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Beyond the Boom - Australia's Trading Future

Beyond Our Shores

Tim Harcourt, Chief Economist, Australian Trade Commission





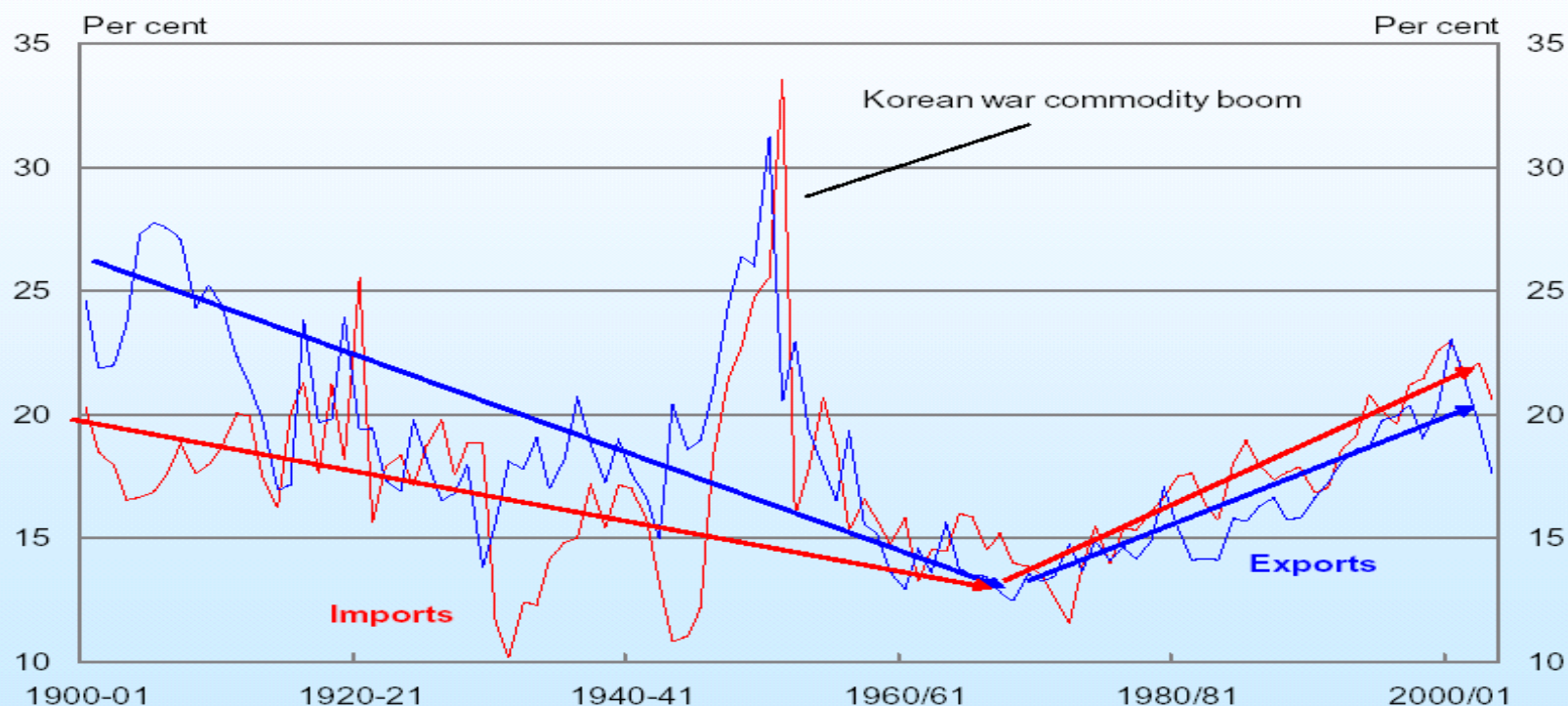
BEYOND OUR SHORES

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



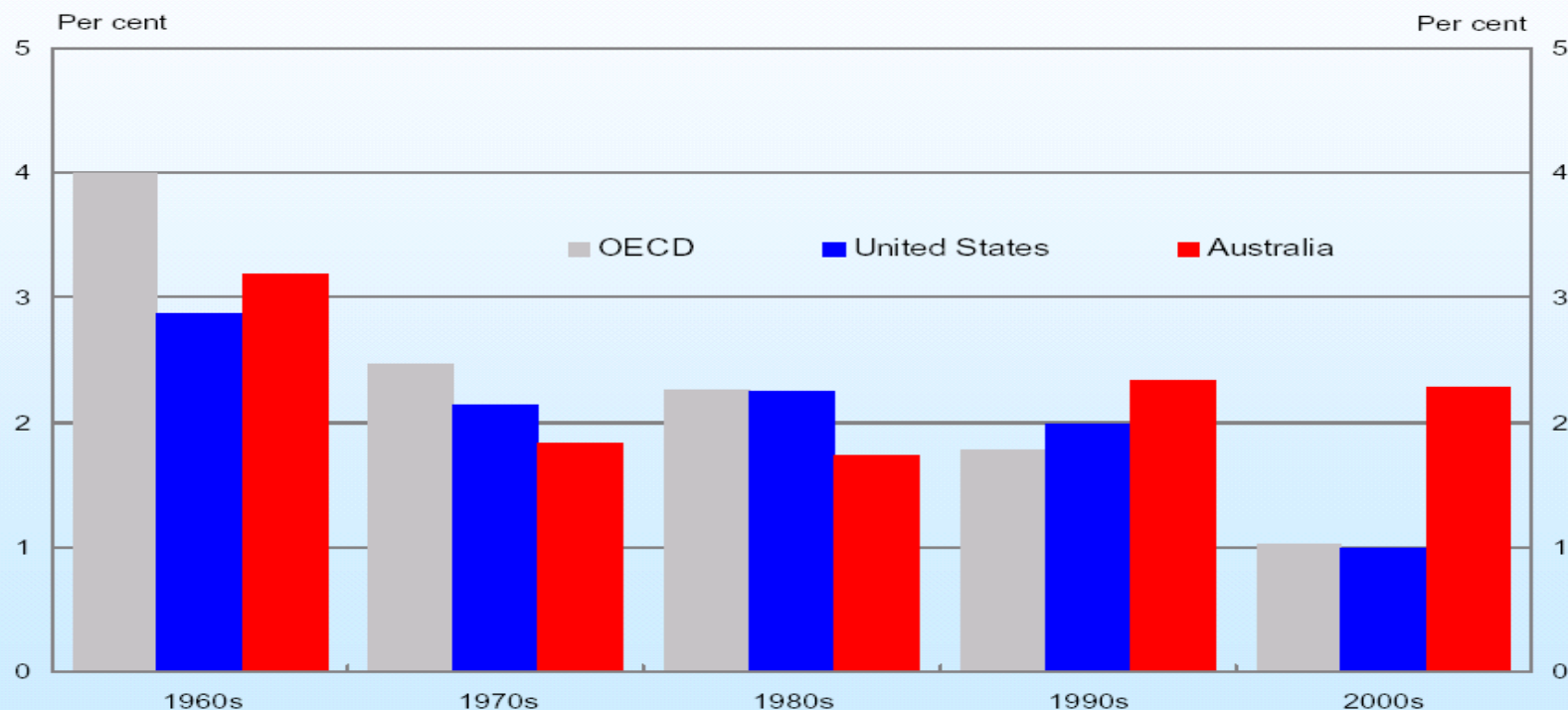
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And despite the anxiety about trade issues and globalisation.....



Trade has been associated with higher living standards

Per Capita GDP Growth

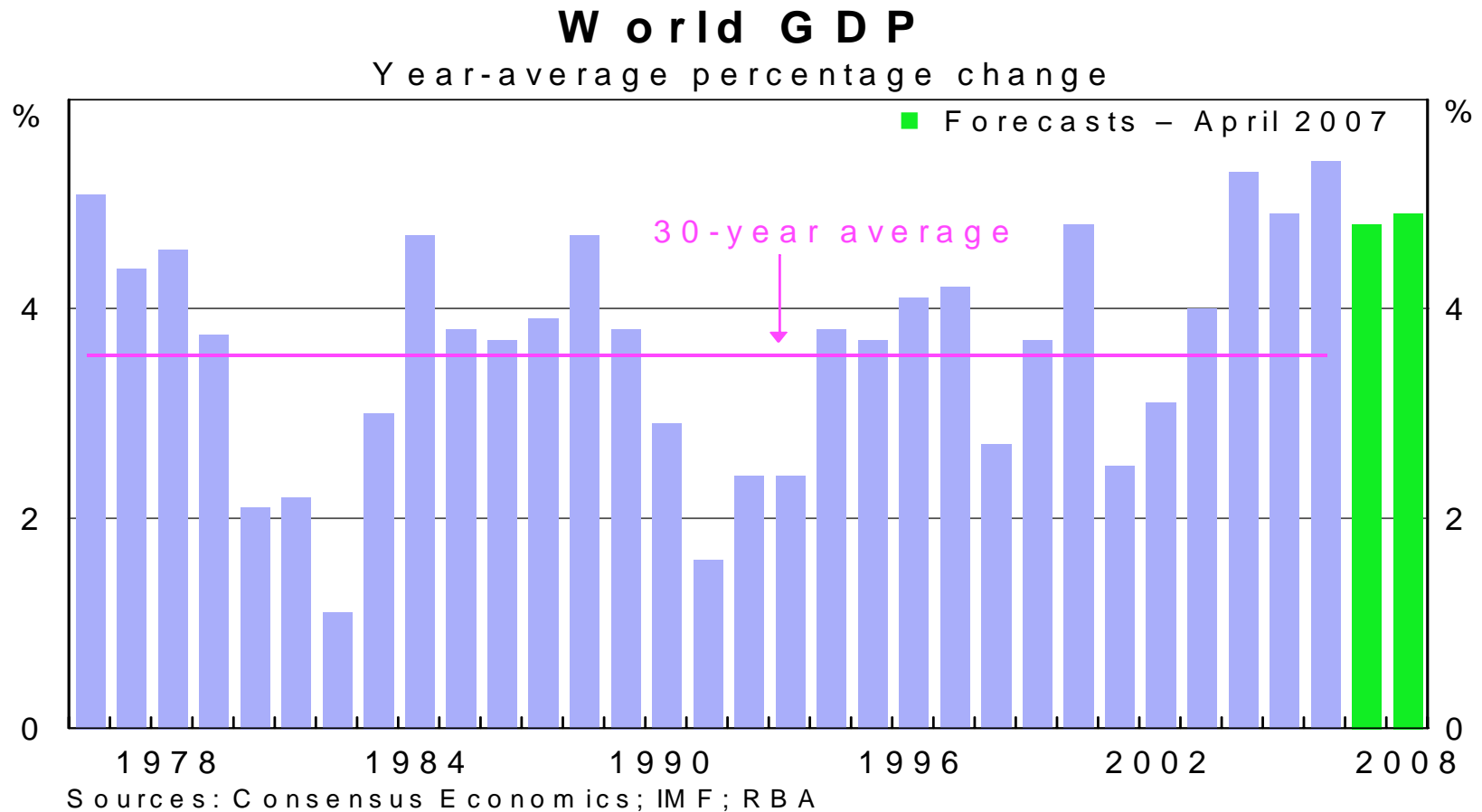


Source: Groningen Growth and Development Centre and The Conference Board



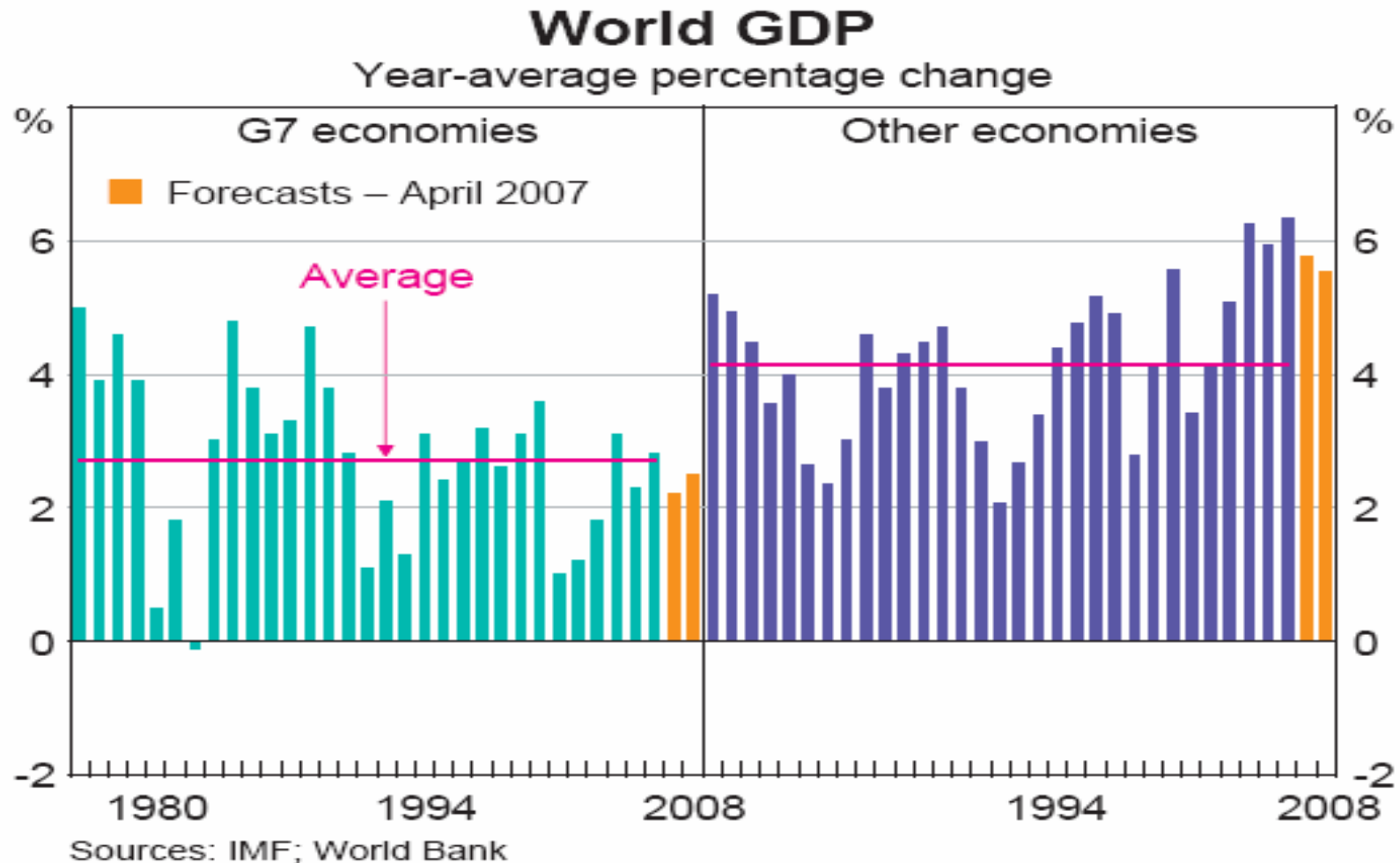
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At the macroeconomic level the current outlook is a mixture of demand and supply influences

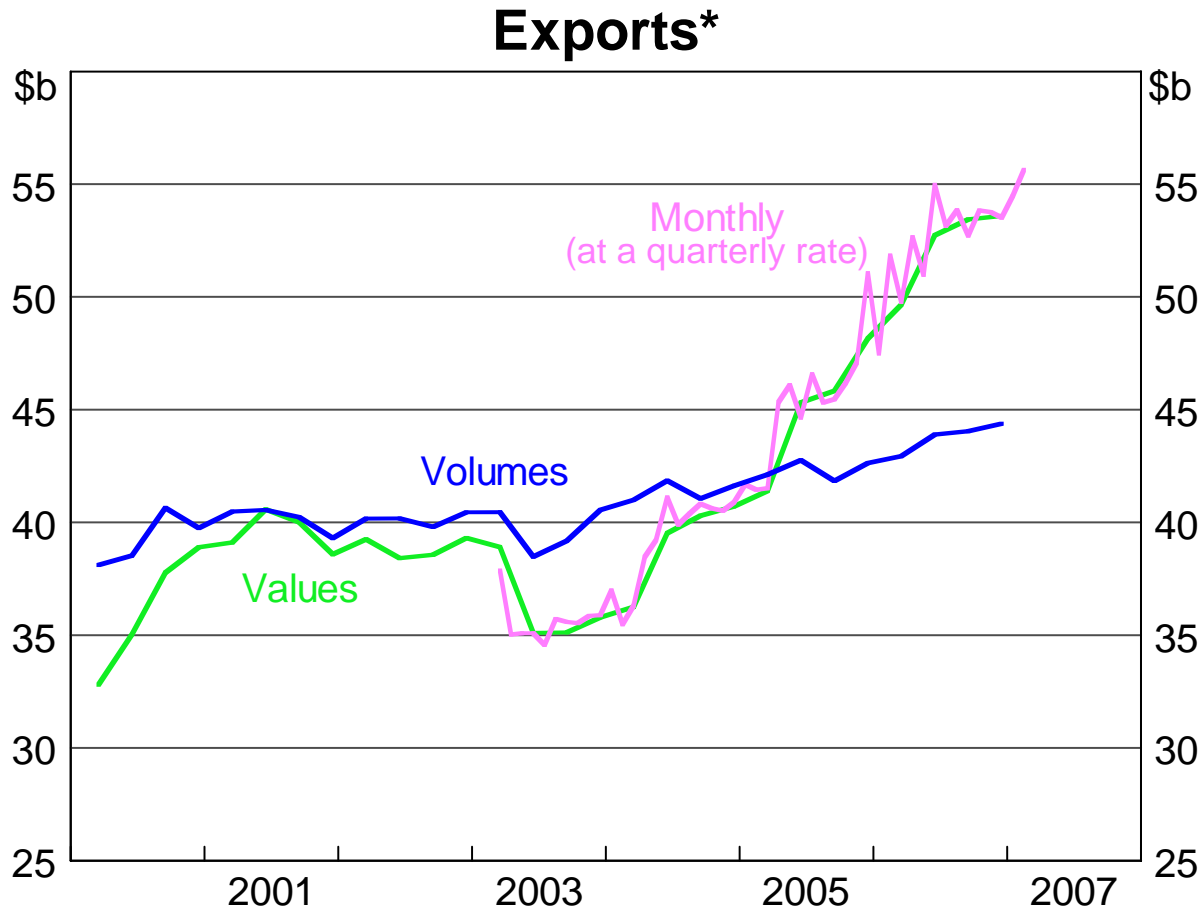


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The emerging economies are doing much of the heavy lifting



