HOW TRADE BENEFITS AUSTRALIA

1. Trade promotes economic growth and raises household incomes
   › Australia’s trade liberalisation has boosted Australia’s real GDP by 5.4 per cent compared to where it otherwise would have been and lifted the real income of Australian households by over $8,400 in 2016.

2. Trade creates and supports Australian jobs
   › 1 in 5 jobs in the Australian economy involve trade-related activities:
     » Approximately 1.5 million jobs in connection with exporting, and 670,000 jobs in connection with importing.

3. Trade makes products cheaper for Australian households and businesses
   › Real prices for consumer products such as clothing, footwear, motor vehicles, household appliances and audio visual equipment have fallen over the past decade. In 2017-18, compared to a decade earlier:
     » Garments were 13.7 per cent cheaper;
     » Small electrical appliances (including coffee machines, food processors and irons) were 11.5 per cent cheaper;
     » Prices for toys and games had fallen 17.6 per cent;
     » Prices for motor vehicles fell over 12 per cent;
     » Audio-visual and computing equipment (including TV’s, cameras and computers) were barely more than one-quarter the price they were (having fallen by almost 72 per cent).

4. Trade gives consumers and business greater choice
   › Trade provides consumers with more consumption options:
     » Contemporary consumers have unprecedented choice of products including food and drinks, clothing, electronic goods, and cars.
   › Trade also provides businesses with choice, widening the export options for exporters and increasing the supplier options for importers.
   › Diversification of markets provides greater protection from economic shocks in a single market.

5. Trade opens the global market for Australian products
   › Australia has a relatively small population.
Trade gives Australian businesses access to a potential market many times the size of Australia:

- Australia’s GDP, at US$1.4 trillion represented only 1.7 per cent of the global total of US$79.9 trillion in 2017.
- Access to global markets allows Australian businesses to grow access niche markets and benefit from economies of scale.

6. Trade allows us to earn income on commodities that are too plentiful for Australia to consume

- Our agricultural exports represented approximately 70 per cent of total production in the three years to 2015-16.
- Almost 95 per cent of Australia’s iron ore production and 96 per cent of metallurgical coal production is exported – valued at $63 billion and $35 billion respectively in 2016-17.

7. Trade encourages innovation which leads to productivity benefits

- Access to global markets encourages businesses to be more competitive, to innovate, and to adopt new technologies and methods:
  - In 2016-17 businesses that actively innovated were over twice as likely to export than businesses that did not actively innovate.

8. Trade in tourism boosts Australia’s economy and builds people-to-people links

- Around one in every four dollars spent on tourism in Australia is by international visitors.
- Tourism is one of Australia’s key industries, making up 3.2 per cent of Australia’s GDP in 2016-17:
  - International visitors contribute 0.9 per cent of Australia’s GDP.
- The tourism industry as a whole directly employs 598,100 Australians, accounting for almost five per cent of Australia’s total employment in 2016-17.
- A record high of 9.1 million visitors came to Australia in 2017-18.
- Tourism industry exports (international visitor consumption – short term business, education and leisure travel) totalled over $37 billion in 2016-17.
- Tourism also creates longer-term benefits for Australia’s international image, people-to-people links, and encourages funding for important economic infrastructure, including airports, roads and hotels.

9. Trade in education boosts Australia’s economy and strengthens education institutions

- Education services are Australia’s largest services export commodity:
  - In 2017-18 international students spent almost $32 billion dollars in Australia.
- Trade in education creates longer-term benefits for Australia’s international image and international business/people to people linkages, such as through the New Colombo Plan.
Education trade also strengthens our education institutions through greater funding and diversity.

10. Strengthening the global trading system is beneficial to all economies
   - The full implementation of the WTO Trade Facilitation Agreement could reduce worldwide trade costs by over 14 per cent:
     - Increasing global trade by $1 trillion per annum.
     - Increasing global GDP growth by up to 0.5 percentage points per year and creating 21 million jobs.

11. Australia’s aid program boosts trade in developing countries
   - Each aid dollar invested in aid for trade translates to $8 in additional exports by developing countries.
   - Australia’s budget estimates for ‘aid for trade’ activities in 2018-19 represent about $1 billion or 24.5 per cent of Australia’s total ODA (Official Development Assistance).
   - Providing trade-enabling assistance to developing partners helps build prosperous neighbours and expands opportunities for two-way trade.
   - By enhancing our neighbours’ prosperity, as well as our own, trade boosts growth and stability in our region.
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10. Strengthening the global trading system is beneficial to all economies

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   › Providing trade enabling assistance to developing partners helps build prosperous neighbours and expands opportunities for two-way trade.
   › By enhancing our neighbours’ prosperity, as well as our own, trade boosts growth and stability in our region.
HOW FOREIGN INVESTMENT BENEFITS AUSTRALIA

1. Foreign investment supports Australia’s economic development
   - As a large resource-rich country with high demand for capital, Australia uses foreign investment to support the development of our economy.
   - Foreign investment during the 20th century supported the growth of Australia’s manufacturing sectors, and later the financial services sector.
   - Since the 1960s, foreign investment from the US, the UK, Japan and elsewhere has provided the capital necessary to take maximum advantage of Australia’s mineral resources, which is now our largest export industry.

