

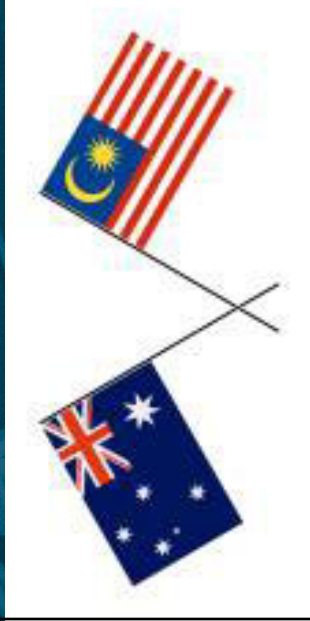
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## **Openness, Competitiveness & Export Performance in Australia**

**Tim Harcourt**  
**Chief Economist**  
**Australian Trade**  
**Commission**  
**Sydney**

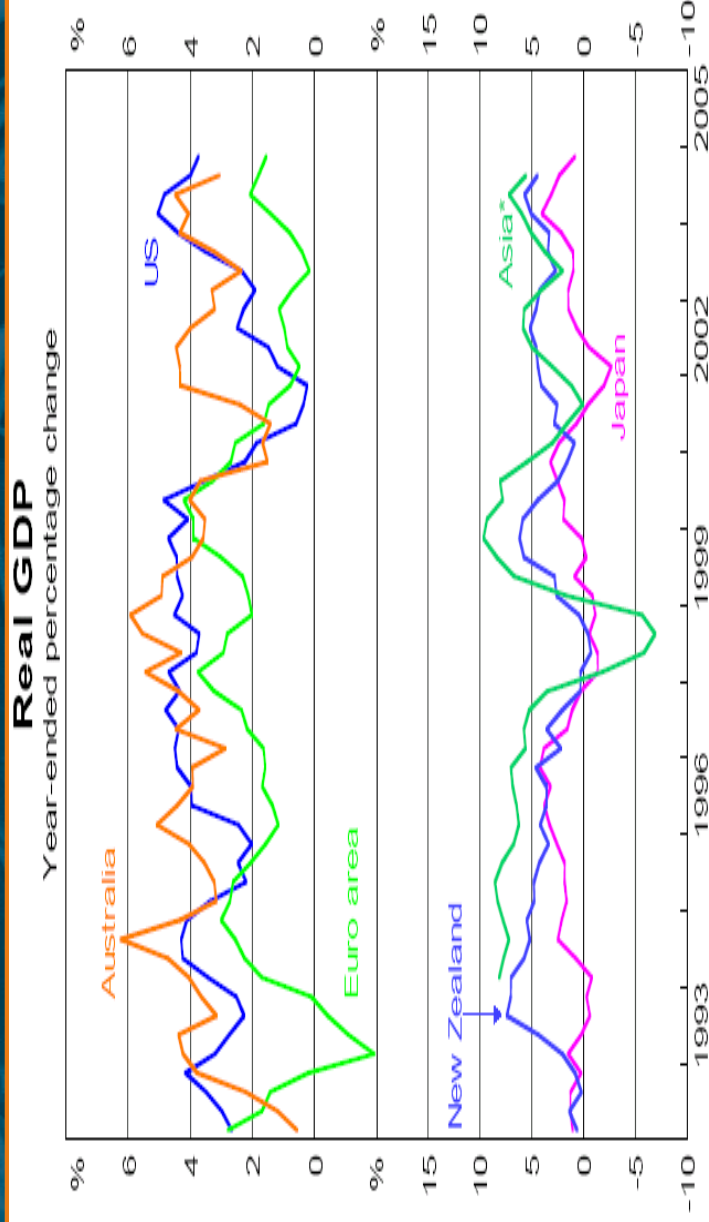


# Economic Reforms in Australia

- Floating of the exchange rate
- Reduction of tariff protection
- Trade orientation towards emerging economies in East Asia
- Deregulation of financial markets and foreign bank entry
- Basing wages on skill levels, education attainment and productivity
- Reform of education and training
- Tax reform and targeted public expenditure
- Adoption of low inflation target
- Central bank independence



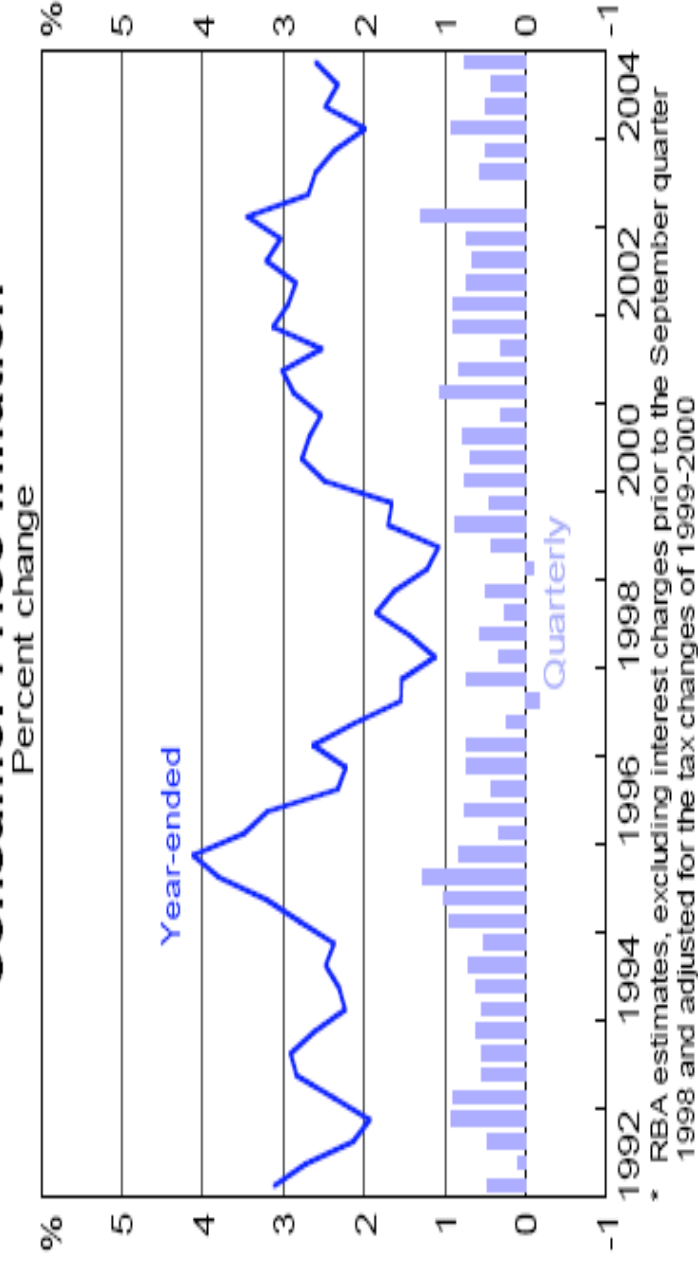
# Australia's economic performance has generated strong rates of economic growth over the medium term



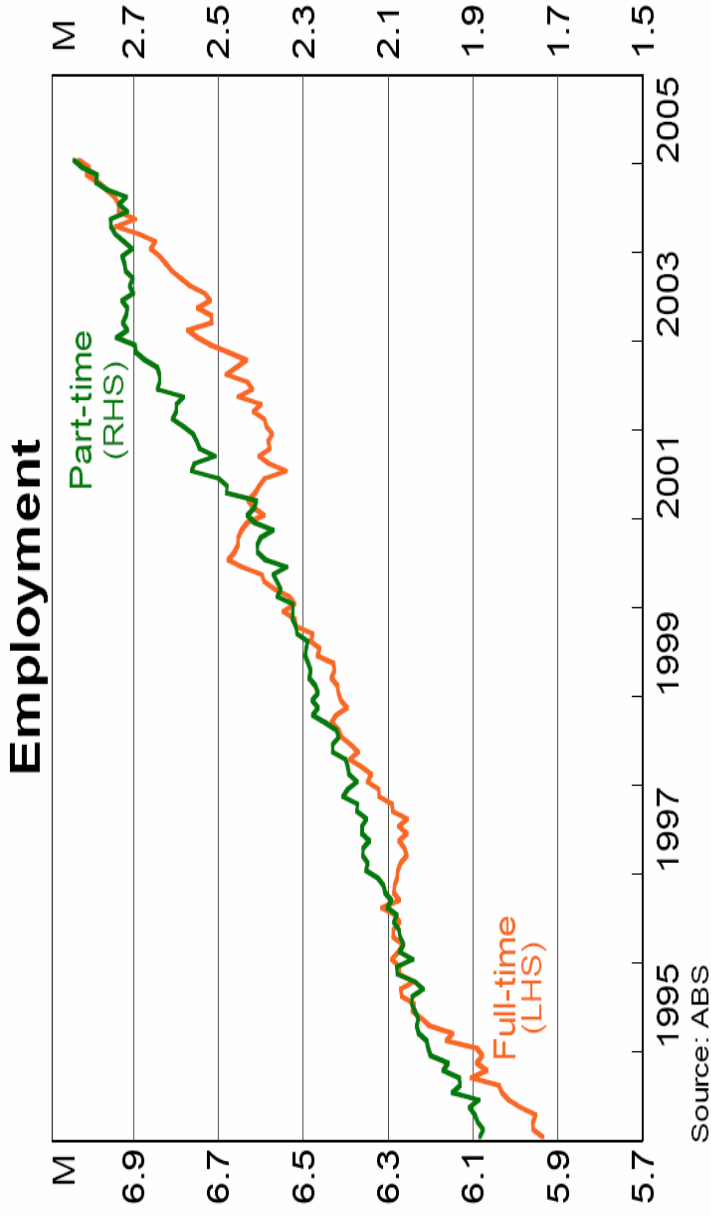
\* Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand  
Sources: ABS; CEIC; Thomson Financial