Export values have been fuelled by the resources boom



* Excludes RBA Gold
Sources: ABS; RBA

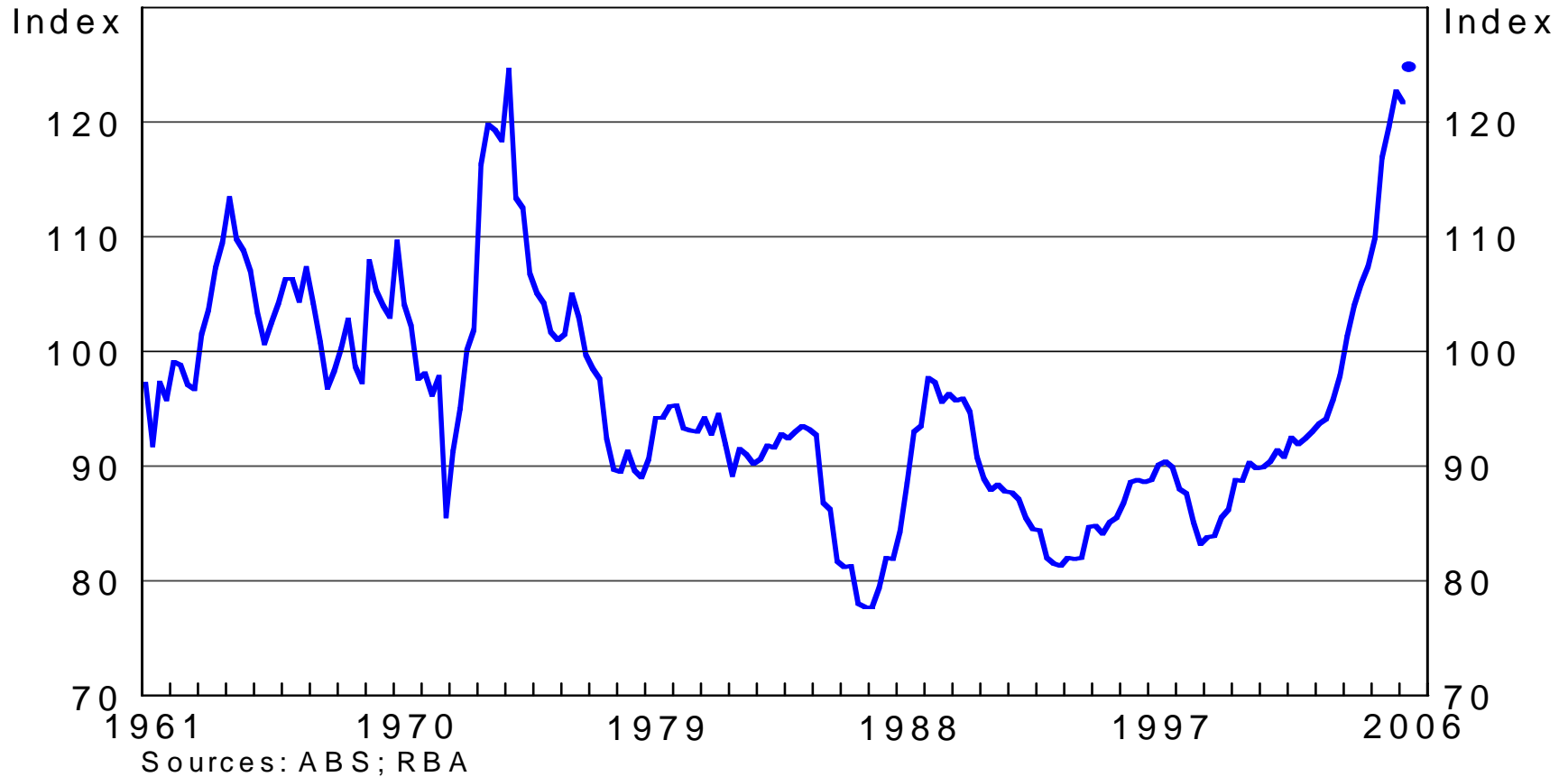


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Australia's terms of trade are at a 30 year high

Terms of Trade

2003/04 = 100

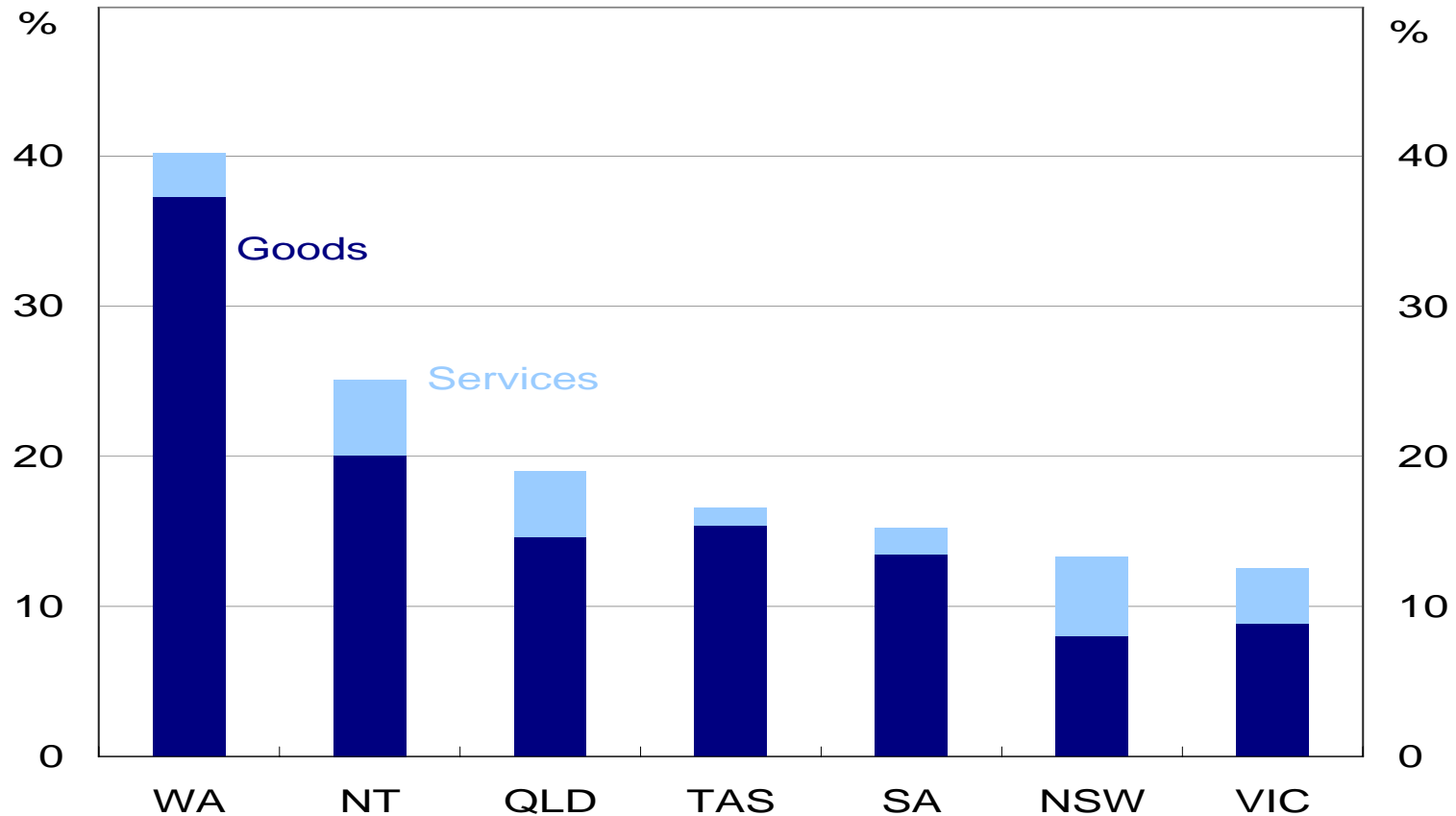


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The export-dependent states are riding the boom

External Sector Dependence

Exports as share of GSP; 2004-05



Source: ABS

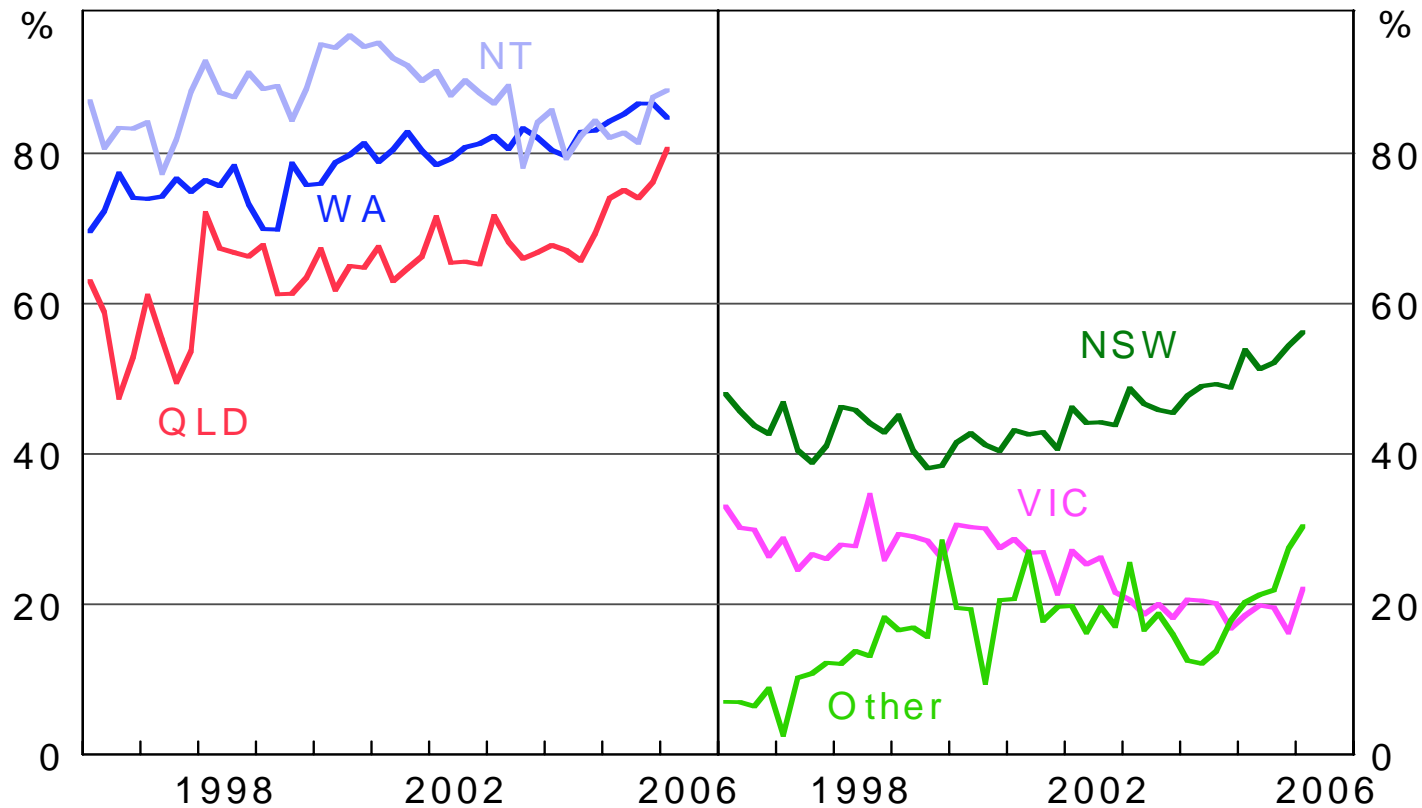


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Especially the resource-rich states - a tale of two economies?

Intensity of Resource Exports

Share of merchandise exports by state



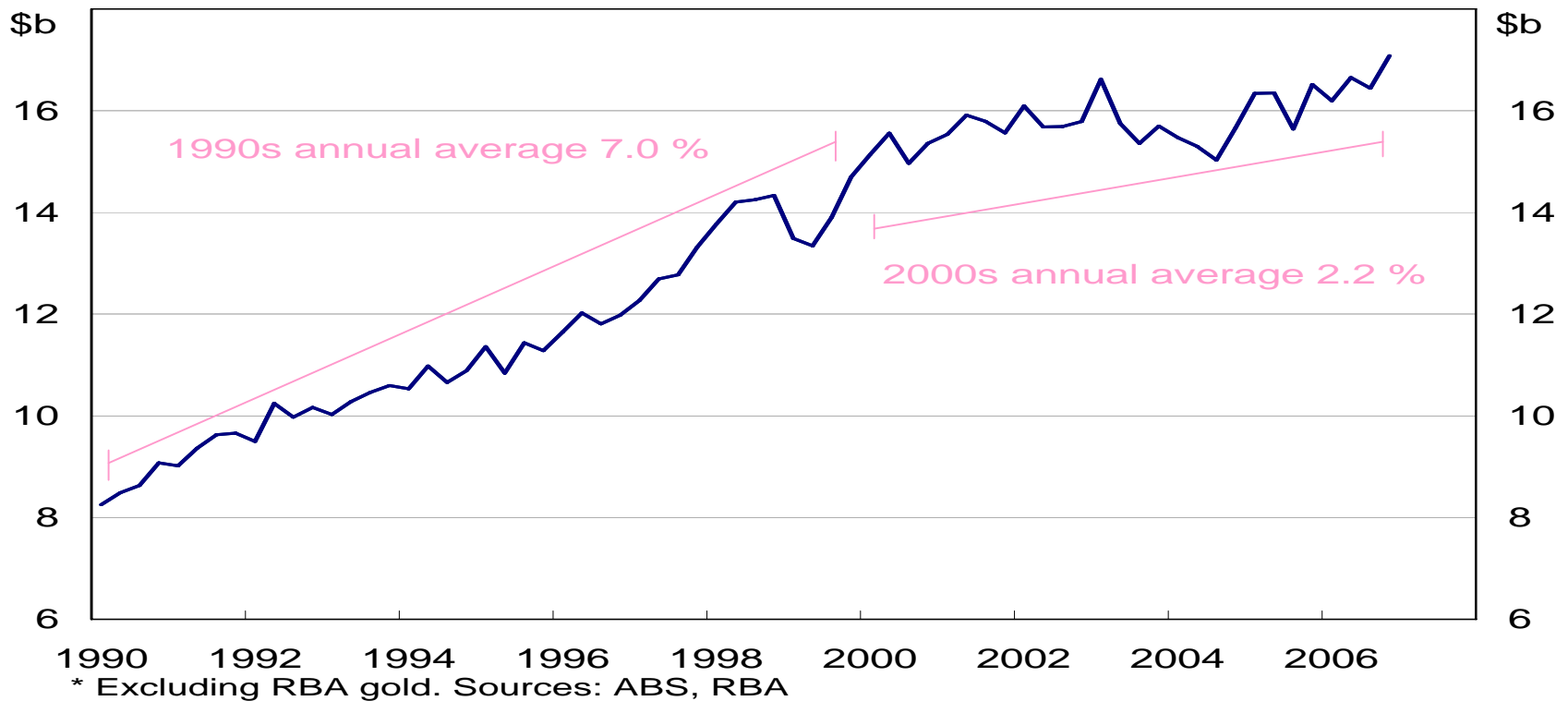
Source: ABS



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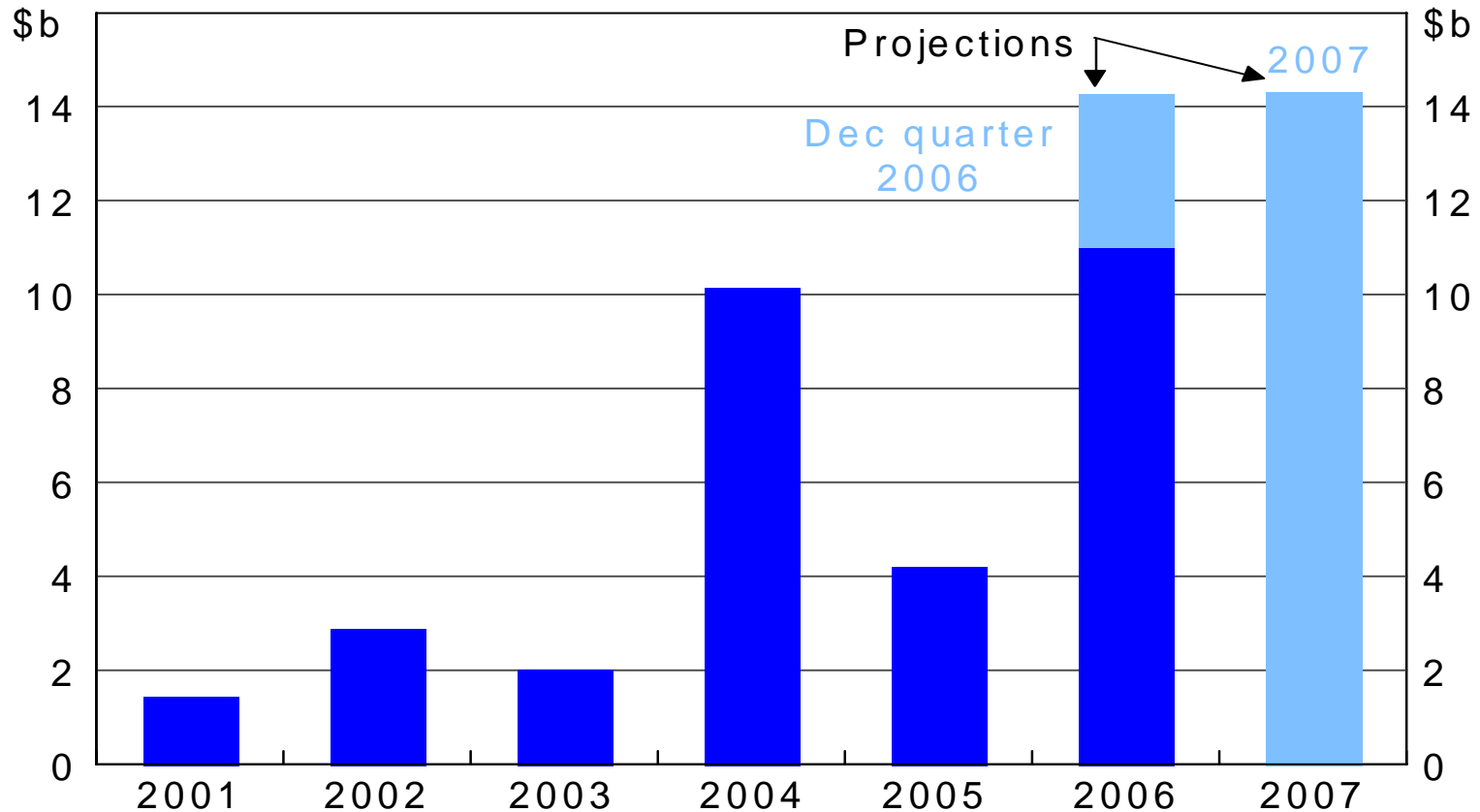
Taking a walk on the supply side - the issue of bottlenecks or 'capacity constraints' has become topical

