

Trade

The Trade component of the Index of Engagement provides stark evidence of the increase in the relative importance of Asia to Australia's trade and economic performance in the past decade. As shown in the figure below, engagement with Asia overtook that of the ROW in 2004 and has since powered ahead. Australia's trade engagement with Asia grew in 2010 to a level 44.4% above that of trade with the ROW.

The 2010 rise in Australia's trade with Asia and the ROW followed declines in 2009 associated with the global financial crisis. The volume of trade with the Asia25 group of countries rebounded strongly in 2010 by 9.3%, more than offsetting the fall in 2009. Trade with the ROW rose more modestly by just 1.6% in 2010 and remained below the 2008 level.

Australia's trade with Asia continues to be dominated by energy and mineral resource exports, in particular to our largest trading partner, China. Trade with China rose by 18.3% in 2010 following slightly stronger growth in the previous two years. Meanwhile trade with Japan, now Australia's second largest trading partner, also rose strongly by 5.0%. Trade with ASEAN was up 4.7% in 2010 and trade with Korea rose by 15.0%.

Australia's exports of goods and services to Asia rose by 6.4% in 2010 to \$206.8 billion (in constant 2008–09 prices), more than double exports to the ROW. Meanwhile imports from Asia rose by 13.6% in 2010 – evidence of the strength of the two-way trading relationship. Asia provides just over half of Australia's imports, which are dominated by mineral fuels and machinery and transport equipment. Steady economic growth and the strength of the Australian dollar facilitated solid growth in imports in 2010. Three of Australia's five biggest single trading partners, accounting for around one-third of total trade, are located in Asia (China, Japan and Korea); when ASEAN as a group is added, this share increases to almost half of Australia's total trade. The United States and the European Union account for just under 10% and 15% respectively of Australian trade.

Figure 3: Trade component

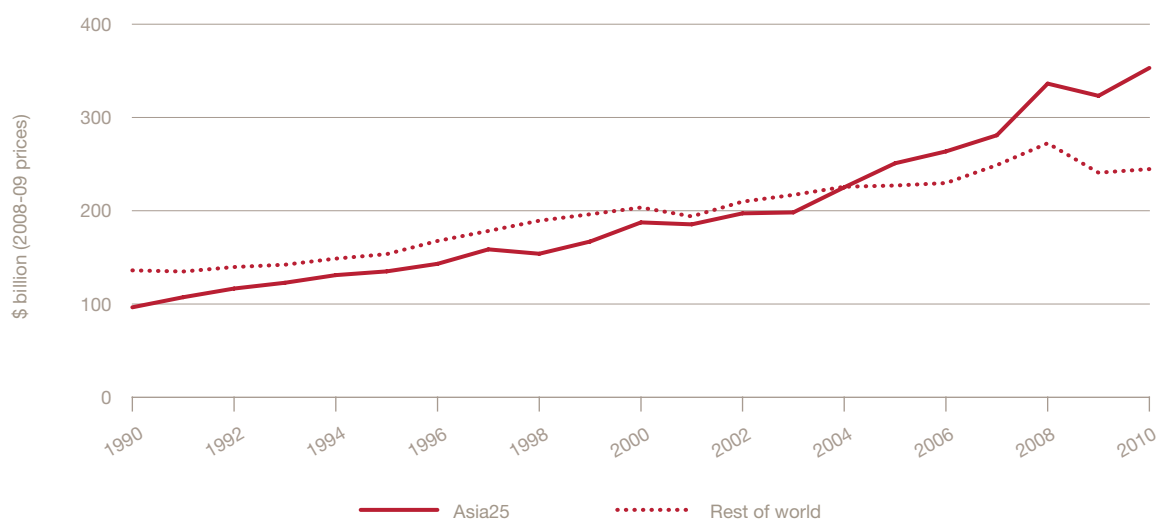


Table 3: Trends for Trade component (imports and exports, A\$bn)[†]