# Together with low rates of inflation

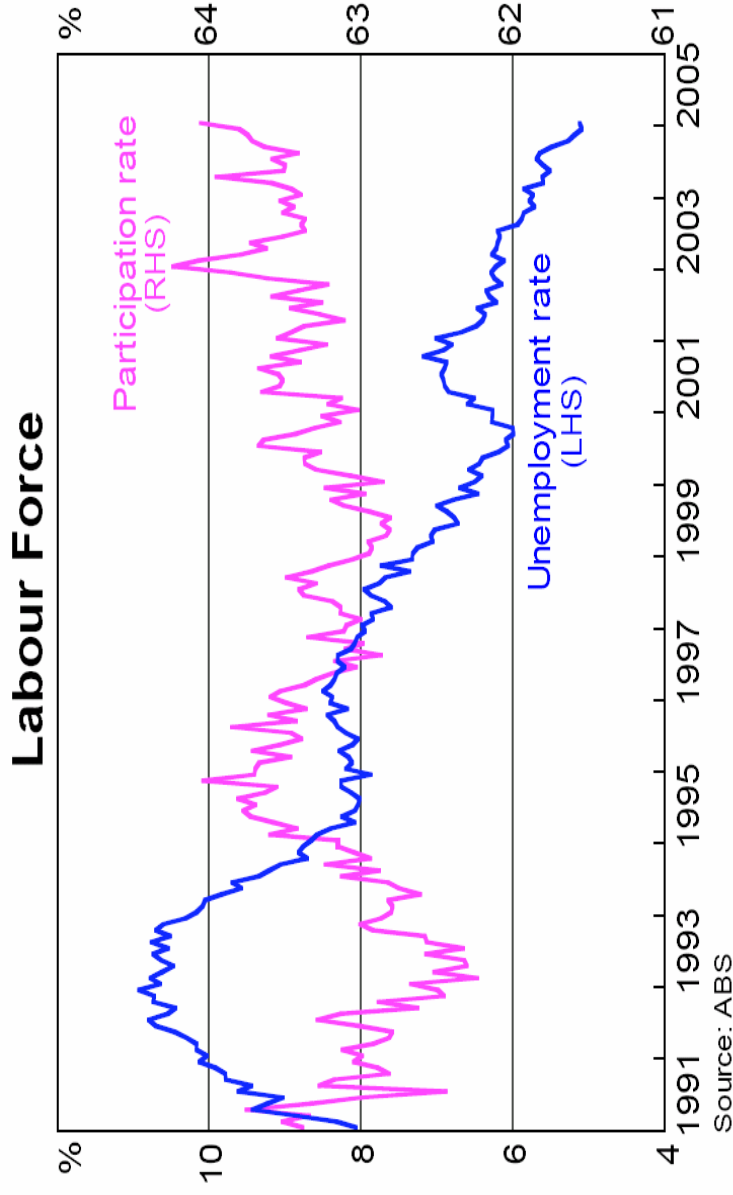
## Consumer Price Inflation\*



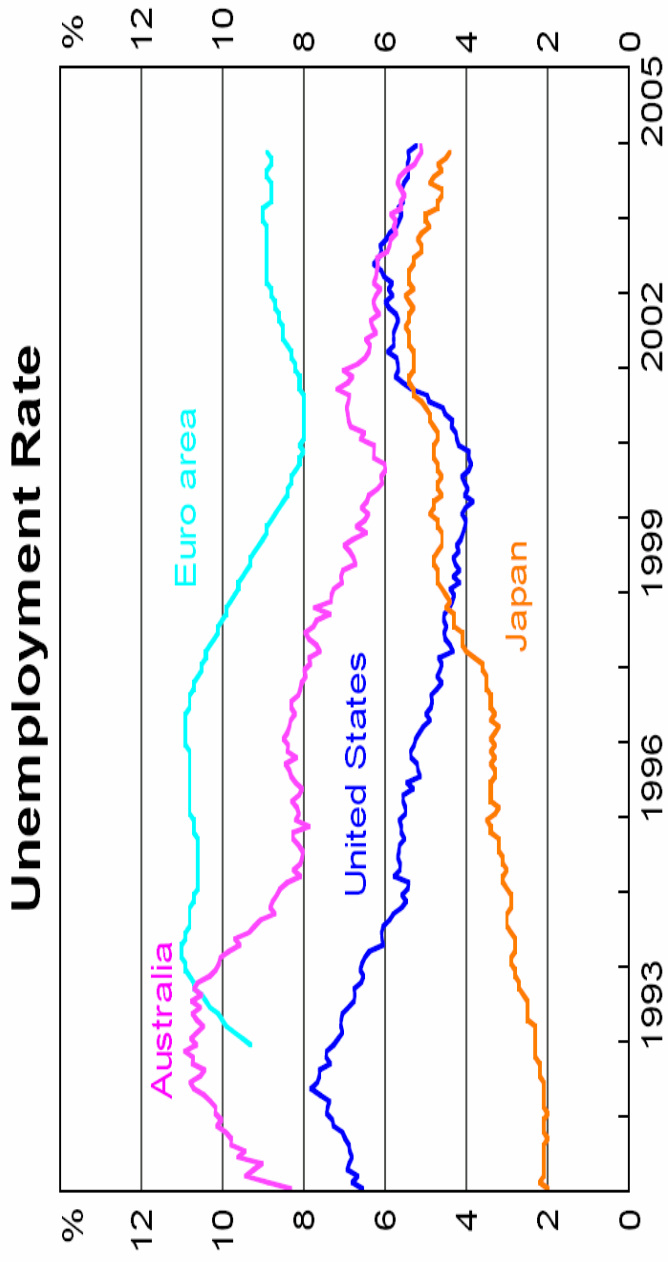
# Australia has also generated strong employment growth



# The unemployment rate is at its lowest level since the 1970s



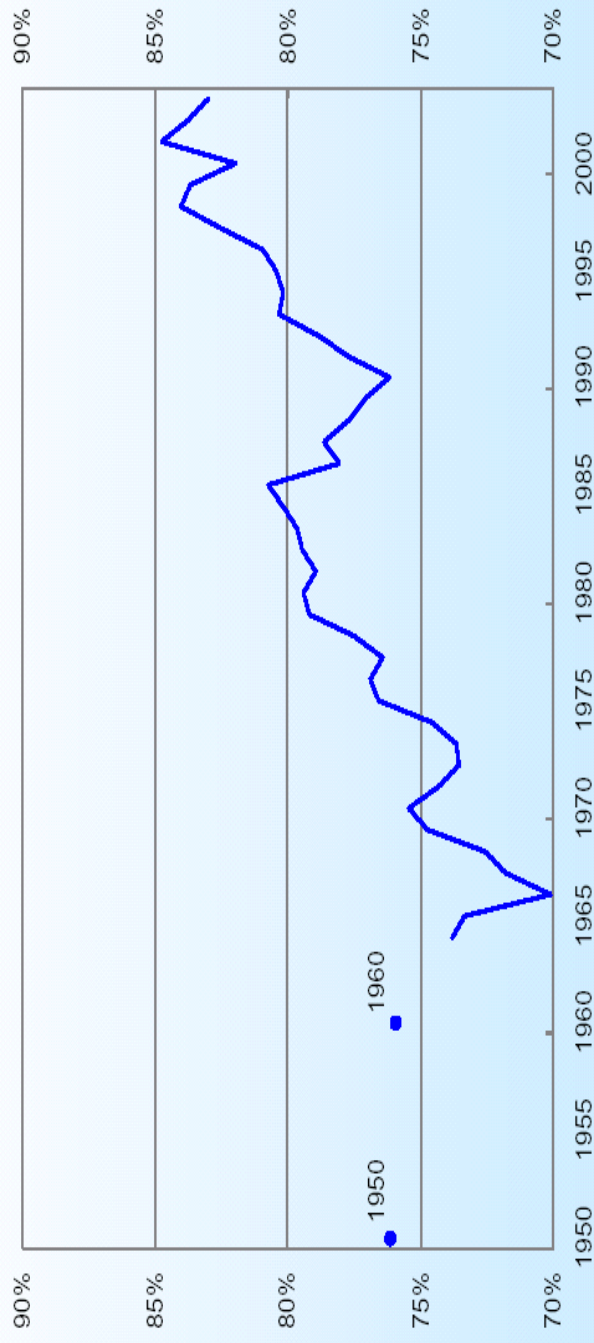
# Unemployment is low by international standards



Sources: ABS; Thomson Financial

Australia's real competitiveness story is a good one

## Australian labour productivity level relative to the US

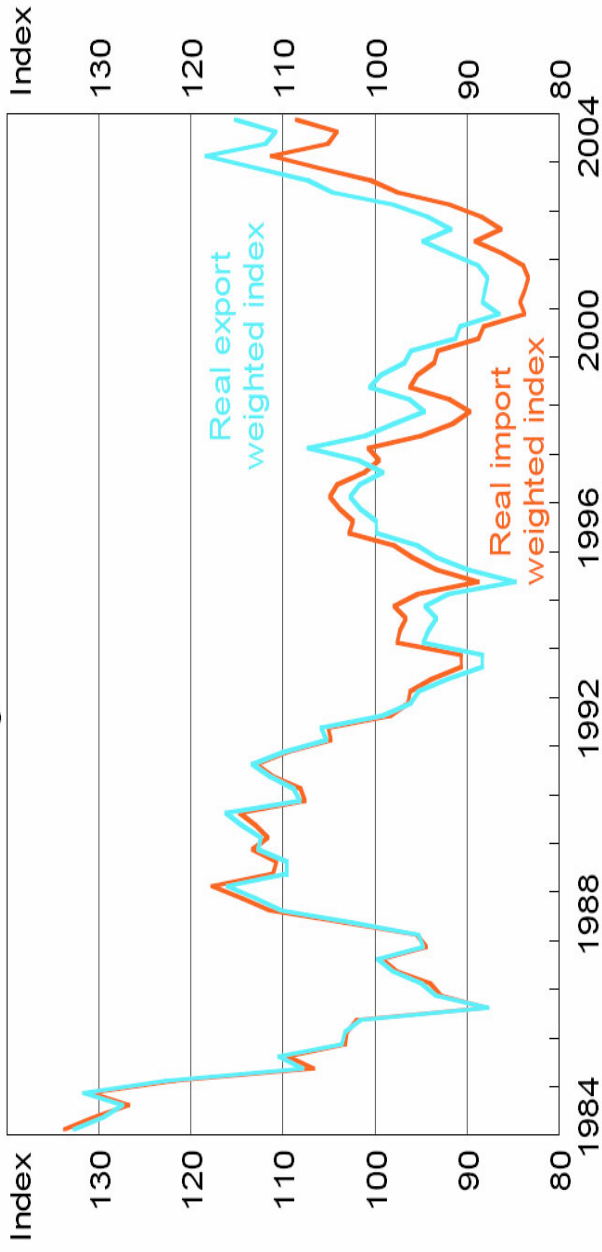


Source: Groningen Growth and Development Centre

# Real exchange rates fell substantially over the 1980s

## Real Exchange Rates

Average of 1990s = 100

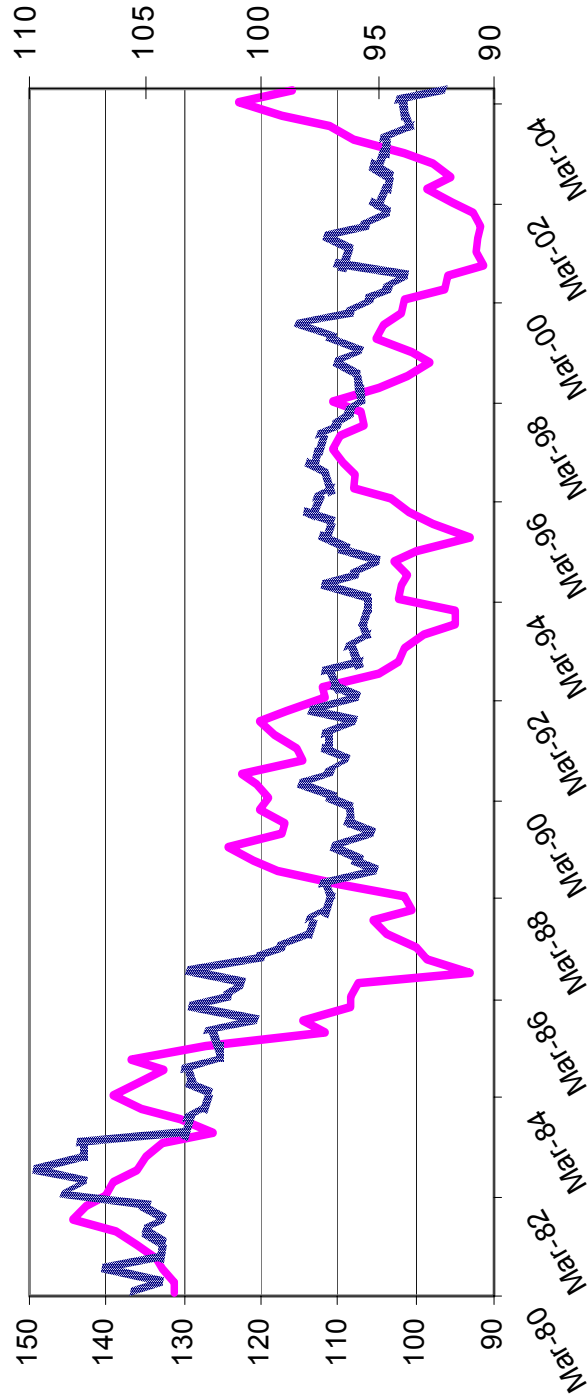


Source: RBA



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# Recent increases have been mainly principally currency-driven



— Real TWI — Real unit labour costs RHS



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# International research has identified ‘holistic’ drivers of competitiveness

- **Economic reform and Macro management**
- **The Business Environment**
- **The Quality of Public Institutions and Governance**
- **Innovation and the adoption of technology**
- **Openness to trade and investment**



# Australia fares well in most of these international surveys (as does Malaysia) amongst economies of similar rates of development

Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking
United States	1	2	2
Finland	2	7	1
Germany	3	1	5
Sweden	4	5	6
Switzerland	5	4	7
United Kingdom	6	8	4
Denmark	7	9	3
Japan	8	3	11
Netherlands	9	6	9
Singapore	10	13	8
Hong Kong SAR	11	15	10
France	12	10	16
Australia	13	19	12
Belgium	14	11	19
Canada	15	16	13
Austria	16	14	17
Taiwan	17	12	20
New Zealand	18	20	15
Iceland	19	17	18
Norway	20	23	14
Israel	21	18	21
Ireland	22	22	22
Malaysia	23	28	23
Korea	24	21	28
South Africa	25	24	25