Resource Exports*
Chain volumes, seasonally adjusted



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

Value of Completed Resource Projects



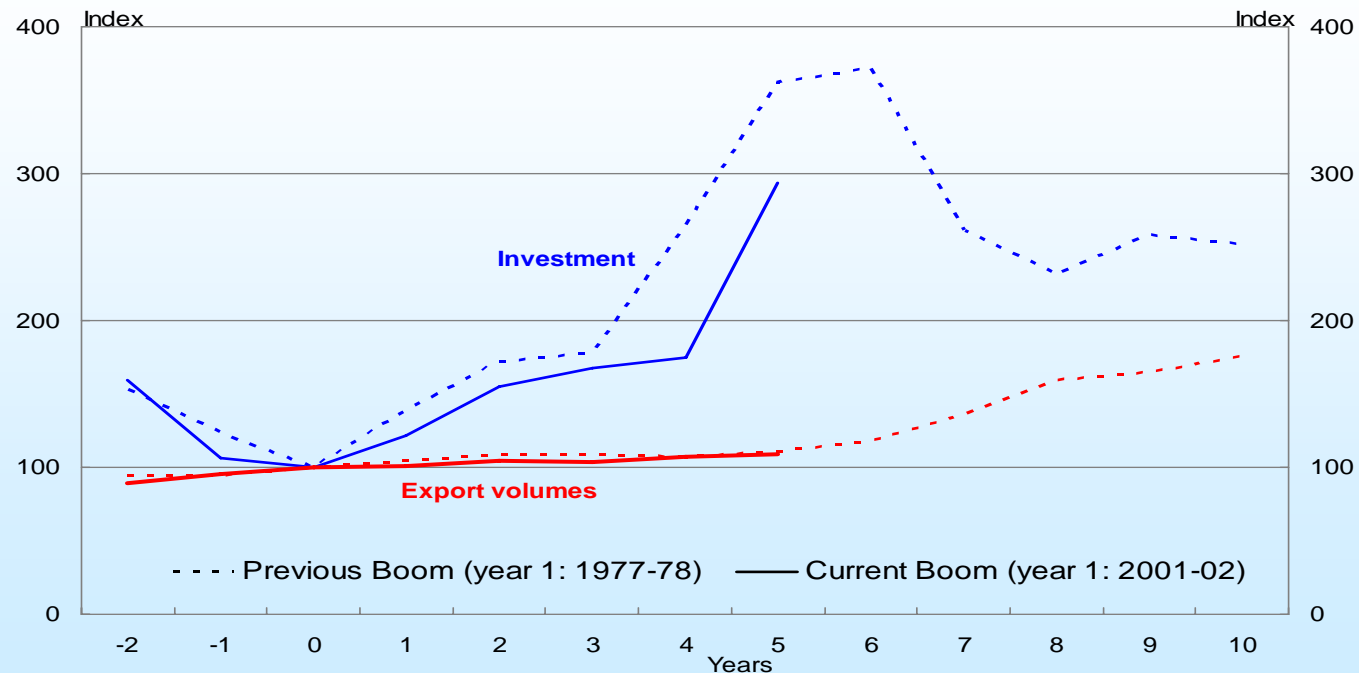
Sources: Access Economics; RBA



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The Gruen thesis says we export volumes grew with a lag after a boost in investment

Two mining booms in Australia



Source: Australian Bureau of Statistics. Investment in 2005-06 is a Treasury estimate.

There are signs of this in key resources sub-sectors

Table 8: Recent Trends in Resource Export Volumes

Average annual growth, per cent

	2000 to 2004	2005 to 2006
Total resources	1.3	4.4
– Metal ores & minerals	6.0	5.0
– Coal, coke & briquettes	5.8	1.7
– Other mineral fuels	–0.9	10.5
– Gold	–6.7	2.9
– Metals	–4.2	1.7

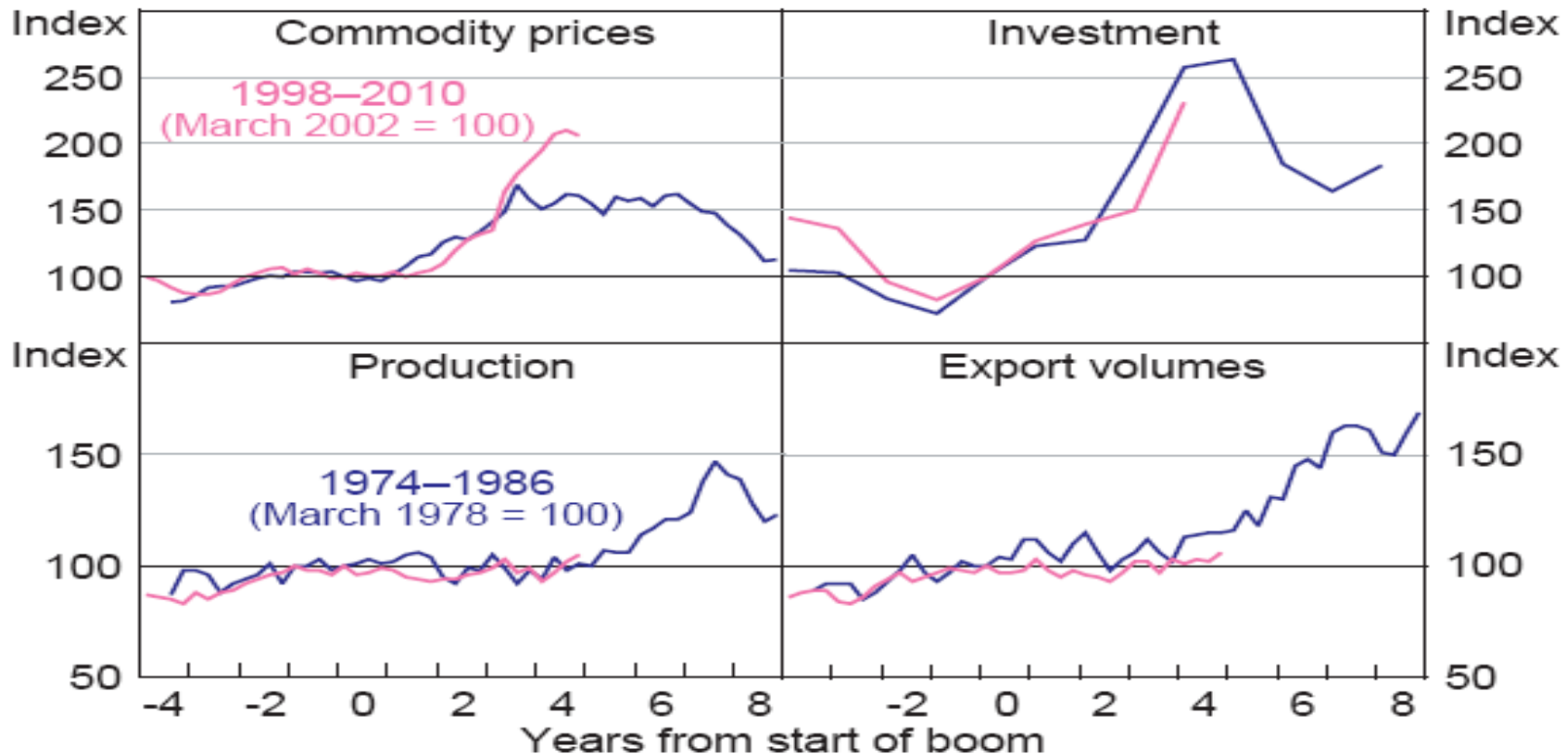
Sources: ABS; RBA



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Investment in the resources sector has been strong in response to high commodity prices

Mining Sector Activity Quarterly



Sources: ABS; RBA

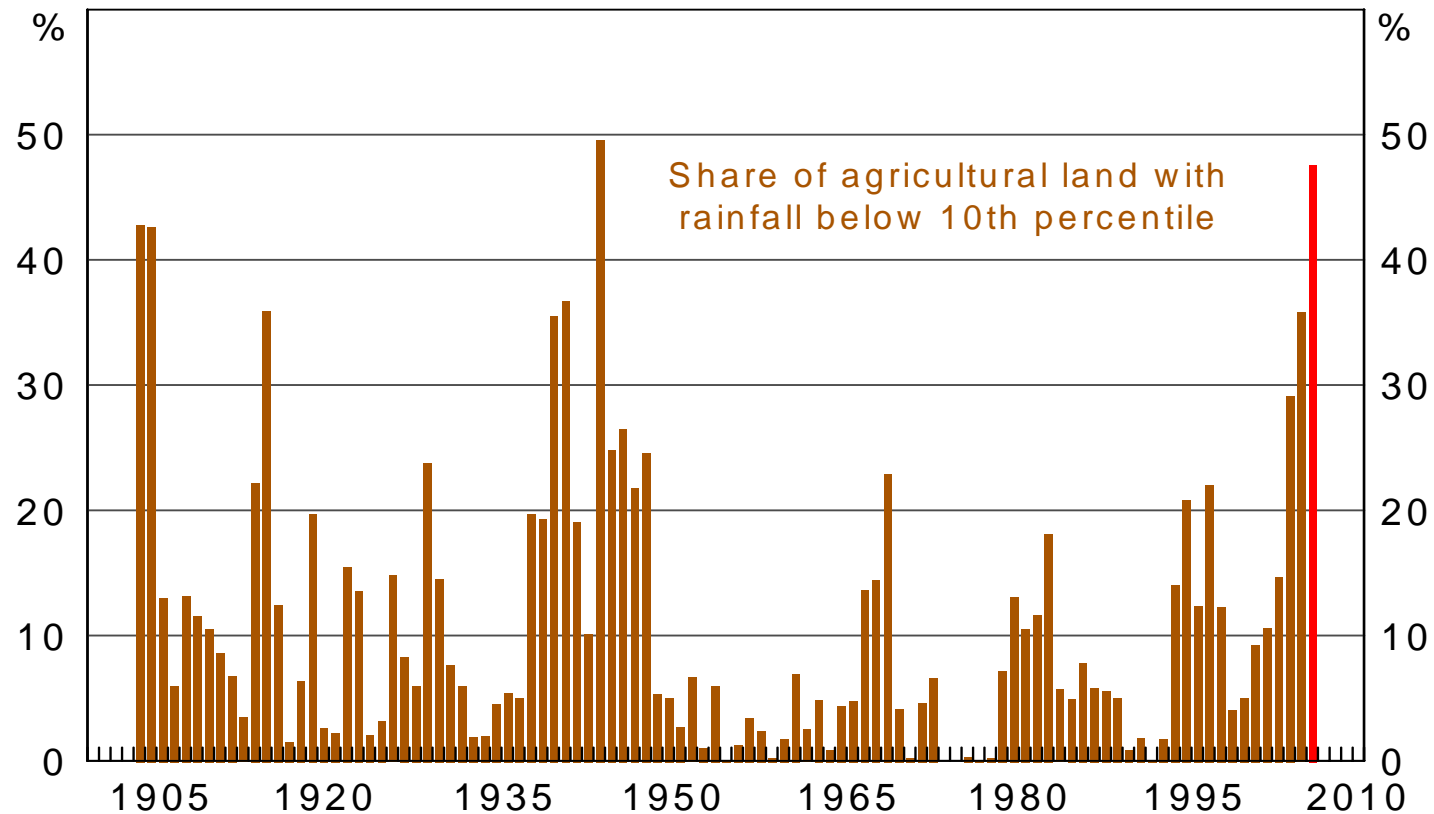


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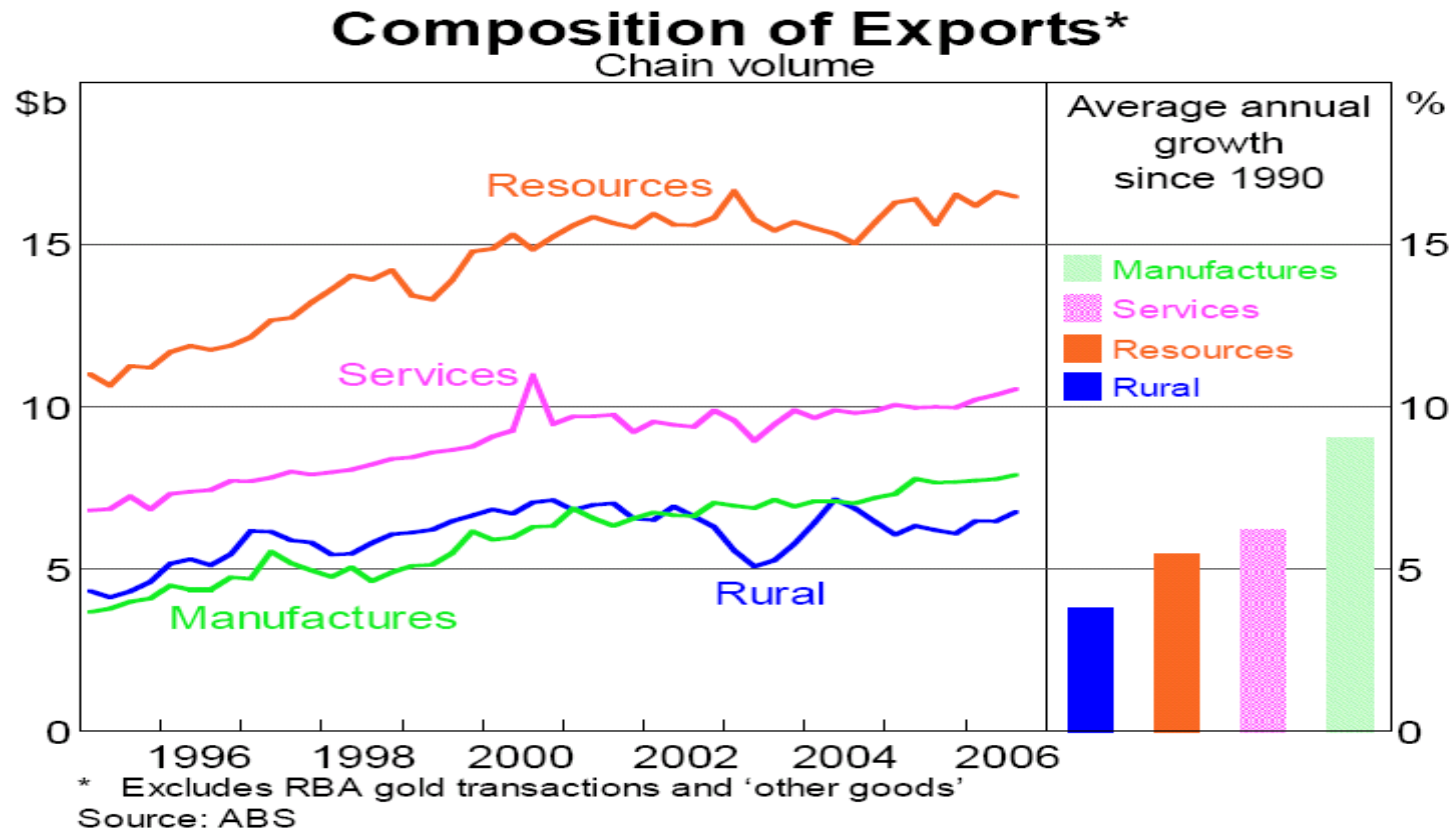
The drought bites: Australia's dry agricultural land is at historically high levels

Area of Rainfall Deficiency

5-year-ended average



Fortunately, Australian now has a well diversified export sector....

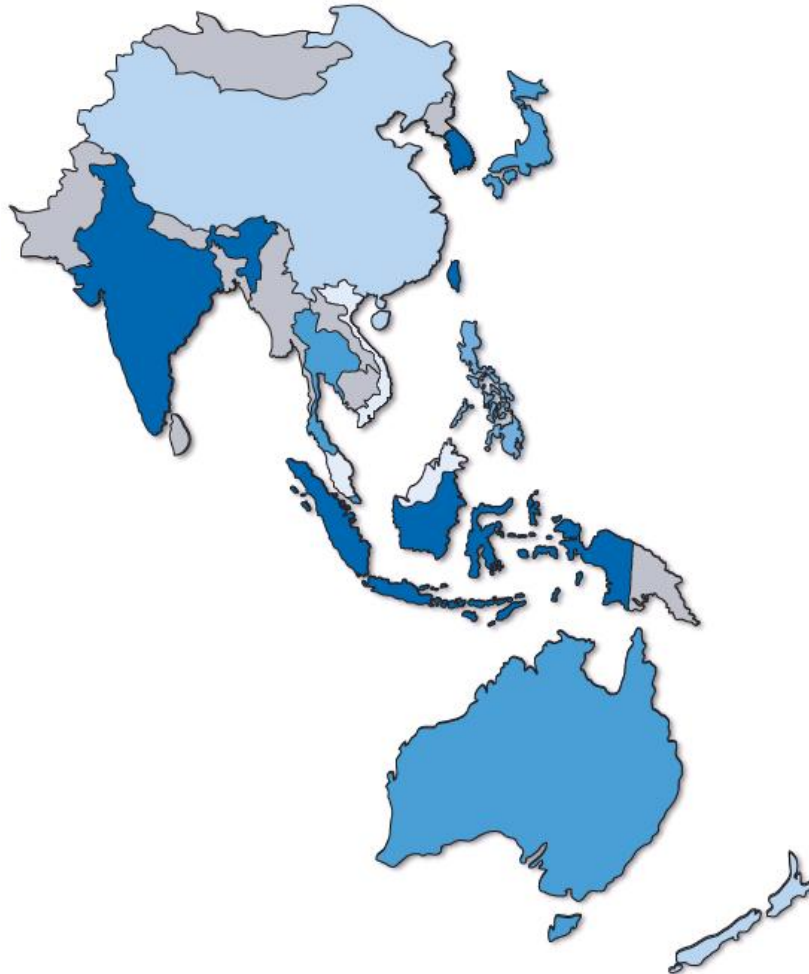


Australia's attitude towards Asia: 'Once were worriers' because of the 'The Tyranny of Distance'



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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'



