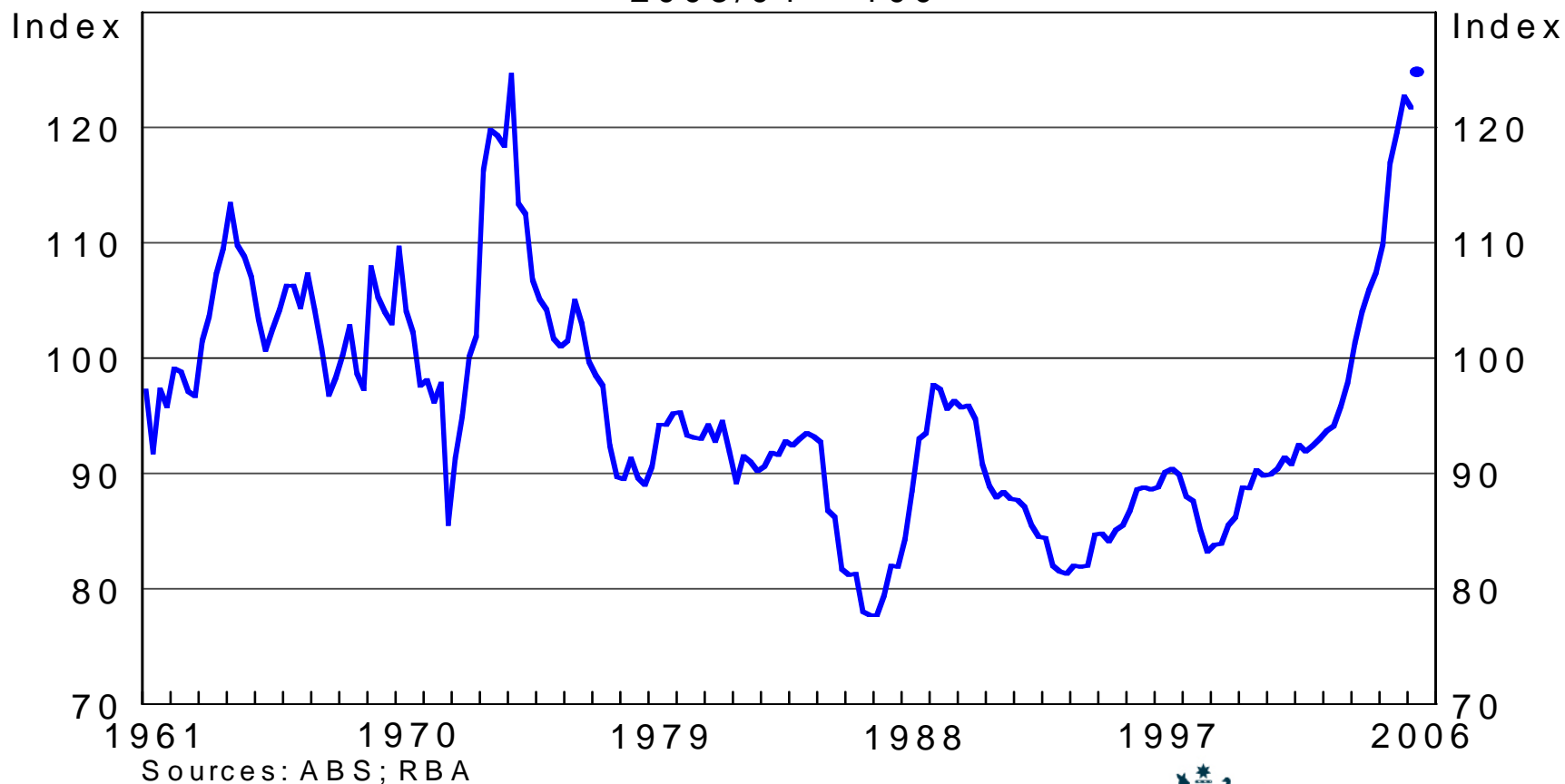


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Australia's terms of trade are at a 30 year high

Terms of Trade

2003/04 = 100

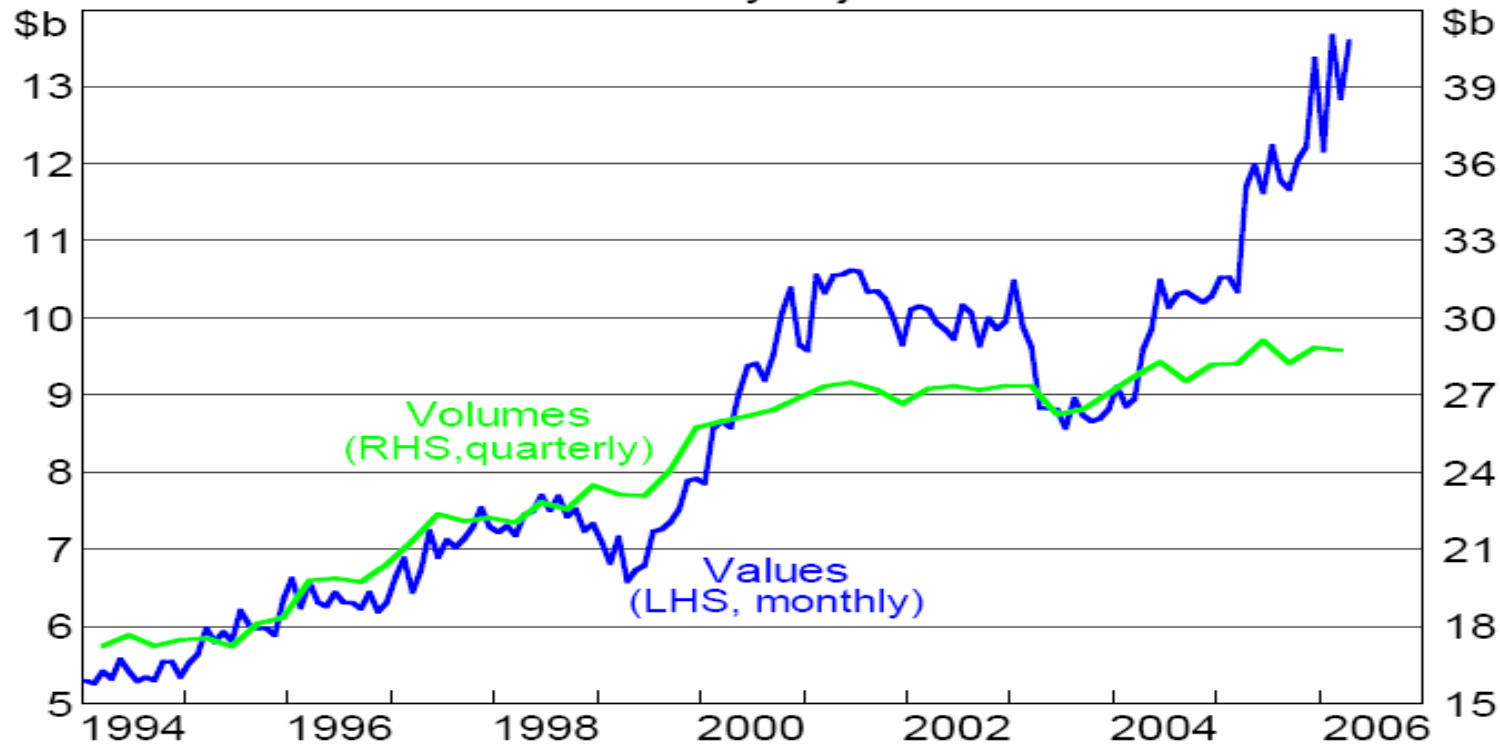


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Export values have been fuelled by the resources boom and Asia's rise & rise

Merchandise Exports*

Seasonally adjusted



* Excludes RBA gold transactions

Source: ABS

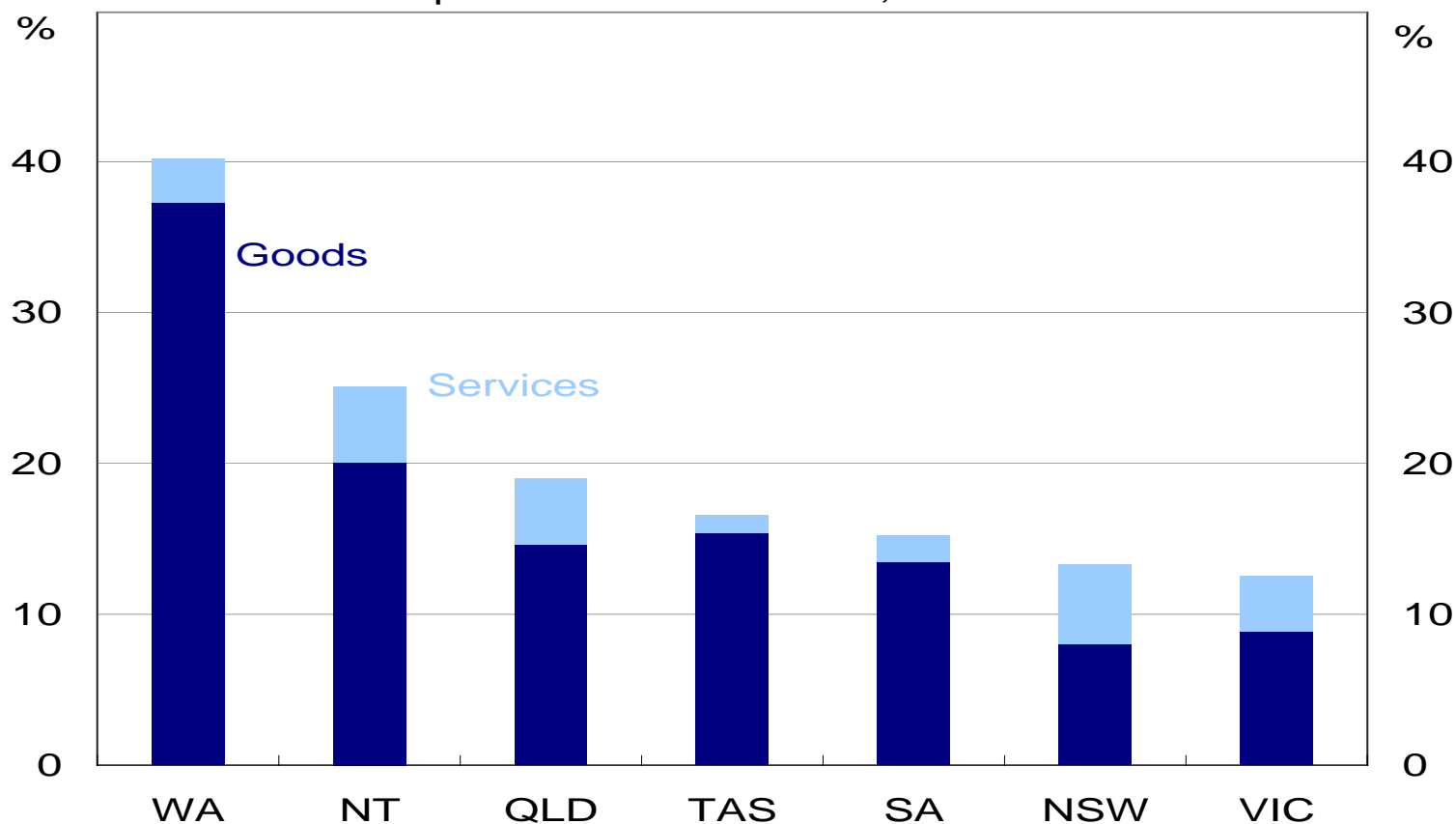


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The export-dependent states are riding the boom

External Sector Dependence

Exports as share of GSP; 2004-05



Source: ABS

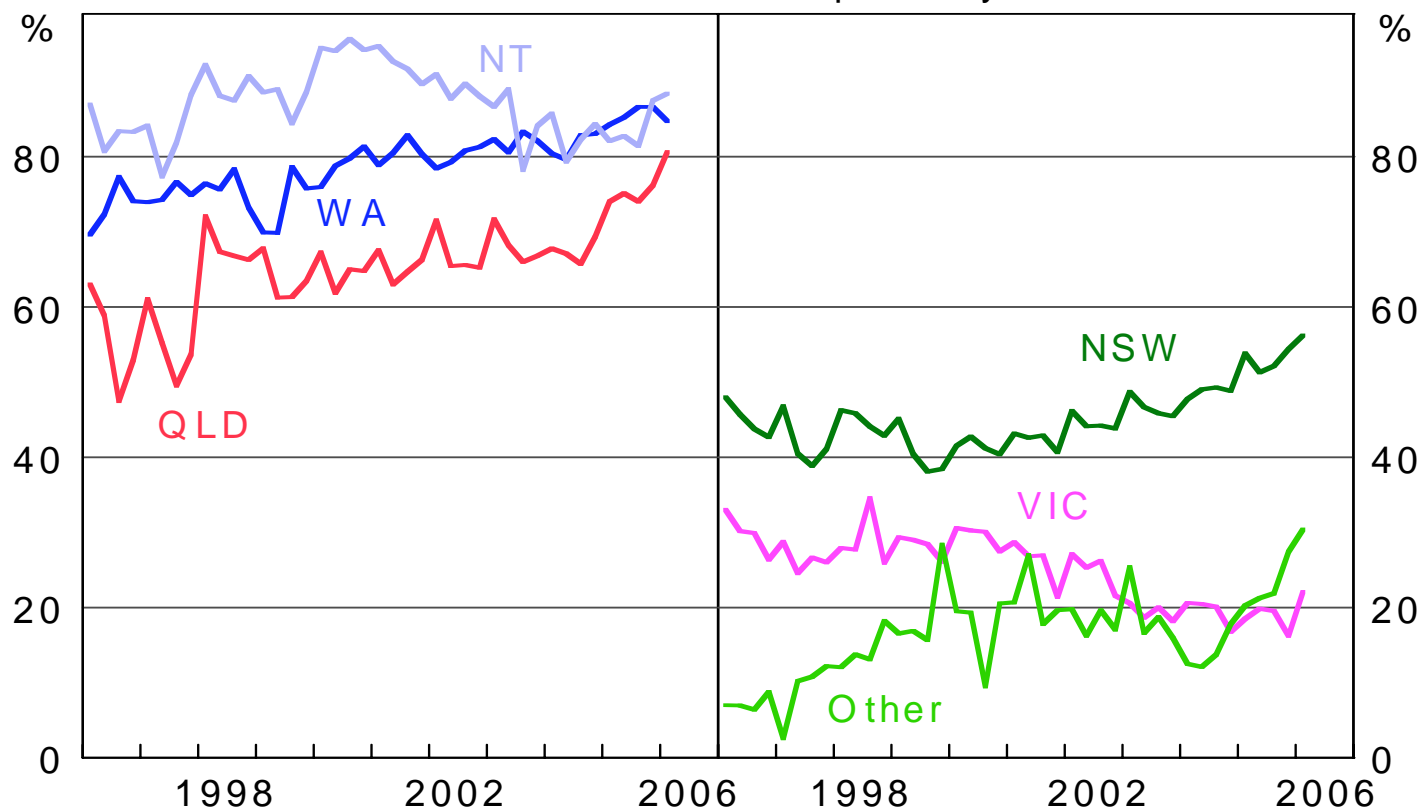


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Especially the resource-rich states - a tale of two economies?

