How Countries Compete – the case of Australia in the Global Economy

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
And despite the anxiety about trade issues and globalisation.....
Trade has been associated with higher living standards
The world economy is firing on all cylinders

World GDP
Year-average percentage change

30-year average

Source: IMF
And it has more cylinders to fire on

**World GDP**

*Year-average percentage change*

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**G7 economies**

- Forecasted - October 2007

**Other economies**

- 30-year average

Source: IMF

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Other economies

Source: IMF
Australia has experienced its longest expansion in recent times. The chart shows expansions in GDP with the cyclical trough set at 100. The 1980s, 1990s, and 1970s are marked on the graph. The data source is ABS.
The labour market is strong with unemployment is at its lowest rate since the 1970s

Source: ABS

Australian Government
Austrade
Australian export *values* have been fuelled by the resources boom.
Australia’s terms of trade are at an historical high

Real Exchange Rate and Terms of Trade

Post-float average = 100

* September quarter 2007 observation assumes that the nominal bilateral exchange rates on 8 August are maintained for the remainder of the quarter, and uses the latest core inflation rates

Sources: ABS, RBA
The export-dependent states are riding the resources boom - a tale of two economies?

**Intensity of Resource Exports**
Share of merchandise exports by state

- **WA**
- **QLD**
- **NSW**
- **VIC**
- **NT**
- **Other**

Source: ABS
Taking a walk on the supply side - the issue of bottlenecks or ‘capacity constraints’ has become topical.

Resource Exports*
Chain volumes, seasonally adjusted

<table>
<thead>
<tr>
<th>Year</th>
<th>1990s Annual Average</th>
<th>2000s Annual Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.0%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

* Excluding RBA gold. Sources: ABS, RBA
This is partly an investment issue as many resource projects are coming through the pipeline.

**Value of Completed Resource Projects**

Sources: Access Economics; RBA
Living in the 70s? The Gruen thesis says that 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.
Australia is a more diverse economy now

Composition of Exports*

* Excludes RBA gold transactions and ‘other goods’
Source: ABS
Australia’s attitude towards Asia: ‘Once were worriers’ because of the ‘The Tyranny of Distance’
We are now in the right place at the right time: ‘The Tyranny of distance’ has been replaced by ‘The Power of Proximity’
Japan’s economic development has partially driven Australia’s export growth in the past.
Now it will be China and India who will drive much of our export growth
Riding the Dragon - China has certainly been playing an important role for Australian exporters.
China and India are reclaiming their strong historical position in the global economy.
The Elephant versus the Dragon - China seems to have got the jump on India in recent times

![Graph showing the share of world GDP for China and India, with data from 1982 to 2006. The graph includes lines for Purchasing power parity and Market exchange rate. Source: IMF.]

Source: IMF
Do you want fries with your poppadom?
Or your dim sim?
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
A quiet revolution - Australia has built a strong ‘heartland’ of true blue exporters

Non-Exporters
‘Domestic Businesses’

Exporters/ Non-Exporters
‘Opportunistic/ Irregular’

Exporters
‘Heartland’
Keep your sunny side up: the heartland is nearly always optimistic…

Change in own business export orders

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Increase</th>
<th>Stay the same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next 3 mths</td>
<td>47%</td>
<td>36%</td>
<td>17%</td>
</tr>
<tr>
<td>Last 3 mths</td>
<td>39%</td>
<td>41%</td>
<td>20%</td>
</tr>
<tr>
<td>Next 12 mths</td>
<td>69%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Last 12 mths</td>
<td>52%</td>
<td>29%</td>
<td>19%</td>
</tr>
</tbody>
</table>
With mining leading the way…

Industry differences - NSS
Women are especially important in the ‘exporter heartland’

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.
Exchange rates continue to be the main factor negatively impacting exporters’ sales in the last 12 months.

As for 2006, high oil/fuel prices is the second most often mentioned response by exporters.
With the strengthening of the Australian dollar, what effect has this had on … ?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Positive</th>
<th>No effect</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices</td>
<td>10%</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Profit</td>
<td>15%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>13%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>Costs</td>
<td>22%</td>
<td>53%</td>
<td>25%</td>
</tr>
<tr>
<td>Future Investment/ Business plans</td>
<td>13%</td>
<td>66%</td>
<td>21%</td>
</tr>
<tr>
<td>Output</td>
<td>7%</td>
<td>74%</td>
<td>19%</td>
</tr>
<tr>
<td>Headcount (staff numbers)</td>
<td>6%</td>
<td>80%</td>
<td>14%</td>
</tr>
</tbody>
</table>

- The strengthening of the Australian dollar has had a negative effect on the greatest proportion of exporters’ prices, profit and sales revenue.