# The surveys look not just at the economic environment but also Technology and Public Institutions

## The Growth Competitiveness Index: Overall Ranks (out of 104 countries)

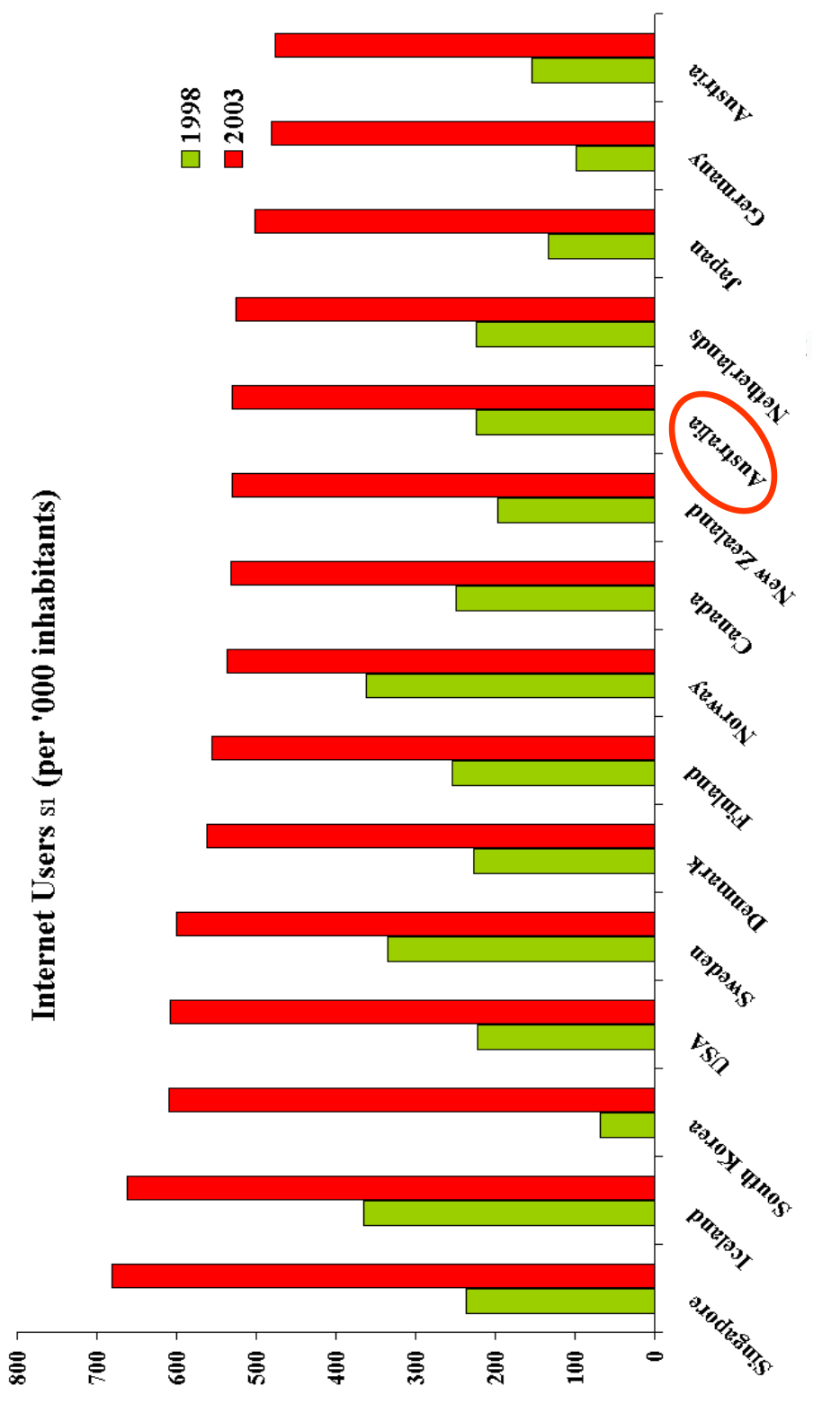
GCI	Country	Technology	Public Institutions	Macroeconomic Environment
1	Finland	3	3	3
2	United States	1	21	15
3	Sweden	4	6	17
9	Japan	5	16	29
11	United Kingdom	18	7	8
13	Germany	12	11	26
14	Australia	17	12	14
22	Chile	32	20	27
23	Spain	20	34	16
27	France	30	25	25
29	Korea	9	41	35
46	China	62	55	24
47	Italy	50	48	38
55	India	63	53	52
70	Russia	67	89	56

Source: World Economic Forum  
Growth Competitiveness Index - 2004 Results



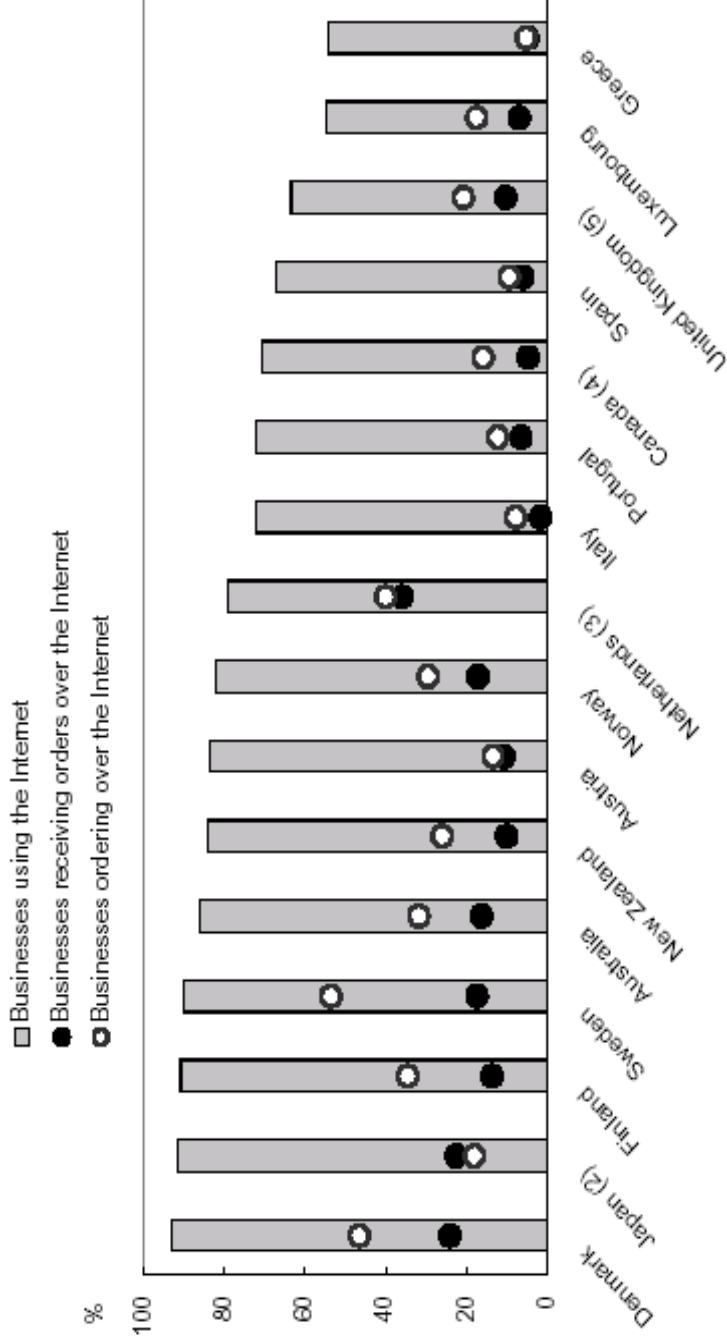
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# Australia has fared well in the technology stakes ...in terms of Internet usage



# Businesses using the Internet for Purchasing & Selling, 2001

## Percentage of Businesses with 10 or more Employees

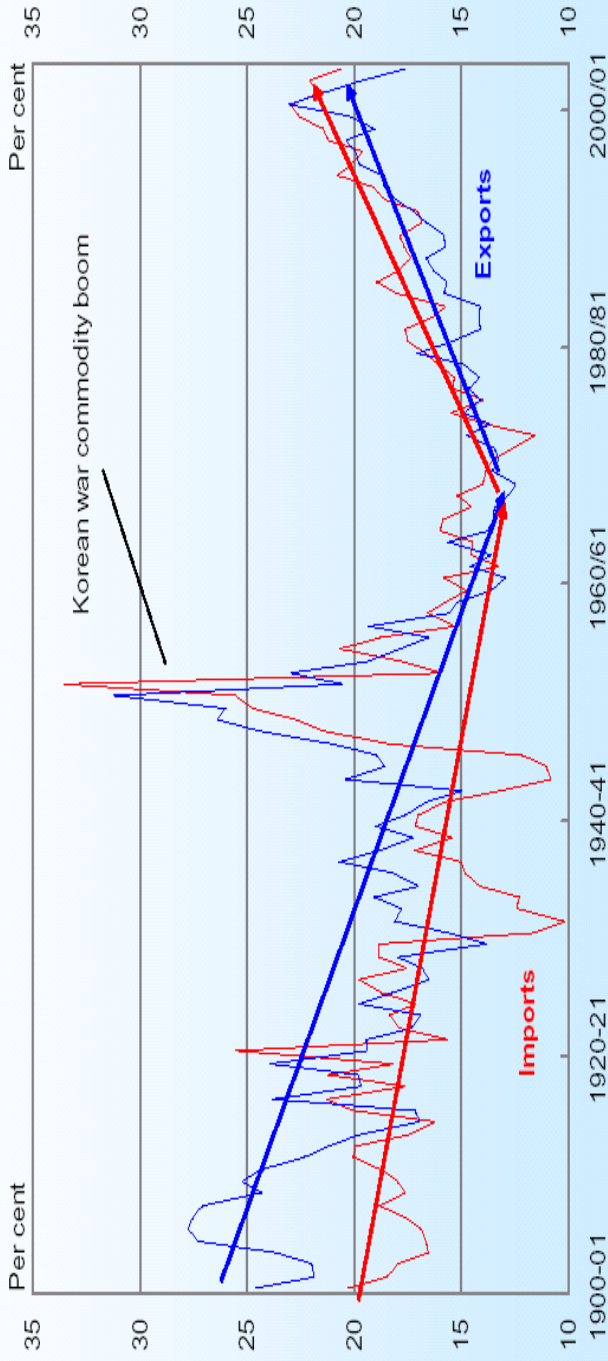


*Note:* The results of the Eurostat survey are based on a selection of industries that changes slightly across countries. The main sectors covered are manufacturing, wholesale and retail trade, hotels and restaurants, transport, storage and communications, financial intermediation, real estate, renting and business activities. The surveys of Denmark, Italy, Finland and Norway do not cover financial intermediation; those of Denmark, the Netherlands, Finland, the United Kingdom and Norway also cover construction; Denmark and Norway also survey personal services. Beginning of 2001 for Internet use; purchases and sales refer to 2000, for Canada, purchases and sales refer to 2001; for Denmark and Norway, Internet use refers to 2002 and purchases and sales refer to 2001.

Source: Source: OECD, ICT database, August 2002; Eurostat, *E-commerce Pilot Survey 2001*.

# Trade is an important part of the Australian competitiveness story

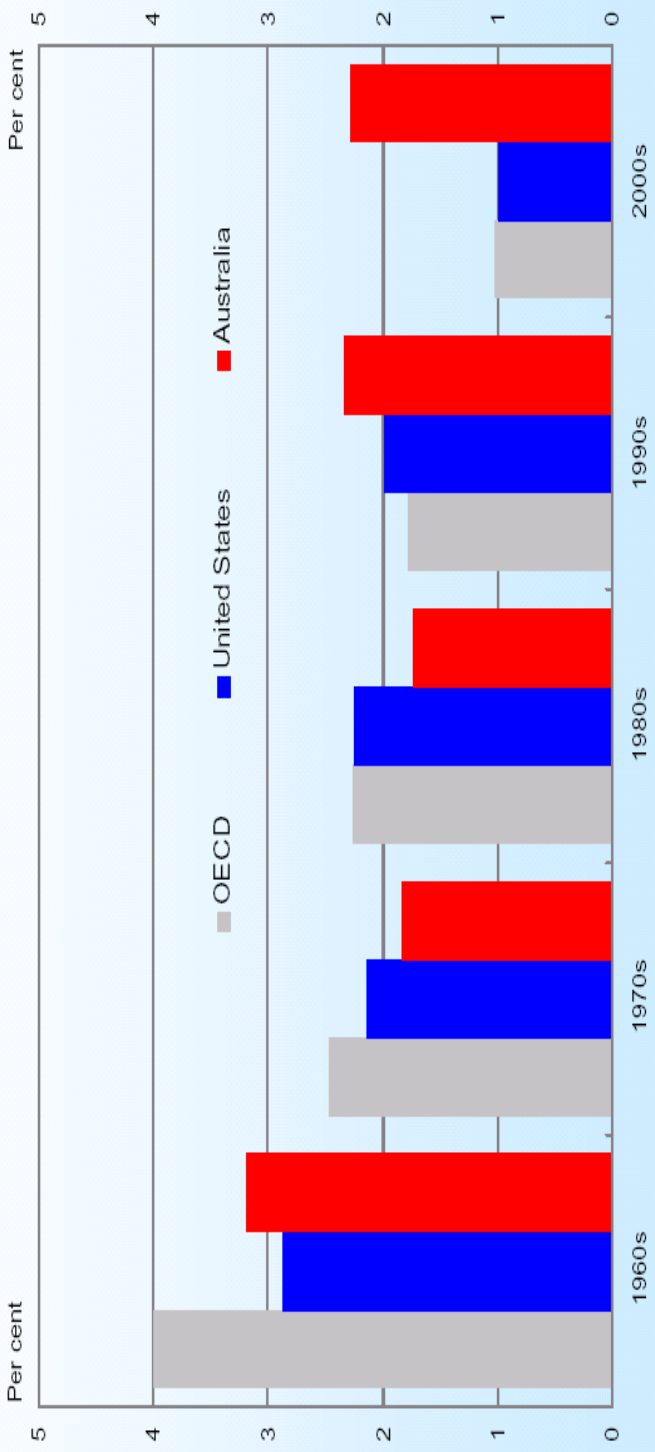
## Exports and imports as a share of GDP