Intensity of Resource Exports

Share of merchandise exports by state



Source: ABS

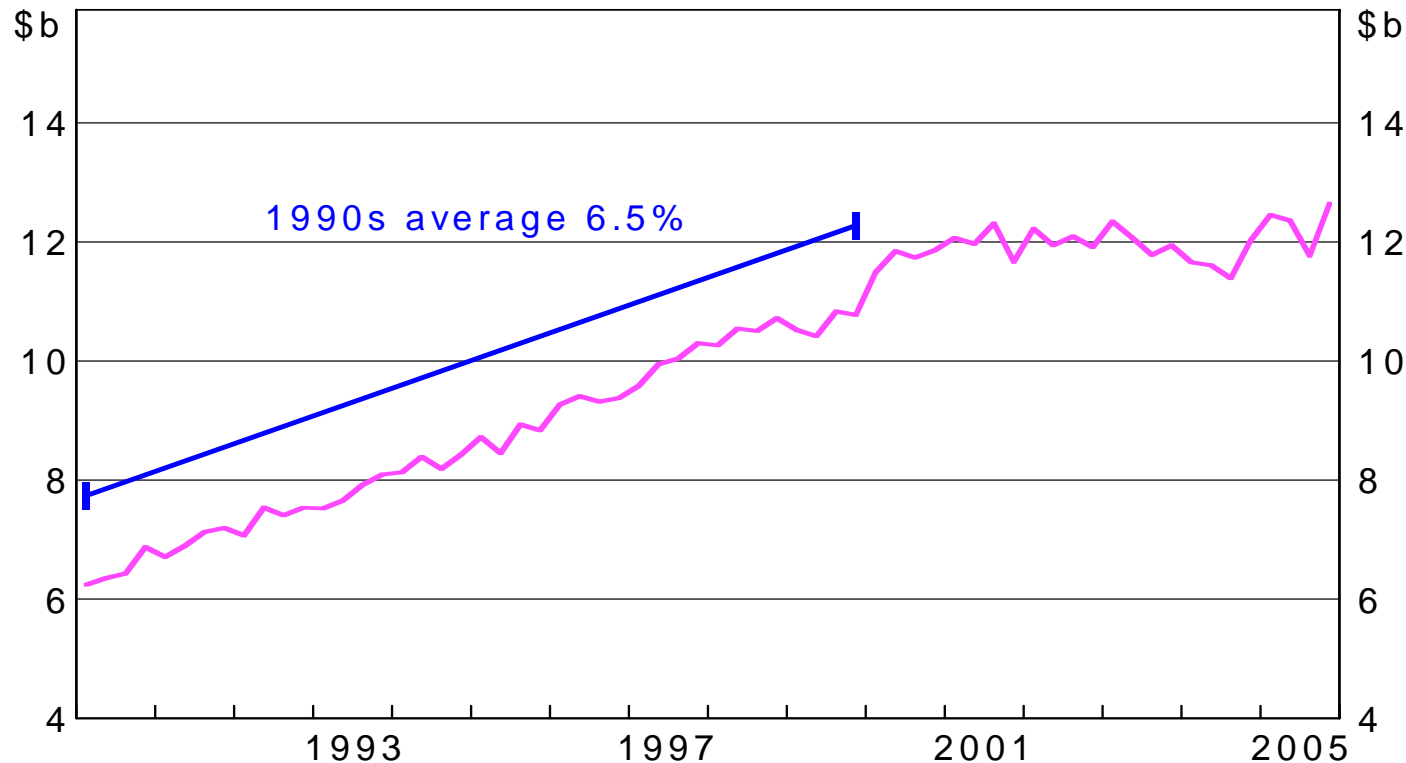


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Taking a walk on the supply side - the issue of bottlenecks or 'capacity constraints' has become topical

Resource Exports*

Chain volumes



* Excluding RBA gold and the estimated volume of re-exported gold

Sources: ABS; RBA

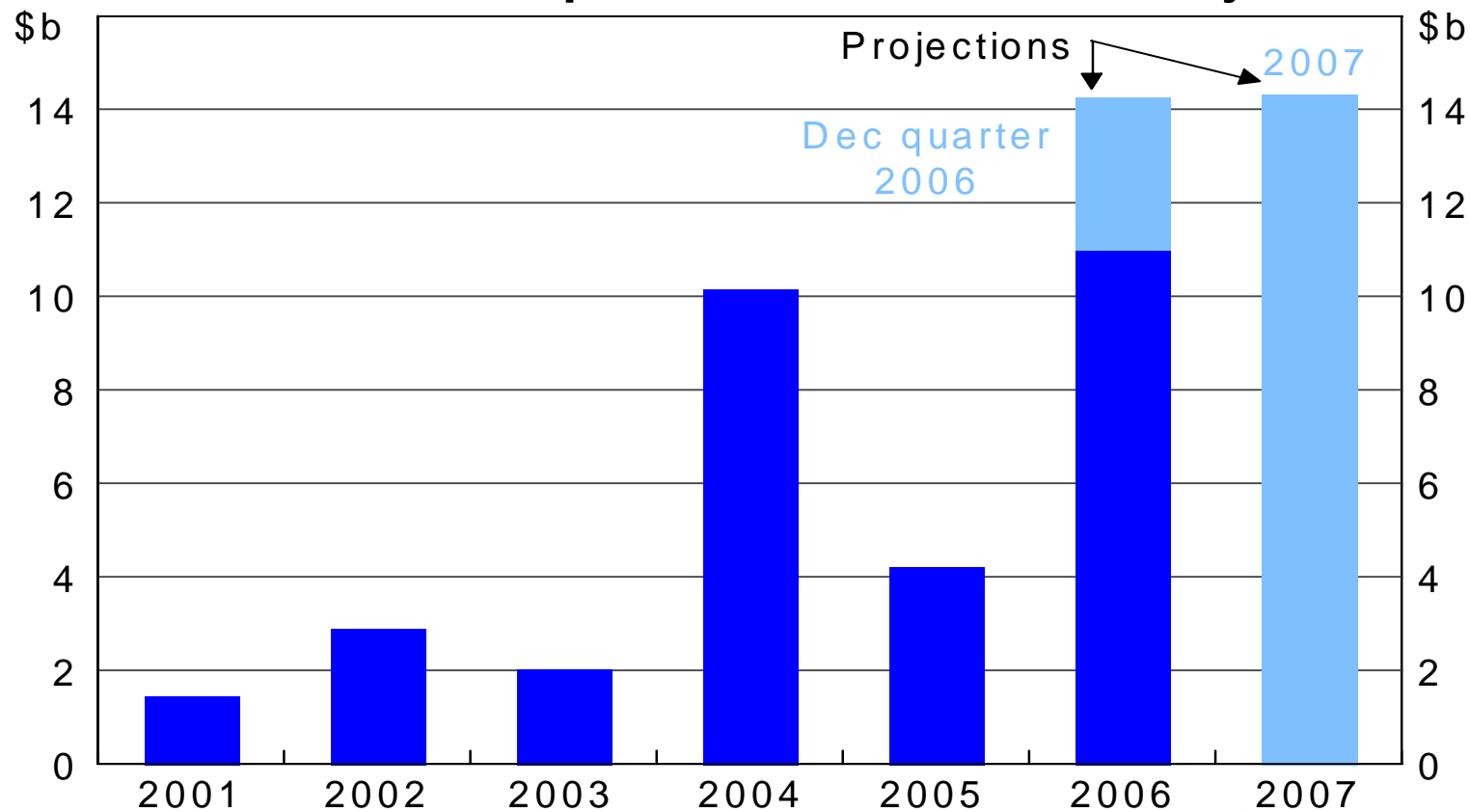


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This is partly an investment issue as many resource projects are coming through the pipeline

Value of Completed Resource Projects

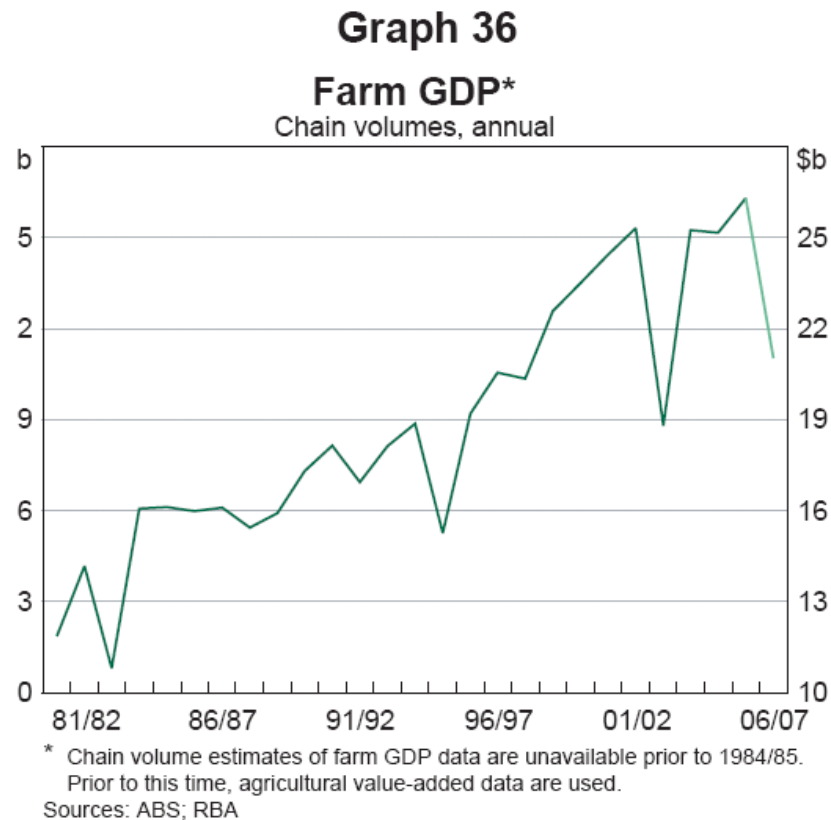


Sources: Access Economics; RBA



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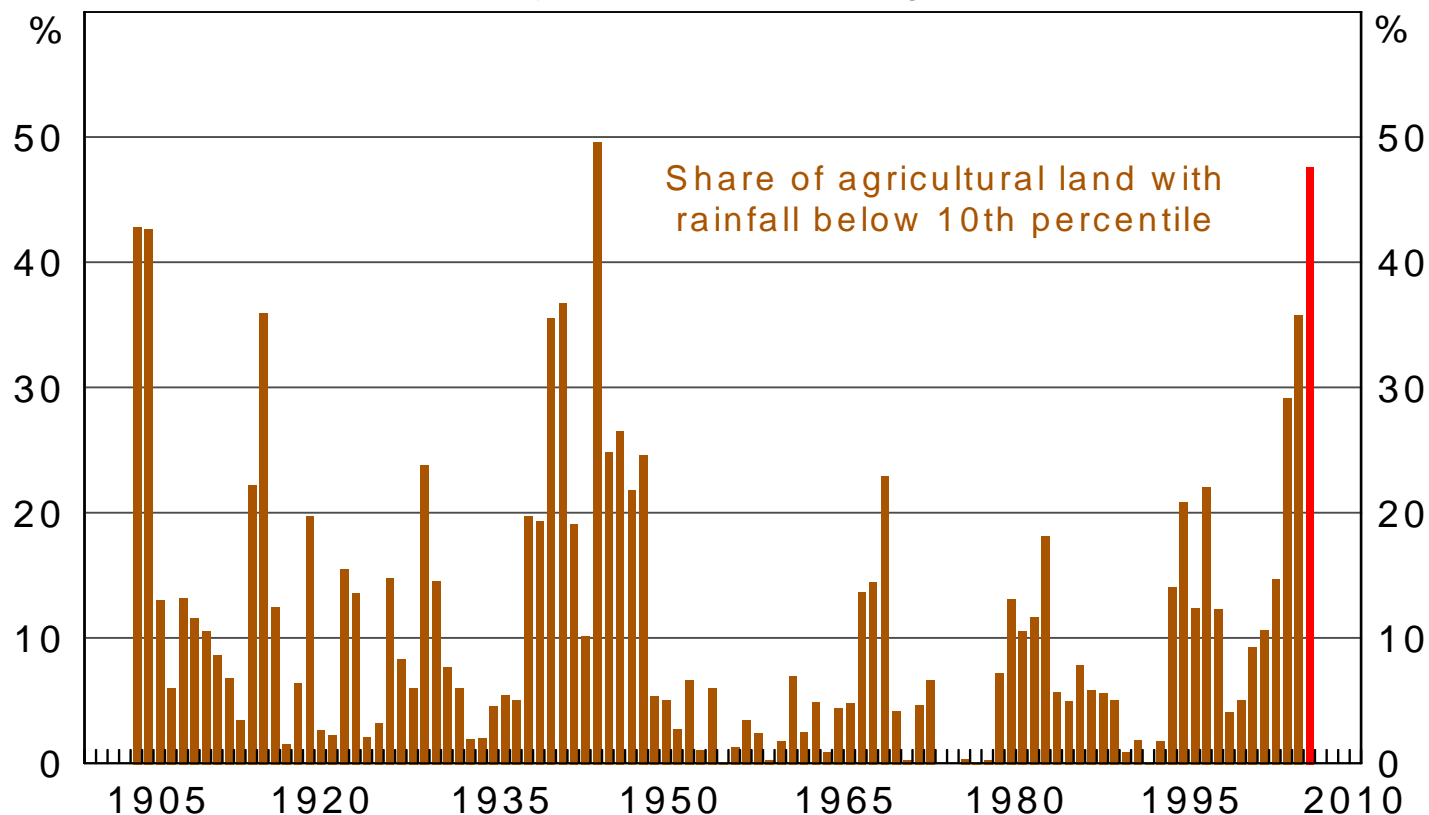
The drought is beginning to bite into farm GDP



With dry agricultural land at historically high levels

Area of Rainfall Deficiency

5-year-ended average



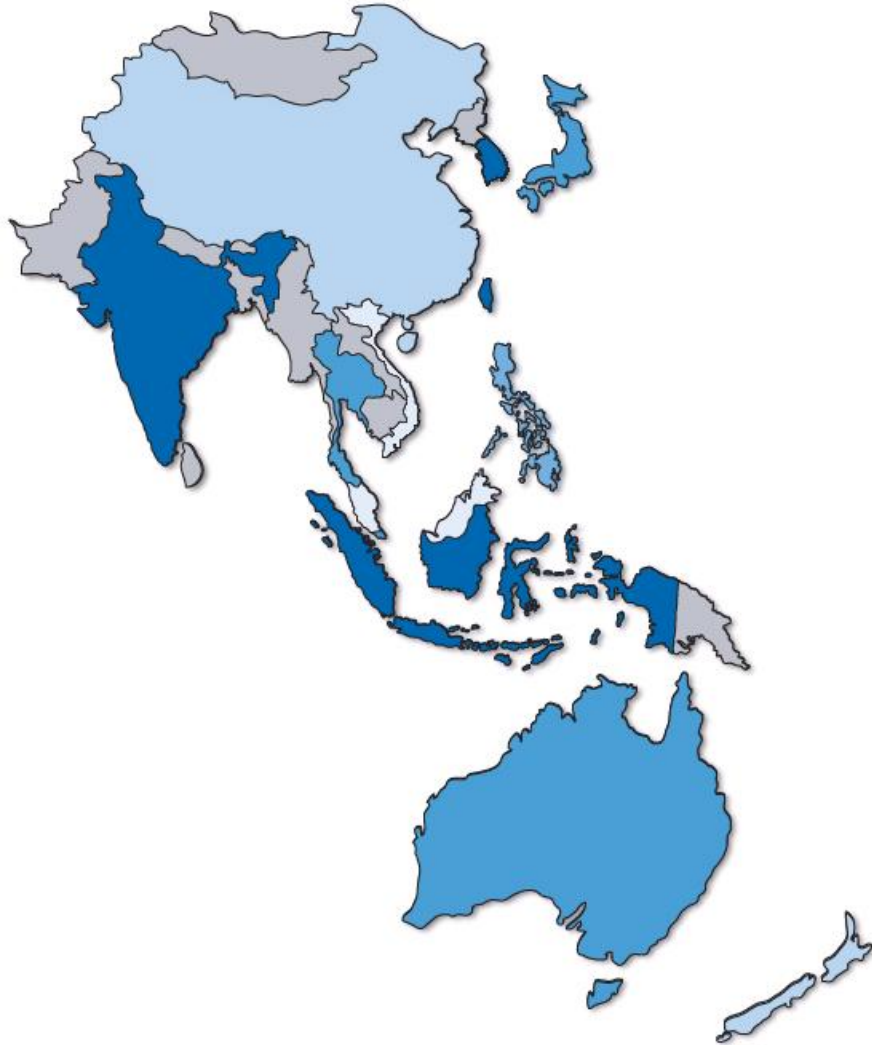
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Australia's attitude towards Asia: 'Once were worriers' because of the 'The Tyranny of Distance'



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We are now in the right place at the right time: ‘The Tyranny of distance’ has been replaced by ‘The Power of Proximity’



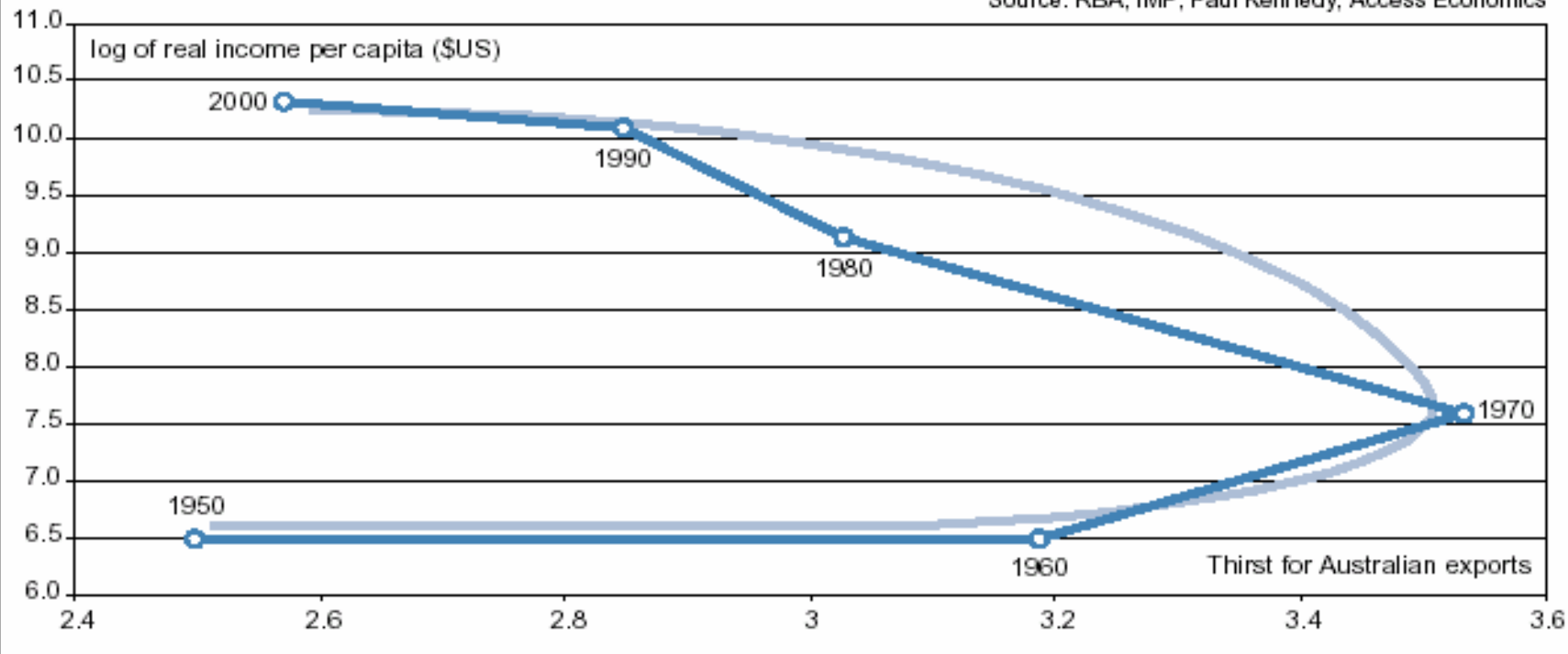
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Japan's economic development has partially driven Australia's export growth in the past

