Annex 2. Australia's trade with the US

The following Annex comprises two parts. The first describes Australia's international trade in merchandise goods and services, placing the United States' role as a trading partner in that wider context. The second describes in more detail the trade relationship between Australia and the United States.

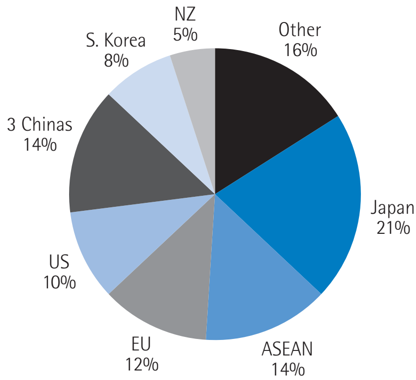
1. Australia's International Trade

Composition and direction of Australia's merchandise exports

In 1999-2000 Australia's exports were valued at $97 billion and imports were $110 billion. Although the European Union taken as a whole was Australia's largest trading partner ($36 billion), trade with both the US and Japan was about $32 billion. Trade with Hong Kong, the People's Republic of China and Taiwan ("The three Chinas") valued at $25 billion was the next largest, though considered as a whole ASEAN ($29 billion) was somewhat larger. Other major trading partners were Korea and New Zealand ($12 and $11 billion respectively).

Japan remains Australia's main export market. Even though its low economic growth over the past decade has tended to reduce its share, it remains at 21 per cent. Japan is far and away the major market for primary products, which now comprise about 68 per cent of total Australian exports (having once comprised over 90 per cent). The three Chinas, the European Union and the ASEAN group comprise our next largest export markets. Each takes 12-14 per cent of the total, while South Korea takes 8 per cent. The US takes 10 per cent of the total and New Zealand 5 per cent. Total export shares by grouping are illustrated in the figure below.

Figure 2a.1 **Total Australian Exports by Market 1999–2000**



Source: Australian Bureau of Statistics, 2000

Trends in the direction of Australia's merchandise exports

Economic turbulence in the Asian economies and the sluggish Japanese economy have added to the traditional volatility of Australian exports caused by commodity price changes. Exports to Japan, Korea, ASEAN and "the three Chinas" rose only slightly from the mid 1990s whilst exports to the US market more than doubled. Australian exports to the US grew by more than 17 per cent between 1994-1995 and1999-2000, the largest increase of our main trading partners. Australian export trends by market are illustrated in Table 2a.1 below.

Table 2a.1 **Australia's export trends by market**

Financial year, A$ million

			Growth %
	94/95	**99/00**	**94/95-99/00**
Japan	16282	18800	2.58
Korea	5250	7615	7.51
ASEAN	10439	12851	3.85
3Chinas	8698	12854	7.96
EU	7498	12039	10.09
NZ	4791	6731	6.75
USA	4643	9577	17.71
Other	9451	16788	12.94
Total	67052	97255	7.51

Source: Australian Bureau of Statistics

The share of the US, Japan and ASEAN of Australian exports over the short and long term is illustrated in Tables 2a.2 and 2a.3 below. They reveal that over the long term, the share of exports to ASEAN countries has increased and that to the EU and US has fallen only slightly. Short term, Japan's share of exports has fallen. Exports to Hong Kong, China and Taiwan collectively and to the US, have increased.

Table 2a.2 **Australia's export share by market: short term**

Financial year, percentage share

			Growth %
	1994/95	**1999/00**	**94/95–99/00**
Japan	24.28	19.33	-3.40
Korea	7.83	7.83	0.00
ASEAN	15.57	13.21	-2.52
3Chinas	12.97	13.22	0.31
EU	11.18	12.38	1.78
NZ	7.15	6.92	-0.52
USA	6.92	9.85	7.04
Other	14.10	17.26	3.74
Total	100.00	100.00	0.00