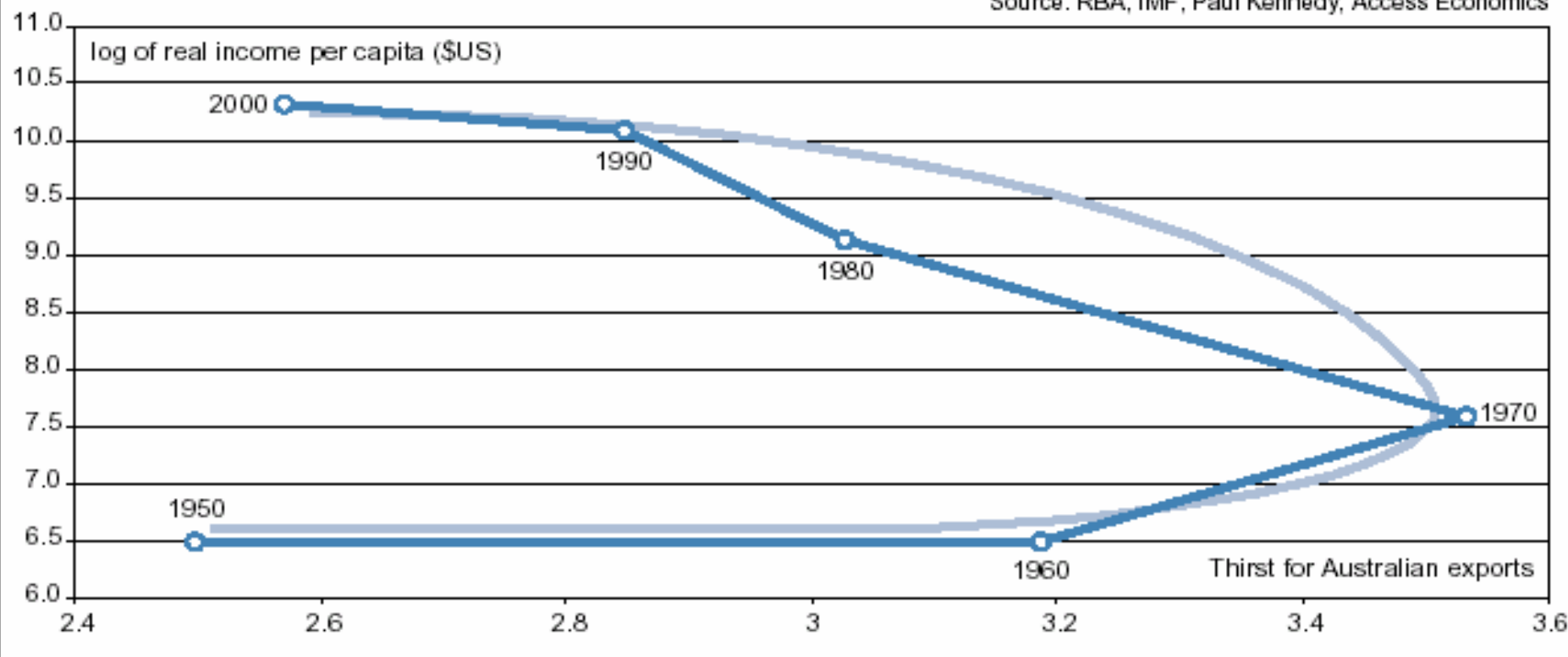
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Japan's economic development has partially driven Australia's export growth in the past

Chart 8

JAPAN'S NEED FOR AUSSIE EXPORTS HAS MIRRORED ITS DEVELOPMENT

Source: RBA, IMF, Paul Kennedy, Access Economics



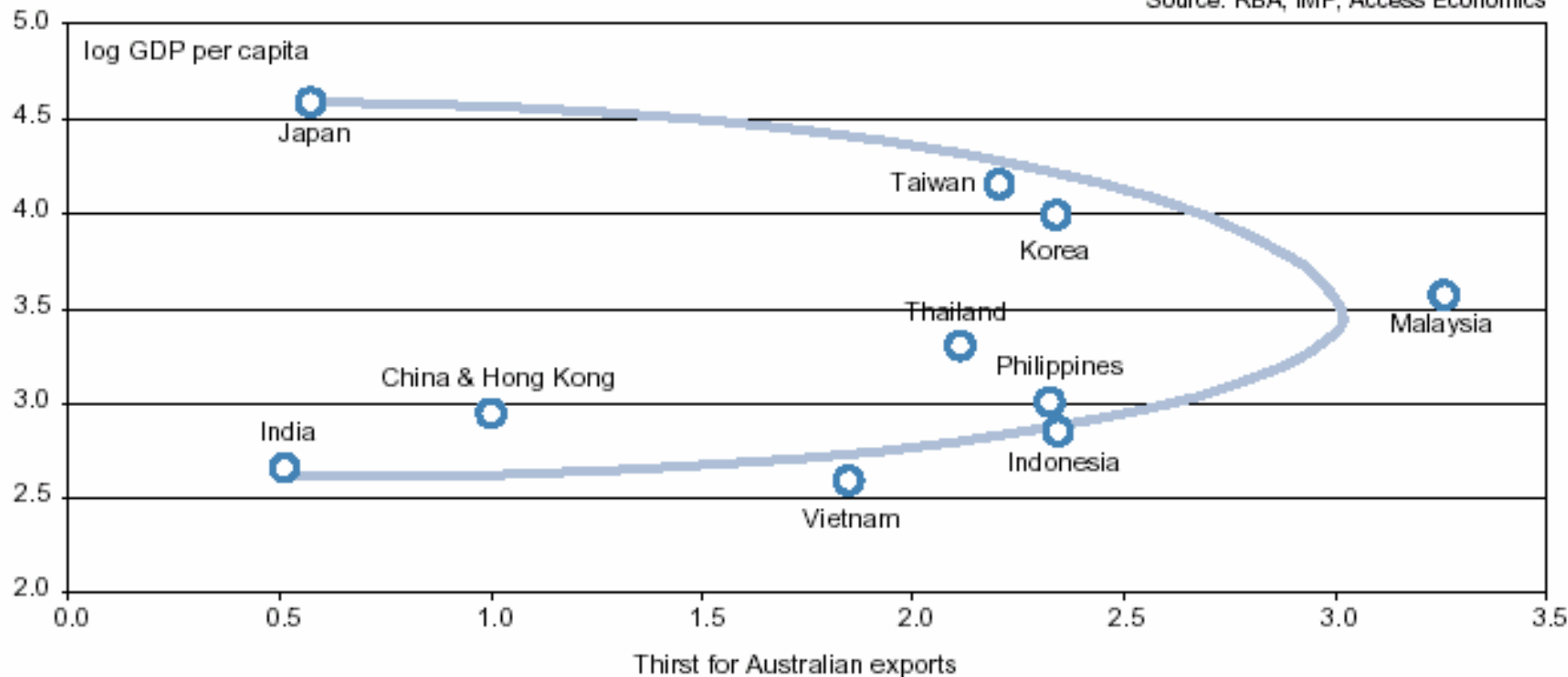
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Now it will be China and India who will drive much of our export growth

Chart 9

AUSTRALIA'S ASIAN TRADE 'BOOMERANG'

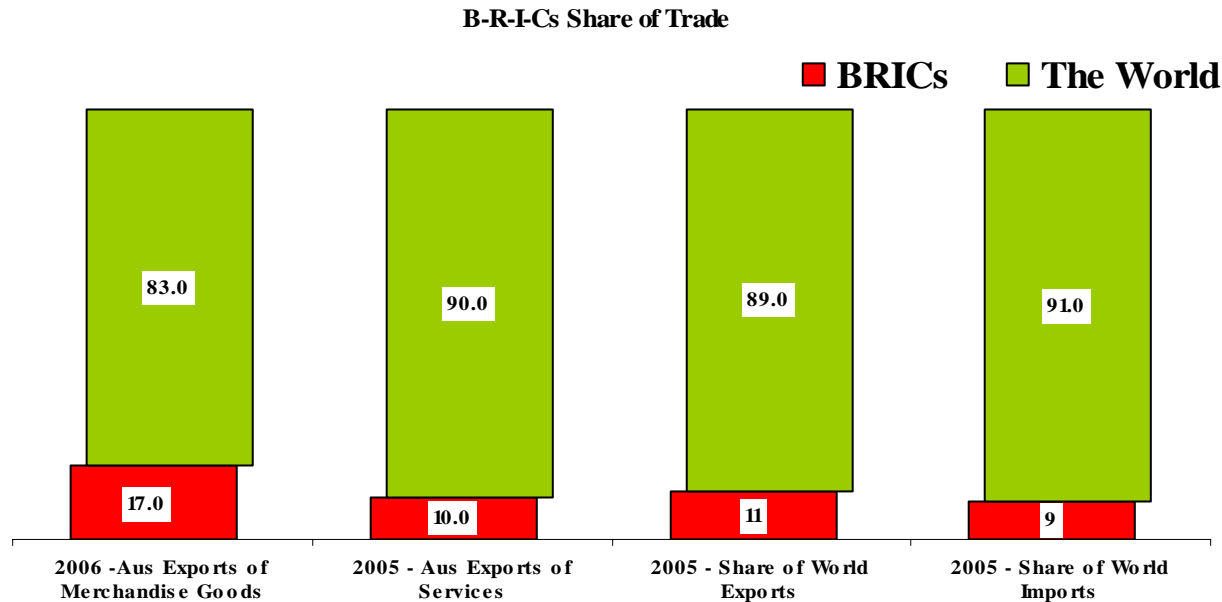
Source: RBA, IMF, Access Economics



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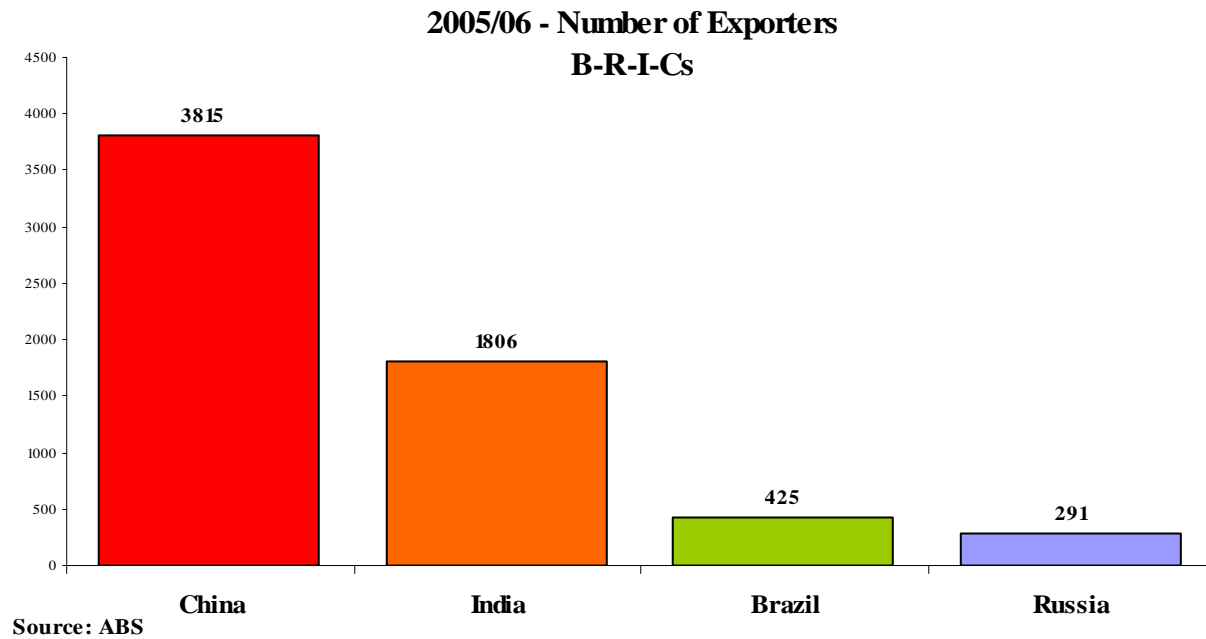
The BRICS – Brazil, Russia, India and China - are important emerging players in the global economy

Source: ABS, WTO & DEAT



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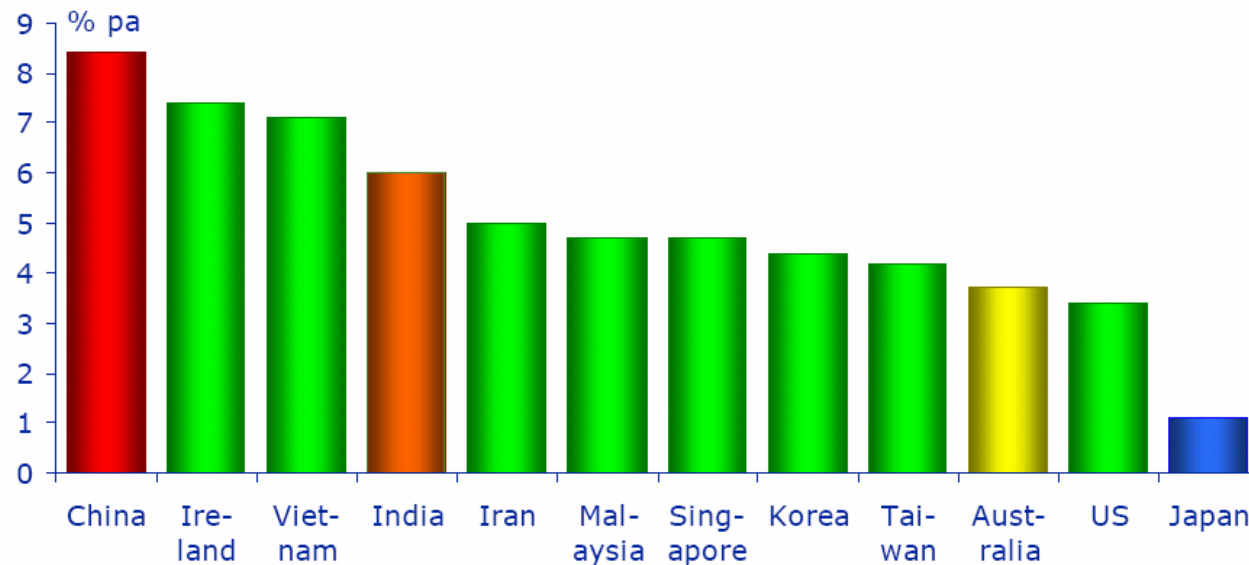
The number of 'BRIC bound' Australian exporters is substantial



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

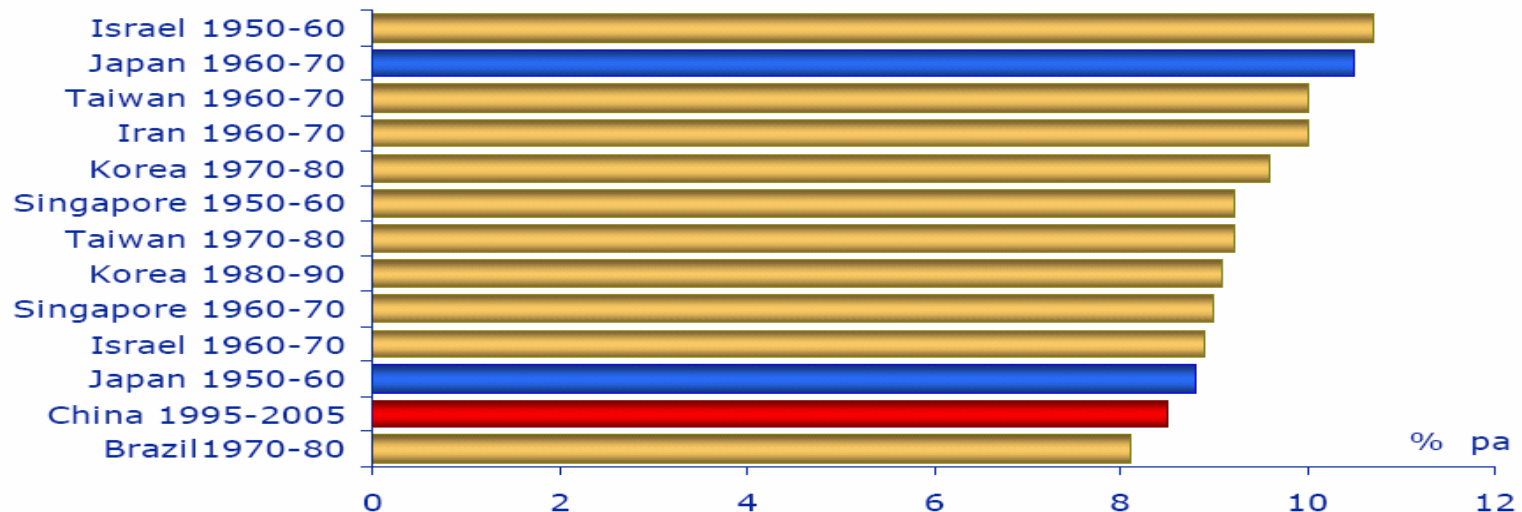


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But we shouldn't get too carried away

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.

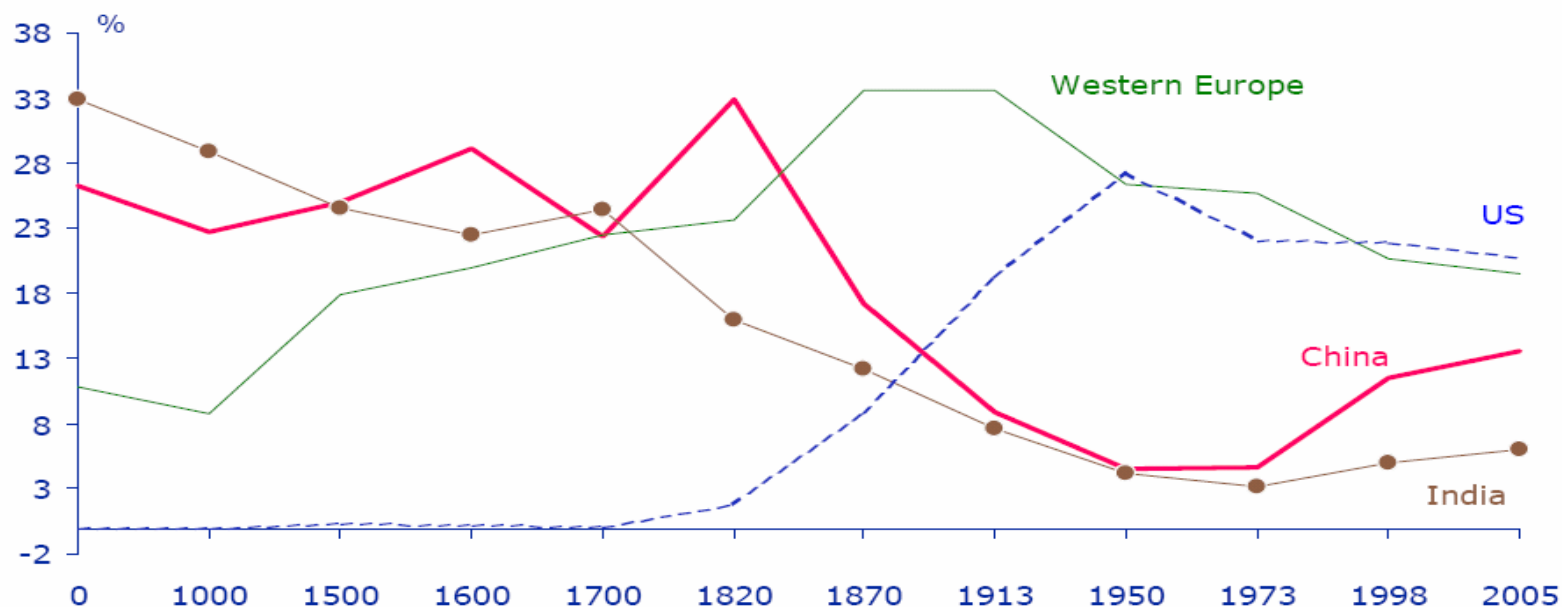
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China and India are reclaiming their strong historical position in the global economy

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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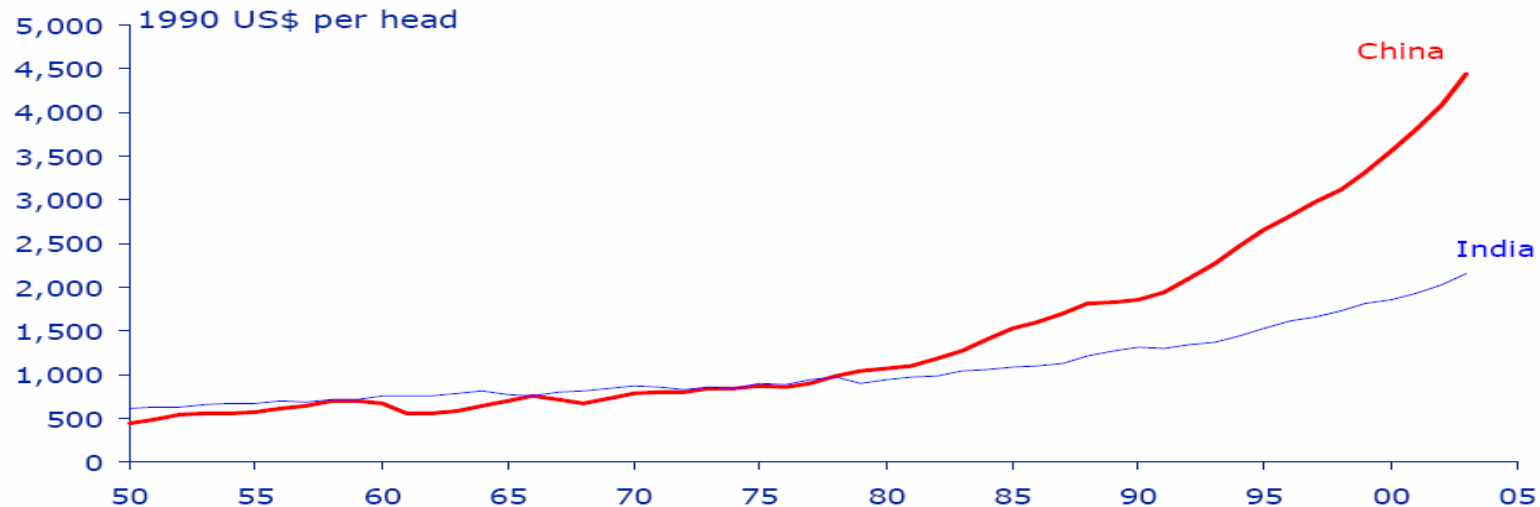


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China seems to be getting the jump on India in recent times

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*.