N=364
Capacity constraints are a major issue

Which of the following areas do you feel will have an impact on your exports this year? (Prompted)

- Manufacturing: 58%
- Supply chain: 44%
- Infrastructure: 23%
- Other: 7%

- Of the exporters who believe capacity constraints have had a negative effect on their sales in the past twelve months (23%), manufacturing capacity (58%) has been the main hindrance for exporters.
What about the workers? Like all employers, exporters are facing labour shortages

What type of labour issues have you been affected by?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of skilled labour (white collar/professional)</td>
<td>72%</td>
</tr>
<tr>
<td>Lack of trade labour (blue collar)</td>
<td>56%</td>
</tr>
<tr>
<td>Wages</td>
<td>54%</td>
</tr>
<tr>
<td>Lack of unskilled labour</td>
<td>44%</td>
</tr>
<tr>
<td>Education / training</td>
<td>37%</td>
</tr>
<tr>
<td>Industrial relations reforms (eg WorkChoices)</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>
Exporters used to have ‘Europhobia’ but now they have ‘Eurovision’

Changes to export orders over the next 12 months by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Increase</th>
<th>Stay Same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe (n=158)</td>
<td>65%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>China (n=115)</td>
<td>61%</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>South Asia (n=64)</td>
<td>56%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>UK (n=136)</td>
<td>55%</td>
<td>37%</td>
<td>8%</td>
</tr>
<tr>
<td>Middle East (n=73)</td>
<td>55%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>SE Asia (ASEAN) (n=152)</td>
<td>54%</td>
<td>35%</td>
<td>11%</td>
</tr>
<tr>
<td>Africa (n=64)</td>
<td>54%</td>
<td>30%</td>
<td>16%</td>
</tr>
<tr>
<td>Hong Kong (n=61)</td>
<td>54%</td>
<td>28%</td>
<td>18%</td>
</tr>
<tr>
<td>Nth America (n=176)</td>
<td>53%</td>
<td>37%</td>
<td>10%</td>
</tr>
<tr>
<td>Sth &amp; Central America (n=44)</td>
<td>50%</td>
<td>34%</td>
<td>16%</td>
</tr>
<tr>
<td>Korea (n=55)</td>
<td>47%</td>
<td>41%</td>
<td>12%</td>
</tr>
<tr>
<td>New Zealand (151)</td>
<td>46%</td>
<td>39%</td>
<td>15%</td>
</tr>
<tr>
<td>Japan (n=94)</td>
<td>43%</td>
<td>37%</td>
<td>20%</td>
</tr>
<tr>
<td>Pacific (n=63)</td>
<td>34%</td>
<td>57%</td>
<td>9%</td>
</tr>
<tr>
<td>Taiwan (n=50)</td>
<td>33%</td>
<td>38%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Legend: Increase, Stay same, Decrease
Although China rates number one looking 5 and 10 years out.

**Top 5 exporting destinations in the future**

- **China**: 30%
- **North America**: 27%
- **Europe**: 26%
- **South East Asia (ASEAN)**: 24%
- **UK**: 19%
Austrade surveys do show a fair bit of ‘panda-hugging’ amongst both exporters and importers.
China tops the poll as far as FTAs go

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Very positive impact</th>
<th>Somewhat positive impact</th>
<th>Neither</th>
<th>Somewhat negative impact</th>
<th>Very negative impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (n=296)</td>
<td>19%</td>
<td>24%</td>
<td>49%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>ASEAN (n=293)</td>
<td>16%</td>
<td>26%</td>
<td>54%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>USA (n=298)</td>
<td>18%</td>
<td>22%</td>
<td>55%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Japan (n=292)</td>
<td>13%</td>
<td>22%</td>
<td>62%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Malaysia (n=279)</td>
<td>13%</td>
<td>21%</td>
<td>62%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>UAE (n=272)</td>
<td>14%</td>
<td>19%</td>
<td>65%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>New Zealand (n=295)</td>
<td>15%</td>
<td>17%</td>
<td>67%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Singapore (n=281)</td>
<td>12%</td>
<td>19%</td>
<td>67%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Thailand (n=281)</td>
<td>11%</td>
<td>19%</td>
<td>66%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Chile (n=256)</td>
<td>5%</td>
<td>16%</td>
<td>77%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

• FTAs or closer economic partnerships with China, ASEAN and the United States will have the most positive impact for Australian exporters.
China is in the mix with small business too.
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:

- US Free Trade Agreement: 49%
- Trade with China: 4%
- Trade with Other Asian Countries: 3%
- Closing of Mitsubishi: 3%
- Increase oil/petrol prices due to war: 3%
- Impact on exports due to war: 1%
- General mention of exports of wool, wheat, metal cars & gas: 12%
Normally we use “star power” to help promote exports

- Megan Gale helps Ganehills – a small Perth based company selling skin care products in Italy
Some economists work very hard to promote Australian exports
Doing it tough… with Kate Fischer and Pru Goward
Doing it tough… with another famous Australian female celebrity exporter!
Despite some Gen X and Gen Y growth, global SMEs are mainly run by baby-boomers.
Over half are very experienced exporters

- Up to 5 years: 5%
- 5 to 9 years: 26%
- 10 to 14 years: 18%
- 15 to 19 years: 12%
- 20+ years: 39%
Japan: Land of the greying sun?
China: getting old before they get rich?
India: Poppadom preach?
Successful Intender
Successful Intender or Accidental Exporter?
Born Global
Born Global or Irregular Exporter?
Joint venture?
Joint venture?
Joint venture?
Joint venture
Outer metropolitan areas are proving to be fertile ground for exporting.
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- David Gruen Commonwealth Treasury
- Frank Bingham & John Weeden Department of Foreign Affairs and Trade
- Christena Singh Sensis

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