Source: Australian Bureau of Statistics

Table 2a.3 **Australia's export share by market: long term**

Financial year, percentage share

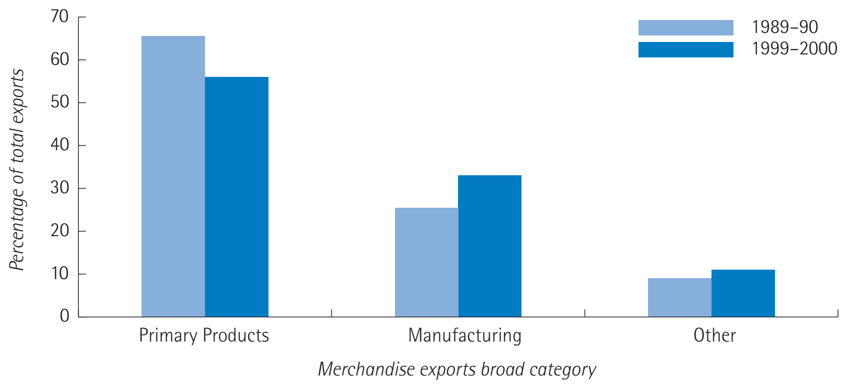
		Value		Growth %	
	1979/80	**1989/90**	**1999/00**	**79/8–89/90**	**89/90–99/00**
Japan	26.94	26.04	19.33	-0.30	-2.34
Korea	2.11	5.50	7.83	14.56	3.85
ASEAN	7.51	10.41	13.21	3.51	2.45
3Chinas	7.67	8.83	13.22	1.38	4.52
EU	15.08	14.43	12.38	-0.39	-1.29
NZ	4.58	5.33	6.92	1.50	2.71
USA	10.83	11.06	9.85	0.19	-0.99
Other	25.29	18.40	17.26	-2.48	-0.56
Total	100.00	100.00	100.00	0.00	0.00

Source: Australian Bureau of Statistics

Trends in the composition of Australia's merchandise exports

For the financial year 1999-2000, Australia's global merchandise exports comprised 56 per cent primary products, including processed foods, and 33 per cent manufactures, with the remainder accounting for confidential and miscellaneous items. This compares with financial year 1989-1990 where primary products accounted for over 65 per cent and manufactures accounting for 25.5 per cent. See Figure 2a.2 below.

Figure 2a.2 **Percentage composition of Australia's global merchandise exports by broad category 1989-90, 1999-2000**



Source: DFAT, APEC Region Trade and Investment, 2000

In recent years there has been a marked trend that has seen an increase in Australian exports of elaborately transformed manufactures (ETMs). In 1989-1990 ETMs comprised 60 per cent of manufactures exports and 67 per cent in 1999-2000. These goods tend to be the areas of demand and trade that are growing most rapidly in response to increased affluence and globalisation trends. Although it is facile to regard ETMs as more sophisticated than other goods (even "unprocessed" coal and iron ore undergo considerable processing and applications of intellectual capital prior to export) they tend to require more marketing input and product development.

The pattern of Australia's exports of elaborately transformed manufactures is somewhat different to that of its aggregate trade. The US is presently the largest market for ETM exports, with New Zealand, the European Union and the ASEAN group also comprising important markets.

The shares of Australian exports of ETMs to the following countries in 2000 were: US 19 per cent, EU and New Zealand 16 per cent, ASEAN 15 per cent, Hong Kong, China and Taiwan collectively 11 per cent, Korea and Japan both 5 per cent, and other countries 13 per cent.

Australia's merchandise imports 1999-2000

Australia's imports comprise a wide range of capital goods, producer inputs and consumer goods. The US and the EU are the most important import sources ($23 and $24 billion respectively) with ASEAN as a group ($16 billion and growing strongly), the three Chinas ($12 billion) and Japan ($14 billion) also being major suppliers. The following Table 2a.4 below illustrates the share and magnitude and trends in import growth by source.