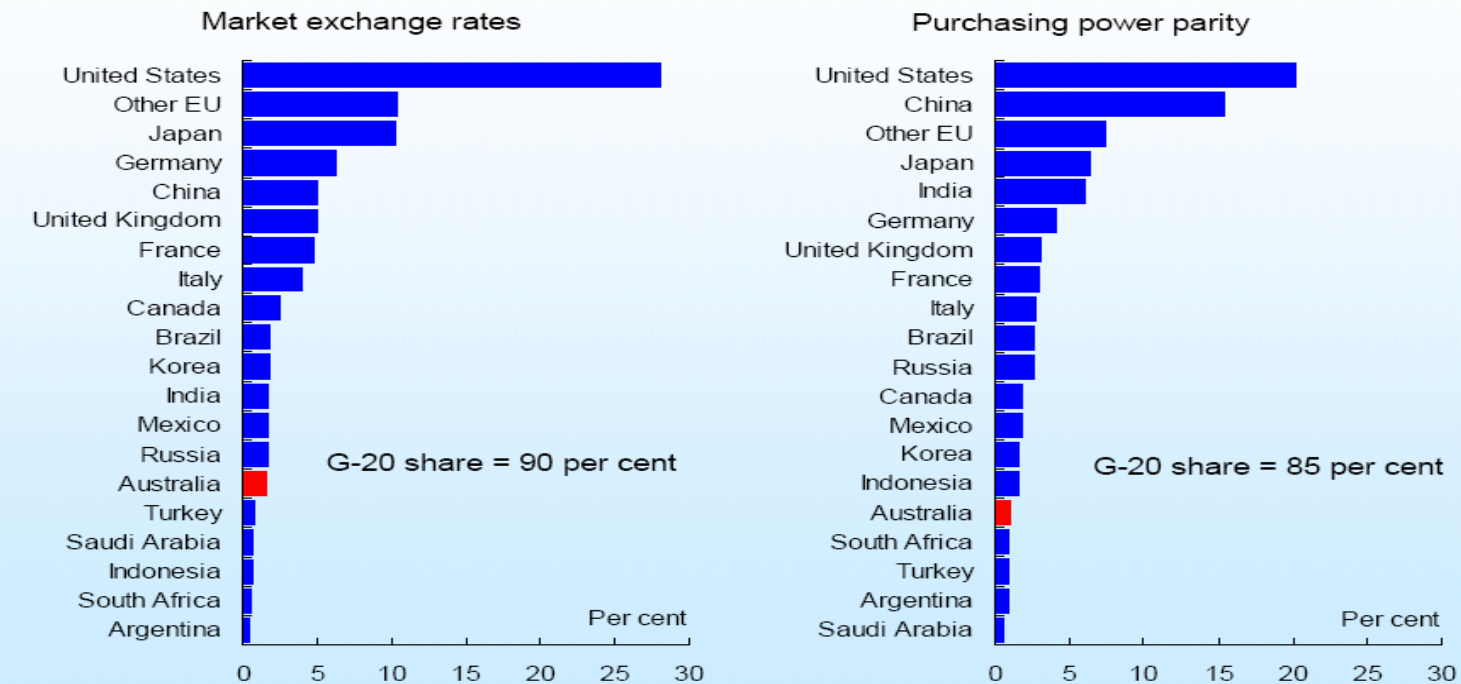
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Depending on how you measure it....

Chart 3: G-20 share of world GDP



Source: IMF.

The Treasury



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Do you want fries with your poppadom?



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Or your dim sim?

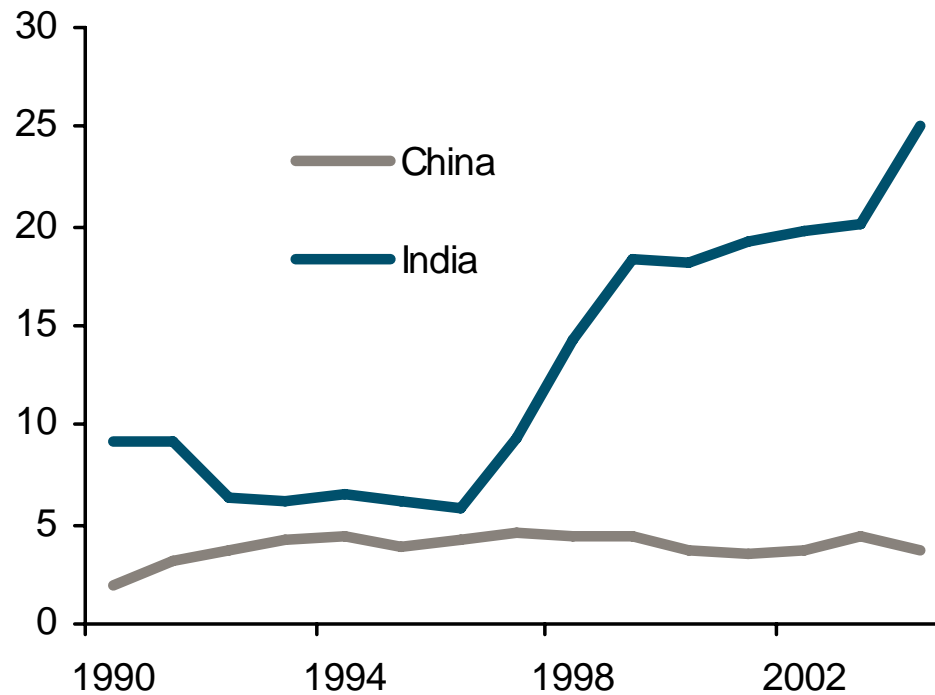


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But India is racing ahead of China in terms of services

Exports of other commercial services

% of total exports

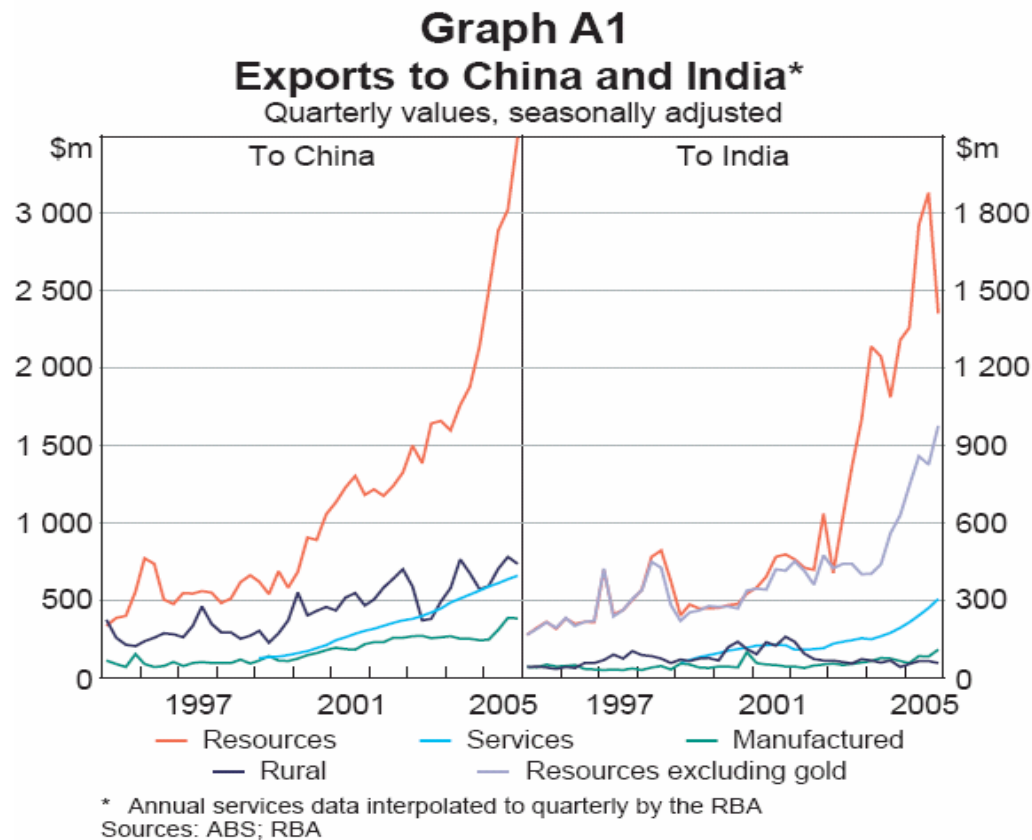


Source: Mark Thirlwell, Lowy Institute, 'Roaring Tiger or Lumbering Elephant', August 2006

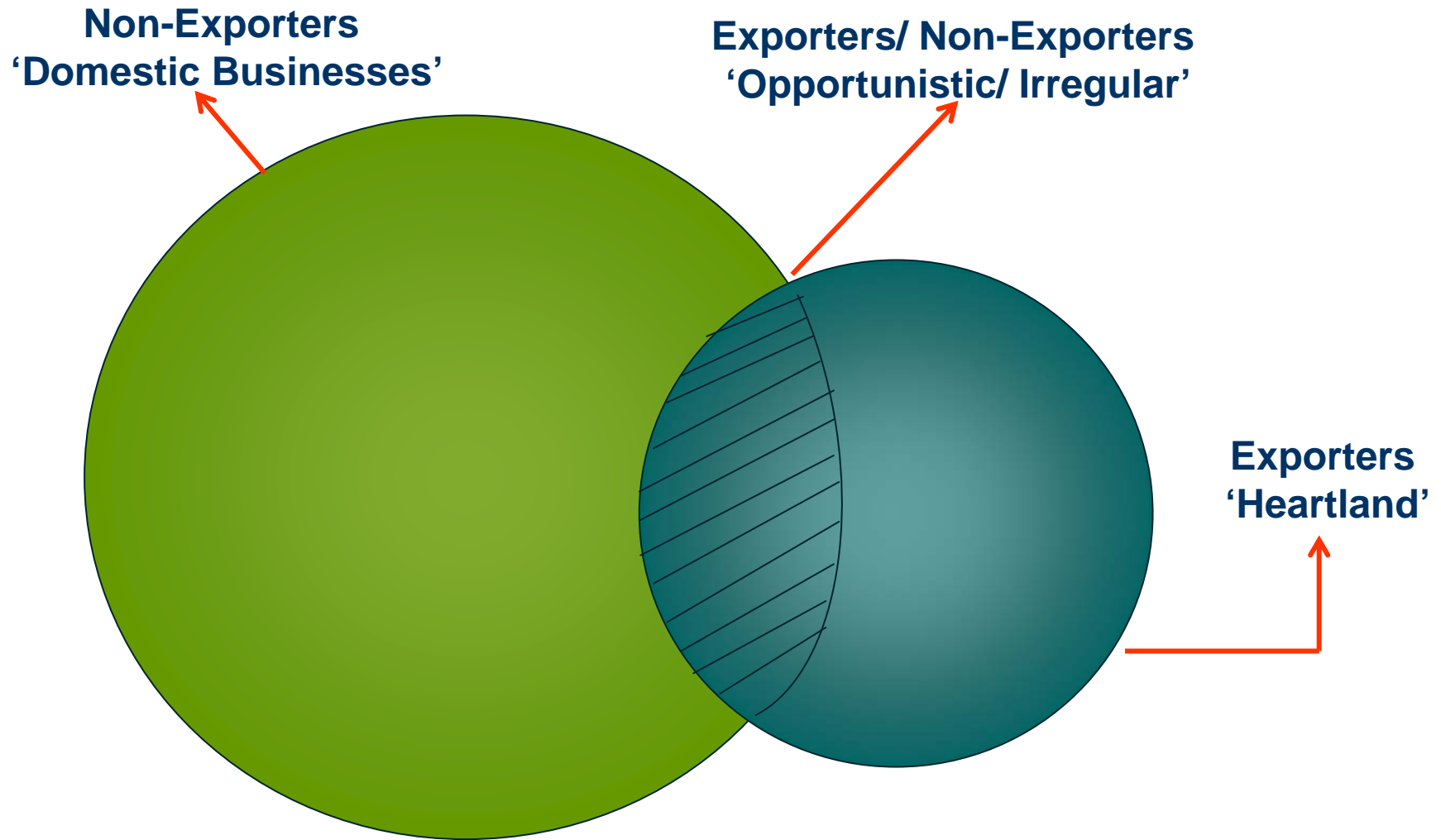


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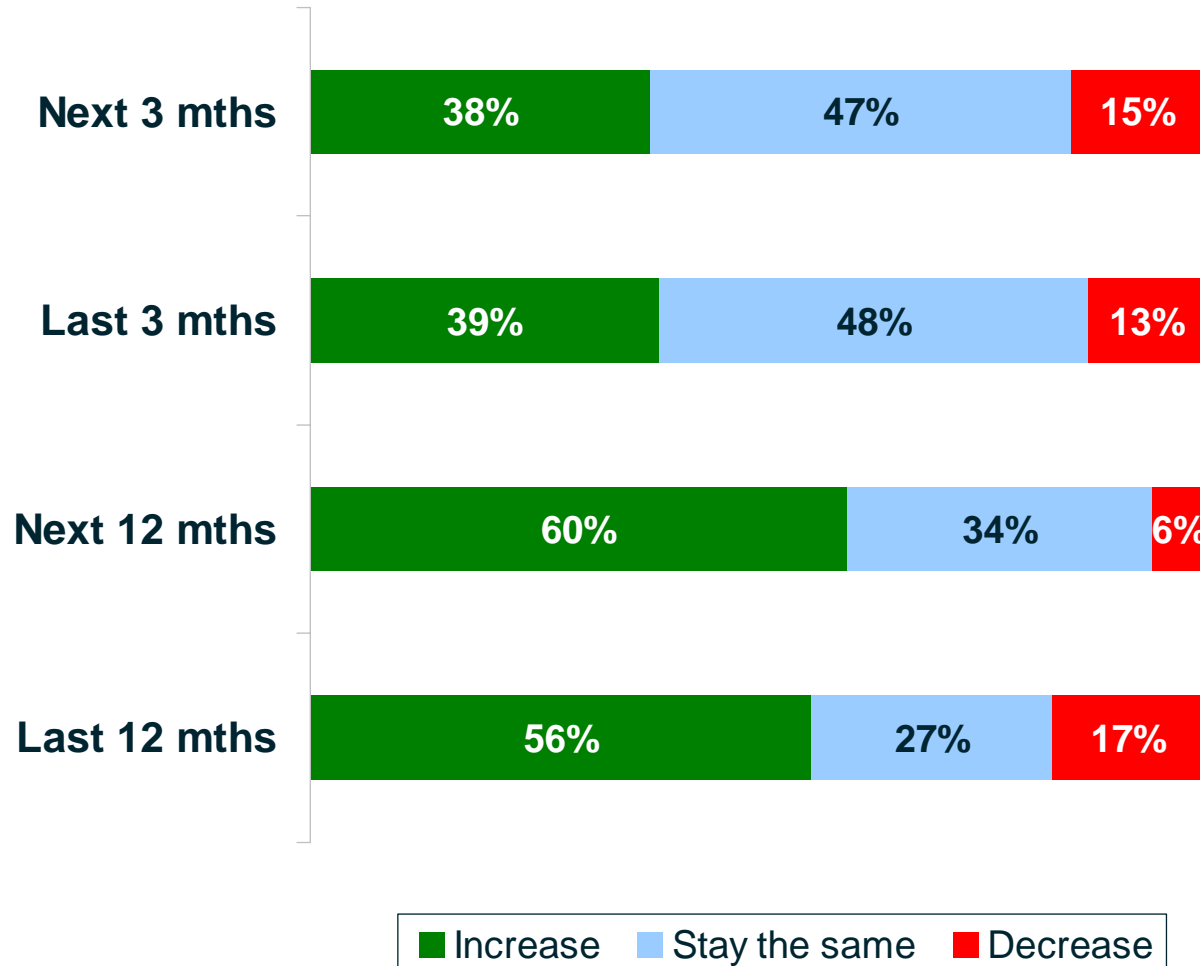
Australia's exports to China and India are rocketing up