Source: RBA Preliminary Annual Database, ABS

Openness to trade has been associated with higher living standards

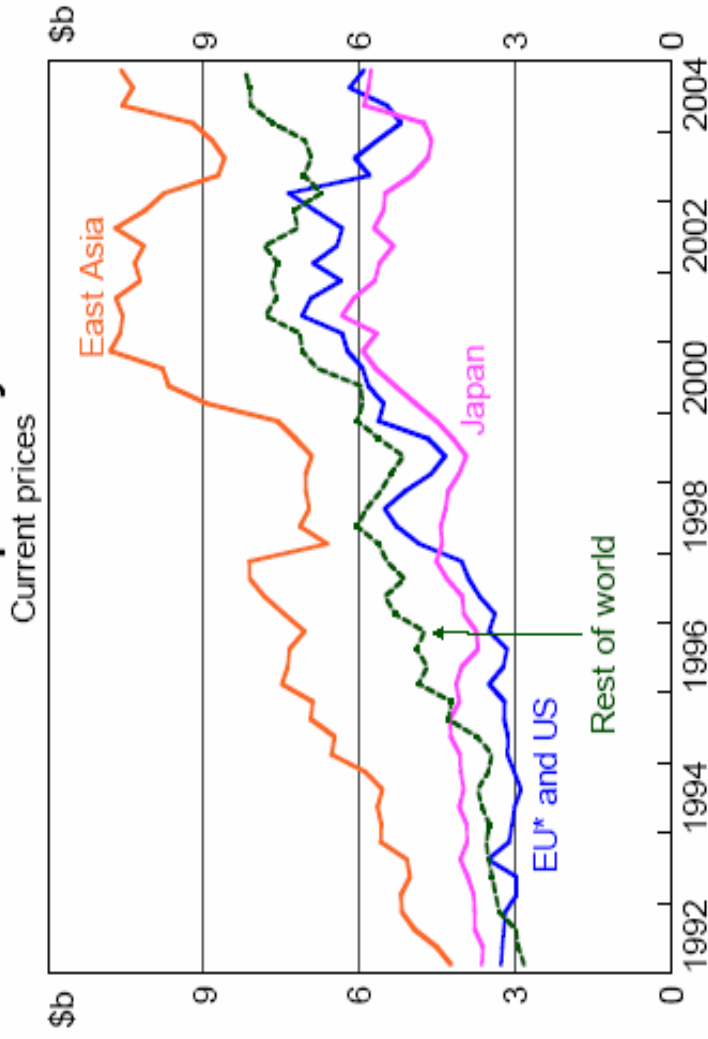
## Per Capita GDP Growth



Source: Groningen Growth and Development Centre and The Conference Board

# Australian trade orientation towards East Asia is an important part of this story

## Merchandise Exports by Destination



Source: ABS, seasonal adjustment by the RBA

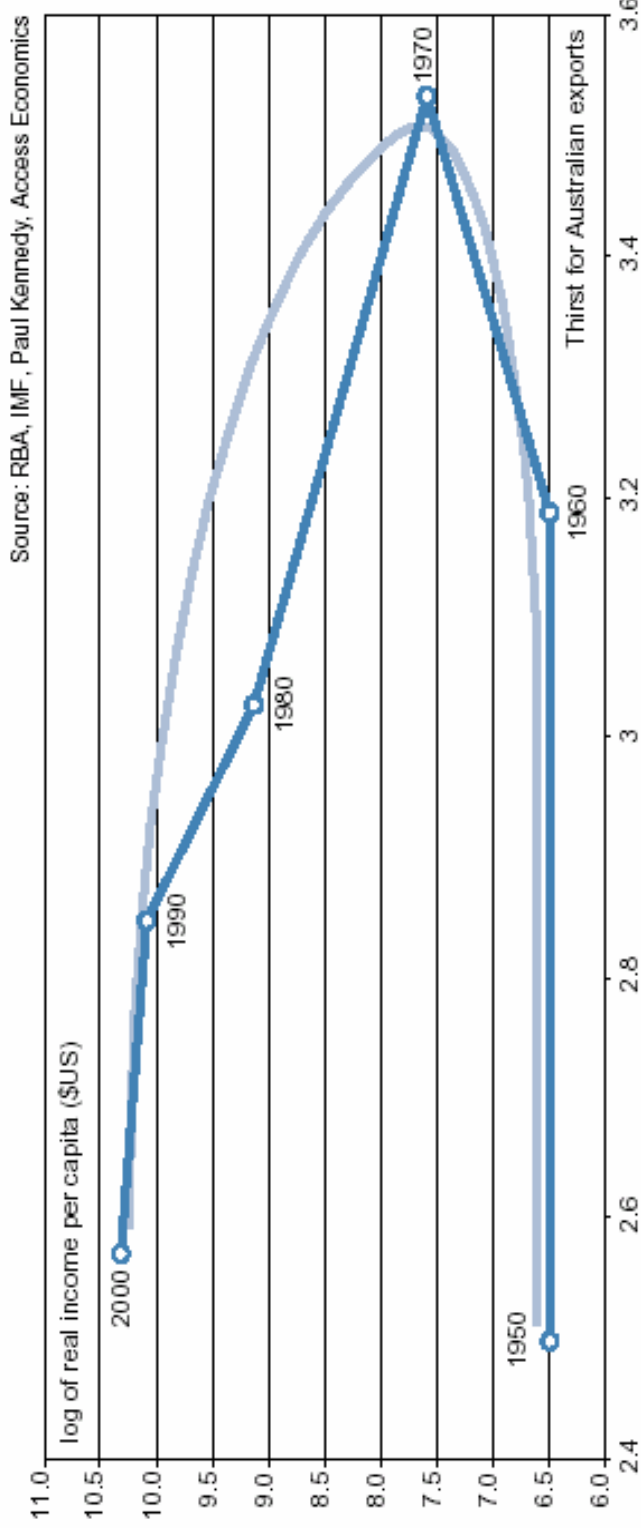


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# Japan's economic development has partially driven Australia's export growth

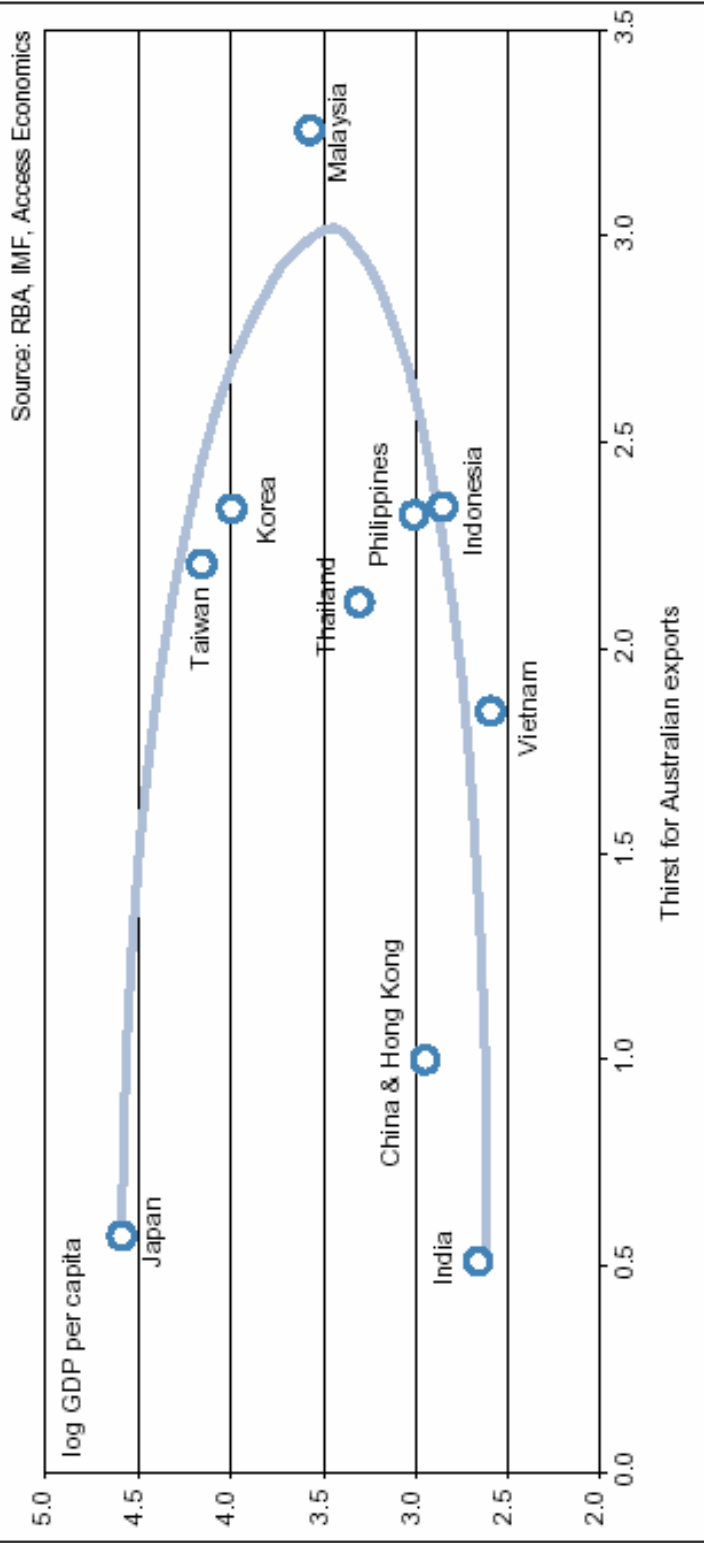
Chart 8

JAPAN'S NEED FOR AUSSIE EXPORTS HAS MIRRORRED ITS DEVELOPMENT



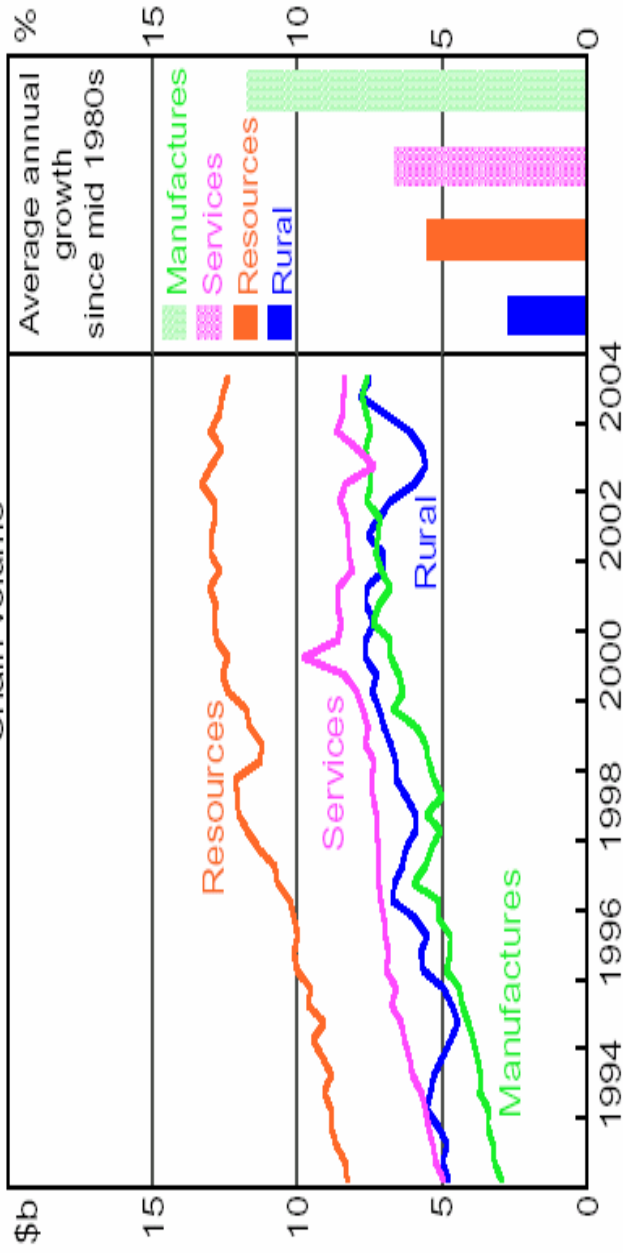
# Now, it will be China, India and the ASEAN economies who will drive much of this growth

Chart 9 AUSTRALIA'S ASIAN TRADE 'BOOMERANG'