Table 2a.4 **Australia's import trends by market**

Financial year, A$ million

	Value		Growth %
	1994/95	**1999/00**	**94/95-99/00**
Japan	12777	14138	1.78
Korea	2028	4311	18.76
ASEAN	6418	15661	24.00
3Chinas	7142	12044	11.44
EU	18218	24366	5.62
NZ	3554	4373	3.84
USA	16044	23003	7.23
Other	8438	12187	7.40
Total	74619	110083	7.92

Source: Australian Bureau of Statistics

Australia's International Trade in Services

World trade in services was about $US7 trillion in 1999 with US exports accounting for about a fifth of the total. Australia ranked 18th with 1.3 per cent. Over recent decades, services employment has been growing to comprise a larger share of the employment of most OECD economies. Information technology has been a major part of this.

Both the US and Australia are relatively open economies to service competition and have strengths in human capital formation and a high degree of IT expertise.

In 1999-2000 Australia's total trade in services was worth $58 billion and was close to balance. Both exports and imports were dominated by payments for travel (40 per cent), transport (29 per cent) and, to a lesser degree, other business services (10 per cent). The pattern differed in that travel showed a solid but diminishing surplus and transport showed a significant and growing deficit.

Table 2a.5 shows the services trade for several countries and groupings in the context of the goods and income elements of the balance of payments.

Table 2a.5 **Australia's Balance of Payments 1999/2000**

$ billion

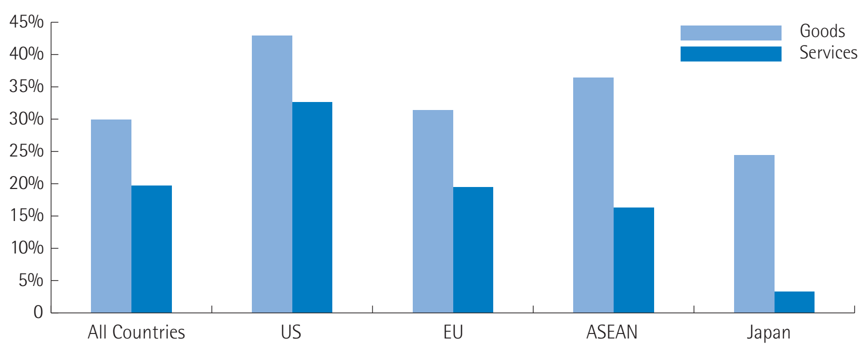
	Current Account	Services		Goods		Income	
		Exports	Imports	Exports	Imports	Receipts	Payments
All Countries	-33.7	28.2	29.7	97.7	110.6	12.8	32.1
US	-19.6	4.6	6.2	9.7	23.3	4.6	9.5
EU	-18.9	5.7	7	12.2	24.6	3.5	9.1
ASEAN	-2.1	4.1	4.2	13	15.1	0.9	0.7
Japan	4.3	3.4	2	19	14.3	0.3	2.1

Source: Australian Bureau of Statistics, 2000

Services trade is now the equivalent of 28 per cent of our trade in goods and is substantially greater than income receipts and payments. The EU remains the most important trading partner in services followed by the US and Japan. Together with ASEAN, these make up almost two-thirds of our services trade. The US remains by far the single most important partner and accounts for 16 per cent of Australia's services exports. As with goods, service trade with the US has grown more rapidly than with other major trading partners in recent years.

Figure 2a.3 below he growth in goods and services trade in the last three years.

Figure 2a.3 **Growth in Australia's Goods and Services Trade by market 1996–1997 — 1999–2000**



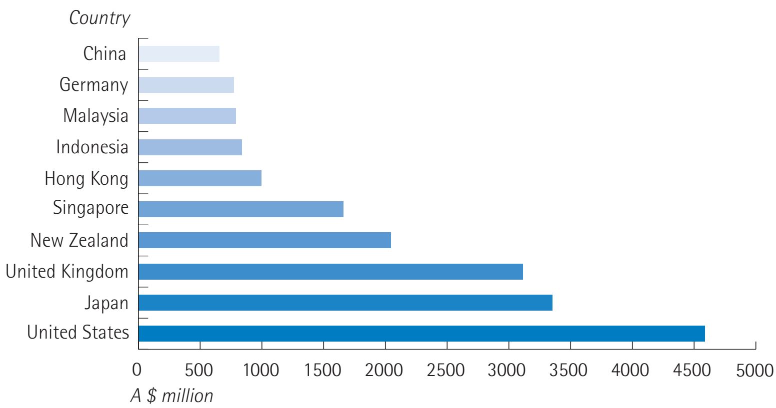
Source: Australian Bureau of Statistics

What is immediately apparent from the above chart is that trade in goods grew 10 per cent faster than trade in services, although the latter did grow by one fifth in the period.