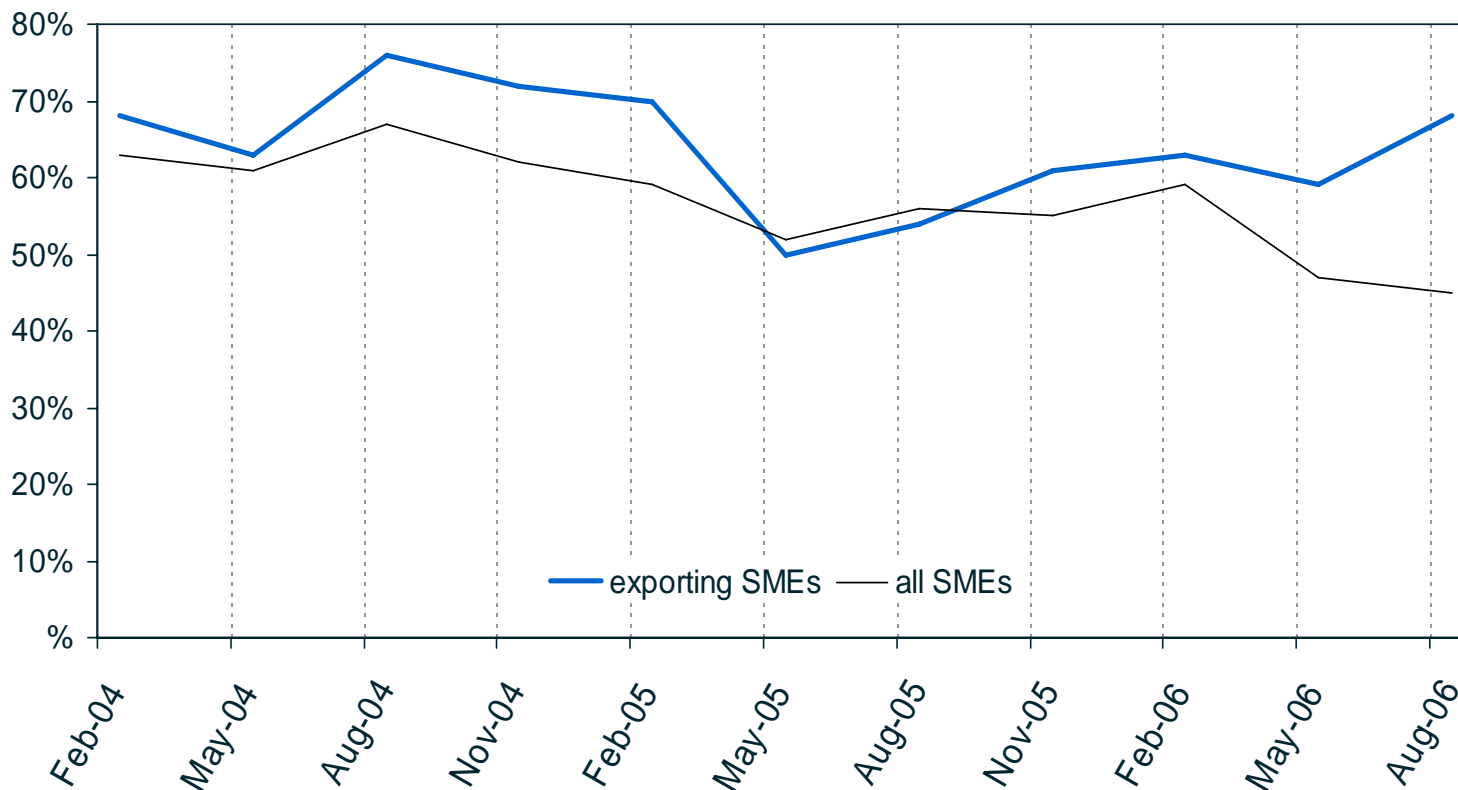
A quiet revolution - Australia has built a strong 'heartland' of true blue exporters



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

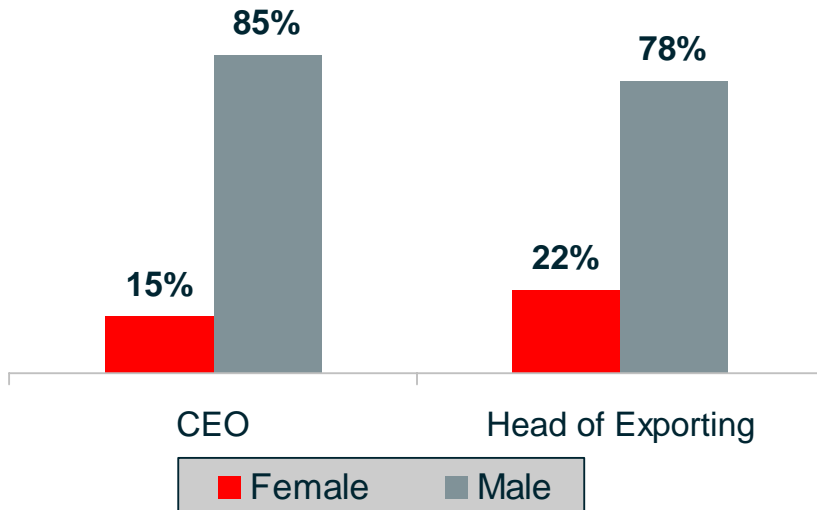


Global confidence: Exporting pays off for SMEs



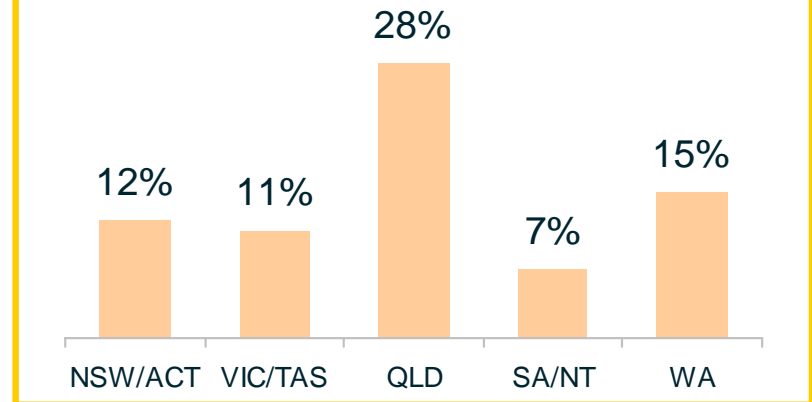
Women are especially important in the 'exporter heartland'

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.

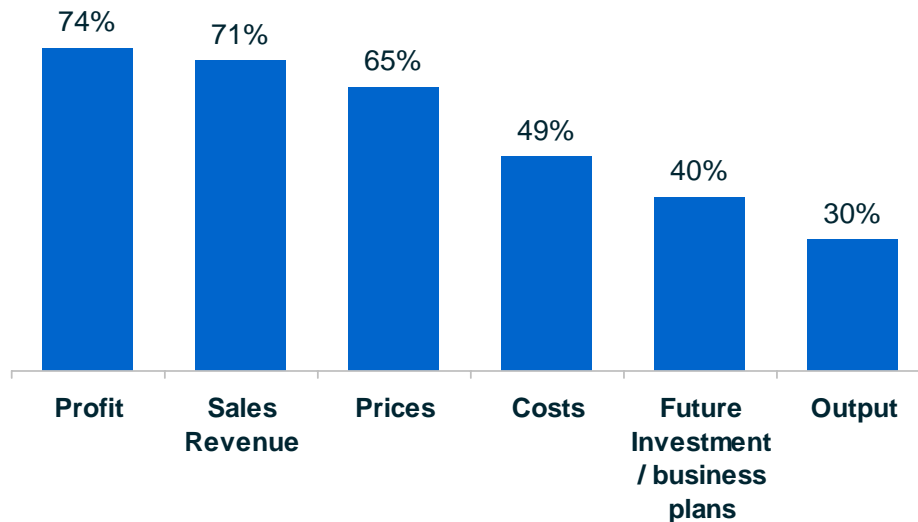
% Female CEOs



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)

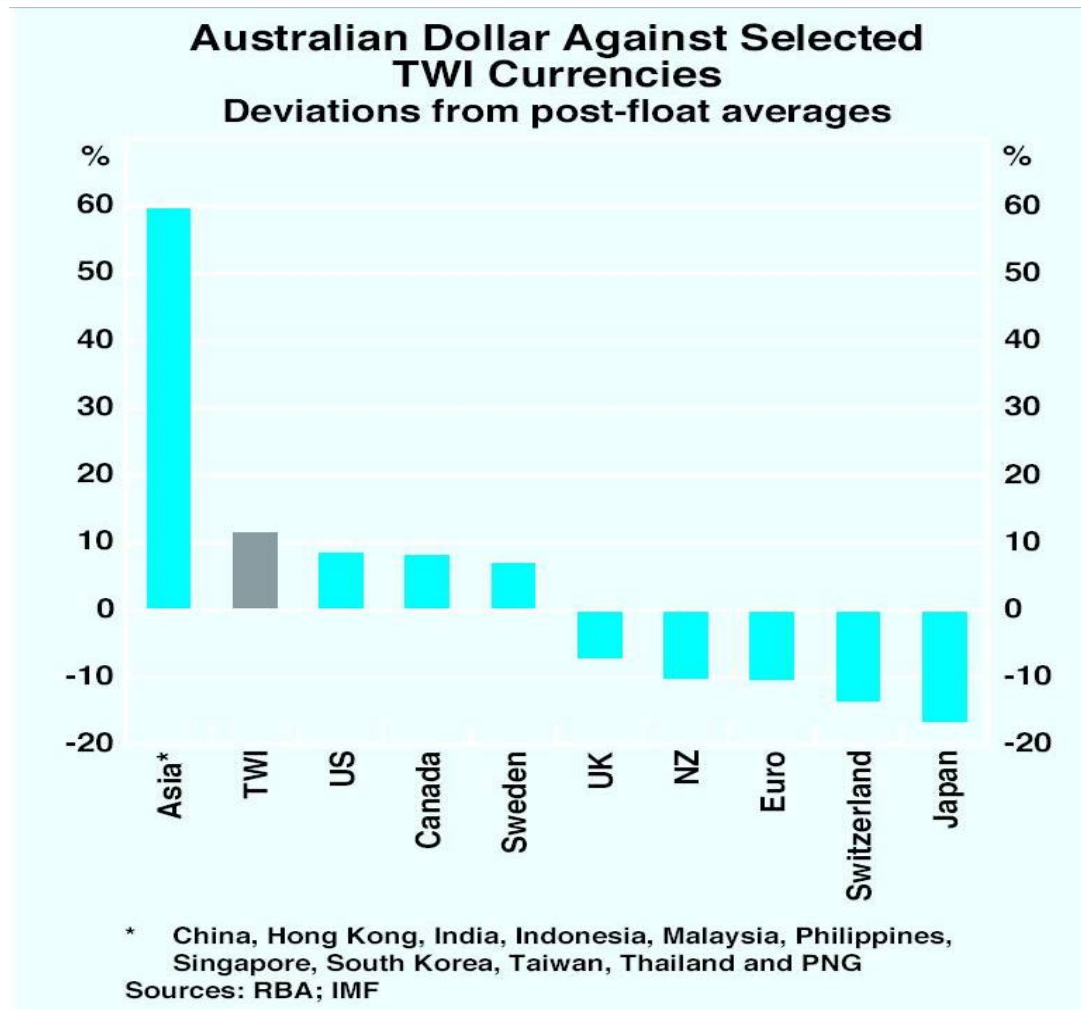
23%

Future investment/ business plans



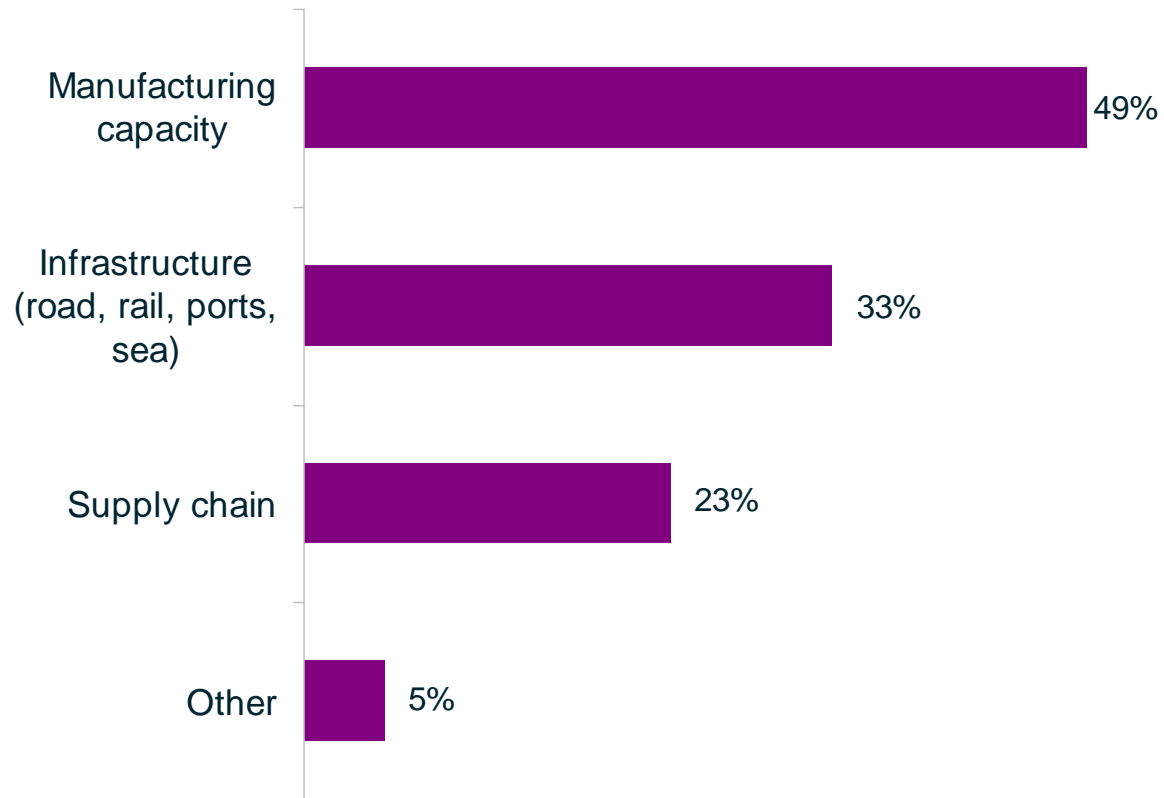
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Australian exporters have been able to handle long terms fluctuations in exchange rates



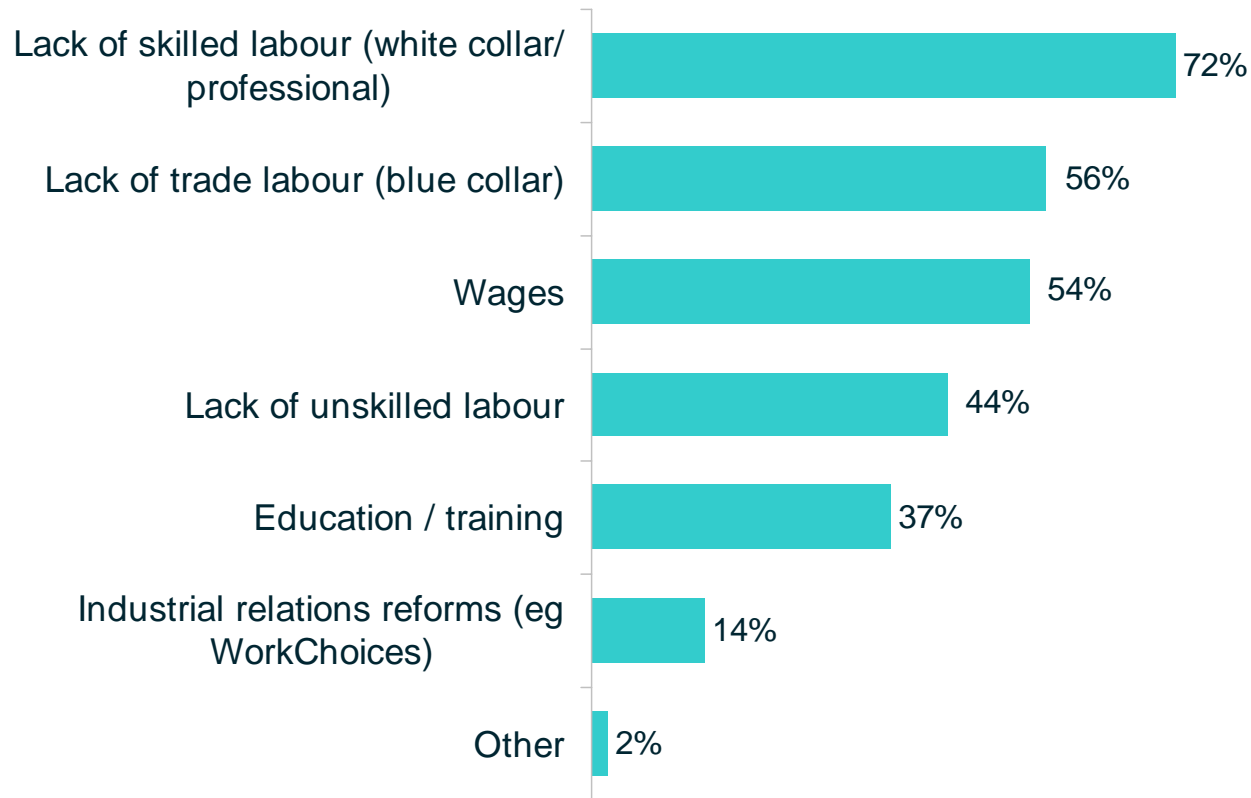
It is also a question of capacity

What type of capacity constraint have you been affected by?