Chart 8

JAPAN'S NEED FOR AUSSIE EXPORTS HAS MIRRORED ITS DEVELOPMENT

Source: RBA, IMF, Paul Kennedy, Access Economics



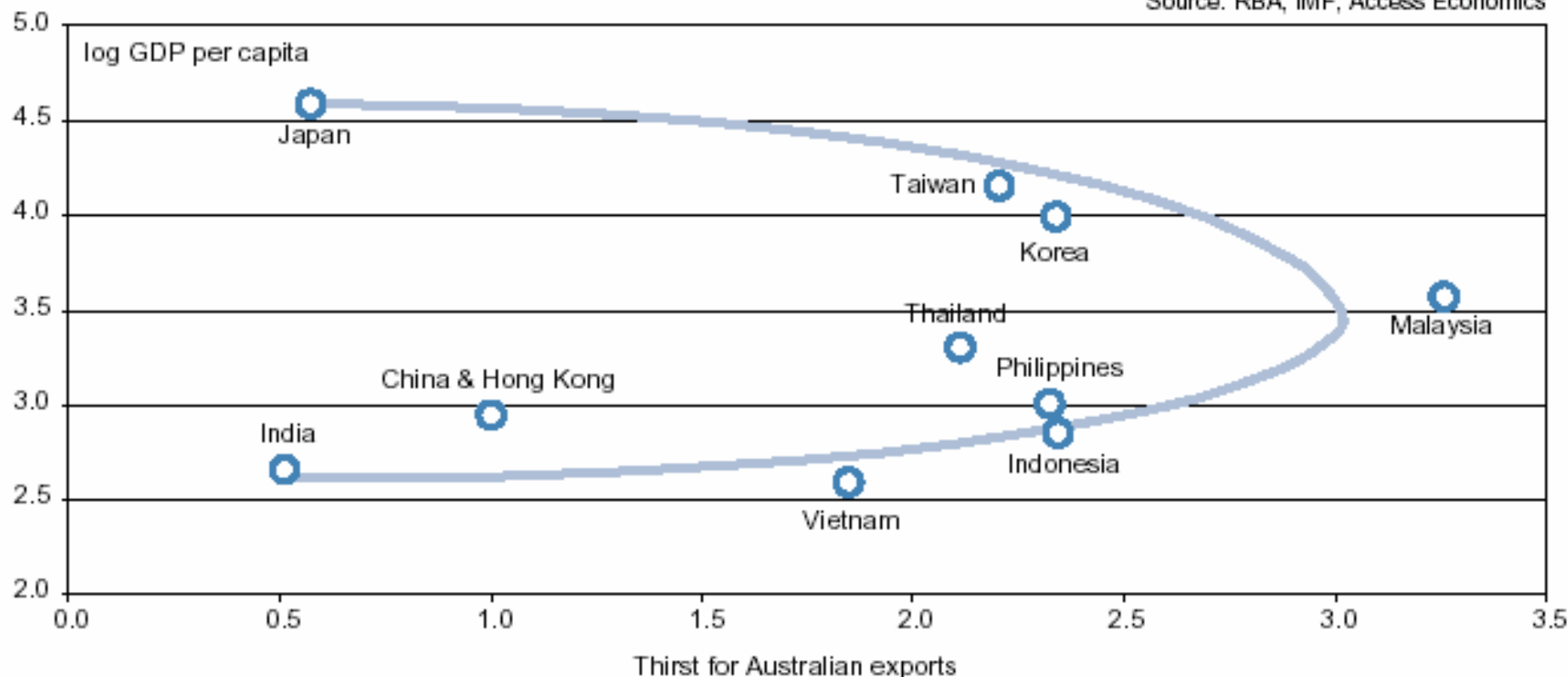
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Now it will be China and India who will drive much of our export growth

Chart 9

AUSTRALIA'S ASIAN TRADE 'BOOMERANG'

Source: RBA, IMF, Access Economics

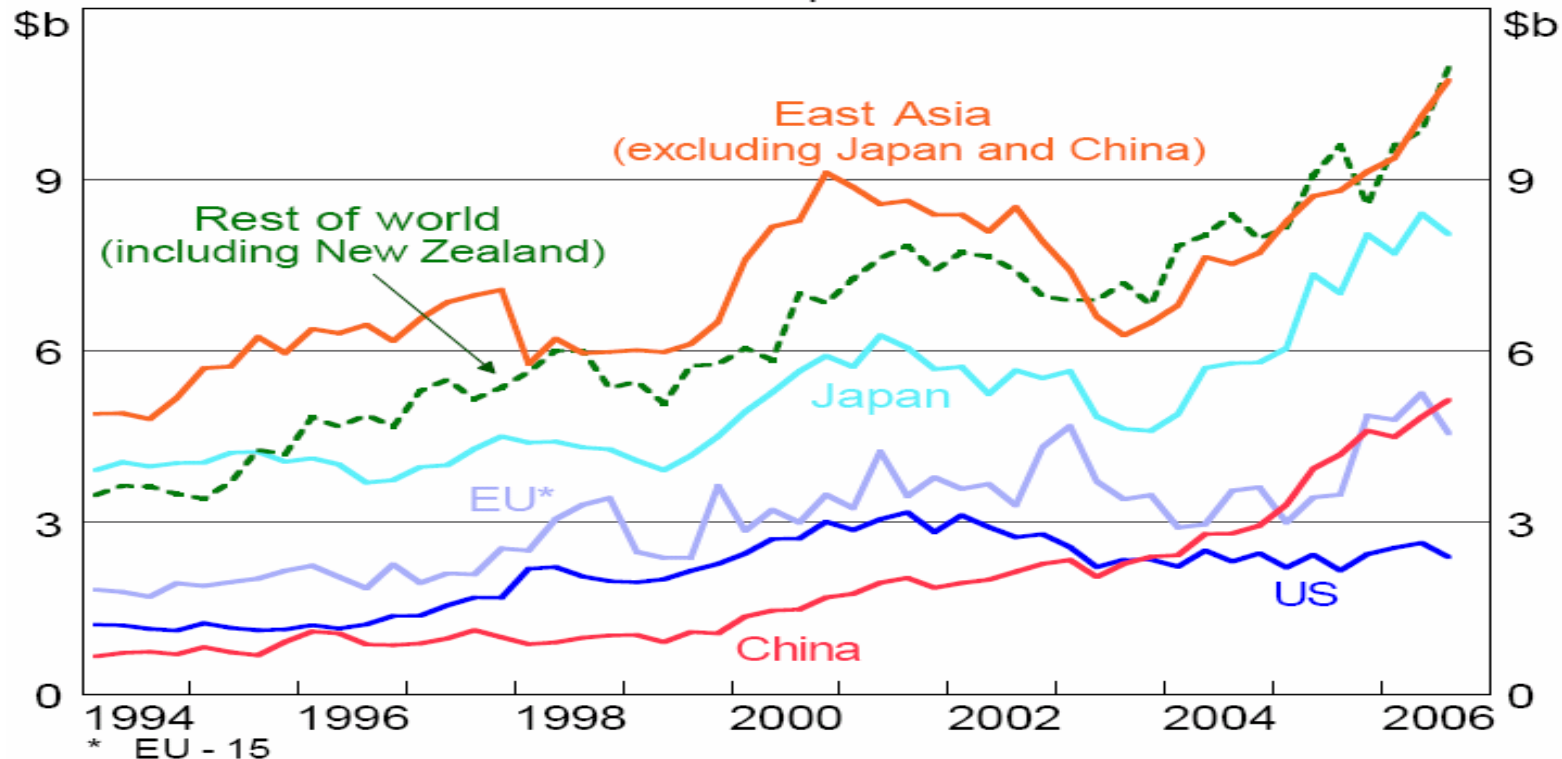


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The rise of East Asia - especially China - is striking.....

Merchandise Exports by Destination

Current prices



Source: ABS, seasonal adjustment by the RBA



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The BRICS – Brazil, Russia, India and China - are important emerging players in the global economy

Source: ABS, WTO & DEAT

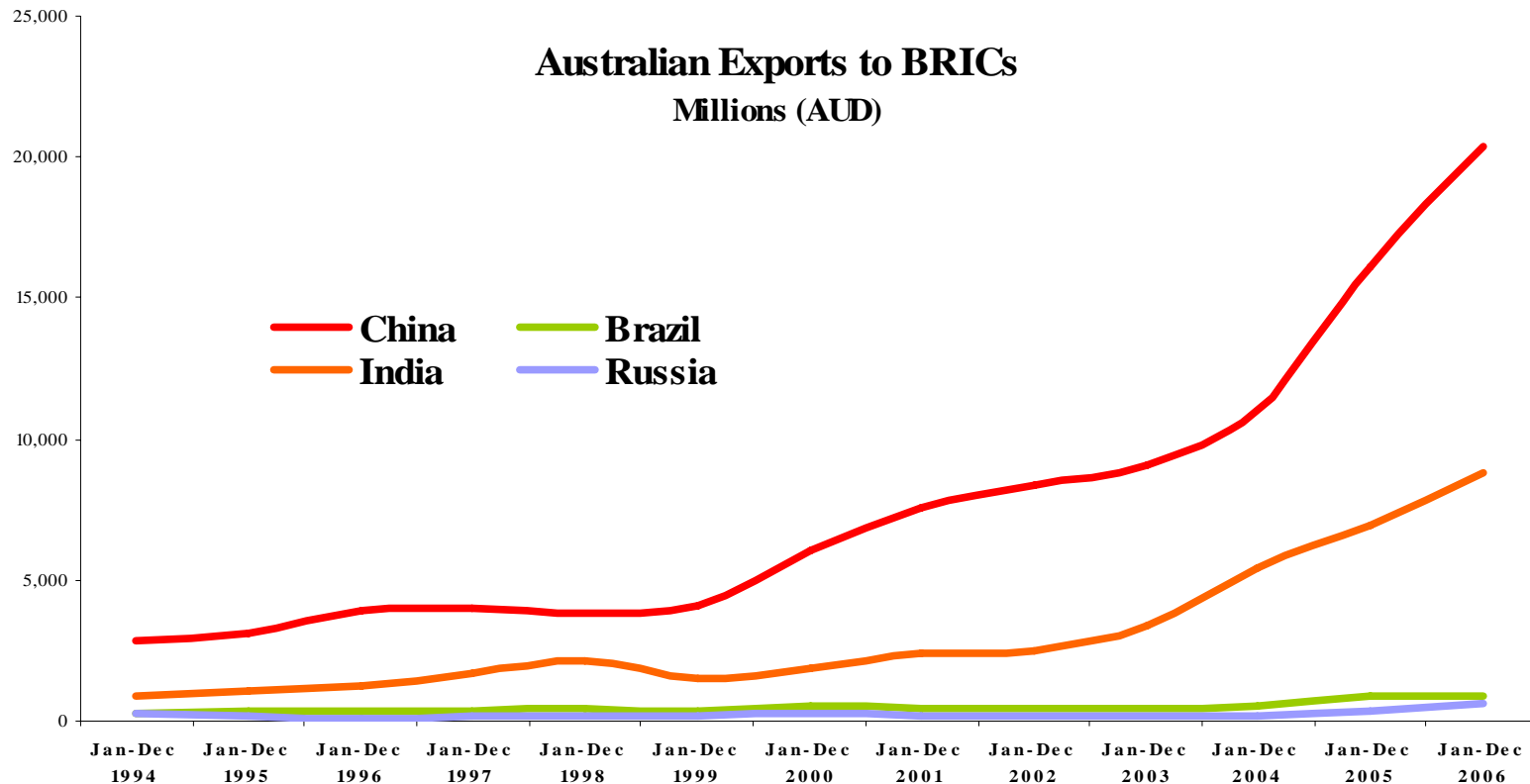
B-R-I-Cs Share of Trade

■ BRICs ■ The World



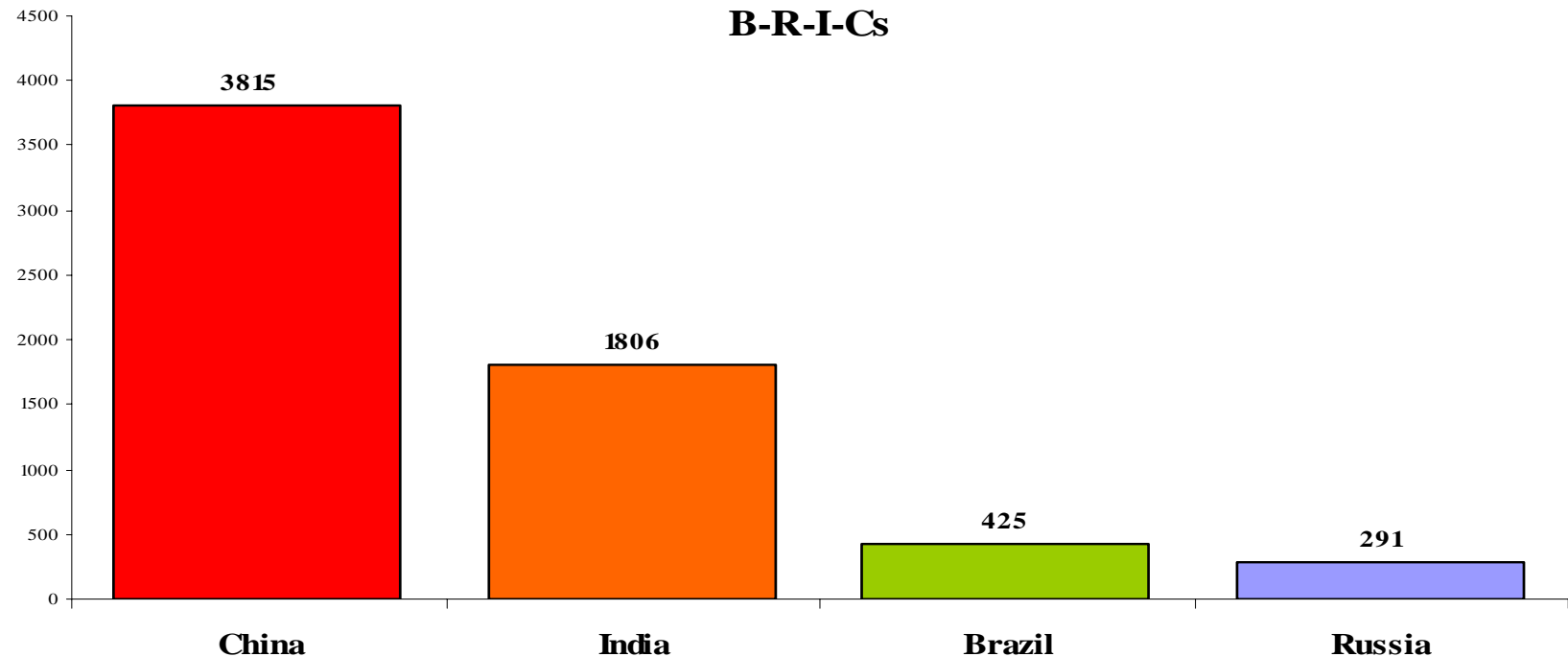
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Australia is well placed to service the growing appetite of the BRICs for raw materials (Source: DFAT/ABS)



The number of 'BRIC bound' Australian exporters is substantial

**2005/06 - Number of Exporters
B-R-I-Cs**



Source: ABS

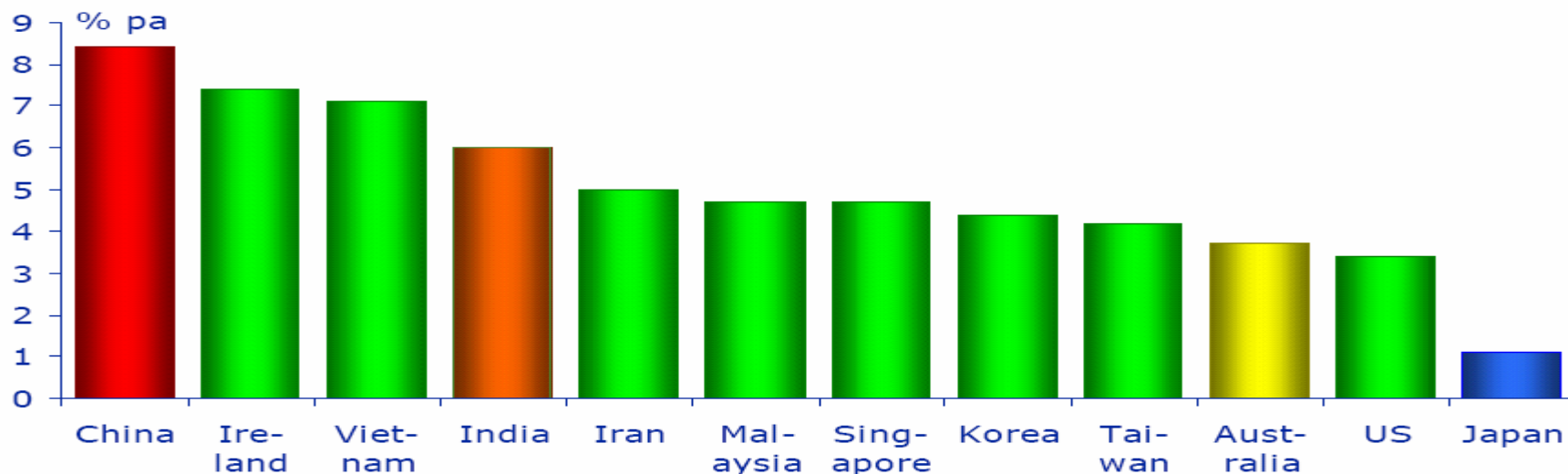


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There's no doubt - China and India are *the* big stories