	1990	1995	2000	2005	2009	2010	% change 2009–10
Asia25							
Imports	29.1	38.1	60.8	101.3	128.8	146.3	13.6
Exports	67.4	97.0	126.7	149.6	194.4	206.8	6.4
Total	96.5	135.1	187.5	250.9	323.2	353.1	9.3
ROW							
Imports	59.6	71.3	89.6	119.3	140.7	153.9	9.4
Exports	76.5	82.2	113.8	107.7	100.1	90.7	-9.4
Total	136.1	153.5	203.4	227.0	240.8	244.6	1.6

Notes: † Values are in constant 2008–09 prices.

Demand for Australian energy and mineral resources continued to increase strongly in 2010, in particular demand for major exports such as iron-ore, energy, coal and other minerals such as copper. The value of Australia's iron-ore exports (our biggest export earner) rose by 64.3% in 2010, while the value of crude petroleum and natural gas exports rose by 46.4 and 23.6% respectively.⁵ While volumes rose, in part these huge increases reflect increases in the US\$ quoted prices of the commodities, although the rise in the Australian dollar partially offset the benefit of this. Most resource and agricultural commodities have historically been priced and traded in international markets in US\$ terms. The Reserve Bank's non-rural commodity price index rose by 26% in US\$ terms during 2010, but after taking account of exchange rates this reduced to a 15% rise in the equivalent A\$ commodity price index.⁶

China, India, Japan and Korea are the most important export markets for Australian energy and resources, and this is set to continue in the coming years. The Gorgon Liquefied Natural Gas (LNG) Project (a joint venture between Chevron and Exxon with small ownership shares by three Japanese companies, and Australia's single largest ever resource investment) has signed a range of long-term contracts to supply LNG throughout Asia.

China, India and Japan are also big investors in energy and resources – Japan for many decades, with investments in mining and LNG, but China and India more recently. Such investments in Australia frequently facilitate subsequent exports.

Services exports generally, and to Asia in particular, have become increasingly important in the past decade. Education and tourism exports were the third and fifth single most important exports in value terms in 2010, and much of this related to exports to Asia. Services accounted for 18% of total goods and services exports in 2010 and 19.6% of total trade, meanwhile the services sector represents the largest part of the Australian economy, accounting for around 80% of GDP.⁷