# Australia now has more export diversity across industry

**Composition of Exports\***  
Chain volume

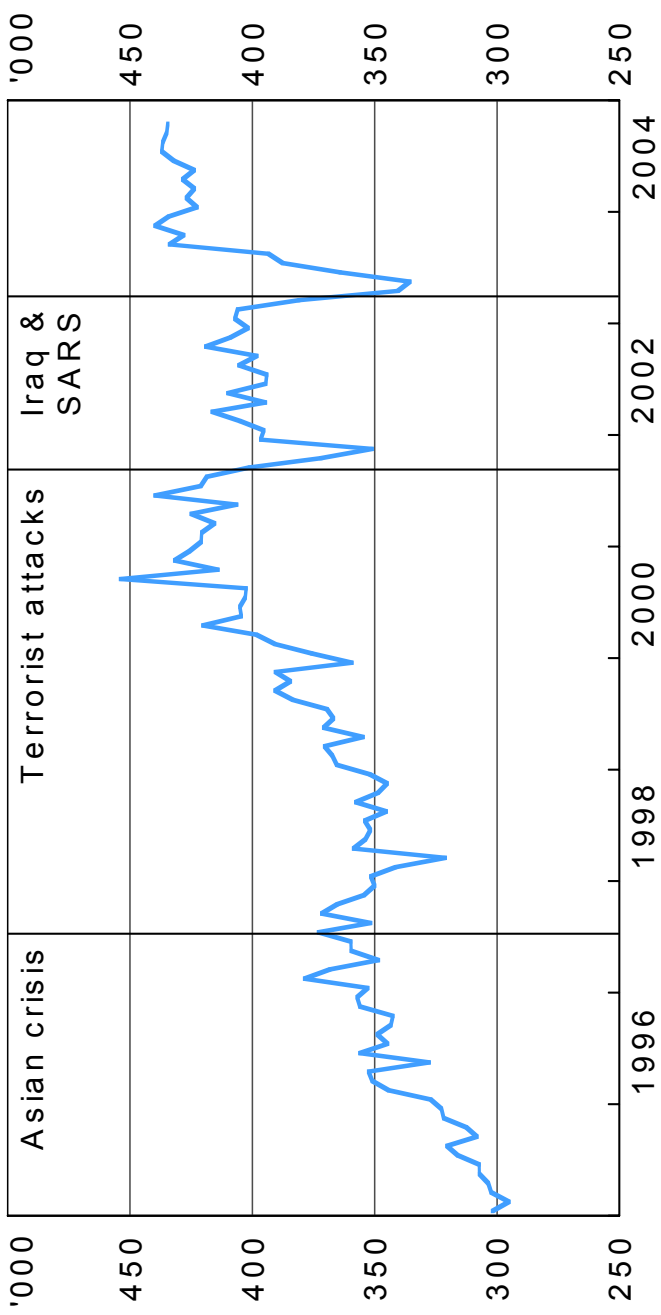


\* Excludes RBA gold transactions and 'other goods'  
Source: ABS



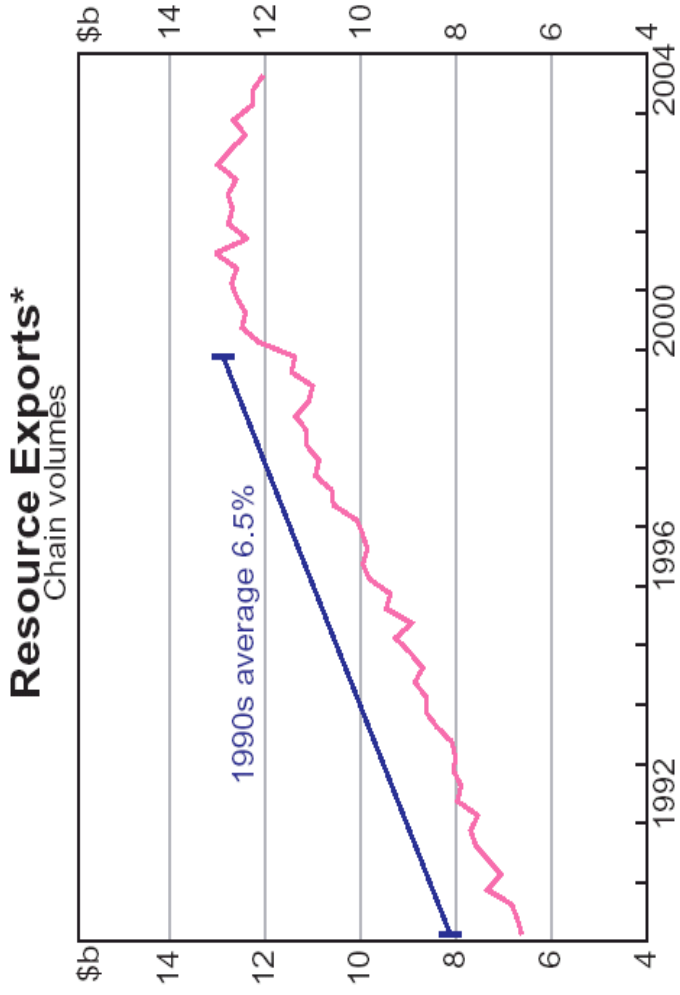
# Recently exporters have had to cope with external shocks

## Overseas Arrivals



Source: ABS

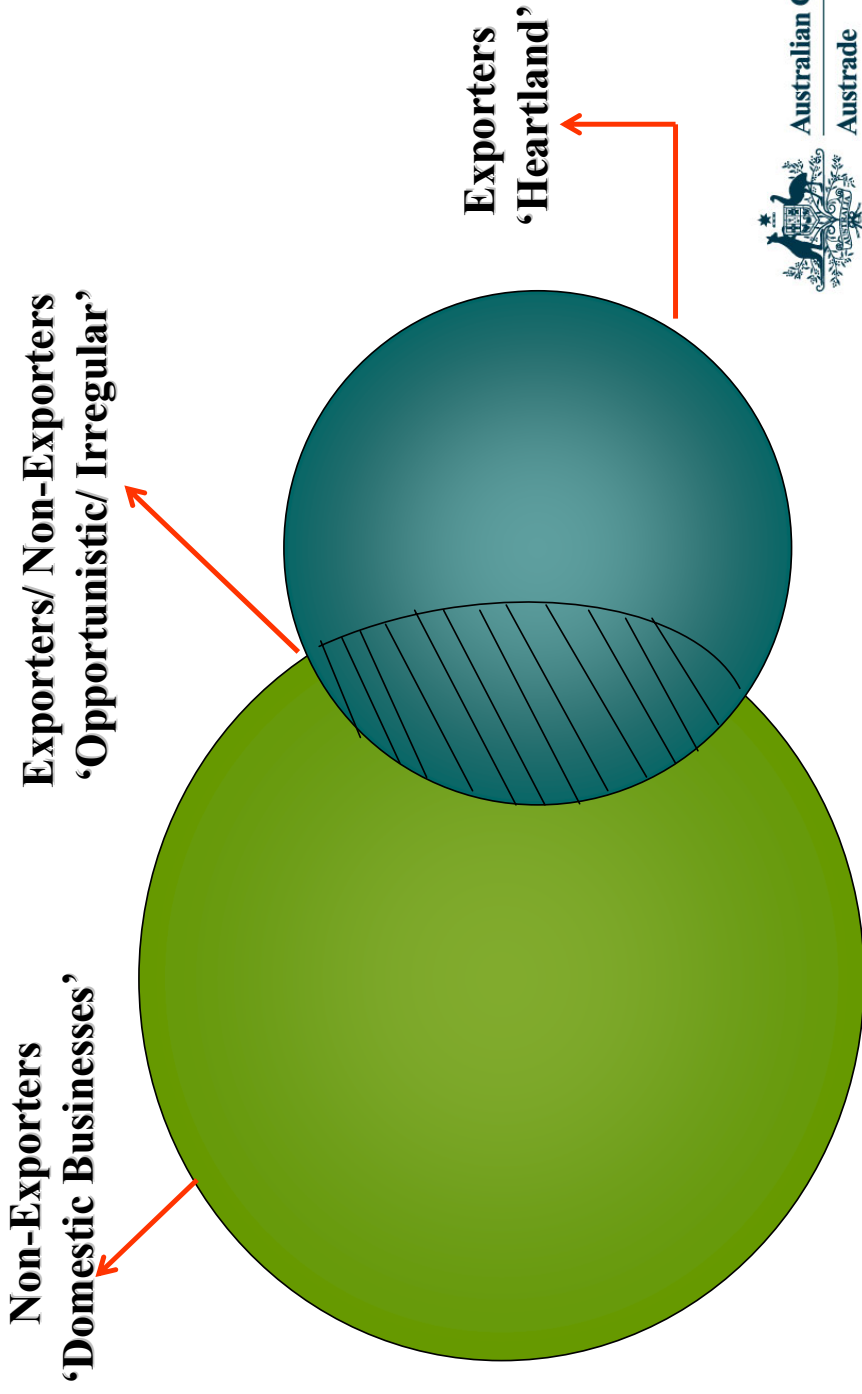
# And supply constraints



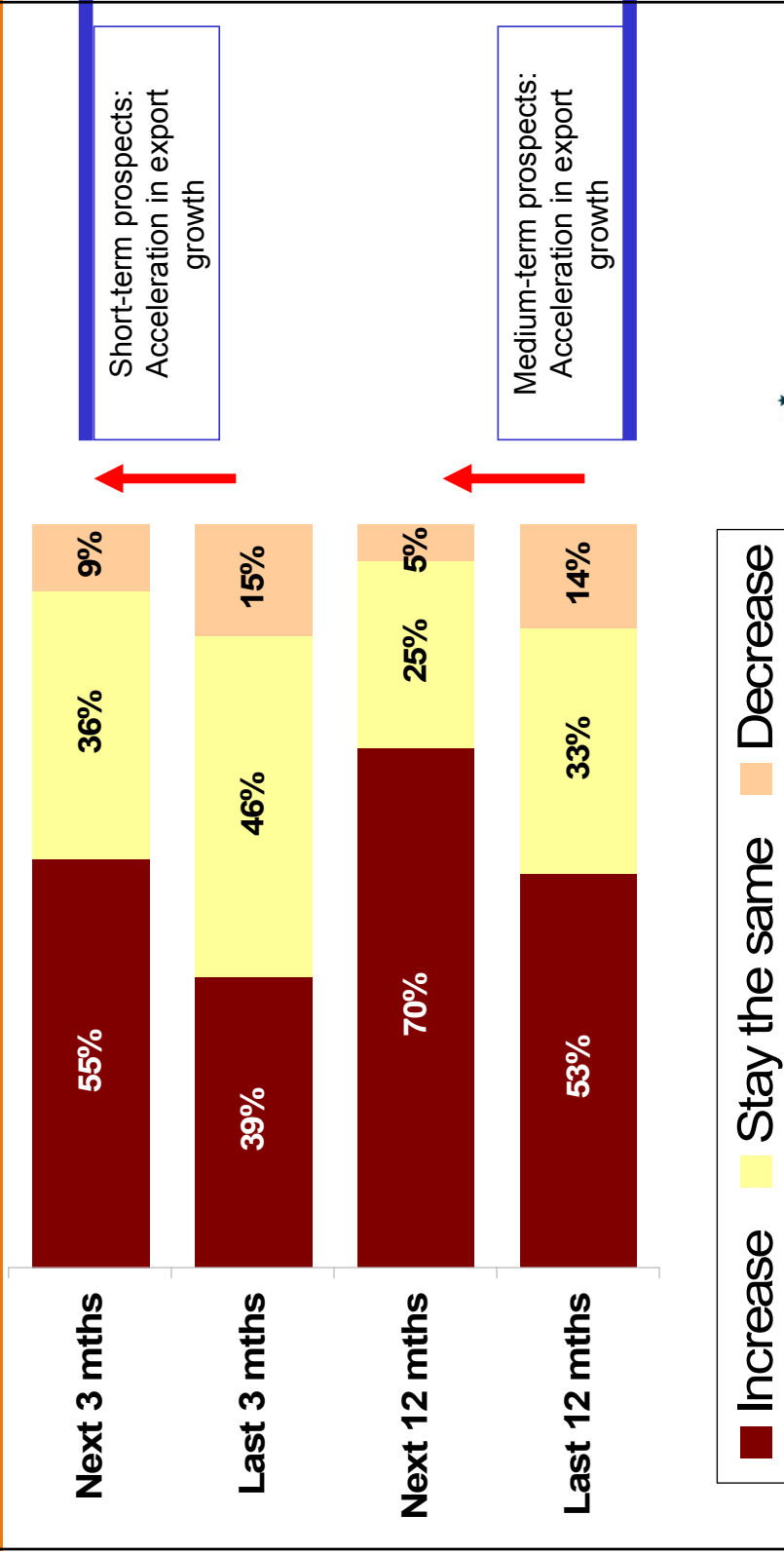
\* Excluding RBA gold and the estimated volume of re-exported gold  
Sources: ABS; RBA