In the case of goods and even more of services, the relative decline in the Japanese share is remarkable and has already been mentioned. This previously dominant engine of our trading sector has given way to others, notably the US. The stagnation of the Japanese economy in the 1990s and the strong growth in the US economy played a large part in this.

Despite the Asian economic crisis, growth in services trade with ASEAN was not much slower than the average (in goods it was substantially the average.) Figure 2a.4 illustrates the major individual country destinations of Australian service exports.

Figure 2a.4 **Top Ten Destinations for Australian Services Exports 1999–2000**



Source: Australian Bureau of Statistics, Cat 5363, various issues

2. Australia's Trade Relationship with the US

Composition of Australian Merchandise exports to the US

The composition of Australian exports to the US has changed considerably. Not only have exports to the US grown rapidly but also within total exports, over the period since 1984, there have been marked changes. Table 2a.6 illustrates this.

Table 2a.6 **Composition of Australia's exports to the US**

Calendar year, A$million[1]

	1984	1990	1995	2000
Primary Products				
Crude Oil	450	575	214	1,166
Meat	514	1,150	591	1,454
Alcoholic Beverages	11	49	76	422
Other Primary	1,540	2,405	1,680	3,027
Total Primary	**2,504**	**4,143**	**2,534**	**5,755**
Simply Transformed Manufactures (STMs)				
Zinc	29	67	17	254
Chemicals	34	56	138	271
Iron and Steel, Unworked	2	38	55	187
Other STMs	33	101	192	303
Total STMs	**98**	**262**	**401**	**1,015**
Elaborately Transformed Manufactures (ETMs)				
Steel	58	130	36	64
Motor Vehicles and Parts	33	330	118	698
Aircraft and Parts	53	184	199	297
Other ETMs	243	716	1,311	2,840
Total ETMS	**387**	**1,360**	**1,664**	**3,899**
Total Manufactures (ETMs + STMs)	**485**	**1,622**	**2,065**	**4,914**
Total Exports	**3,000**	**5,801**	**4,626**	**10,983**

Source: Department of Foreign Affairs and Trade, STARS Database

1 All values in Tables 2a.6 to 2a.10 are at current prices.

Primary products

Reflecting farm conditions, commodity prices and the general state of the US and other economies, Australia's primary commodity exports to the US have shown considerable year-on-year variation.

Over the years since 1984, there was strong but irregular growth in meat, worth $1.5 billion in calendar 2000 and a spectacular growth in wine (worth less than $2 million in 1984 and over $400 million in 2000). Wine's very rapid growth took it to comprise almost 4 per cent of exports in 2000.

Other food products showed only slow growth. Among the reasons were other favoured producers displacing Australian sugar, but dairy (worth $58 million in 2000) and fruit and nuts (worth $78 million in 2000) showed strong growth. Overall, food exports to the US are worth over $2.3 billion and having dipped during the first half of the 1990s grew by 30 per cent in the second half of the decade. See Table 2a.7 below.

Table 2a.7 **Australian Food Exports to the US**

Calendar year, $A million

	1984	1990	1995	2000
Bovine meat f.c.f.	512	1101	518	1212
Non bovine meat	8	49	74	246
Alcoholic beverages	11	49	76	422
Processed food (b)	624	1302	735	2044
Unprocessed Food	153	138	88	278
Total Food	**777**	**1440**	**823**	**2323**

Source: Department of Foreign Affairs and Trade, STARS Database

Crude oil exports from Australia, worth $1166 million in 2000, represent a sourcing preference by US refineries. Though a major exporter of natural gas (largely to Japan and Korea), Australia is a net importer of crude oil.