China's and India's economies have grown extremely rapidly over the past decade

Real GDP growth, 1995-2005



Source: IMF, *World Economic Outlook* database, April 2005.

economics@ANZ



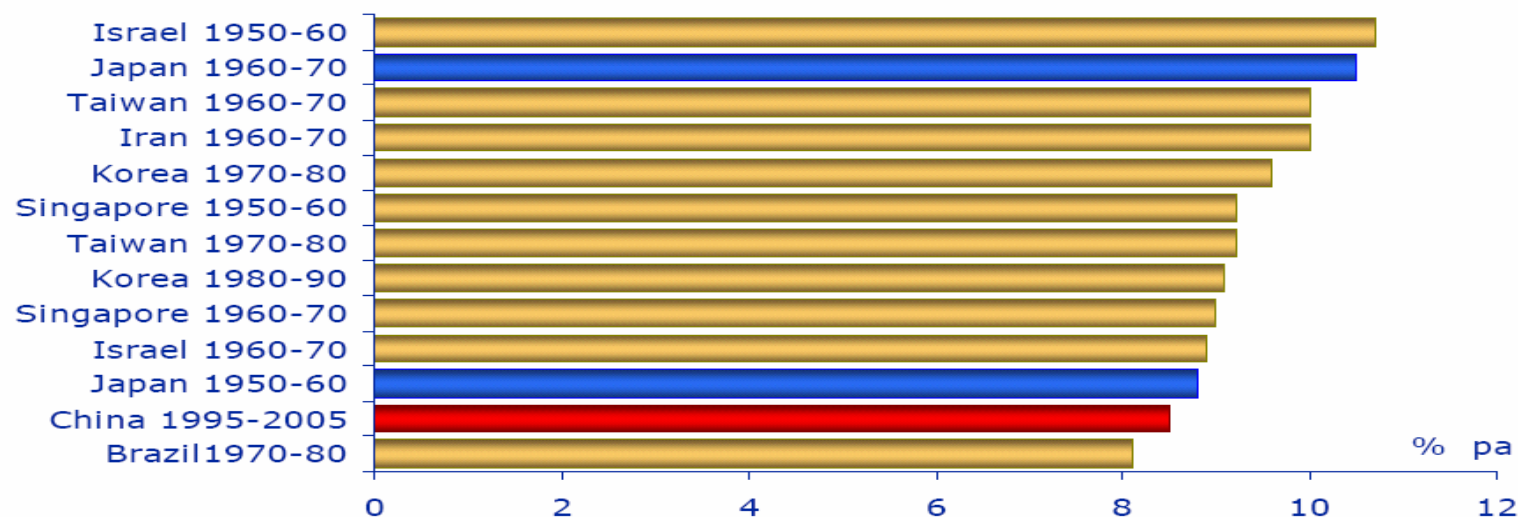
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But we shouldn't get too carried away

However China's and India's rapid growth is by no means unprecedented

Real GDP growth, selected countries and decades



Source: Groningen Growth and Development Centre (University of Groningen, The Netherlands) *Total Economy Database* (www.ggdc.net/dseries/totecon.html) and Economics@ANZ calculations.

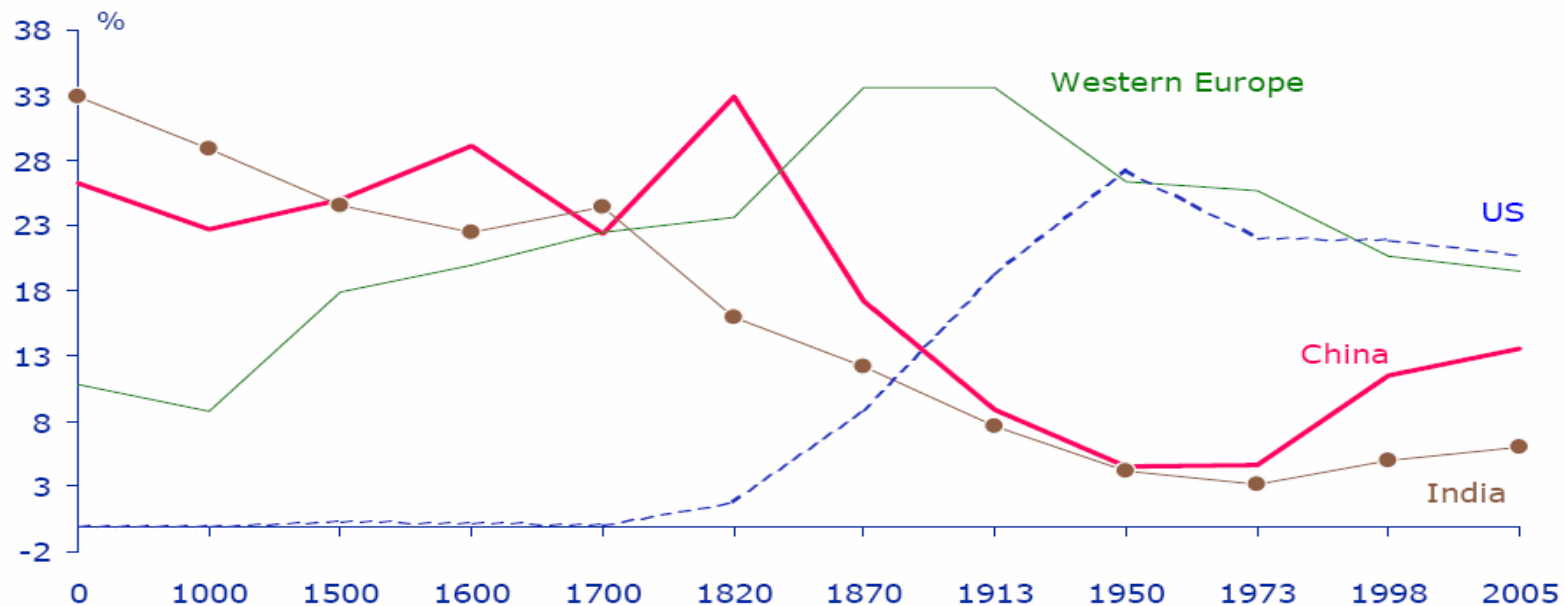
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China and India are reclaiming their strong historical position in the global economy

Shares of world GDP, 0 – 2005 AD



Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre, 2001; IMF, *World Economic Outlook Database*, April 2005; Economics@ANZ.

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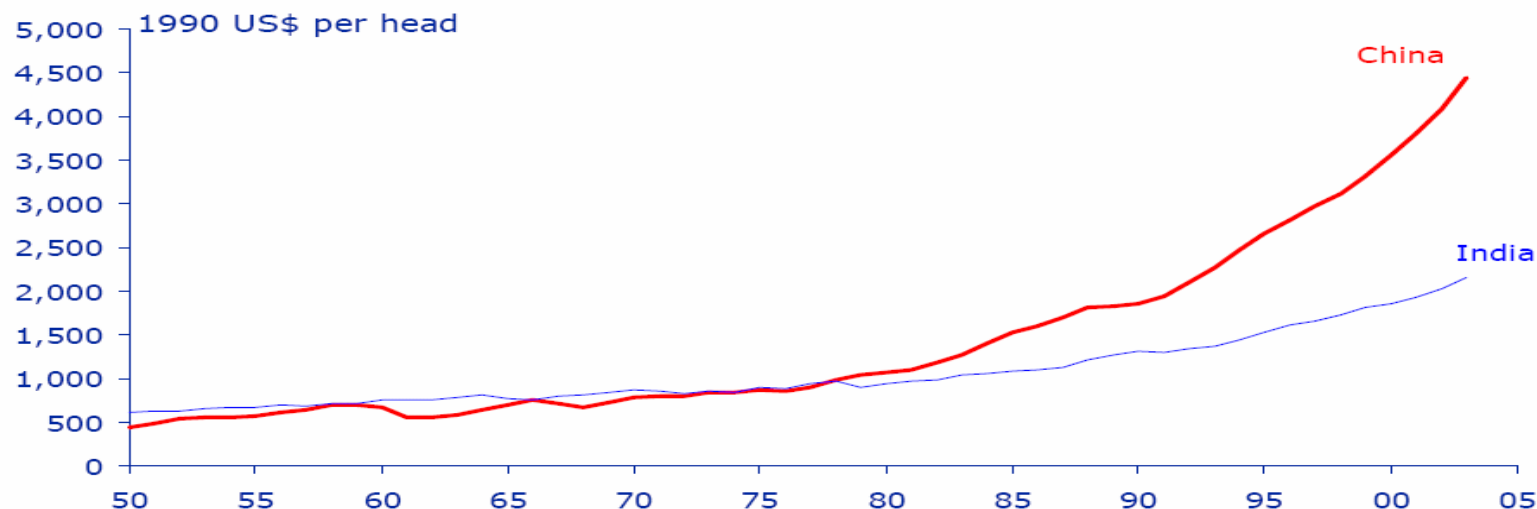


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China seems to be getting the jump on India in recent times

Fifty years ago, India's per capita GDP was higher than China's: now, China's is double India's

Per capita GDP



Source: University of Groningen Growth and Development Centre, *Total Economy Database 2005*.

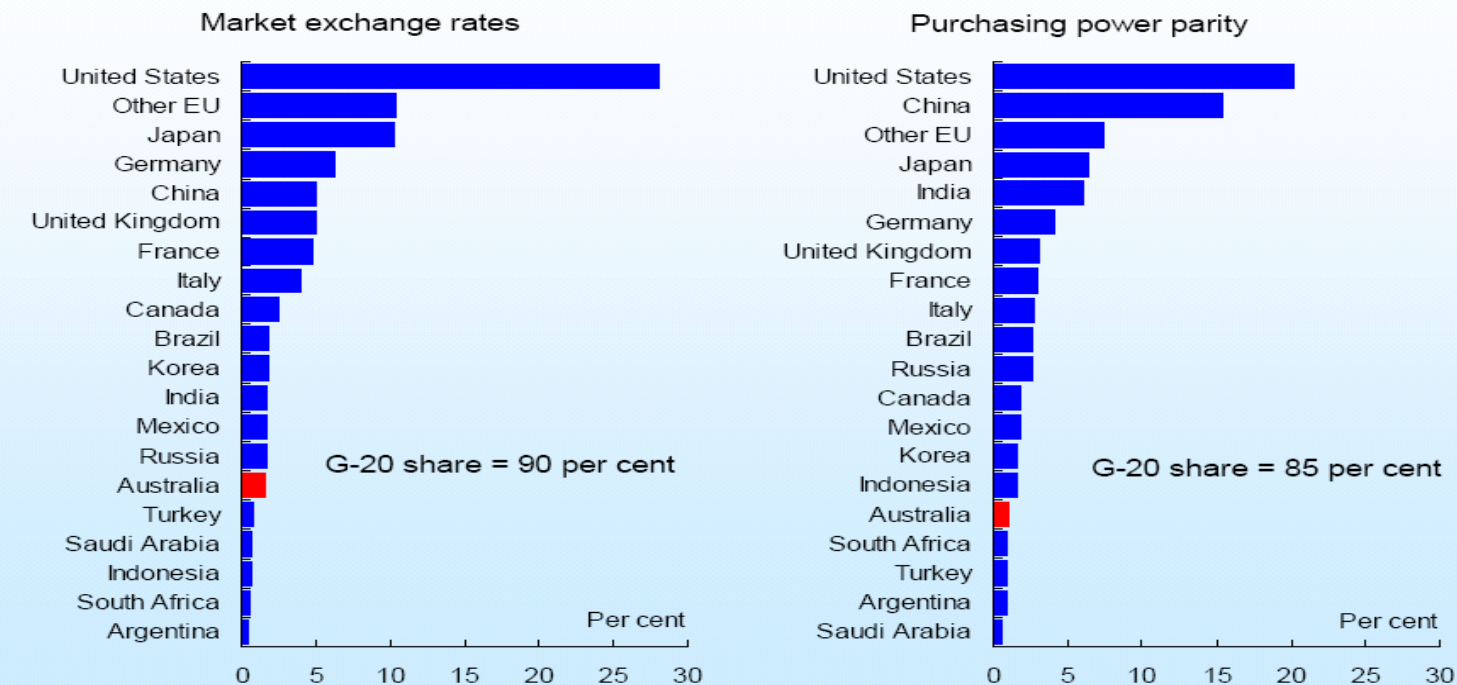
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Depending on how you measure it....

Chart 3: G-20 share of world GDP



The Treasury

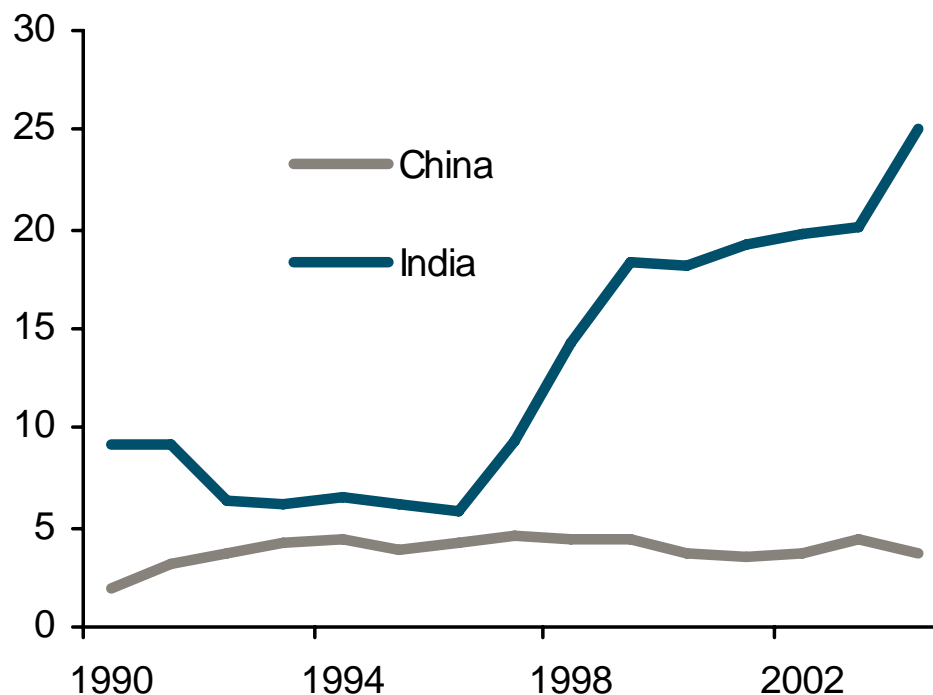


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But India is racing ahead of China in terms of services

Exports of other commercial services

% of total exports

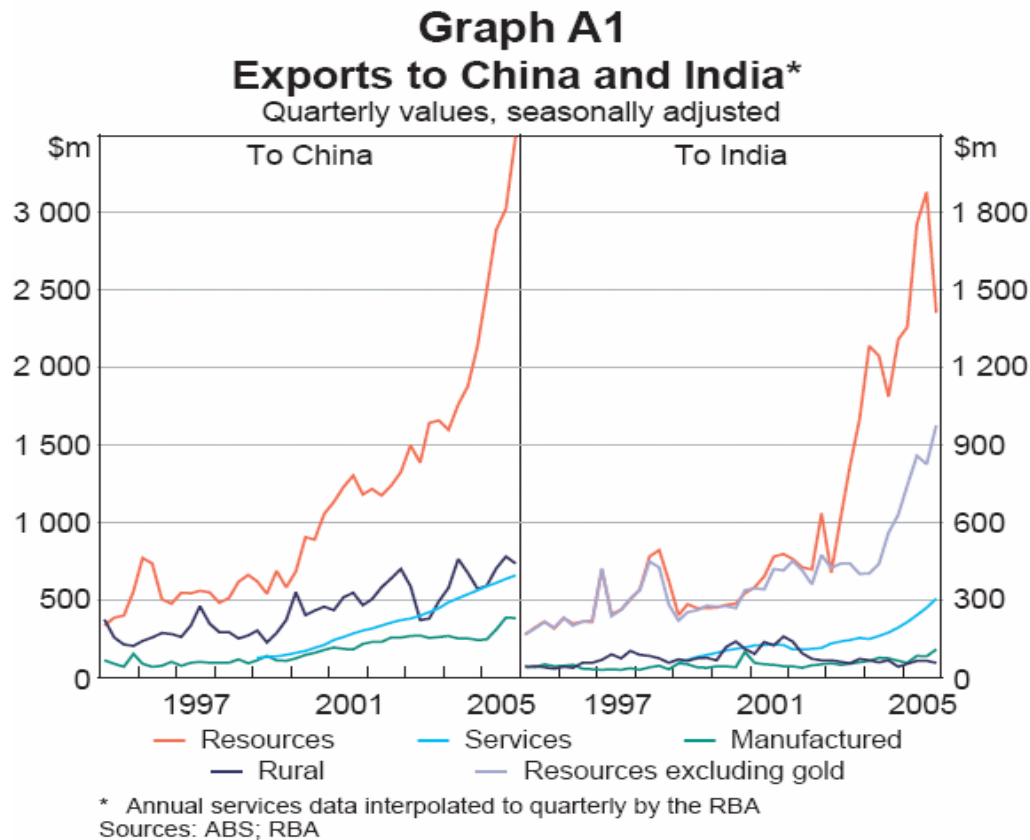


Source: Mark Thirlwell, Lowy Institute, 'Roaring Tiger or Lumbering Elephant', August 2006