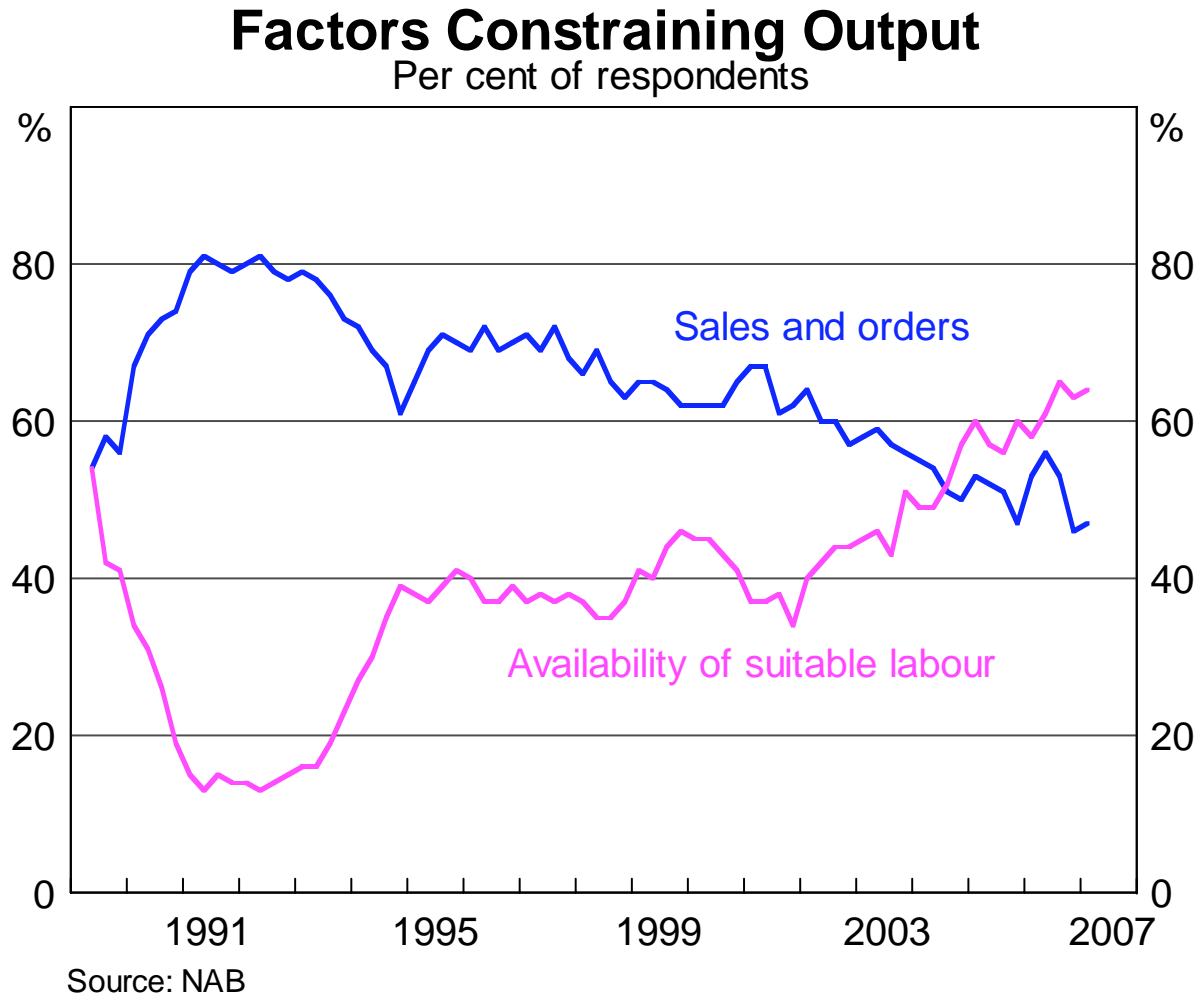


What about the workers? Like all employers, exporters are facing labour shortages

What type of labour issues have you been affected by?

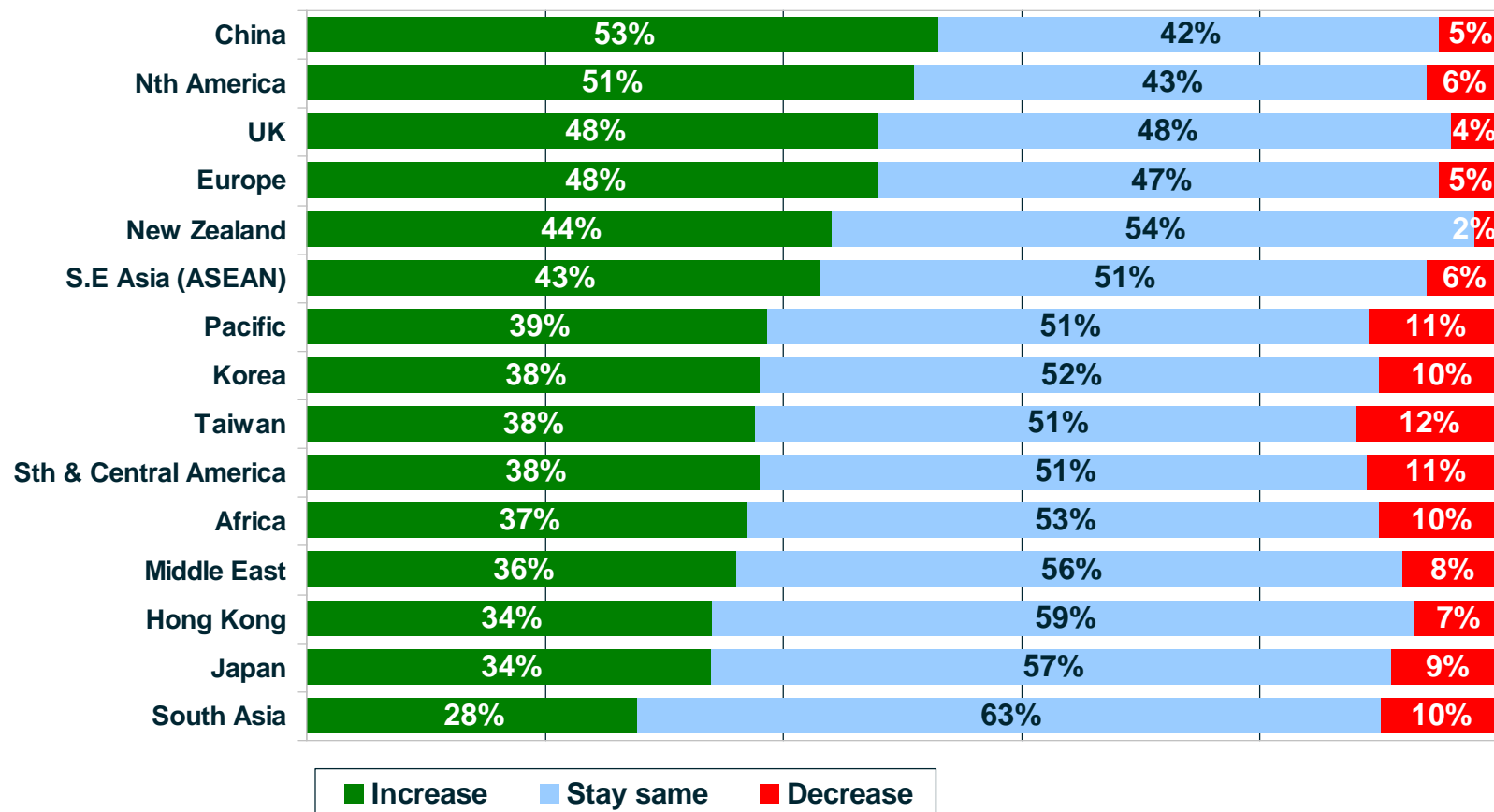


Which is reflected at the macro level as well



The 'heartland' of exporter-land consistently rates China highly with Japan and India still lagging

Changes to export orders over the next 12 months by region



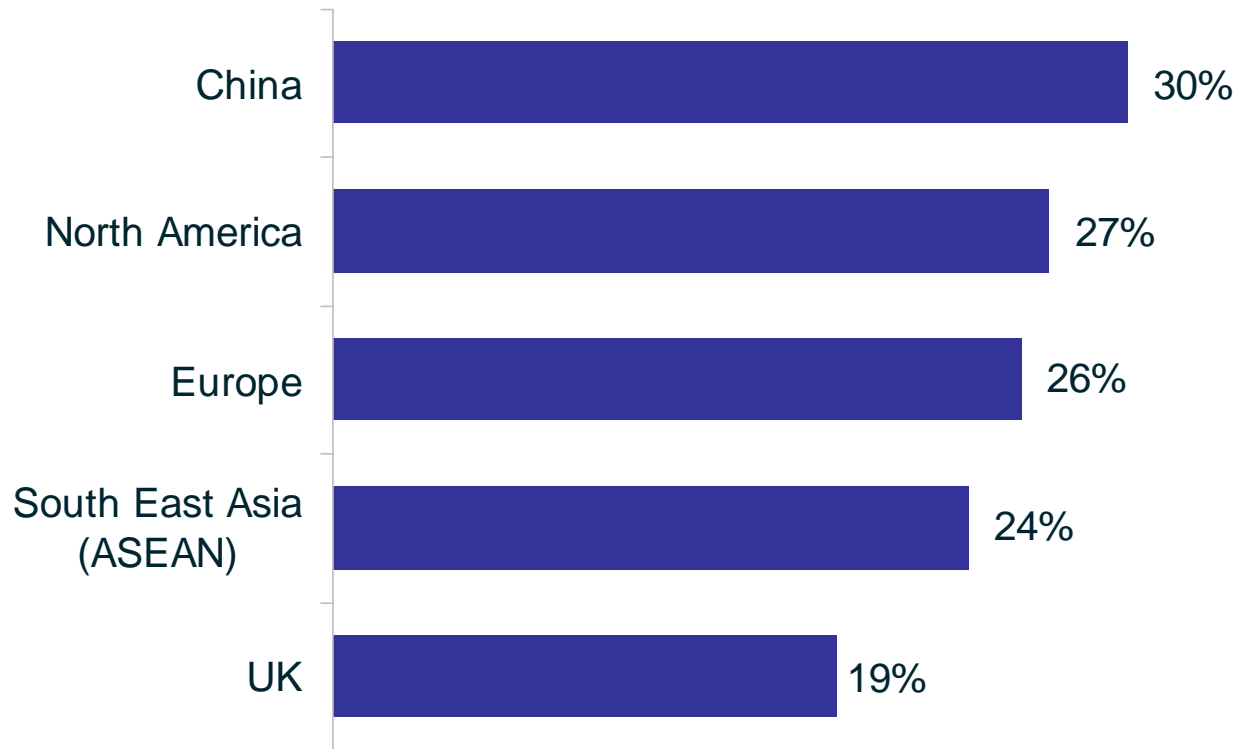
Our surveys show a fair bit of 'panda-hugging' amongst both exporters and importers



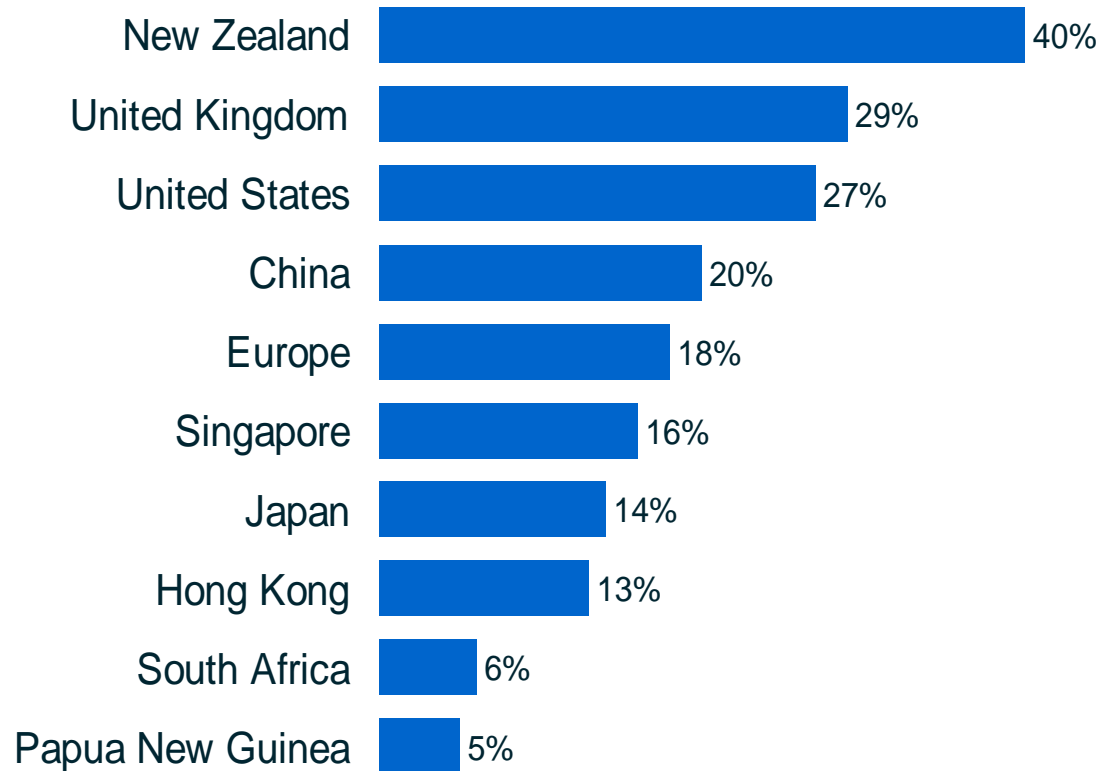
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And this is likely to continue into the future

Top 5 exporting destinations in the future



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



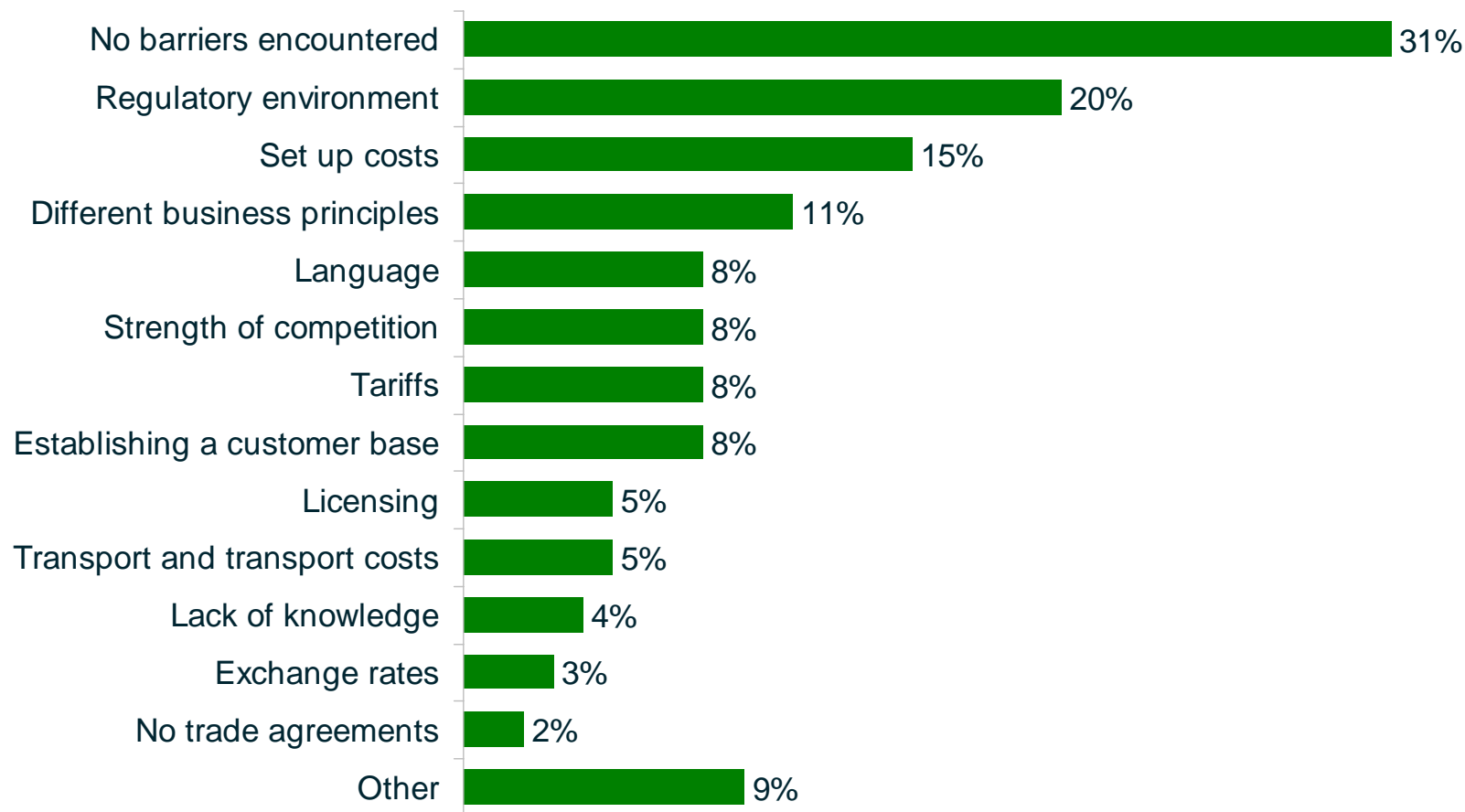
Base : Exported goods or services overseas in last three months
All other answers less than 3%



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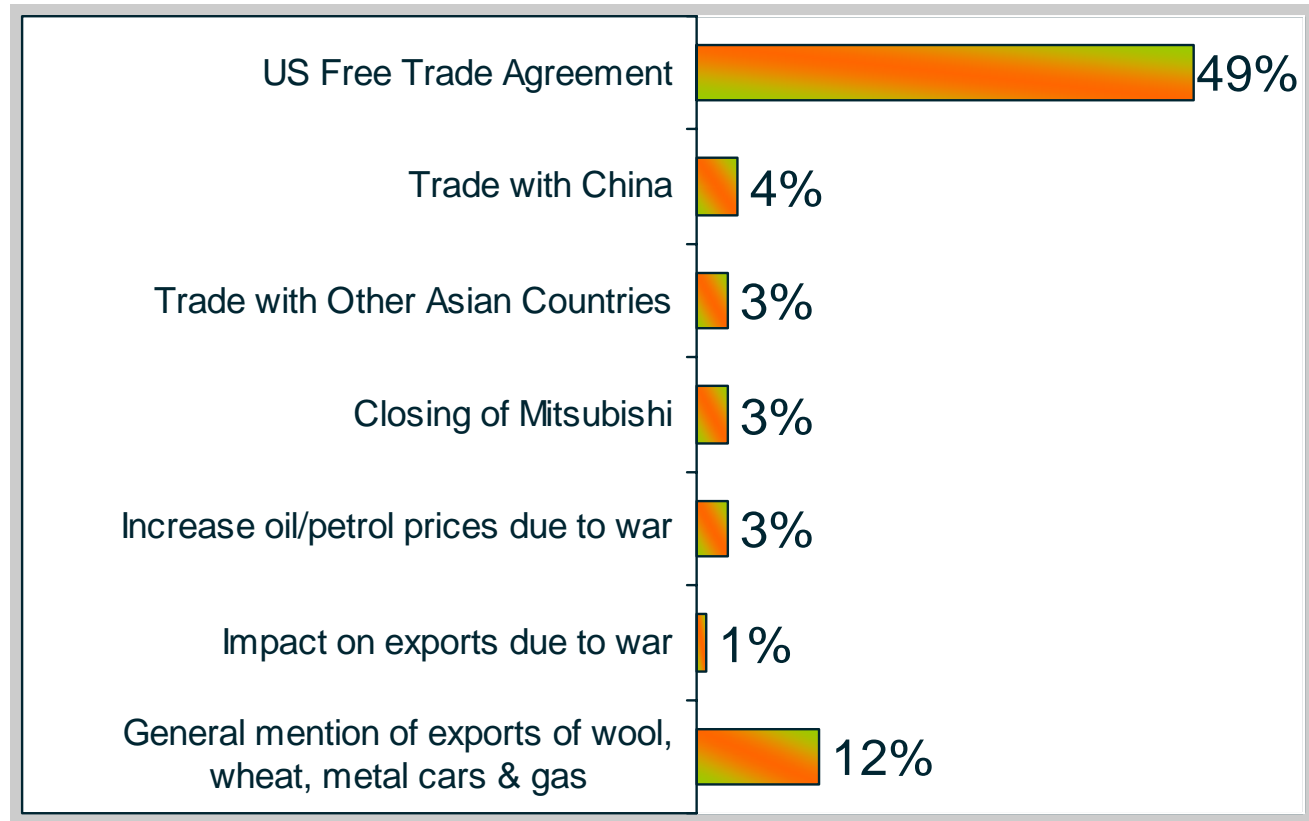
Trade barriers are becoming less of a problem (notwithstanding the need for agricultural reform)