# The microeconomics of exporting

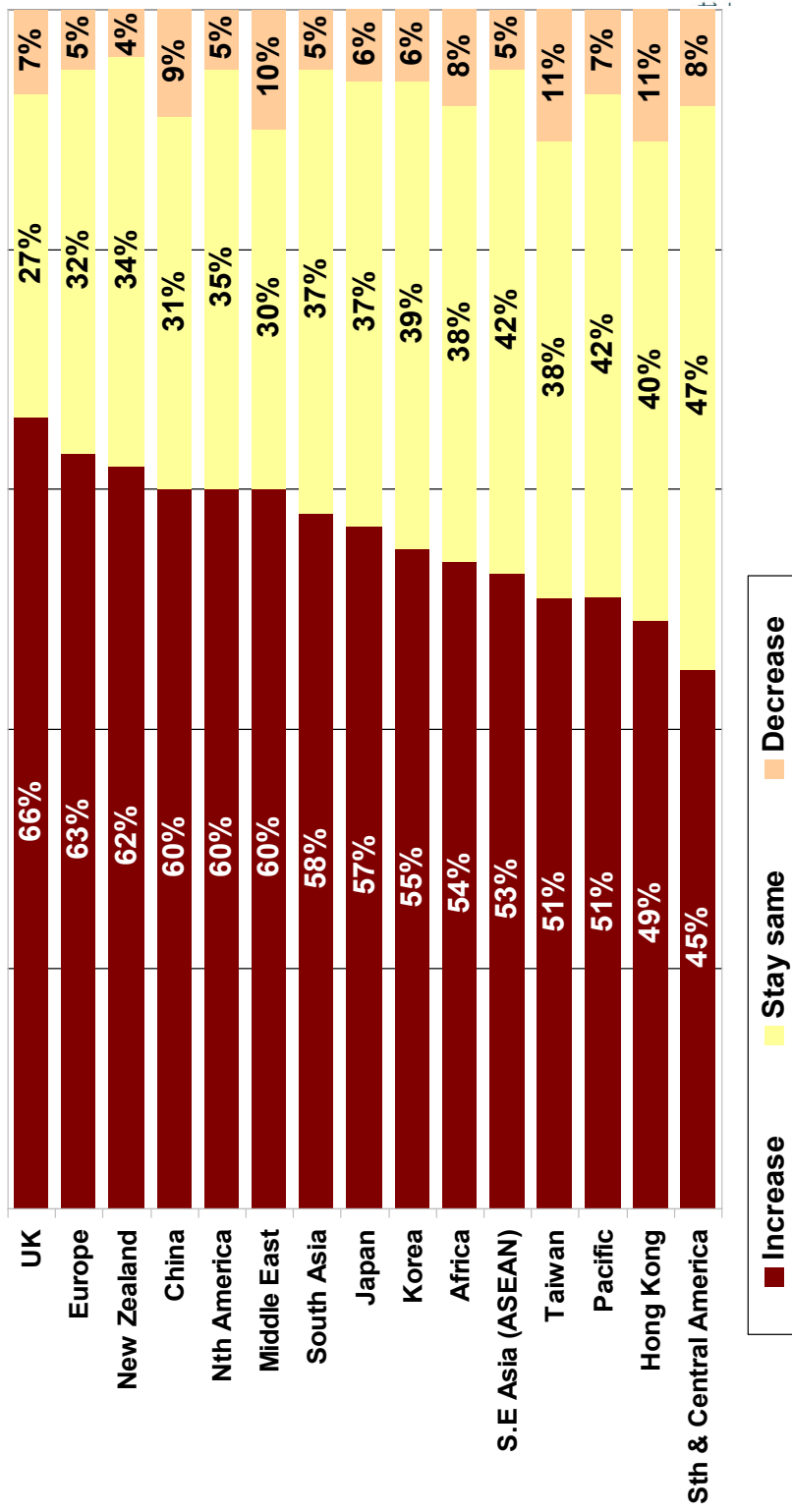


# ‘Heartland’ exporters are an optimistic lot according to the Export Barometer



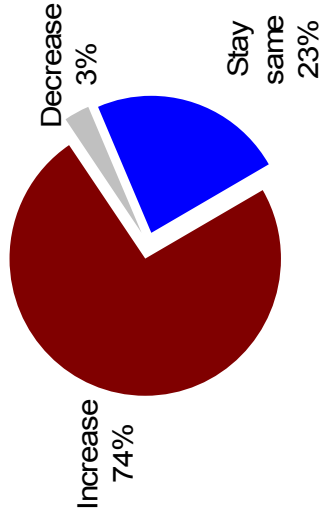
# The 'heartlanders'.. export to multiple destinations

Changes to export orders over the next 12 months by region

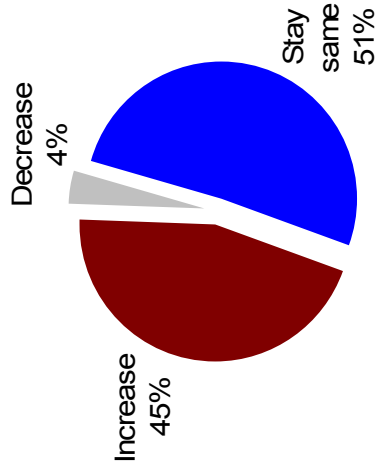


# They are bullish about profits and wages over the next 12 months

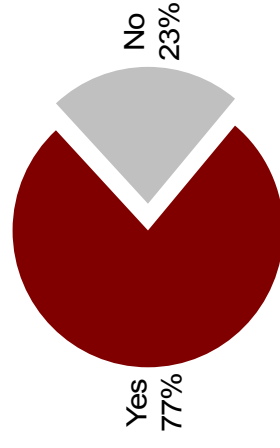
## Company Profitability



## Number of Employees



## Wage Increase

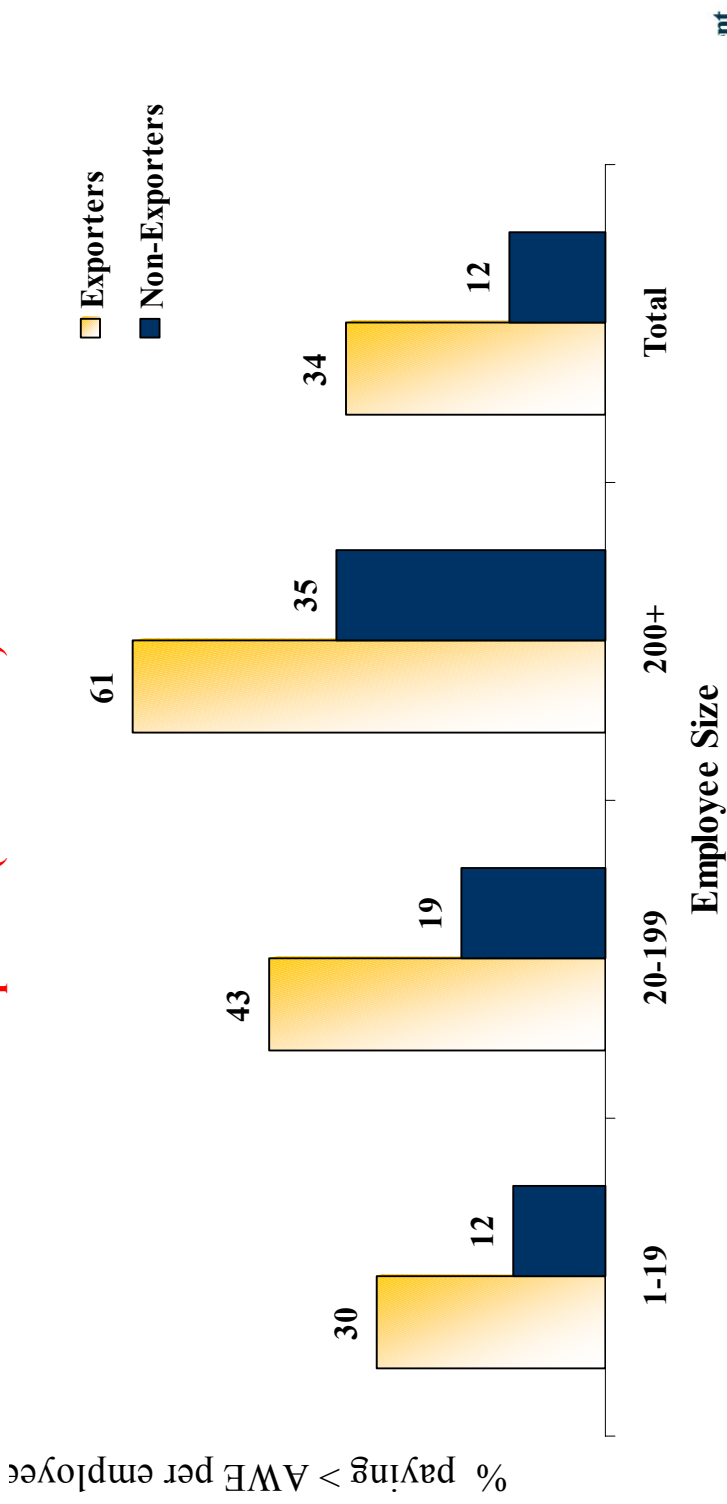


- In line with their positive expectations of increased export orders over the next twelve months, exporters are extremely “bullish” with regards to forecasting the next 12 months, with three in every four exporters expecting an increase in profitability.
- To keep up with demand, 45% of exporters are likely to increase their staff head count.
- Wage increases are also likely in 77% of organisations.



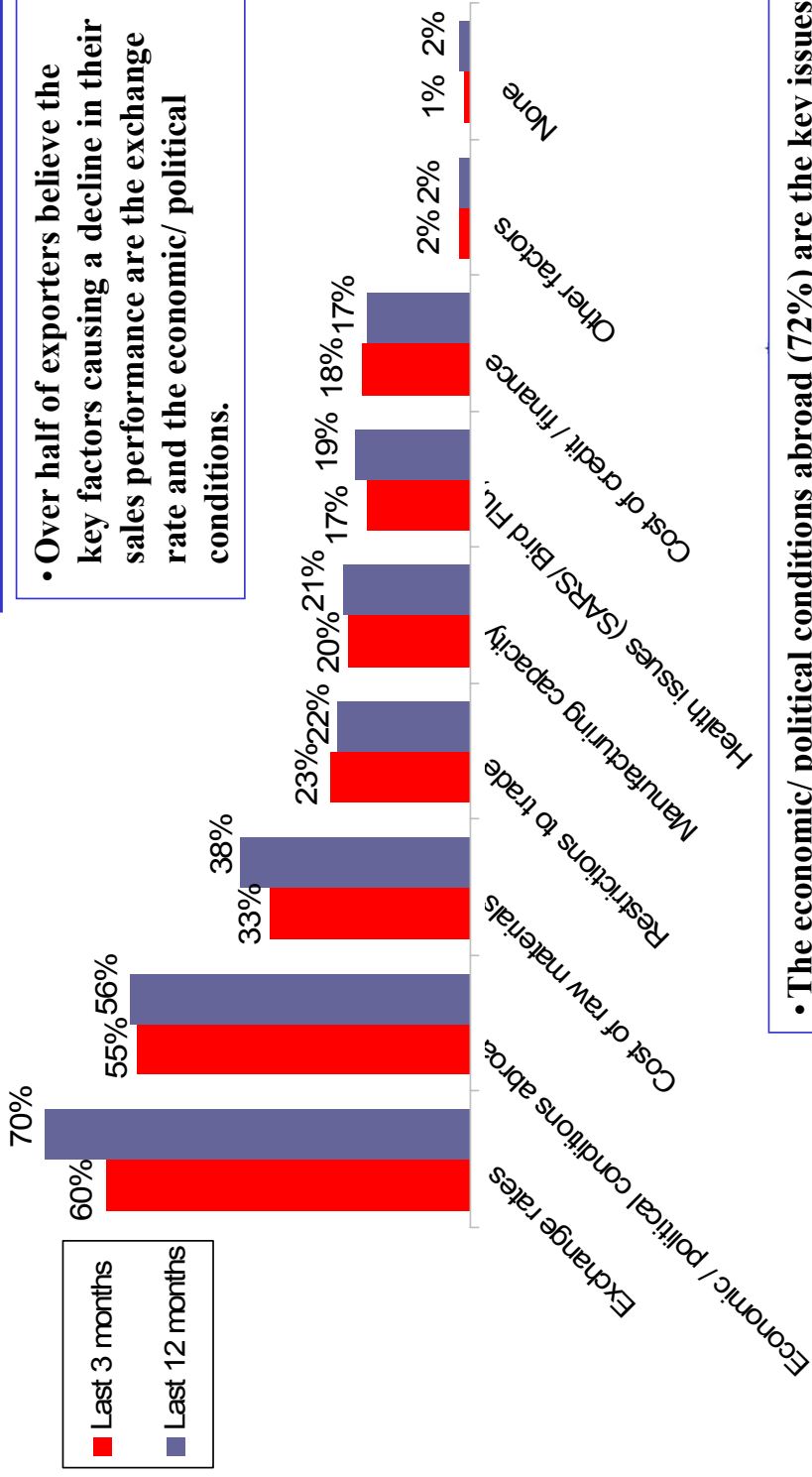
# Confirming earlier studies showing that exporters, on average, pay better than non-exporters

**Wages and Salaries paid by exporters and non-exporters (Source: BLS)**



# They do worry about exchange rate competitiveness

• Over half of exporters believe the key factors causing a decline in their sales performance are the exchange rate and the economic/ political conditions.