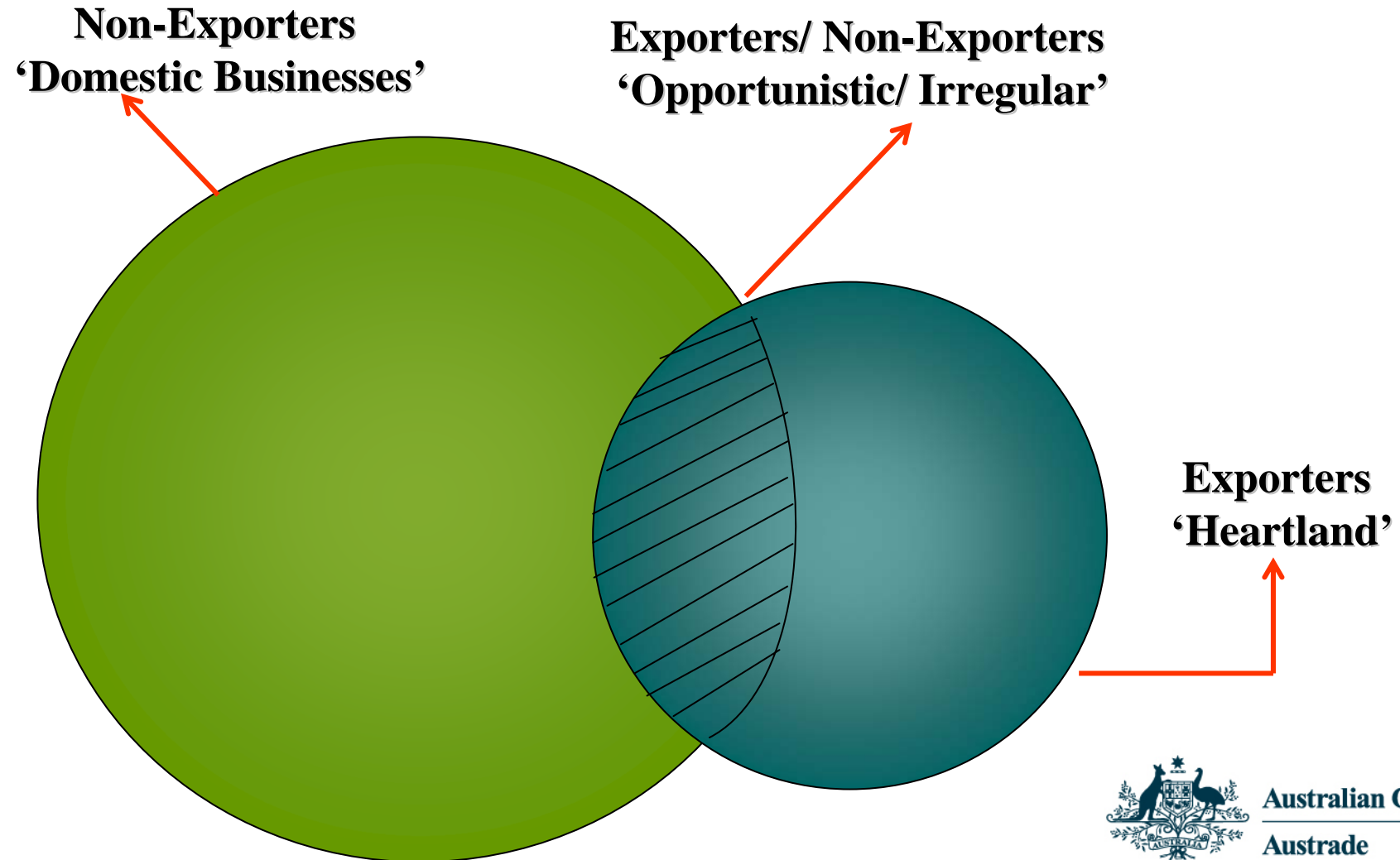


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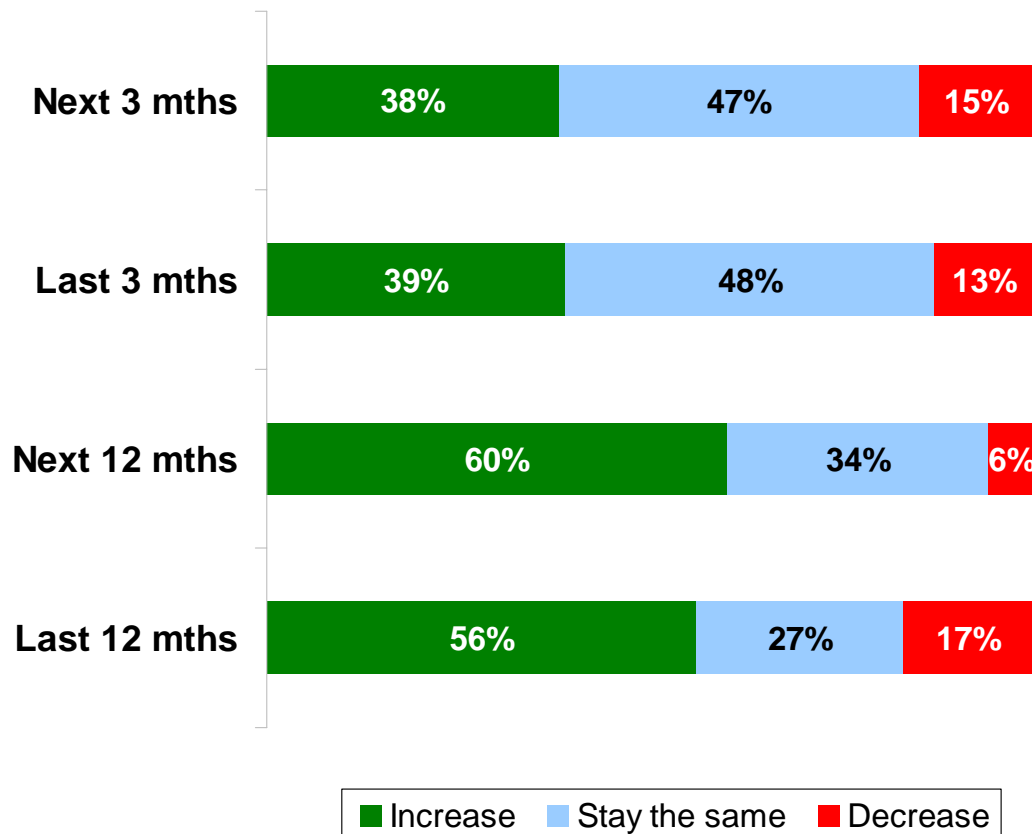
Australia's exports to China and India are rocketing up



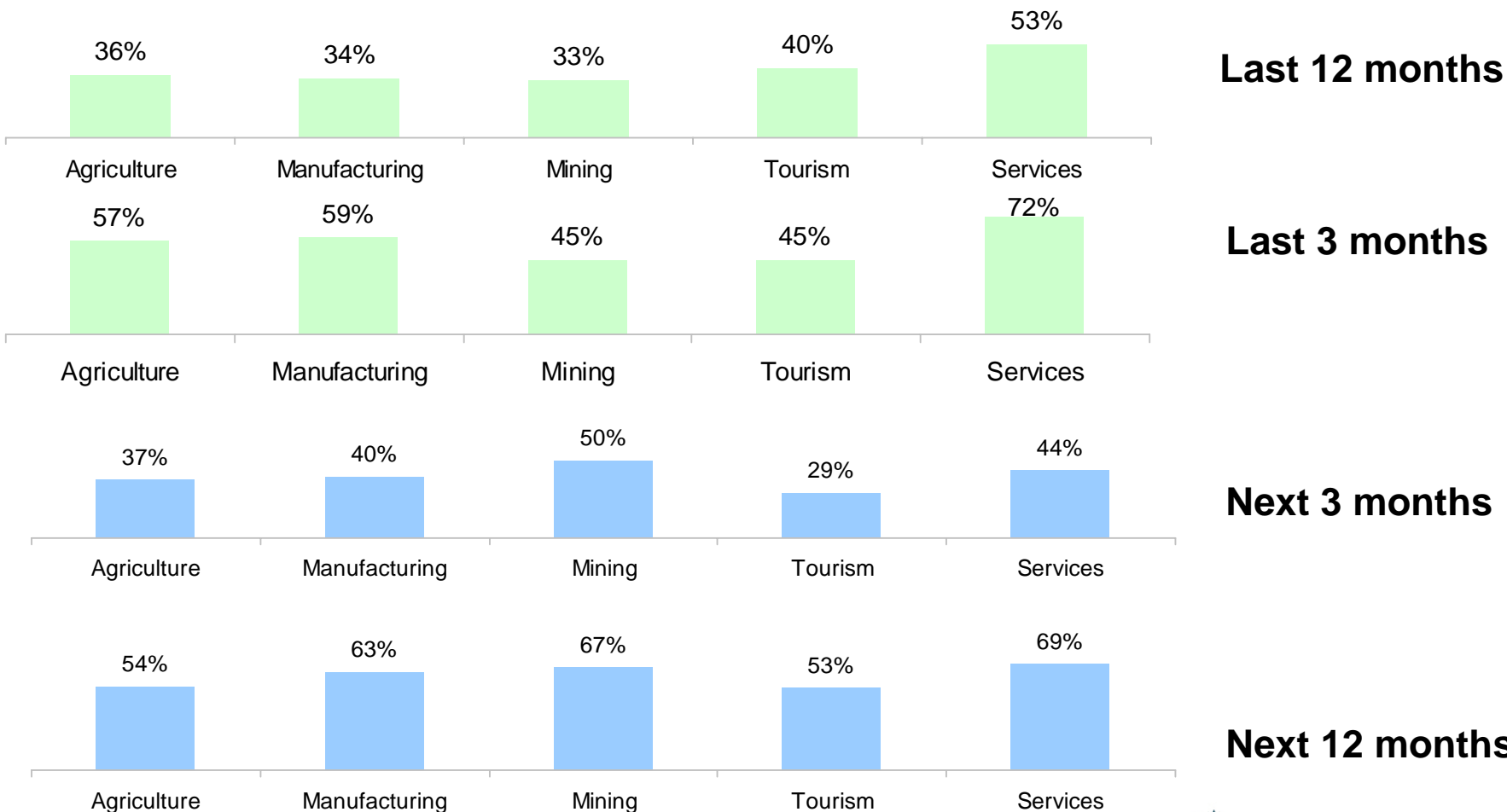
What do the Aussie exporters themselves think?



Keep your sunny side up: the heartland is optimistic...

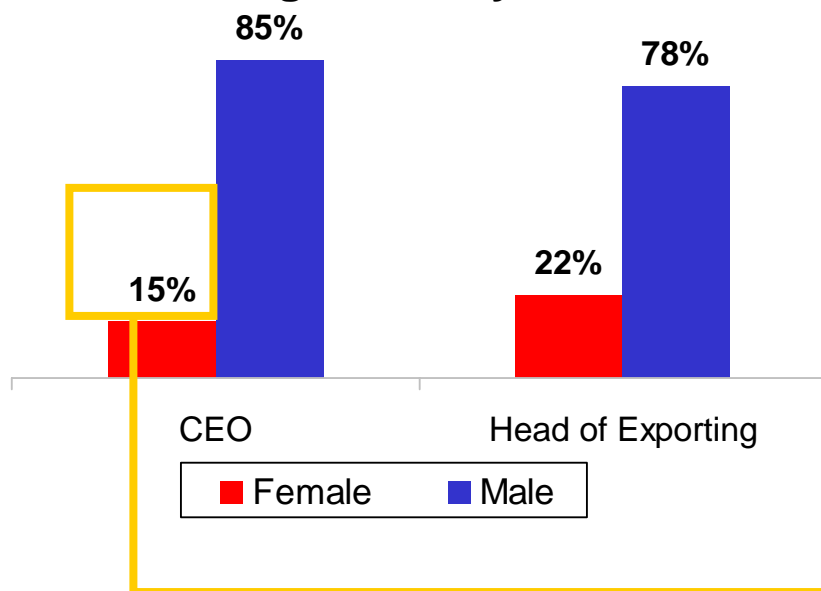


Especially in services and mining...



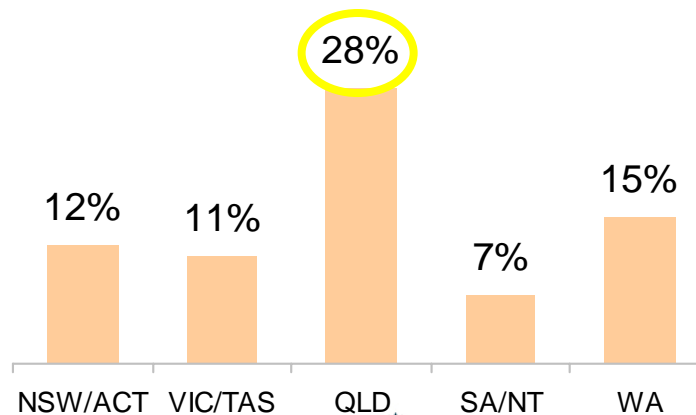
Women are especially important in the 'exporter heartland'

What gender is your ... ?



- Approximately one in five females assume the CEO or Head of exporting role within Australian businesses.
- In QLD, there is a significantly higher proportion of female CEOs in comparison to the other states.

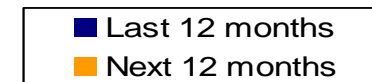
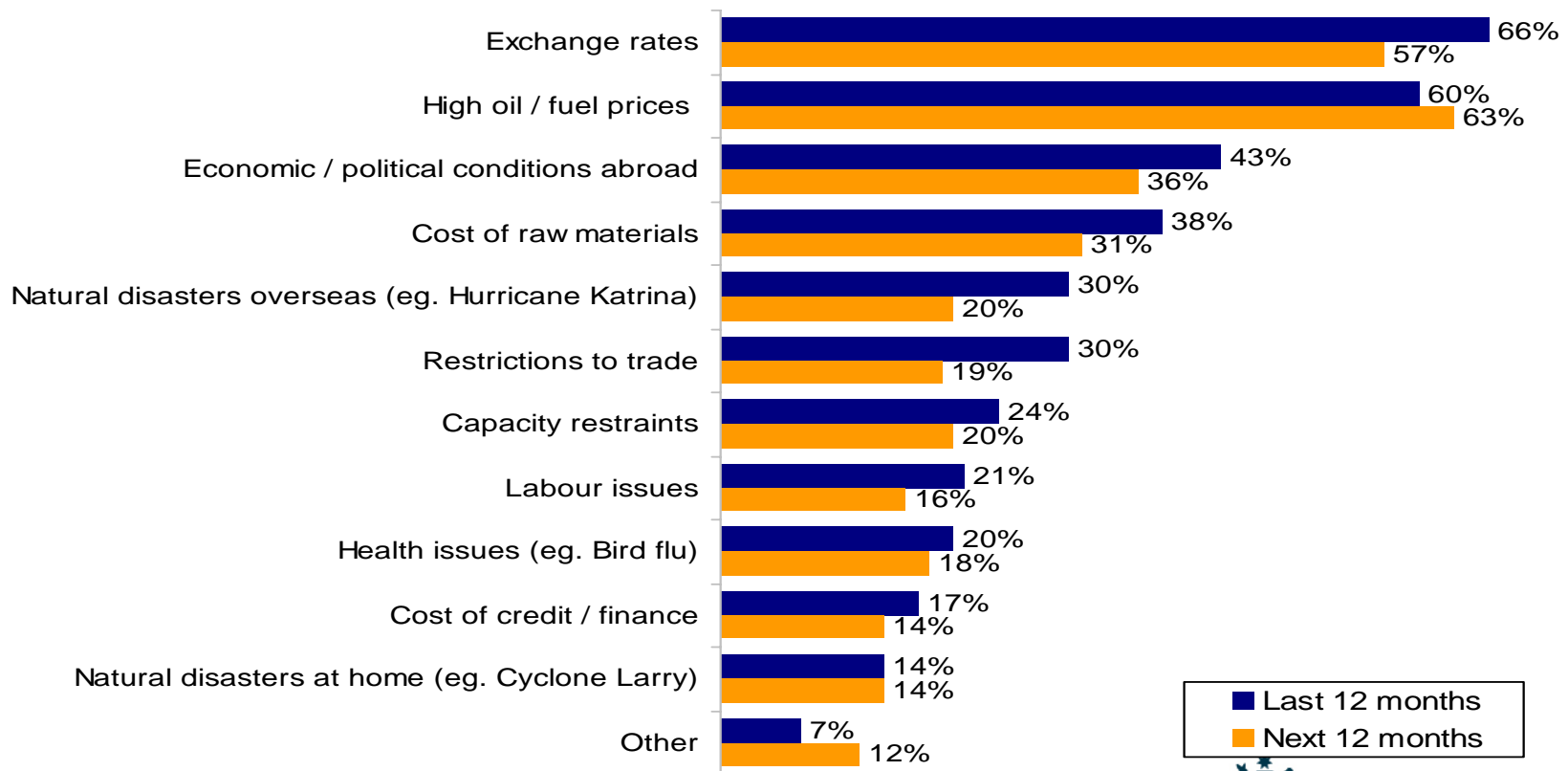
% Female CEOs



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Living in the 70s? Oil prices and exchange rates have also been an issue

- Three in five exporters believe the exchange rate to be the major negative factor impacting their export sales.