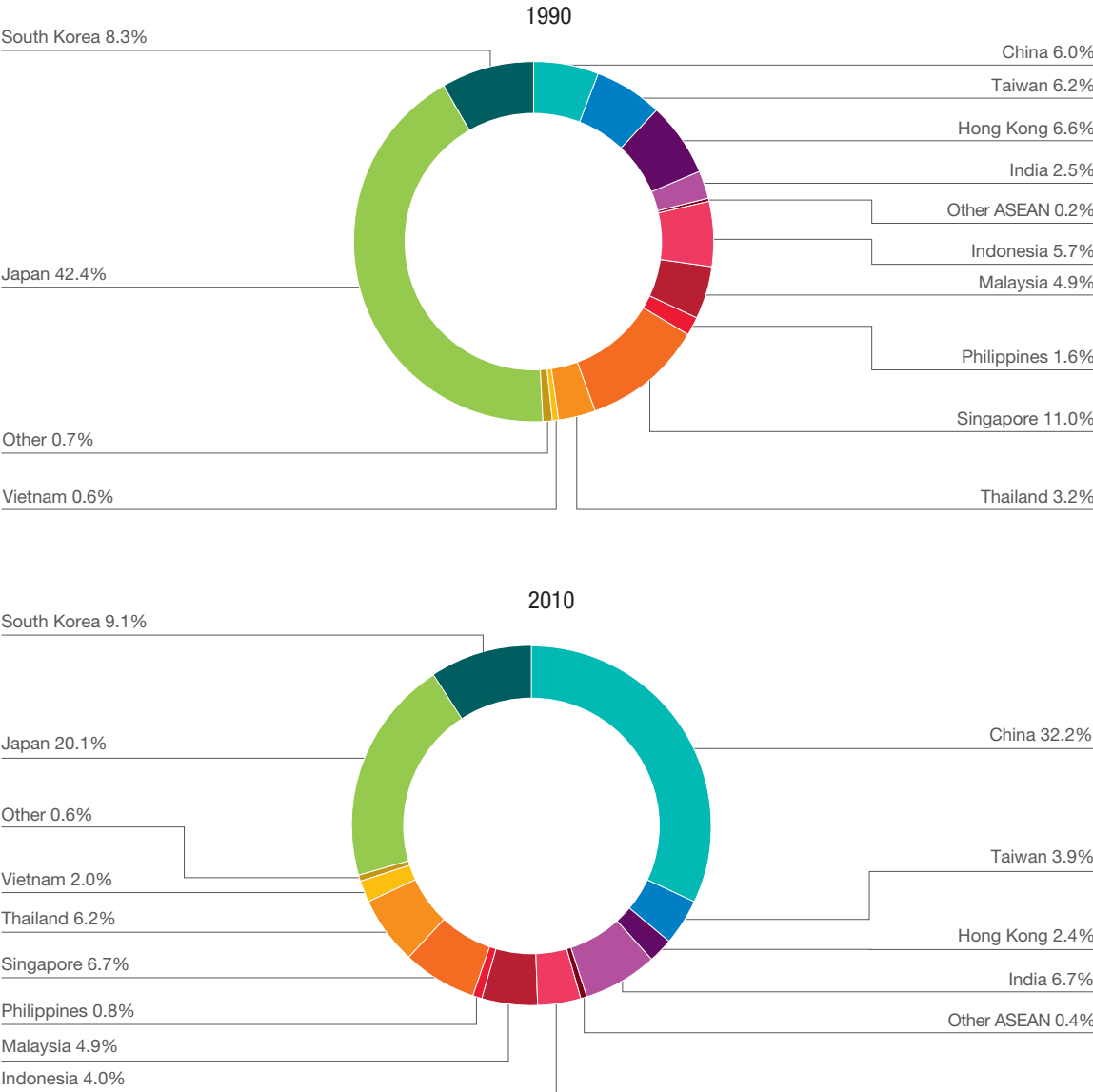
⁵ DFAT *Composition of Trade* 2010 Table 2.

⁶ RBA Index of Commodity Prices, RBA *Statistical Bulletin*. See footnote 4 (Engagement at a glance) for recent Australian dollar exchange rate movements against major currencies.

⁷ DFAT *Composition of Trade* 2010 Table 1.

The figure below shows the change in the composition of Australia's trade in goods and services with Asian countries from 1990 to 2010. The growth in trade with China stands out, with India's share also increasing considerably. Meanwhile Japan's share of Australia's trade with Asia has more than halved in the past decade.

Figure 4: Trade shares by economy⁸



⁸ 'Other ASEAN' includes Burma, Laos, Cambodia and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Key findings for Trade component

- Australia's trade with Asia recovered by 9.3% in 2010 following a fall the previous year; trade with the ROW recovered more modestly by 1.6%.
- Australia ran a trade surplus (exports of goods and services less imports) with Asia of just over \$60 billion in 2010, but had a more-than-offsetting trade deficit with the ROW of just over \$62 billion.
- Merchandise goods dominate Australia's trade account in general and with Asia: goods exports accounted for 88% of total goods and services exports in 2010.
- Resource sales (in particular iron-ore and coking coal) to China continue to be important and contributed to strong export growth of 19.2% in 2010, outpacing import growth of 17%. Resource exports to Japan, India and South Korea are also significant.
- Largely reflecting this, Australia runs a trade surplus with both China and Japan, but trade deficits with ASEAN, South Korea and India.
- Growth in Australia's imports of goods and services from Asia25 and the ROW (of 13.6% and 11.4% respectively) outpaced growth in exports to these two regions (of 6.4% and 1%) in 2010. This is evidence of the two-way nature of these important trading relationships, as well as the ongoing strength of the Australian economy in the face of instability elsewhere in the developed world.

