



11th January, 2007
Chief Economist Release

DESTINATION ANYWHERE: WHICH MARKETS MATTER MOST TO AUSTRALIAN EXPORTERS?

Tim Harcourt*
Chief Economist
Australian Trade Commission
Sydney
www.austrade.gov.au/economistcorner

When it comes to trade most of the news is 'big picture'. We hear about the Doha round in the World Trade Organization (WTO), APEC summits and in more recent years, bilateral and regional trade pacts. For instance, just in the last four years or so, we have seen the establishment of several free trade agreements (FTAs), with the USA, Singapore and Thailand. And looking ahead there are the negotiations with Japan, Malaysia, China, Chile and the Gulf Co-operation countries all hogging the headlines. There are also the regional negotiations between the Association of South East Asian Nations (ASEAN) and the Closer Economic Relations (CER) partners in Australia and New Zealand.

Of course, there have also been a lot of headlines about big trade deals – especially in areas like LNG and iron ore - and their export potential in terms of dollars. This is mainly due to the resources boom and where we anticipate Australian export growth will come from. There has been focus on export destinations – that is, whether China and India will largely drive our growth (mainly through insatiable appetites for resource exports) or whether the rest of Asia, the USA and Europe will also play a role in growing our exports of advanced manufactures and knowledge based services. There's also focus on the emerging markets such as Russia, Brazil and the Middle East.

However, whilst these big developments are important, the focus is mainly on export revenue and the gains at the top end of town with less focus on the exporting companies themselves – particularly the 'up and comers'. So what about the exporting companies then? How many are there and where are they heading?

Fortunately, courtesy of some new research from the Australian Bureau of Statistics (ABS) and Austrade we now are getting a better handle on some of these questions.

First of all, we now know that there were 42,194 exporting businesses in the 'exporter community' in 2005-06. This tally comprises 40,849 goods exporters and 2,513 service exporters – although the count *excludes* in-bound services (like tourism and education) that are also important to the national export effort.

The exporter community can be broken down by market destination for *goods* as well and the results make some pretty interesting reading.

First of all, our Trans-Tasman cousins, New Zealand were top of the pops, with 17,394 Australian businesses having exported to the shaky isles in 2005-06. This indicates that many exporters actually find exporting 'across the ditch' relatively easy and that Kiwiland is a good 'nursery' to start with when learning the craft of exporting. The Australian New Zealand Closer Economic Relationship (CER) – now over two decades old – really gave Australian companies – especially small businesses – a kick-start into exporting.

The United States is second, with 9253 exporters. Many small and medium businesses get their start in the USA as they are attracted by the size of the market. The free trade agreement (FTA) with the USA has also helped to provide more opportunities to these companies. For example, Austrade/Sensis research showed that there has been a jump in the proportion of exporting small and medium sized enterprises (SMEs) selling to the USA since the FTA has been place.

Another FTA country, Singapore is in third place with 6397 exporters and then comes the UK with 5486 and Hong Kong on 4984. 'Entrepot' economies like Singapore and Hong Kong tend to have lots of wholesale trading houses and act as a hub port for exporters (and importers). For instance, Singapore has played the role of a gateway port for South East Asia, whilst in the past; Hong Kong has played a similar role in the North East Asia – particularly before China opened up more to international trade and commerce.

In the UK's case, there is the "Kylie effect" to consider. According to the data, the UK is light years ahead of any other European country, indicating that many Australian exporters (like our pop-stars) head to Britain (because of cultural and historical links etc) and have use the UK as a base to expand into Europe and the rest of the world.

In sixth place comes Papua New Guinea on 3823. The data shows the importance of our near neighbours to small business exporters with three Pacific destinations in the top ten. Next is China in seventh place on 3815 with Japan eighth on 3634. China's position supports the Austrade/Sensis survey that showed many SMEs looking to the Middle Kingdom as an export destination – joining the larger Australian blue chip corporates such as Rio Tinto, ANZ, Elders, BHP Billiton and Woodside who have been in Beijing for some time. Japan's high ranking is no surprise given that they are our number one trading partner and we are about to embark on a FTA with them.

The 'second top ten' is still heavily focussed in Asia but includes both mature and emerging markets. Germany is in 11th place with 2550 exporters followed by another FTA country Thailand on 2544, Indonesia on 2532, and Canada on 2351. Taiwan is on 2318 with South Korea on 2300.

South Africa is the main destination in Africa at 2038 exporters, and then comes India (Top of South Asia) on 1806, the United Arab Emirates on 1771 building on Dubai's central role as the 'Singapore of the Middle East' and another Pacific state, New Caledonia making up the top 20 on 1550.

It should be noted in the analysis that many exporters have multiple destinations, so they may be counted twice in terms of country though not in the region. The analysis of company numbers is also not necessarily a reflection of value. For instance, whilst New Zealand attracts over 17,000 exporters and Japan only around 3,600, the value of the those exports to Japan was over \$31 billion, whilst New Zealand's was worth under \$9 billion. That is, the average value of Australian exports per company to Japan was \$8.6 million, whilst to New Zealand it was \$0.5 million. Generally speaking, North East Asia is dominant in terms of value with Japan, Korea and China alone accounting for nearly \$61 billion in exports.

Does the data change over the years? From the limited data available, the top 20 remains pretty stable with a few countries changing positions. However, if you look at longer term snapshots, you see a bit more movement. For example, a comparison of the 1989-90 rankings with the present shows - you guessed it – China charging up the table.

In conclusion, in terms of *exporters*, we have an exporter base in Australia that is spread far and wide across the globe but concentrated enough in the bigger markets to get a good bang for their buck. And exporting seems to be delivering to all Australian exporters – both large and small. Austrade research shows that exporters, on average, grow faster, are more profitable, more innovation and pay higher wages than non-exporters. This research indicates that many Australian exporters are finding themselves in the right place at the right time to take advantage of opportunities in the global economy.

**Tim Harcourt is Chief Economist of the Australian Trade Commission and the author of BEYOND OUR SHORES: www.austrade.gov.au/economistscorner.*

Thanks are due to Karen Brown and Bernard Williams of the Australian Bureau of Statistics for their comments and assistance with this article.