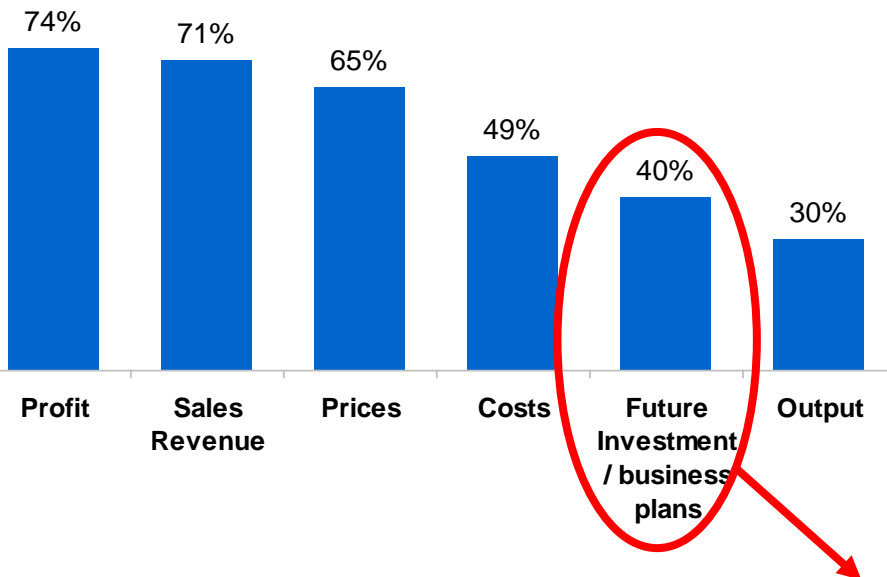


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The exchange rate matters but the heartland still sticks in there

Base=Respondents who have been negatively affected by exchange rates in the past 12 months

Has The Exchange Rate Affected Your ...



- Overall, 23% of all exporters have had to halt or alter their future investment plans due to unfavourable movements in the exchange rate.

Exchange rate has affected ...

(Base = ALL exporters)

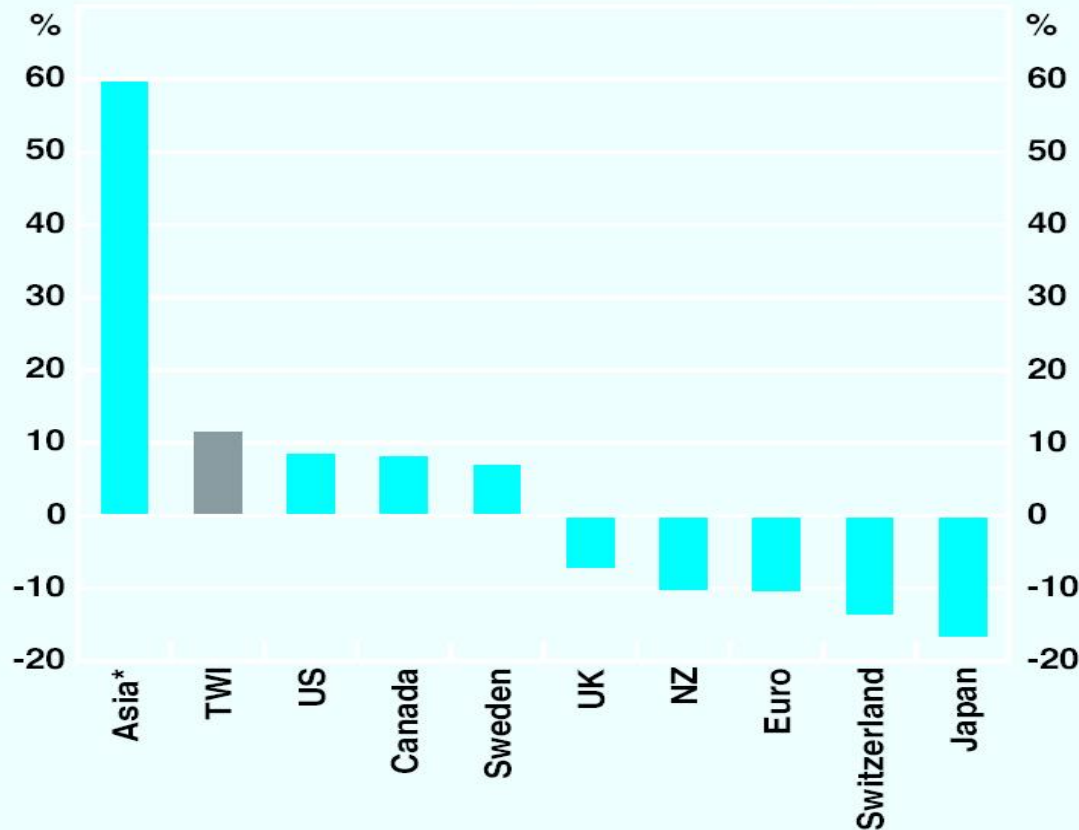
23%



Future investment/ business plans

All in all, Australian exporters have been able to handle long terms fluctuations in exchange rates

**Australian Dollar Against Selected
TWI Currencies**
Deviations from post-float averages



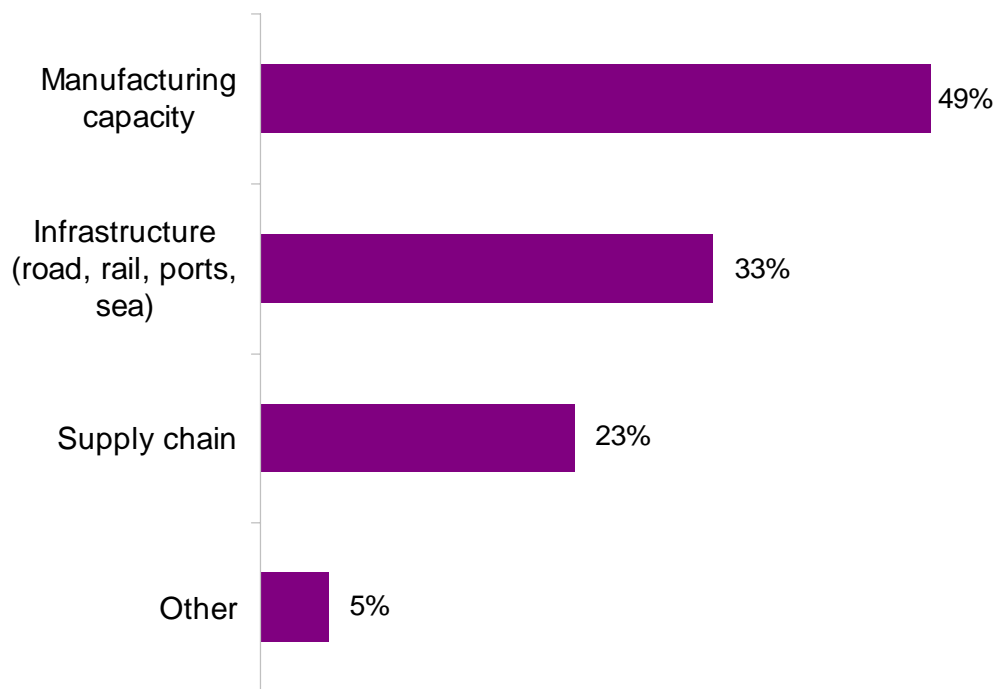
* China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and PNG
Sources: RBA; IMF



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It is also a question of capacity

What type of capacity constraint have you been affected by?



**With Australia's unemployment rate is at a 30 year low
are being labour shortages widely reported**



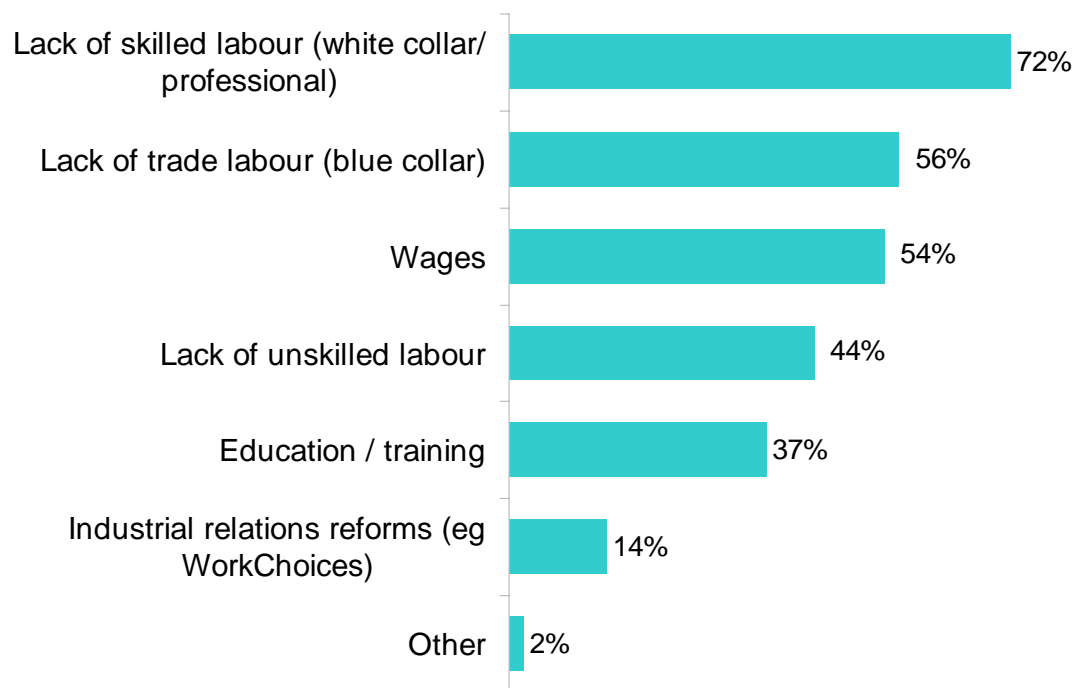
Source: ABS.



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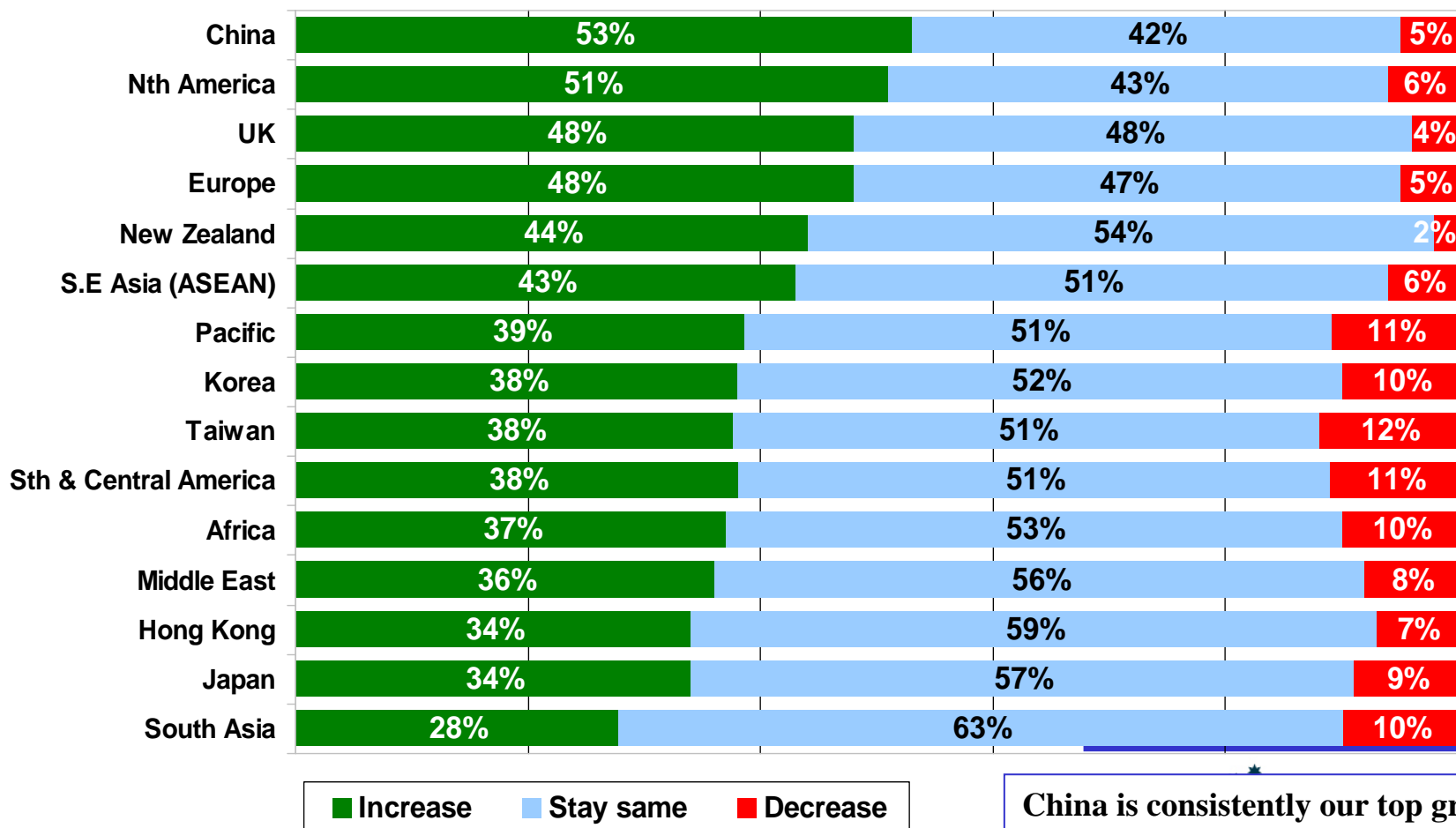
What about the workers? Like all employers, exporters are facing labour shortages

What type of labour issues have you been affected by?



The 'heartland' of exporter-land consistently rates China highly

Changes to export orders over the next 12 months by region



China is consistently our top growth exporting destination.