What 'Trade' measures

This component comprises the following trade data in constant price terms (ie deflated by the import and export price deflators):

- the value of the imports of goods and services into Australia by source country
- the value of exports of goods and services from Australia by destination country.

An intergenerational play



Peter Fox
Chairman, Linfox Group

When most Australians think of Linfox, they think of iconic big rigs rumbling across the outback. But the company has very much crossed the seas, servicing huge clients across some of the region's biggest markets.

Linfox has doubled in size over the past four years. How much of this growth is attributed to your Asian operations?

The lion share of the growth has come from Asia. Our business is operating throughout 12 countries in the Asia-Pacific region. In fact, today we have a greater number of Asian employees than we do Australian. Our business has significantly expanded throughout Southeast Asia and we also have a presence in both India and China. There's no doubt that the Asia-Pacific region is a place in the world where we not only partake – but where we see significant new opportunities in the 21st century.

What are some of the challenges of operating across diverse Asian markets?

That's a big question. The challenges are absolutely endless. Take India for example – it has the legal systems that the western world is familiar with, but each province has local governments with their own nuances. Another example is China – it has a plethora of provinces, each requiring different registrations on vehicles. You can't just buy a business and think you can operate in Asia or Southeast Asia or any of these individual countries. Every one of them has different nuances to how they operate.

“Our investment – if not for decades – is an intergenerational play.”

While the rise of China and India have gathered the most attention, Linfox has succeeded in expanding in emerging economies like Thailand. What is attractive about these markets?

Thailand has been a really successful market for us. Over 20 years we have built a business over there that is now worth over a couple of million dollars of revenue.

Vietnam has the prospects and I believe will have the prosperity in the next 20 years to similarly match if not surpass the development that has taken place in the Thai market for us. I find the attractiveness of Vietnam to be its geographic location and its very literate population. It has a very strong and emerging middle-income earning class – and they are very hard working. What Vietnam does lack is infrastructure and it lacks the standards of common utilities that we take for granted in Australia.

Likewise, Indonesia has a very large population, albeit spread across so many islands. Indonesia now has a more stable government. We see very large prospects in Indonesia.

One thing about Linfox as an organisation is that we typically work with the multinational companies such as the ‘Proctor and Gambles’, the ‘Unilevers’, and the ‘Tesco’s’. It is those organisations that we target as customers, rather than the local companies. We do business with local companies, but our focus is on the multinational food, retail and industrial companies.

Are language skills and cultural understanding important to business success in Asia?

I don’t think it is language that is the barrier, rather, it’s an understanding. Australia has an enormous advantage. We’re not seen as American, we’re not seen as English. I think we’re quite reserved – we’re not loud-mouthed in our ways. The Japanese will always put up a façade when you meet with their people in Tokyo, but I think if you get them out of their environment – whether in a sulphur spring out in country Japan or it’s them visiting us in Australia – they absolutely warm to the Australians. They like us – as do the Chinese – as do the Thais – as do the rest of the people in Southeast Asia. The language is initially a barrier, but you can get past that when they get an understanding of who you are. Our organisation is a family-owned business and our Asian colleagues appreciate the tradition of a family-owned organisation – and the family values that Linfox espouses. They actually warm to us and have a respect for who we are.

What is the biggest lesson you have learnt from working across Asia?

I think the advice to any organisation wanting to build a presence in Asia is to be patient with the returns on the capital that you invest. Our investment – if not for decades – is an intergenerational play. The benefits may not be reaped within this decade. We’ve been in Asia now for over 20 years. The decision we made to build our business and expand in the Asia Pacific has been the right one. I think we’re lucky that we don’t have a presence in the European or American markets. It won’t just be my generation that reaps the benefits of our geographic footprint. It will be the next generation of Fox’s that will see the benefit from the foundations that we’ve laid in the region.