2. Australia uses foreign investment to supplement domestic savings
   - Foreign investment provides access to capital to supplement our domestic savings and take advantage of domestic investment opportunities:
     » In 2017-18, around 88 per cent ($390 billion) of Australia’s capital needs were sourced from domestic savings while the remaining 12 per cent ($55 billion) came from overseas.
   - Foreign capital has enabled Australians to enjoy higher rates of economic growth, employment and standards of living than we could achieve from domestic capital alone.

3. Foreign investment stimulates economic activity and creates jobs
   - One in four businesses in Australia with 200 or more employees had greater than 50 per cent foreign ownership in 2016-17.
   - Research has found that a 10 per cent increase in foreign investment in Australia could lead to a more than one per cent increase in GDP by 2020.
   - Canada, EU and US direct investment in Australia contributed to employing around 676,000 Australians in 2015.

4. Foreign investment has supported the growth of successive Australian industries
   - Foreign investment in wool and other agriculture helped build our early export industries.
   - The value of foreign direct investment (FDI) in Australia’s mining sector increased 9 times between 2001 ($36.8 billion) and 2017 ($315.3 billion):
     » Over the same period, the number of Australians employed in the mining sector grew from 79,500 in 2001 to 219,400 in 2017.
Similarly, foreign direct investment has supported the growth of Australia’s construction industry, with the value of FDI in the sector growing from $3.5 billion in 2001 to $24.9 billion in 2017:

» Over the same period, the number of Australian’s employed in the sector grew from 658,800 to over 1.1 million in 2017.

5. Investment can lead to increased trade opportunities

» Increased foreign investment and trade often complement each other.

» Foreign investment increases the amount of capital in the economy, financing opportunities that otherwise would not have been possible:

» This helps Australia’s international traders, grows Australia’s economy and creates new jobs.

» Australia’s mining sector has been a major beneficiary of foreign investment:

» Since the beginning of the mining boom in 2003-04, foreign investment has helped increase mining exports by over $150 billion.

6. Foreign investment encourages competition

» Foreign investment promotes competition and exposes local businesses to international standards and best practices – all of which benefit consumers and the economy as a whole.

7. Foreign investment helps drive productivity growth

» Foreign investment helps to improve the productivity of Australia’s economy:

» An OECD study found that increasing foreign investment as a share of GDP is significantly and positively associated with productivity growth.

» Foreign direct investment brings technological improvements associated with establishing new businesses or modernising established ones:

» This makes the economy better able to produce high-productivity, well-paid jobs into the future.

8. Foreign investment in Australia helps meet the food security and resource needs of Asia’s growing middle class

» FDI will play an important role in helping Australia’s food industry increase its size, productivity and competitiveness as demands for high quality food and products among Asia’s growing middle class increase:

» For the period 2012 and 2050, Australia’s food industry is projected to need up to $1 trillion in additional capital to meet this goal.

» Although well down from the mining investment boom years, in the 2017-18 financial year there was over $36 billion of investment in the mining sector.
9. Foreign investment helps connect Australian businesses to global value chains (GVCs)

- A 2013 UNCTAD report found that countries with high FDI stocks relative to the size of their economies (such as Australia) tended to have a greater participation in global value chains (GVCs):
  - Active involvement in GVCs brings many benefits to Australian companies including through the lowering of production and transport costs, increased information technology capabilities, and the capacity to take advantage of niche markets.
  - During a period of high foreign investment from 2000-2011 ($103 billion each year on average), compared to just $33 billion a year between 1990-1999, the rate of Australia’s industry participation in GVCs rose from 30.3 per cent in the mid-90s to 43.6 per cent in 2011.

10. Foreign investment encourages innovation

- Foreign direct investment – particularly in the form of a multinational enterprise establishing a local R&D/manufacturing subsidiary – can substantially increase technology and knowledge transfers.
- Australia’s world class R&D organisations – including CSIRO, which ranks in the top 1 per cent of world scientific institutions across 14 of 22 research fields – have a strong tradition of partnering with foreign investors to develop new solutions for global industry.
- Foreign investment encourages local businesses to innovate and keep in step with global best practice, through increased industry competition and the introduction of new technologies.

11. Foreign investment stimulates technology transfers between home and host countries

- Globally the majority of private research and development is undertaken by multinational enterprises, which possess the necessary size, scale and technical capacity to develop and disseminate new technologies.
- Hosting investment from these multinational enterprises allows Australia to participate in research and development that helps drive global industry innovation.
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6. Foreign investment encourages competition

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9. Foreign investment helps connect Australian businesses to global value chains (GVCs)


Note: Data for 187 countries over 20 years. The regression of the annual GVC participation growth on the annual FDI inward (stock) growth yields a positive and significant correlation (at the 5 per cent level) both for developed and developing countries (R2 = 0.77 and 0.44, respectively). The correlation remains significant considering the two time periods 1990 - 2000 and 2001 - 2010 separately. Regressions use lagged (one year) inward FDI (stock) growth rates and include year fixed effects to account for unobserved heterogeneity.

Interpretation of GVC participation: The degree to which a country’s exports are composed of foreign inputs or used in other countries’ exports.

10. Foreign investment encourages innovation

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