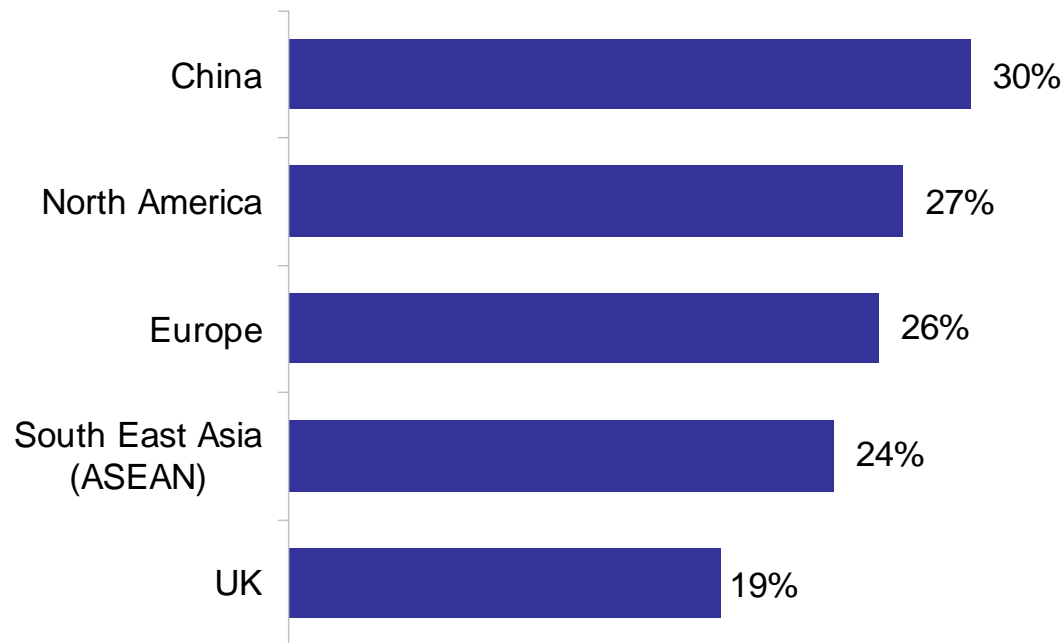
**Our surveys show a fair bit of ‘panda-hugging’
amongst both exporters and importers**



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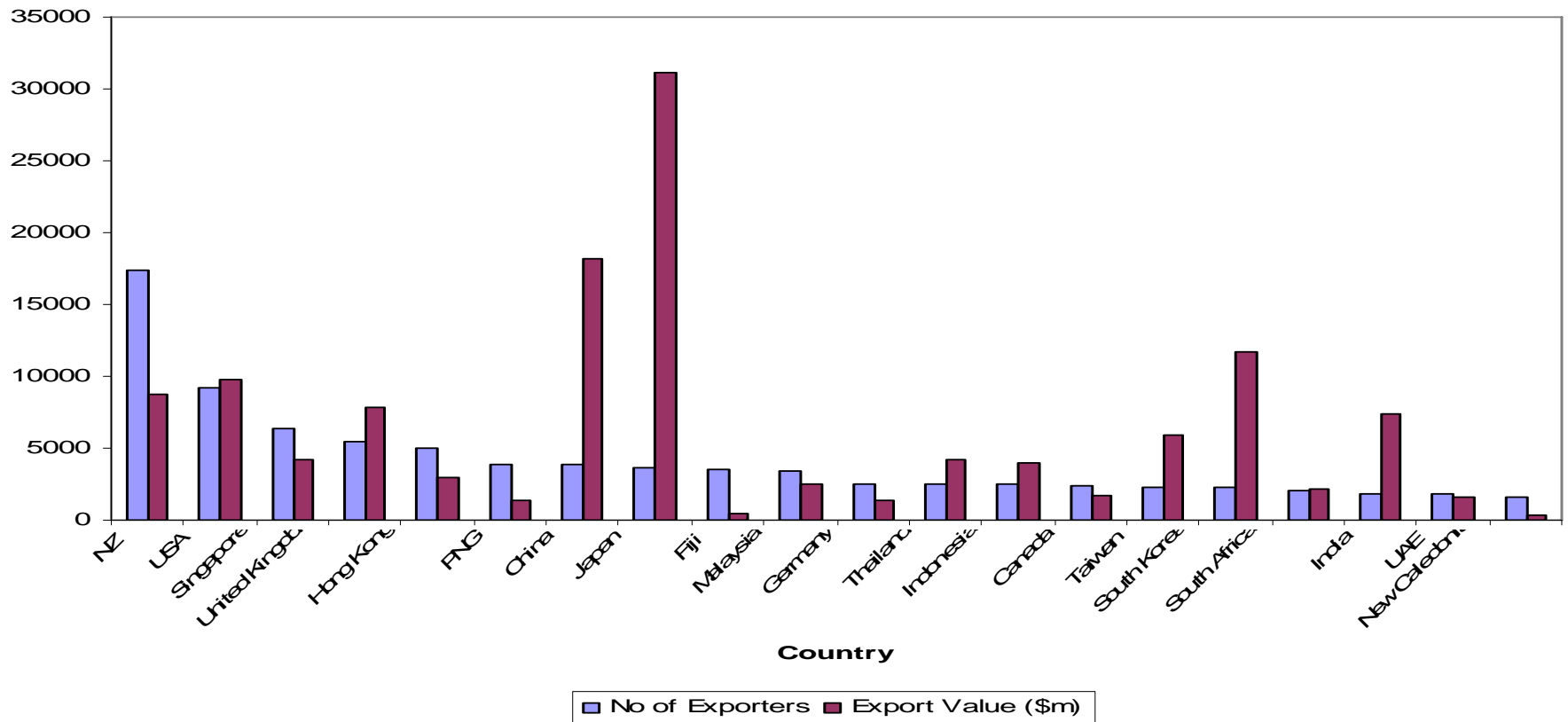
And this is likely to continue into the future

Top 5 exporting destinations in the future

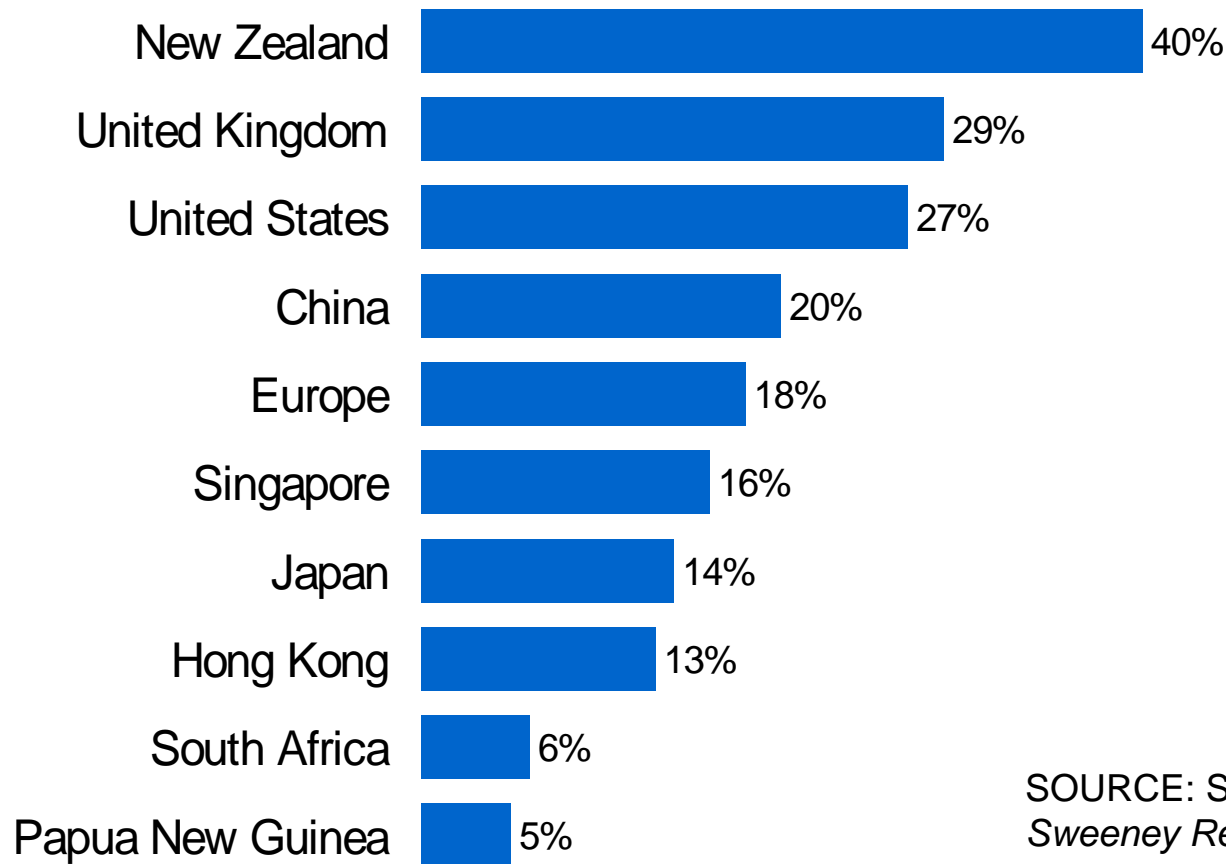


China is a 'chart buster' in terms of exporter numbers

Australia's Top 20 Exporter Destinations



China is also making headway with small and medium sized exporters too



SOURCE: Sensis[®] *Business Index*
Sweeney Research – August 2006

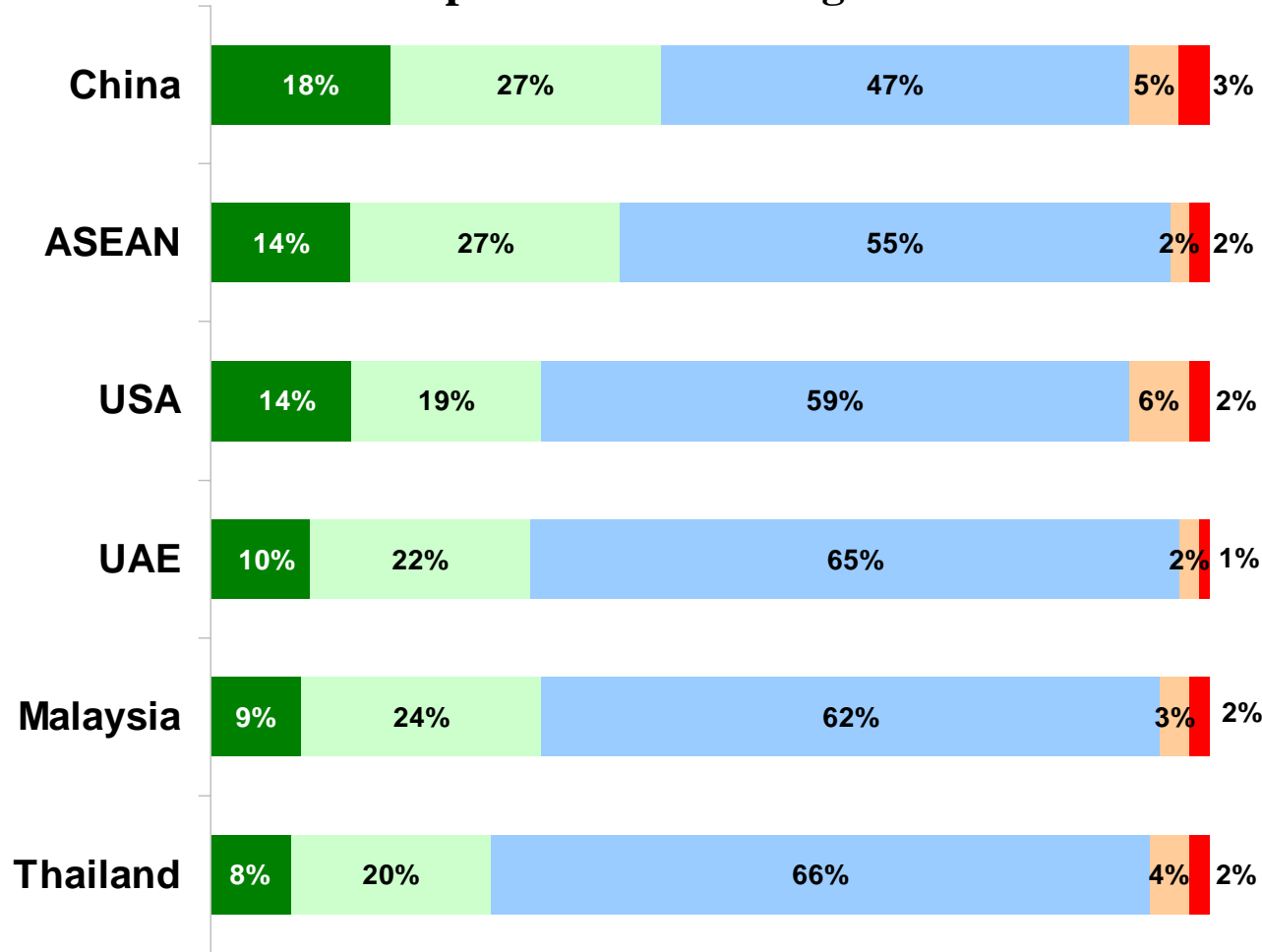
Base : Exported goods or services overseas in last three months
All other answers less than 3%



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The China and ASEAN FTAs always rate as positively in the polls

Impact on your business of FTAs or Closer Economic Partnership with the following countries



- FTAs with China and ASEAN will have the most positive impact for Australian exporters.

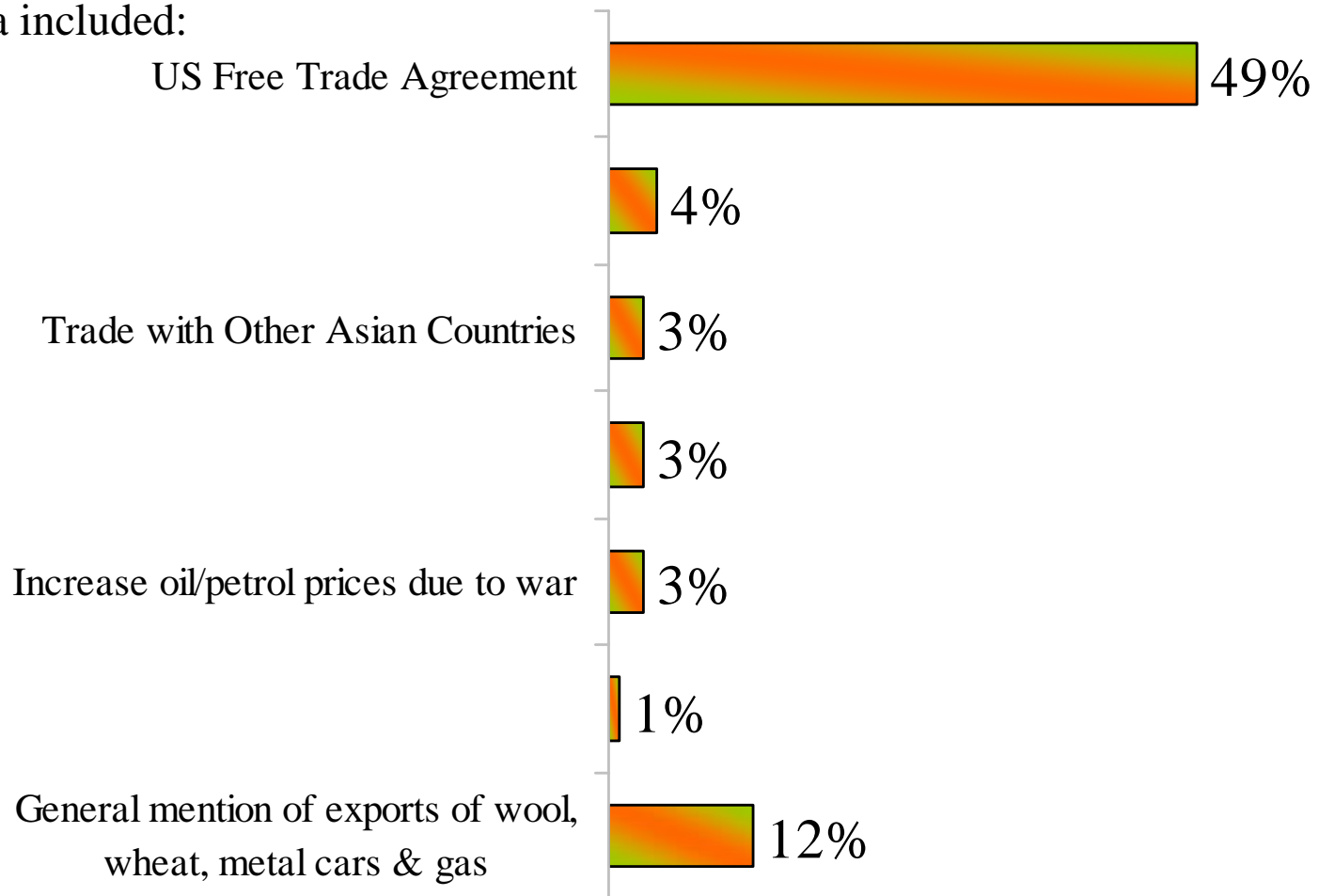
Very positive impact
Somewhat positive impact
Neither
Somewhat negative impact
Very negative impact



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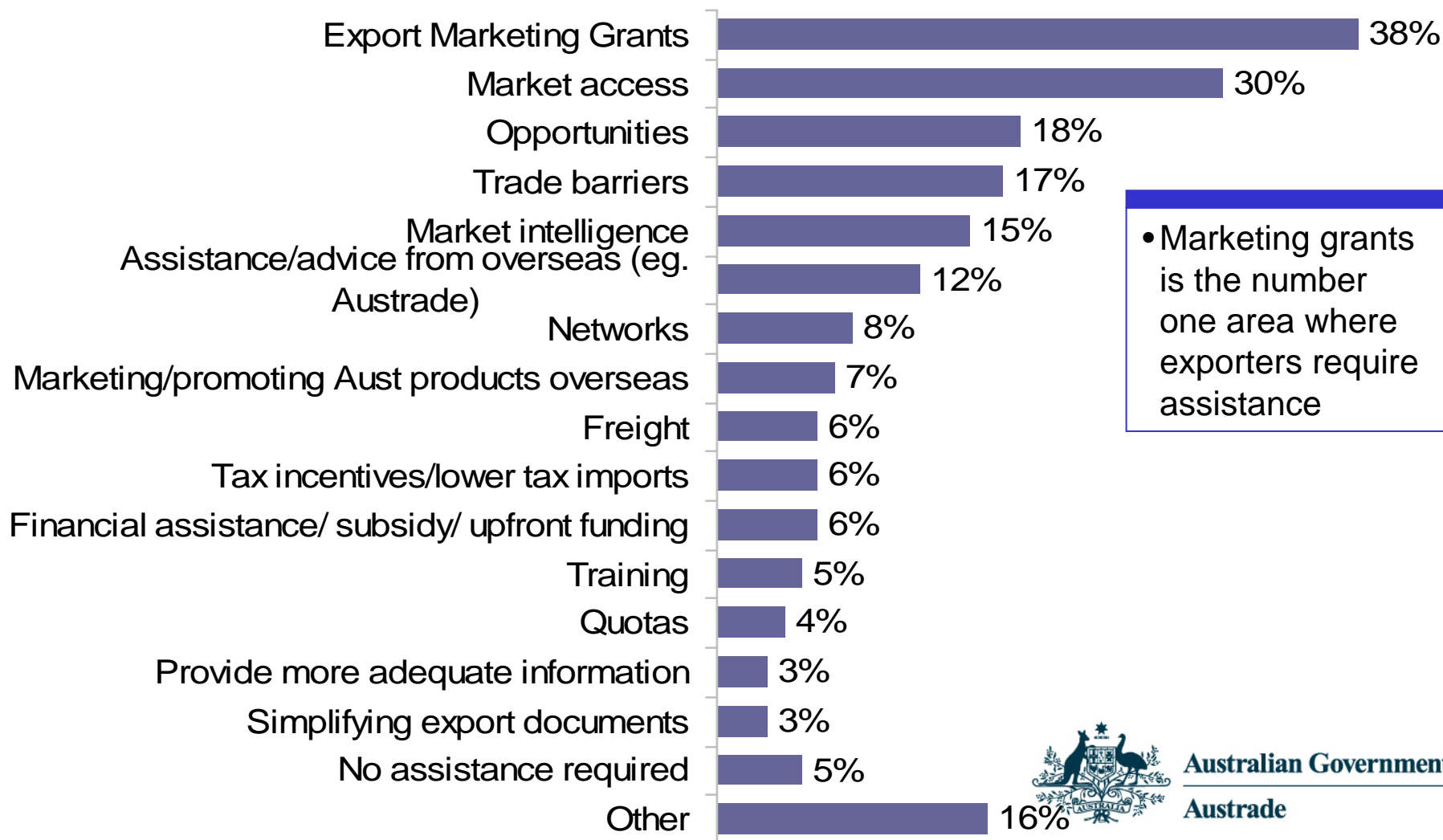
FTAs certainly help to generate press coverage on trade