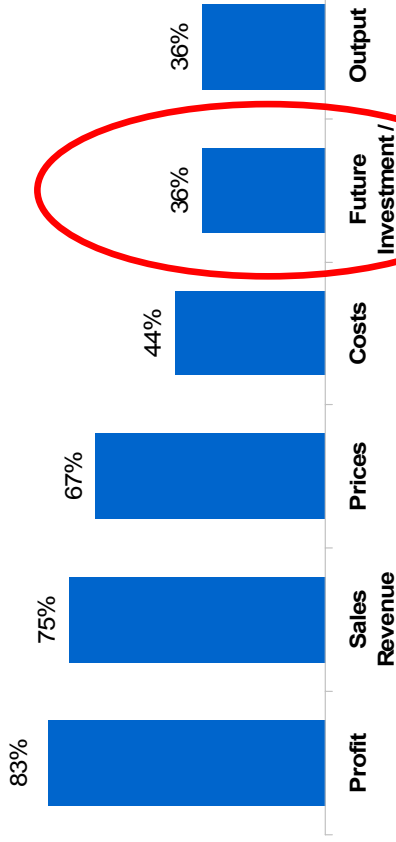


• The economic/ political conditions abroad (72%) are the key issues negatively impacting the tourism industry over the last 12 months.

# But overall, the 'heartlanders' stick in there... even with a rising dollar

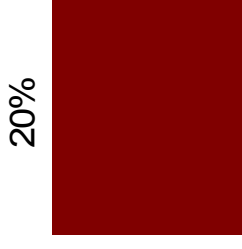
Base= Respondents who have been negatively affected by exchange rates in the past 3 or 12 months

Has The Exchange Rate Affected Your ...



- 20% of all exporters have had to halt or alter their future investment plans due to unfavourable movements in the exchange rate.

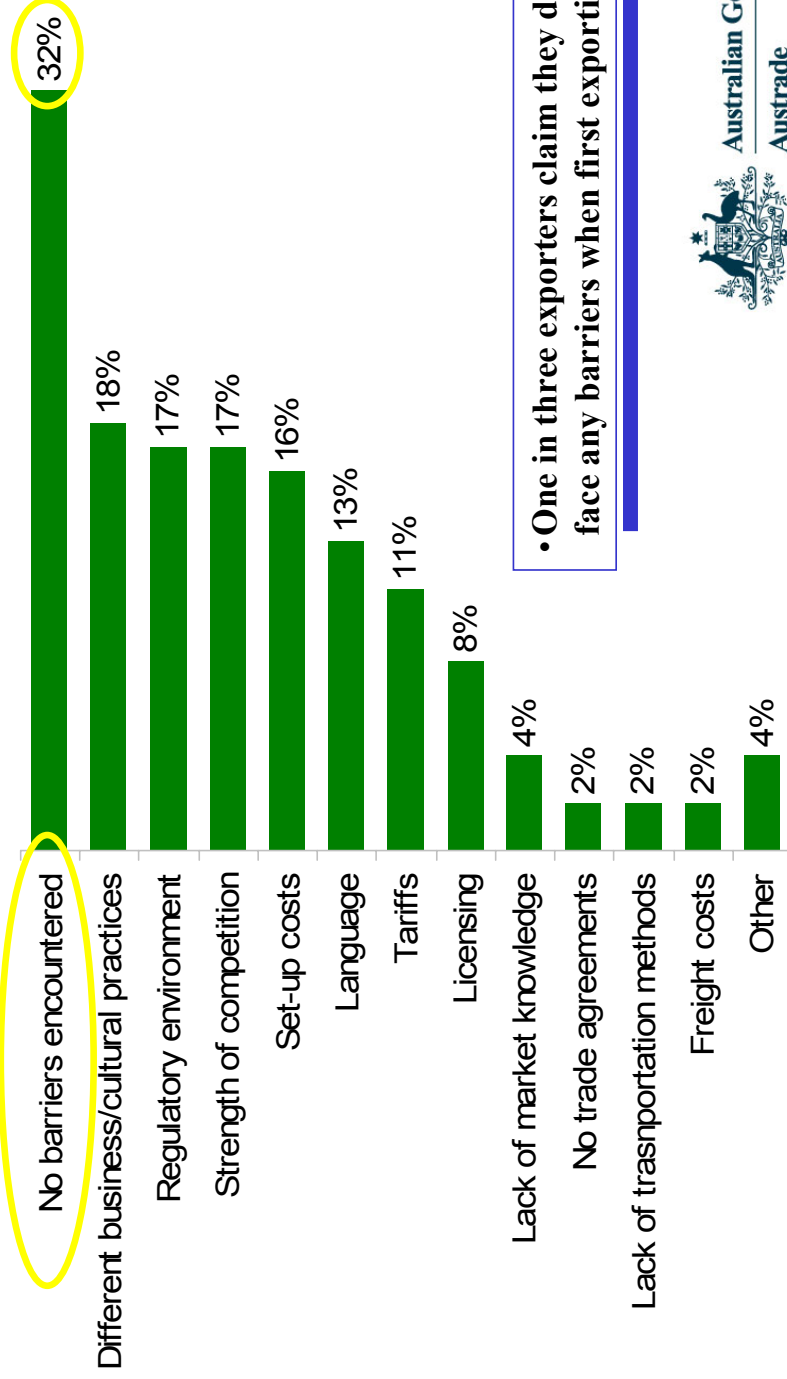
Exchange rate has affected ...  
(Base = ALL exporters)



Future investment/ business plans

# They report that formal trade barriers are coming down

## Major barriers faced when exporting in the first instance

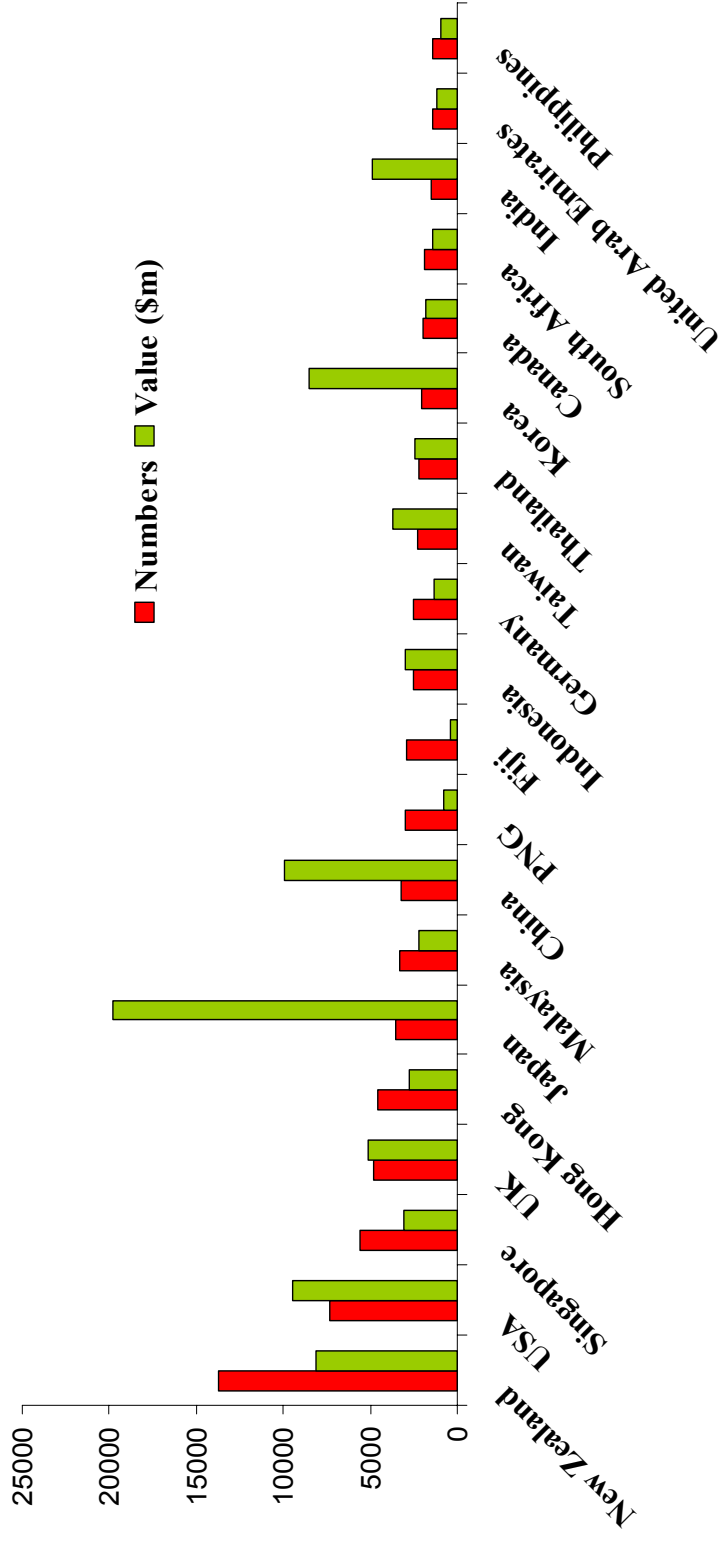


• One in three exporters claim they did not face any barriers when first exporting.



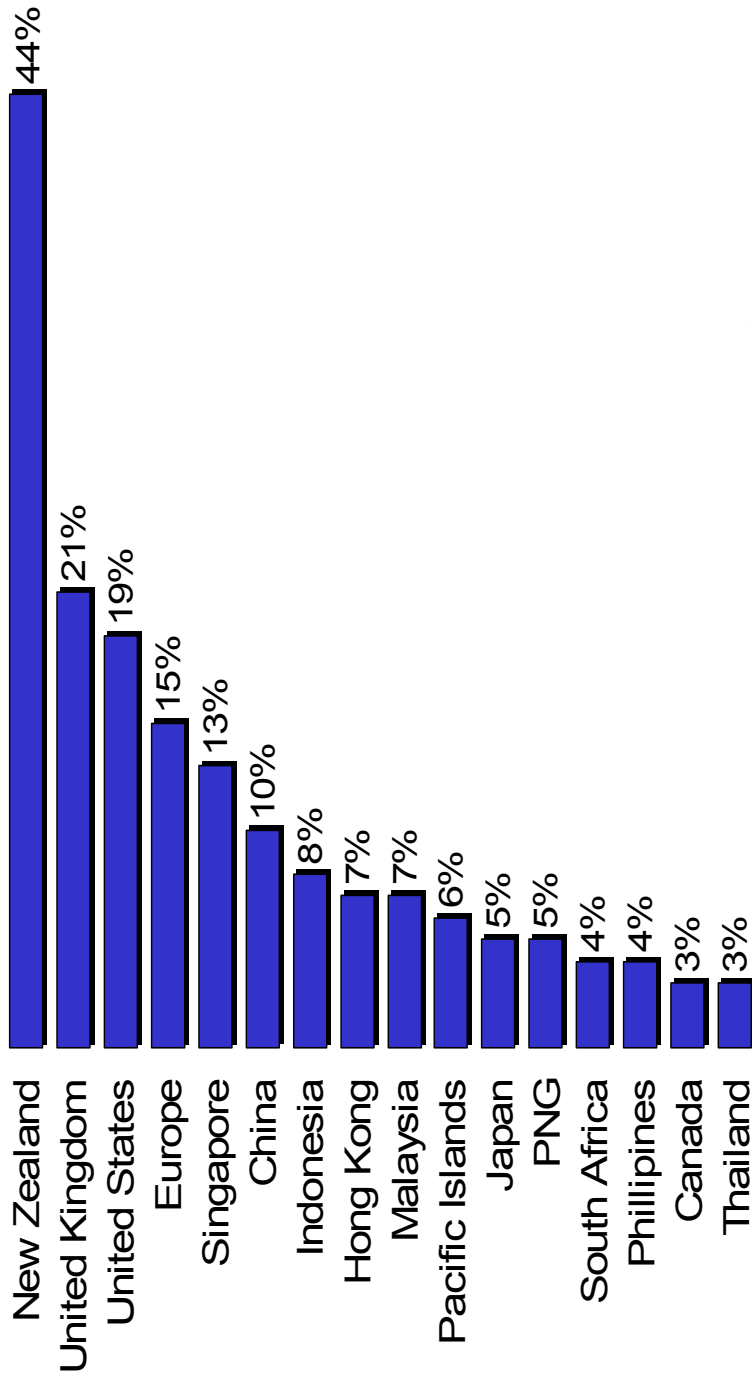
# The geographic spread of exporters is more diverse

Exporters by country\*: 2003-04  
 (\*includes multiple destinations)