Major barriers faced when exporting in the first instance



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:



Normally we use “star power” to help promote exports

MEGAN GALE SUNCARE

EUROPEAN LAUNCH

MAY 2004

Product Information

**Megan Gale New Generation Sun care and Self Tanning
from Australia**

UK: SPACE.NK

ITALY: LA RINASCENTE

AUSTRALIA: DAVID JONES/NATIONAL PHARMACY



- Megan Gale helps Ganehills – a small Perth based company selling skin care products in Italy



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Some economists work very hard to promote Australian exports



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Doing it tough...with Kate Fischer and Pru Goward



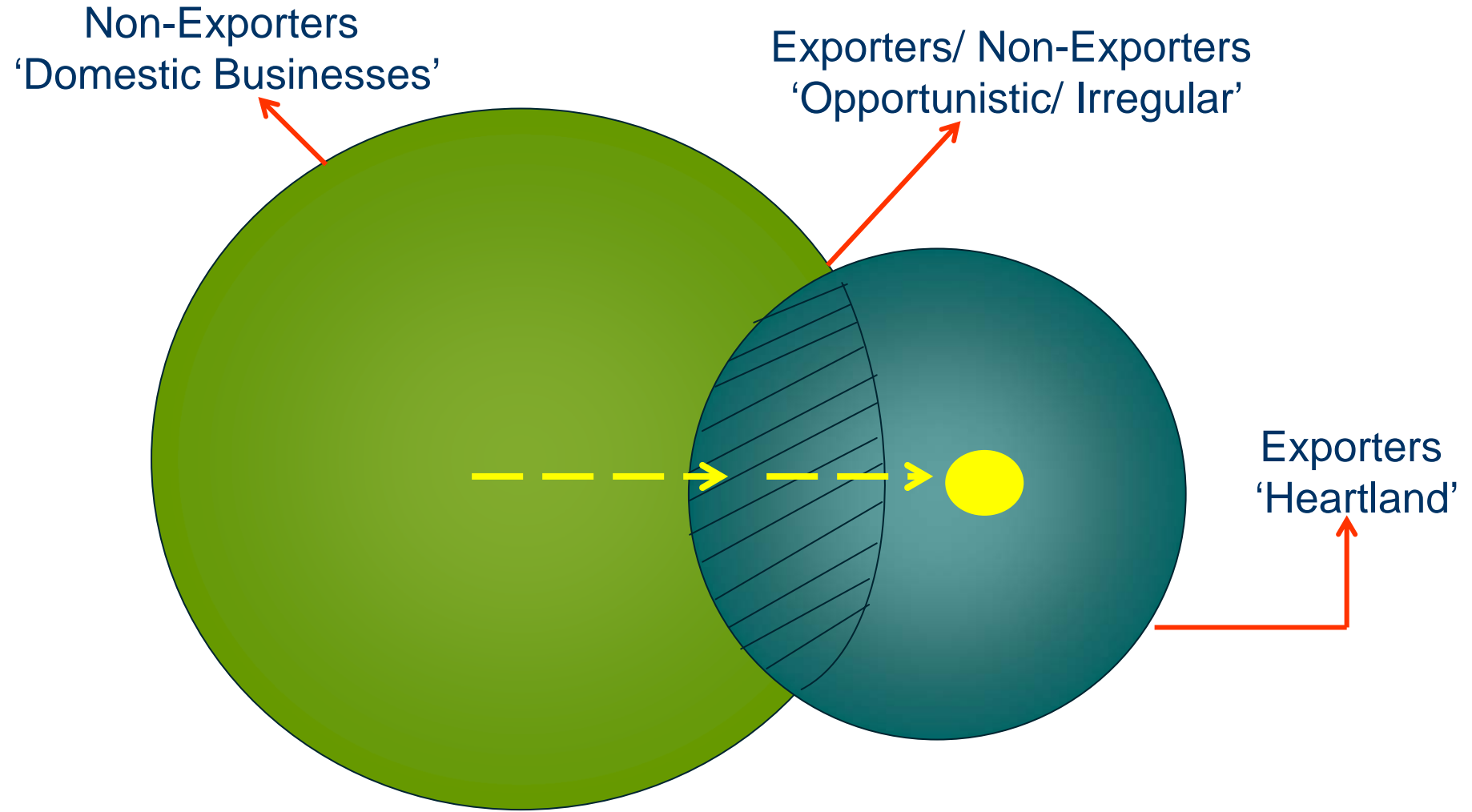
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Doing it tough... with another famous Australian female celebrity exporter!



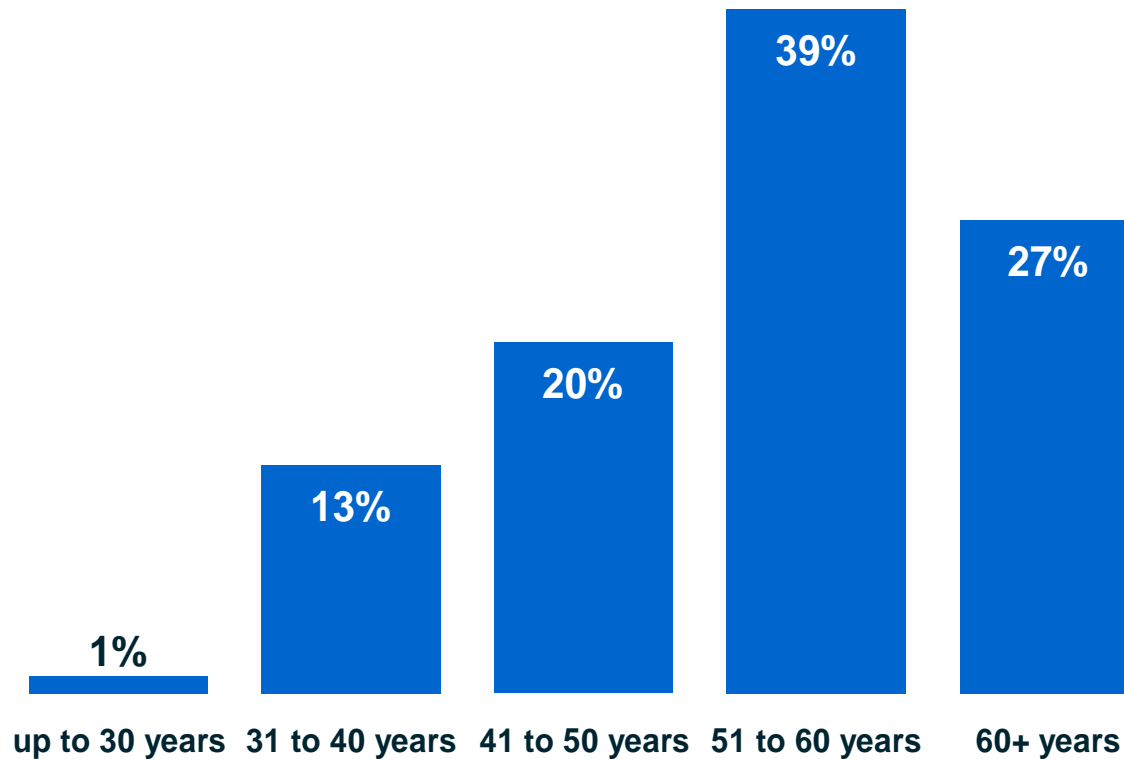
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The key is to grow the next generation of global enterprises

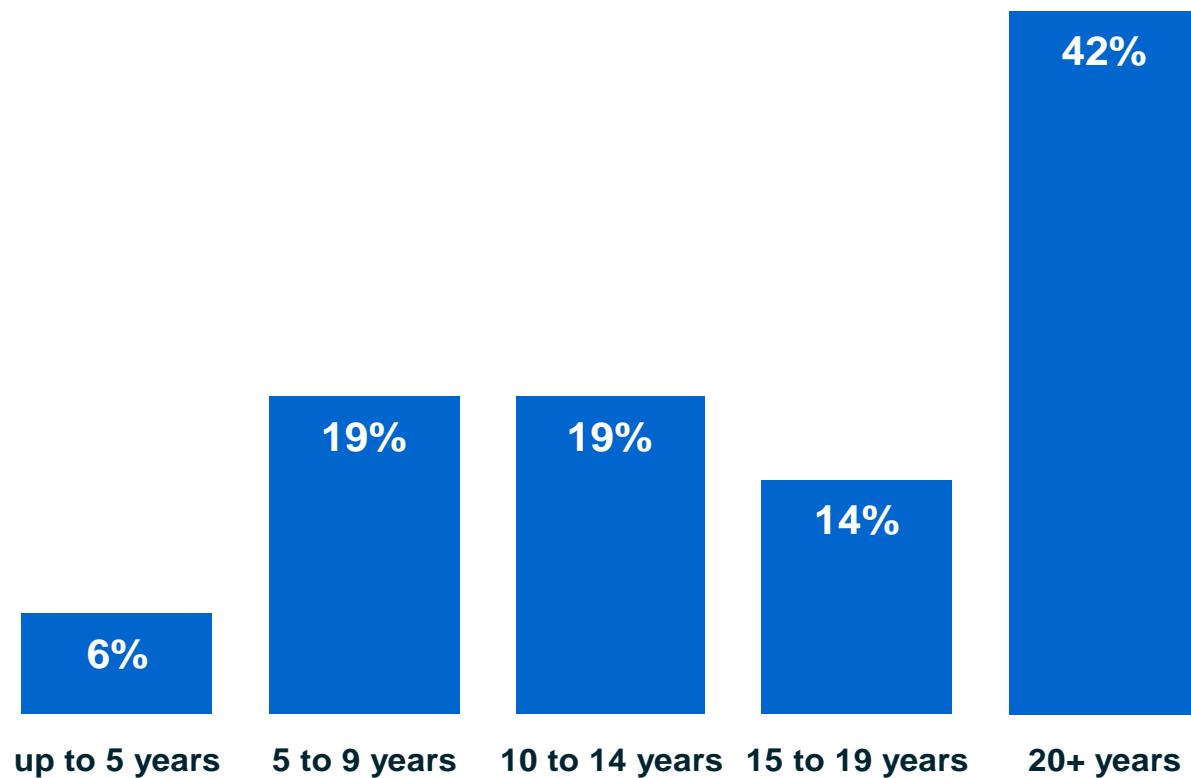




Despite some Gen X and Gen Y growth exporting SMEs are mainly run by baby-boomers



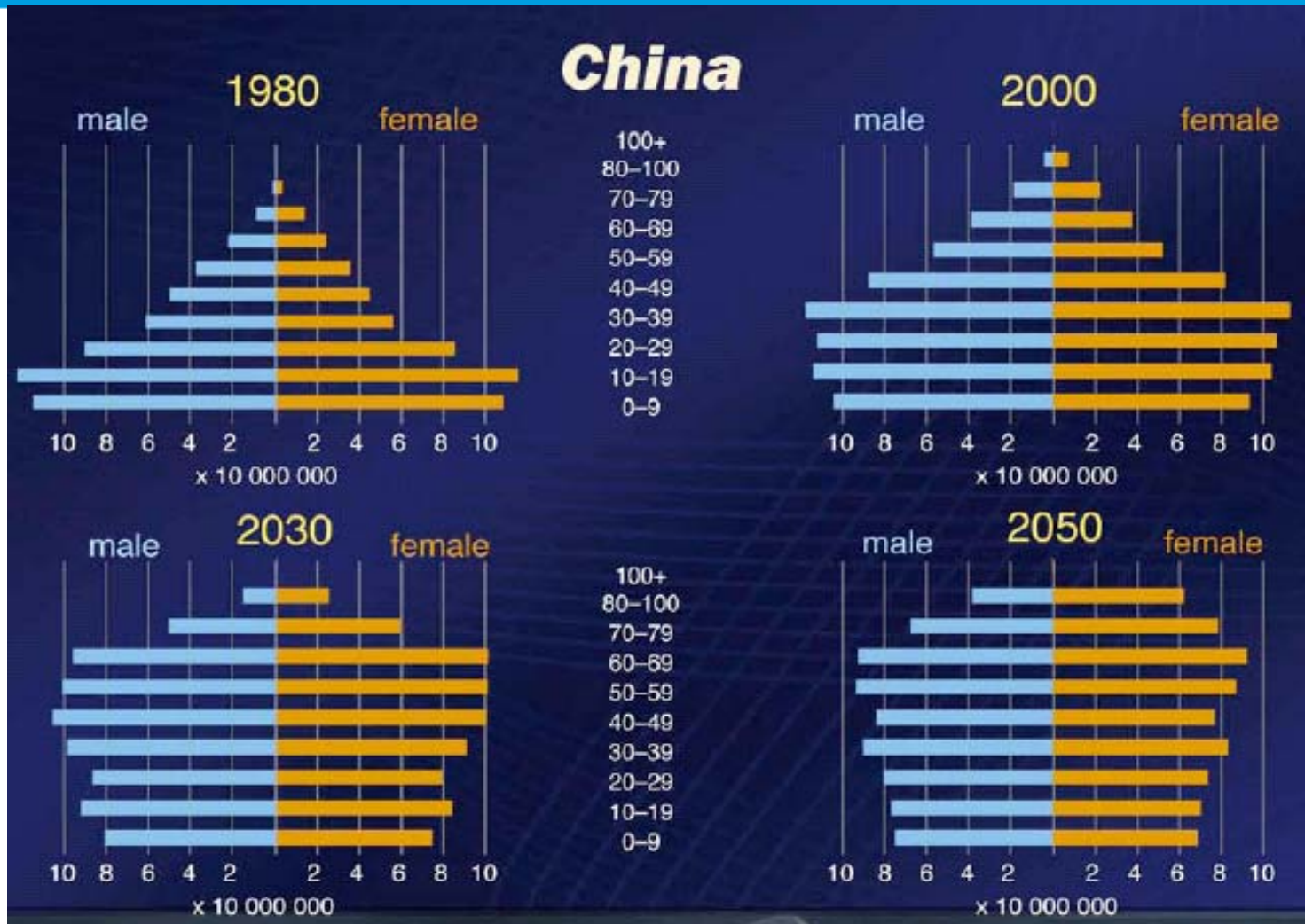
Over half are very experienced exporters



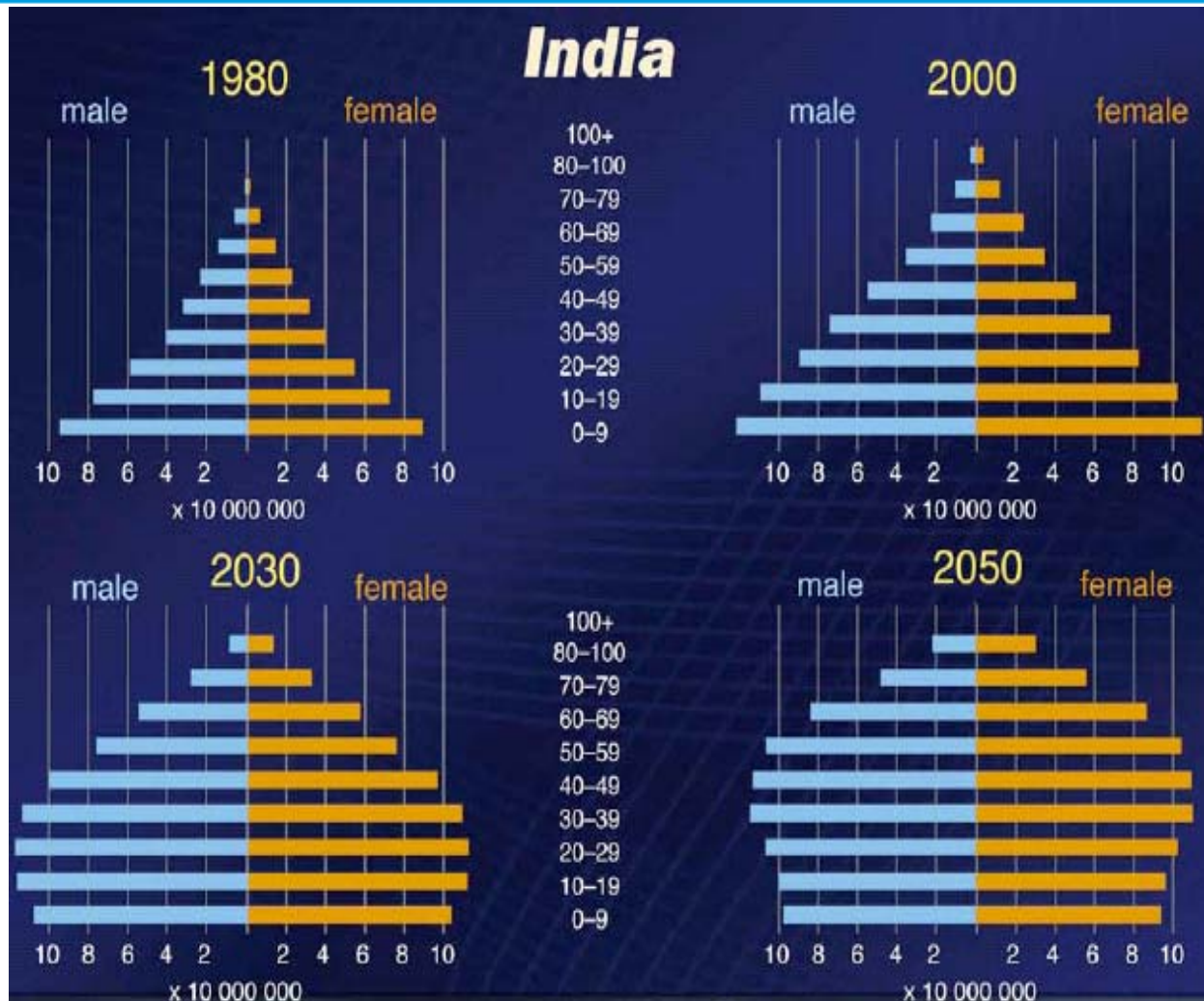
Japan: Land of the greying sun?



China: getting old before they get rich?



India: Poppadom preach?













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Acknowledgements

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 - Betty Mai ACA
 - Christena Singh Sensis
 - John Edwards HSBC & CEDA
 - John Houghton VUT and CEDA
 - David Walker & Rachel Nugent CEDA
- See: **www.austrade.gov.au/economistcorner** for links to their research



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