- stories nominated from those that said they had had recalled hearing or seeing in the media included:

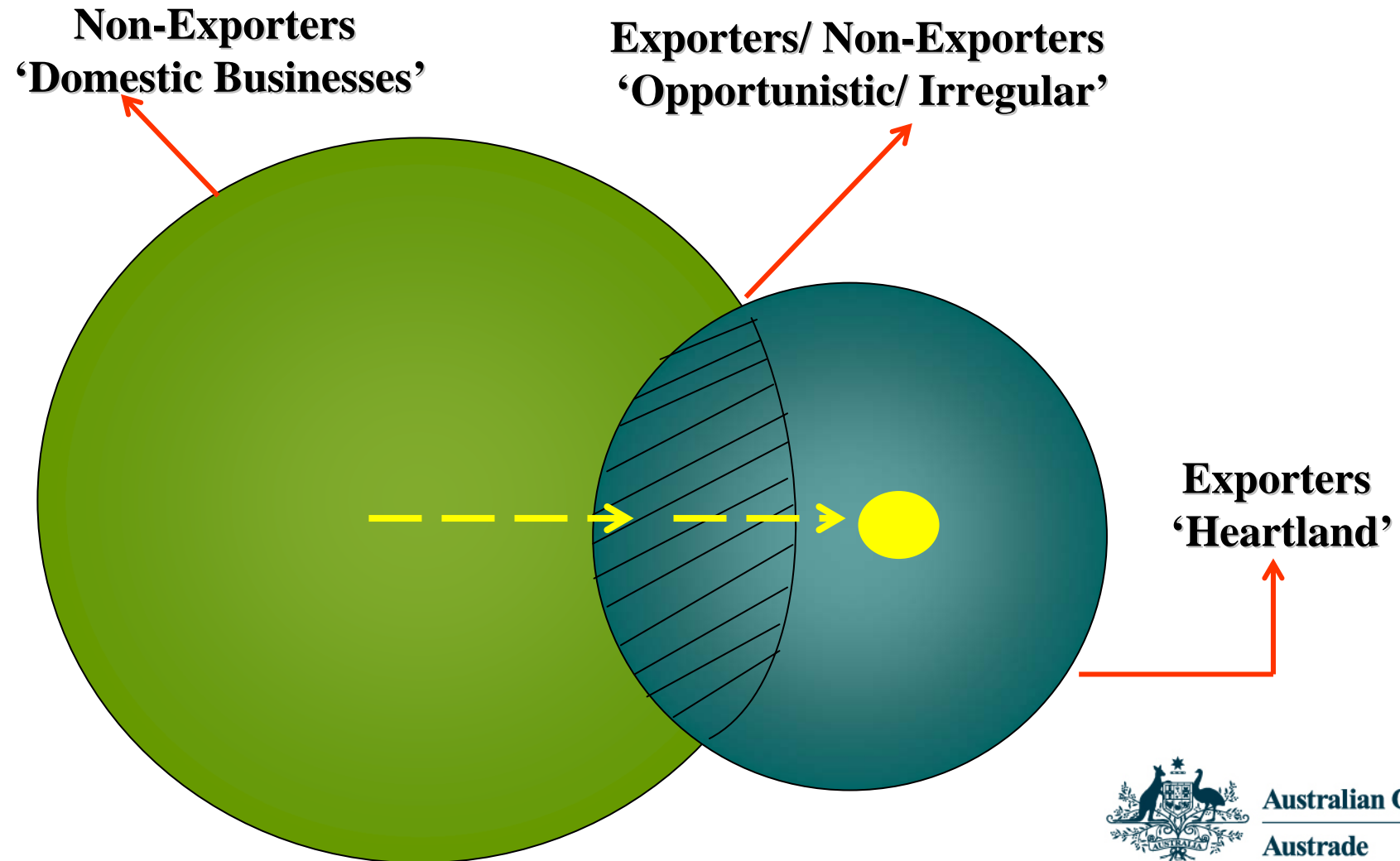


What do heartland exporters want? *Show me the money!*

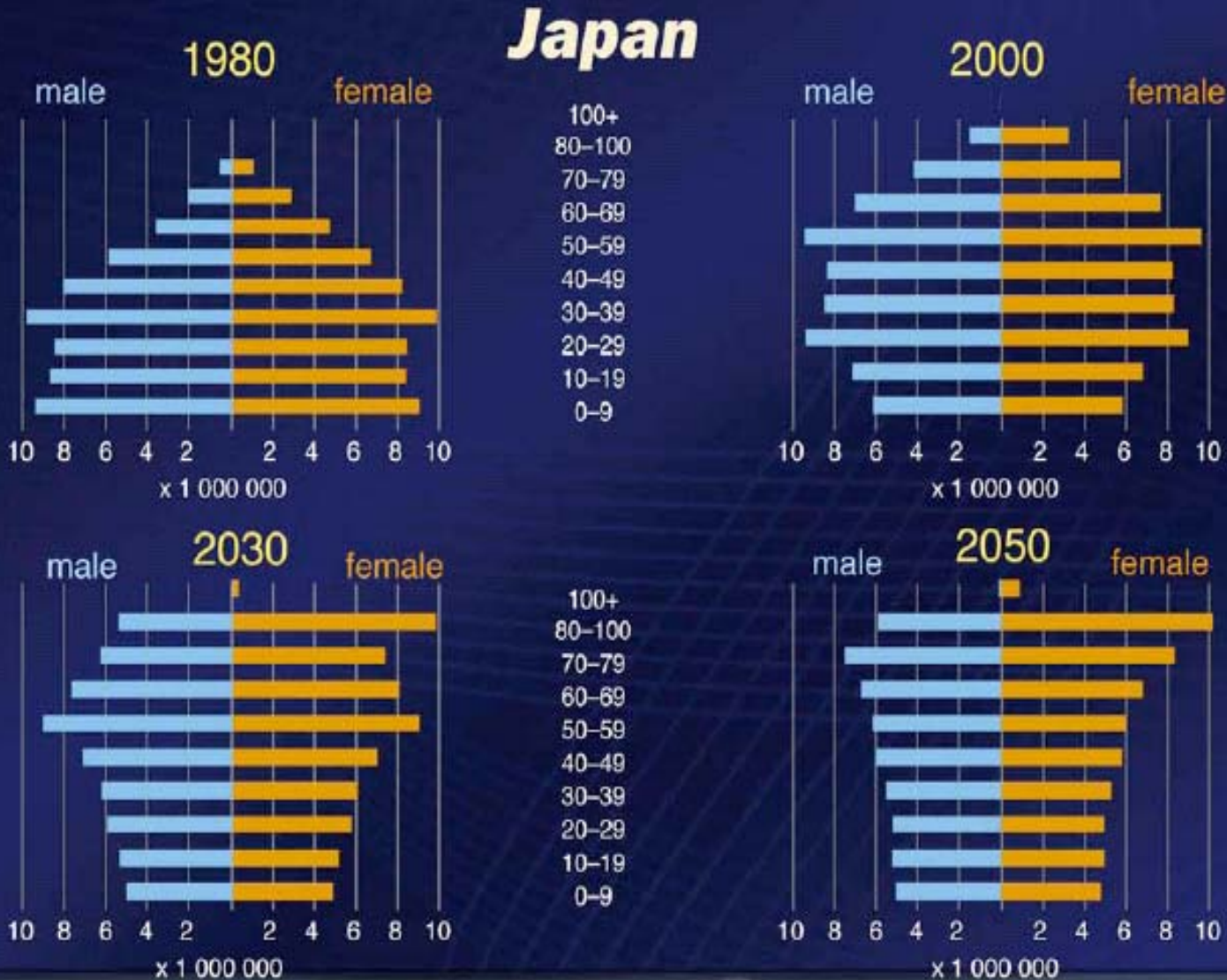
Areas the government can assist exporters (unprompted)



The key is to keep growing the exporter 'heartland'



Japan: Land of the greying sun?

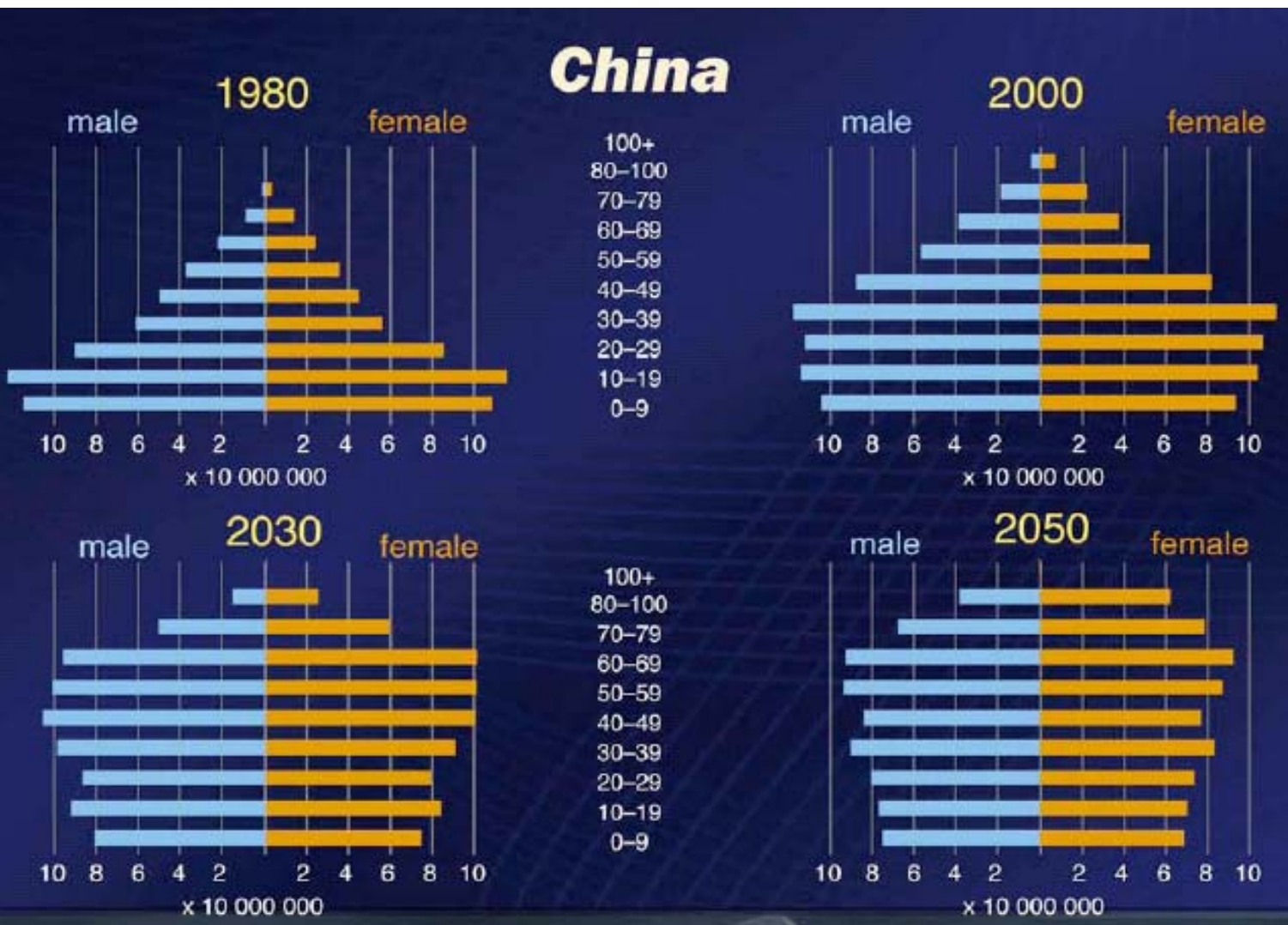


Source: ABARE

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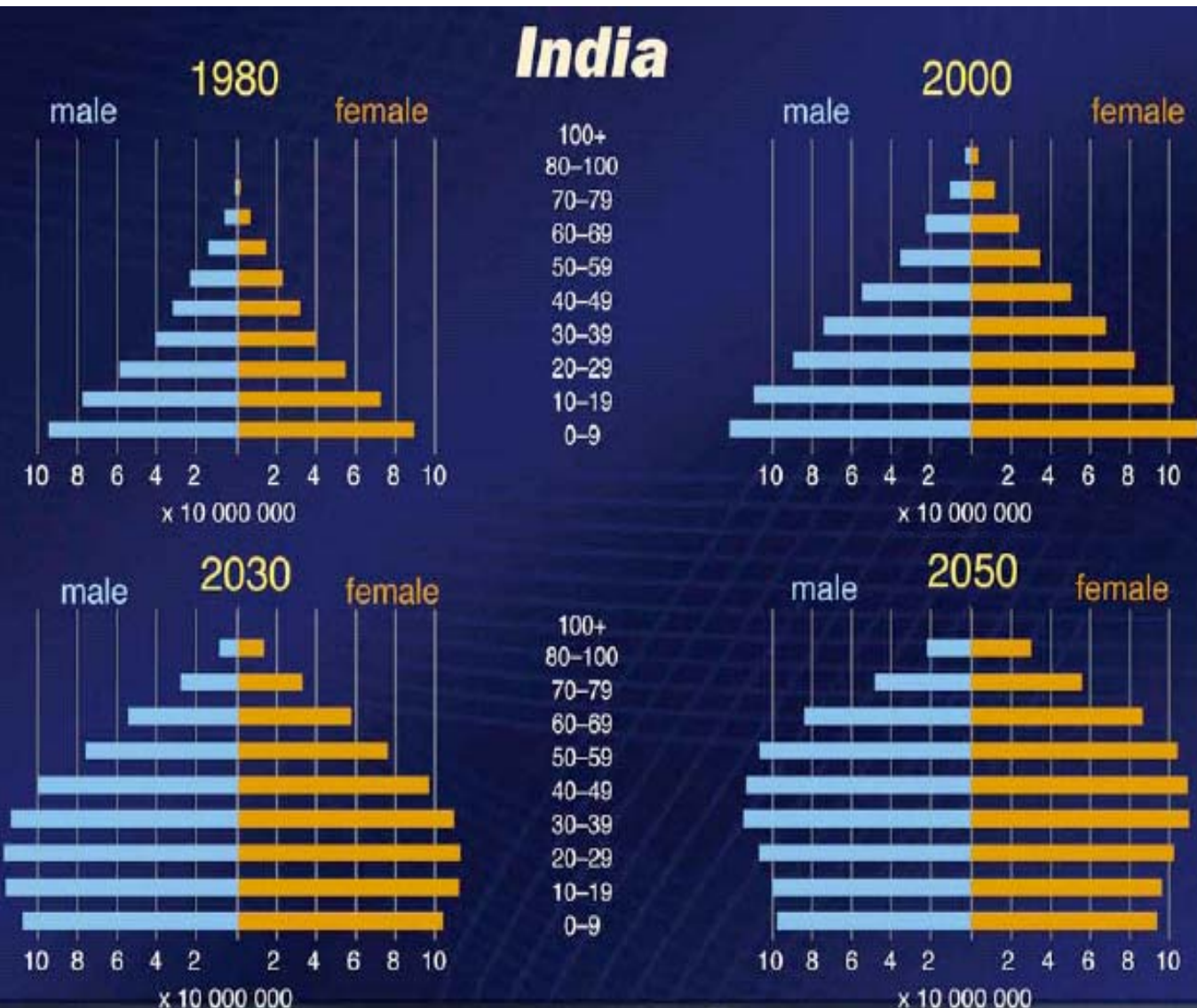
China: getting old before they get rich?



Source: ABARE

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India: Poppadom preach?



Source: ABARE



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Acknowledgements

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Frank Bingham Department of Foreign Affairs and Trade

Betty Mai ACA

Christena Singh Sensis

**See: www.austrade.gov.au/economistscorner
for links to their research**



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