Source: ABS

# For small business too

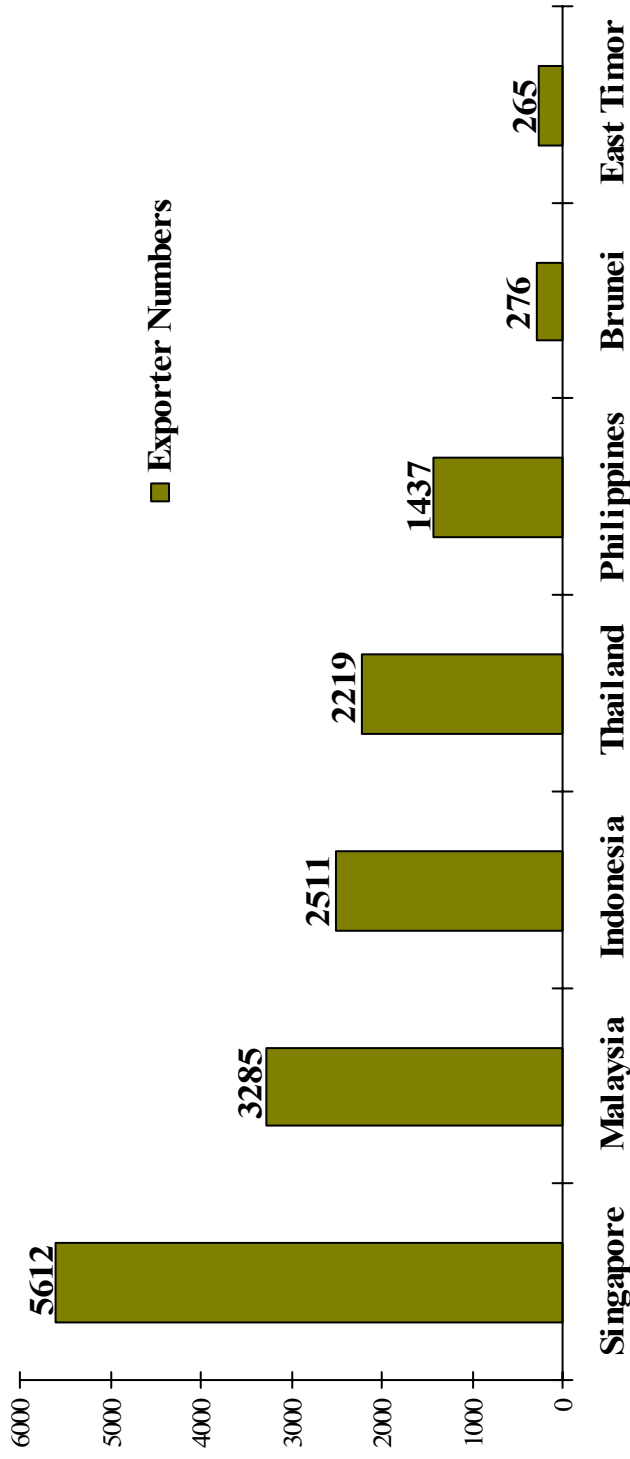


Base : Exported goods or services overseas in last three months  
All other answers less than 3%

# Love thy neighbour: ASEAN will play a role in this

## Australian Exporters by market: 2003-04

Source: ABS

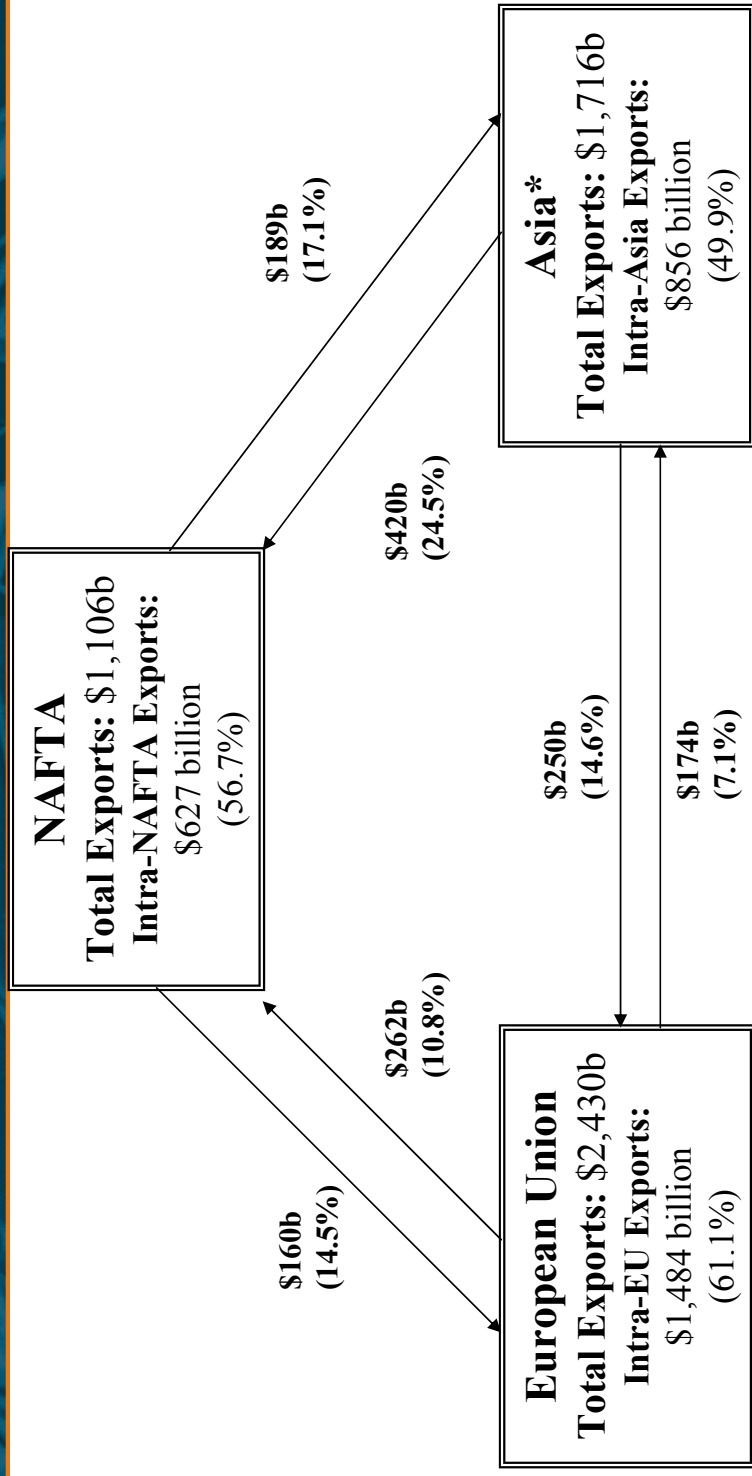


Data not available for Laos, Cambodia & Myanmar



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# Regional trade agreements will help as most global trade is intra-regional (Exports of the Broad Triad, 2002)



\*Note: Does not include Australia or New Zealand

Source: Adopted from IMF, Direction of Trade Statistics Yearbook, 2003.

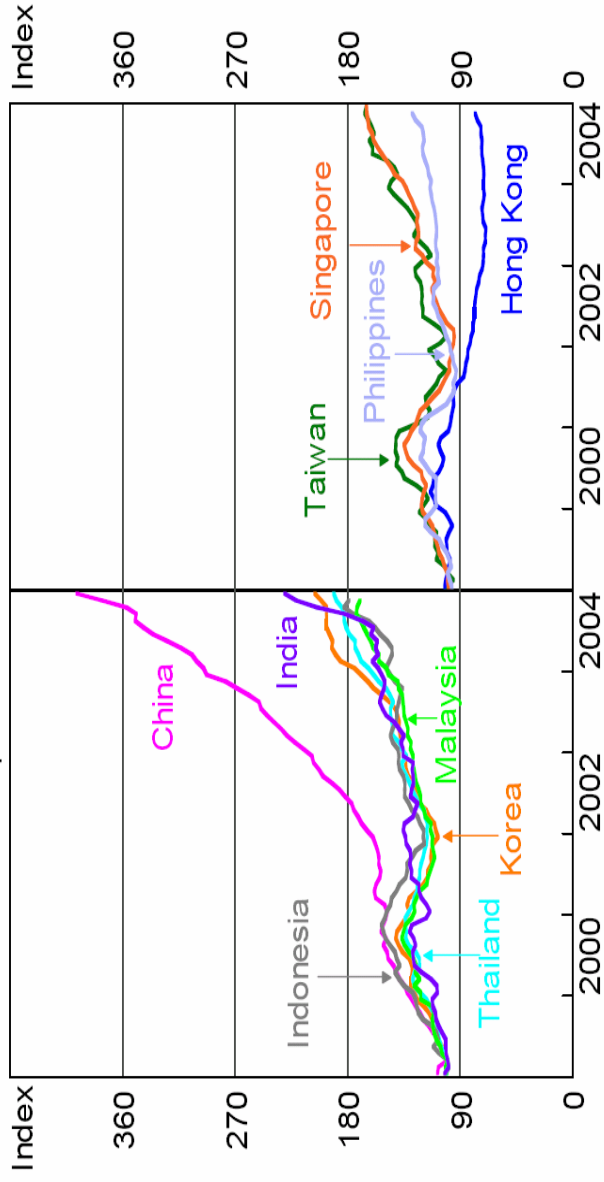


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# Especially when intra-Asian trade is growing

## Asia – Exports\*

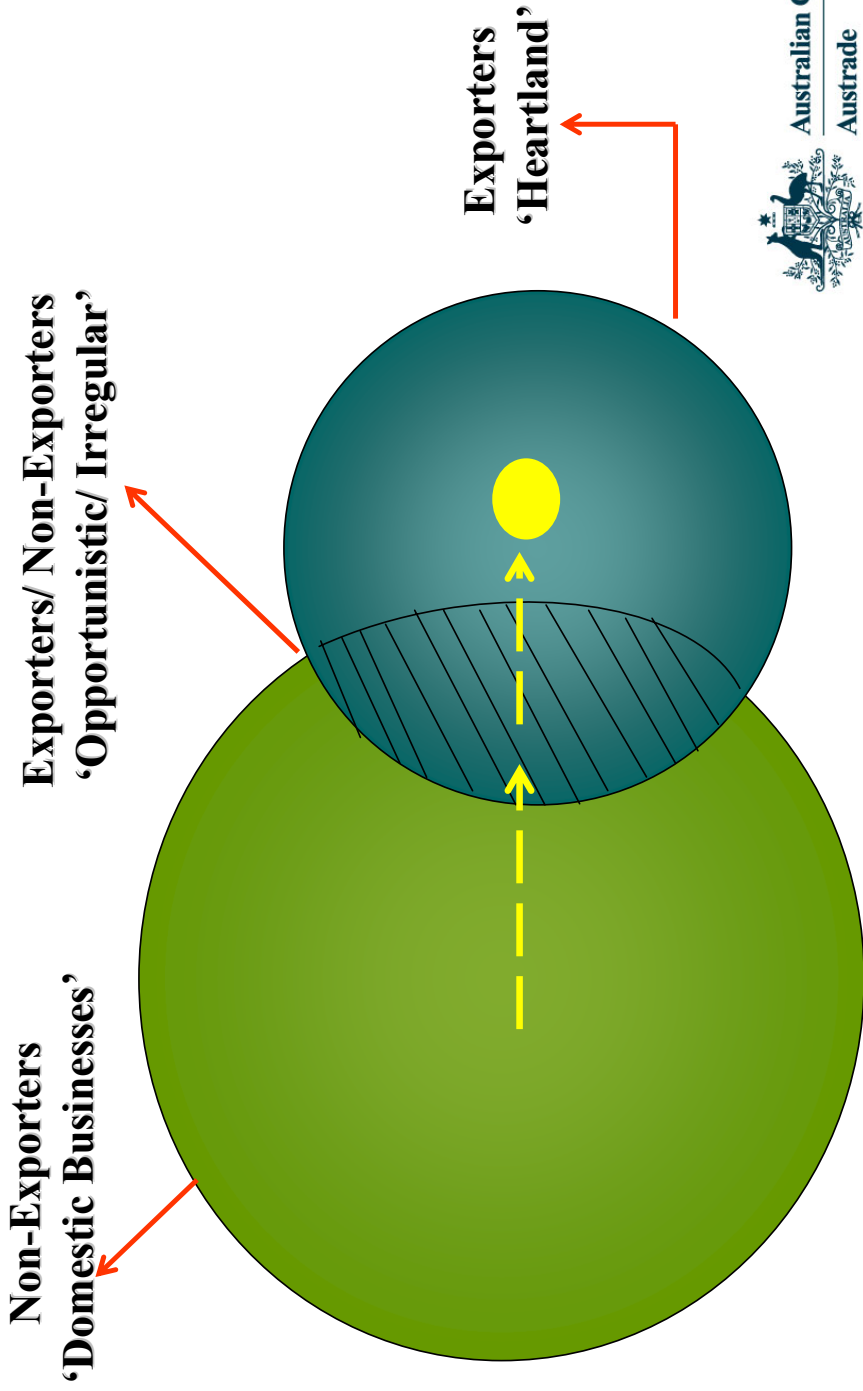
March quarter 1999 = 100, smoothed



\* Seasonally adjusted by RBA  
Source: CEIC



# The key is to continue to grow the exporter 'heartland'



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- Case studies of Australian exporter success stories



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