Other primary product exports include ores (particularly tantalum) worth $144 million in 2000, wool worth $46 million and fertilizers ($23 million).

Overall, primary products saw a fall in their export share from 84 per cent to 55 per cent over the period 1984 to 2000.

Manufactures

Elaborately Transformed Manufactures

ETMs showed strong growth especially motor vehicles and parts, aircraft parts and a wide variety of machinery. Although individual industries can be seen to have shown marked volatility, the overall pattern of this class of exports is one of strong growth:

- 35 per cent in the second half of the 1980s,
- a modest 4 per cent in the first half of the 1990s, and
- 22 per cent in the second half of the 1995-2000.

As previously mentioned, the US has recently become Australia's largest market for elaborately transformed manufactures. Refer to table 2a.8 below.

Table 2a.8 **Australian ETM Exports to the US by major Sub category**

Calendar year, A$million

	1984	1990	1995	2000
Iron and Steel	58	130	36	64
Chemicals	16	31	57	276
Machinery for Special Industries	41	113	227	558
Office and Tel. equipment	50	187	339	426
Motor Vehicles & Parts	33	330	118	698
Other machinery and trans. Equip	136	368	576	1,140
Clothing and Footwear	5	34	60	63
Misc. Manufactured articles	32	81	103	253
Other ETM Exports	-2,354	-3,265	-3,510	-5,479
Total ETM Exports	**387**	**1,360**	**1,664**	**3,899**

Source: Department of Foreign Affairs and Trade, STARS Database

% Trend Growth

	1984–90	1990–95	1995–00
Iron and Steel	125.61%	-72.44%	80.00%
Chemicals	93.52%	82.54%	385.09%
Machinery for Special Industries	174.58%	100.39%	145.78%
Office and Tel. Equipment	277.44%	80.96%	25.60%
Motor Vehicles & Parts	898.90%	-64.22%	490.99%
Other machinery and transp. Equip	171.39%	56.44%	98.05%
Clothing and Footwear	627.19%	73.28%	6.23%
Misc. Manufactured Articles	150.20%	26.60%	146.47%
Other ETM Exports	-38.70%	-7.48%	-56.10%
Total ETM Exports	**251.32%**	**22.39%**	**134.26%**

Source: Department of Foreign Affairs and Trade, STARS Database

Simply transformed manufactures

This category in 2000 was dominated by zinc, chemicals and unworked iron and steel. Over the past year, the zinc price has fallen markedly and export values would have been similarly affected.

Other significant exports in the year 2000 included pearls ($62 million) and leather ($85 million).

See Table 2a.9 below.

Table 2a.9 **Australian STM exports to the United States**

Calendar year, A$million

	1984	1990	1995	2000
Basic Non-ferrous Metals	45	92	24	325
Iron and Steel, unworked nes	2	38	55	187
Chemicals	34	56	138	271
Other STMs	17	76	185	232
Total STMs	**98**	**262**	**401**	**1,015**

Source: Department of Foreign Affairs and Trade, STARS Database

Australian Imports from the US

In the case of imports, the variety of US outputs means no one sector of manufactured goods dominates. Aircraft and parts, telecommunications equipment, computers and measuring and controlling instruments and car engines are the most important items. But together these account for only 30 per cent of the total. Table 2a.10 below indicates the composition of imports.

Table 2a.10 **Composition of Australia's largest imports from the US**

Financial year, A$ million

	1989/90	1995/96	1999/00
Aircraft & Parts	2067	1477	3279
Telecommunications Equipment	173	543	1278
Computers	914	1036	973
Measuring and Controlling Instruments	359	577	772
Internal Combustion Piston Engines	302	433	728
Other Imports	8557	13479	16128
Total Imports	12373	17545	23158

Source: Department of Foreign Affairs and Trade

Australia's Trade in Services with the US

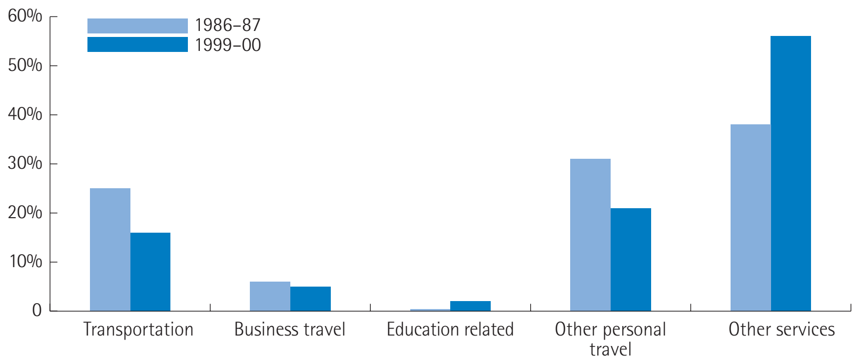
Over the past dozen or so years, the nature of service trade has changed with travel and transportation maintaining smaller shares. There has be a growth in the 'other services' category. Figures 2.1 and 2.2 and Table 2.9 illustrate this. Unfortunately both exports and imports of services with the US grew strongly with the deficit narrowing both absolutely and relatively. Transport (18 per cent) and travel (26 per cent) remained the dominant services traded but there was a greater diversity in the pattern with the US than for other major countries (transport 29 per cent and travel 40 per cent). Travel services exports grew by 50 per cent over the three years to 1999-2000 reflecting the popularity of Australia as a tourist location (the Olympics would have brought a further one-off boost in this during 2000-2001).

Compared with services trade as a whole, with the US, there is a commensurately greater proportion of services trade in finance, computer/information services and other business services. Moreover, in all these sectors Australian exports are greater than imports, partly offsetting the large deficits in transport, travel and royalties/licence fees.

Over the past dozen or so years, the nature of service trade has changed with travel and transportation maintaining smaller shares. There has been a growth in the "Other services" category. Figures 2.1 and 2.2 and Table 2.9 illustrate this. Unfortunately there is less detail available over these longer periods.

The "Other business" category contains some of the service activities that might be expected to grow rapidly with economic union. These include business consultancy, market research, research and development, legal services, and architectural services. Figure 2a.5 and Table 2a.11 indicate the magnitudes involved. Most of the transactions are between affiliated companies and are not recorded by category.

Figure 2a.5 **Share of Selected Australian Services Credits in US Trade in Services**



Source: Australian Bureau of Statistics, Cat 5363, various issues

Table 2a.11 **Australia's Exports and Imports of other business services with the United States**

	Imports		Exports	
$US millions	**1999-98**	**1999-00**	**1999-98**	**1999-00**
Other business services	**779**	**731**	**855**	**815**
Merchanting and other trade-related	37	13	81	38
Merchanting	0	0	n.p.	20
Other	37	13	n.p.	18
Operational leasing services (a)	30	56	0	1
Misc business professional and technical	712	662	774	776
Legal accounting mgt consulting and public relations services	93	79	109	86
Legal services	57	26	80	61
Accounting, auditing, bookkeeping and tax consulting	3	9	16	15
Business and mgt consultancy and public relations	33	44	13	10
Advertising, market research and public opinion polling	33	30	24	21
Research and development	46	36	61	89
Architectural engineering and other technical	n.p.	87	38	61
Agricultural, mining and onsite processing	n.p.	123	2	1
Other	31	36	22	28
Manufacturing	2	4	2	2
Other	29	32	20	26
Other Professional services	29	32	20	26
Other services (b)	n.p.	n.p.	n.p.	n.p.
Services between affiliated enterprises nie	282	271	518	490

(a) Operational leasing for Sea and Air Transport is included in Transportation Services.
(b) Other business services not elsewhere included reclassified to Communications Services for confidentiality.
n.p. not published.
Source: Australian Bureau of Statistics, unpublished data 2001