

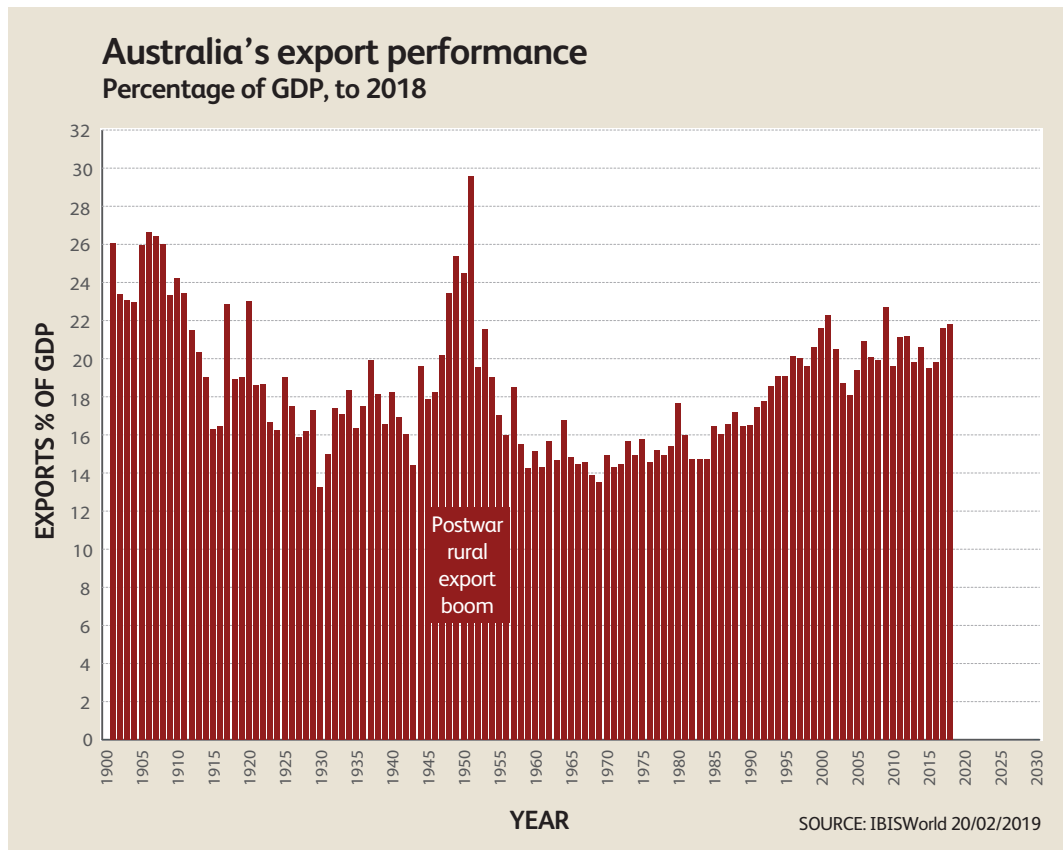
## The Importance of Trade

By Phil Ruthven AM, Founder IBISWorld

Australia needs to trade a lot due to its small population and small economy, which make up 0.3% and 1.0% of the world respectively. Accordingly, Australia has trouble staying in the G20 nations of the world's 230 nations.

We simply do not have the economies of scale or uniqueness across all of our industries to be as self-sufficient and efficient as the G5, or even the G10, nations.

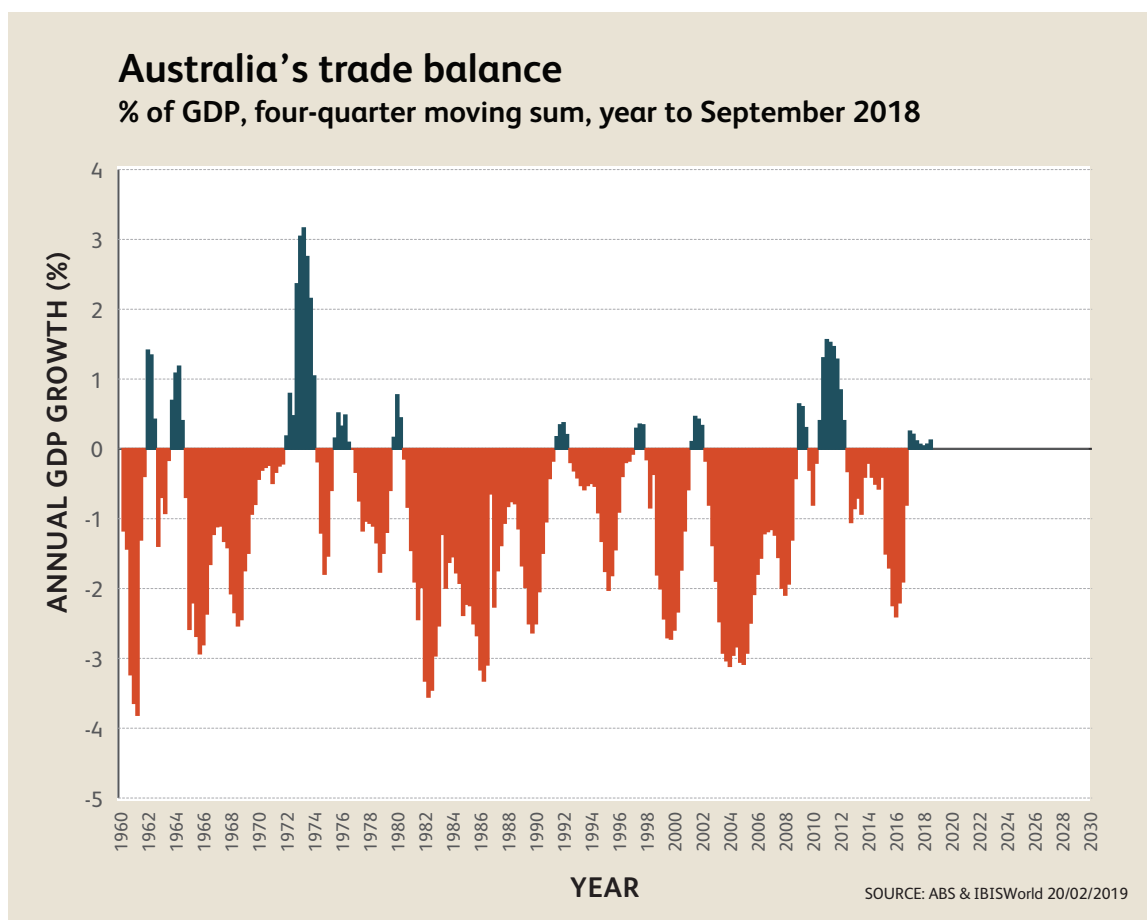
As the chart below shows, at times we have traded up to a quarter of our GDP over the past twelve decades. However, most of this period was a trade-protected era with very low exports as a result of shutting out imports, until the latter decades of the 20th century, when protectionism was progressively dismantled in favour of free trade agreements (FTAs).



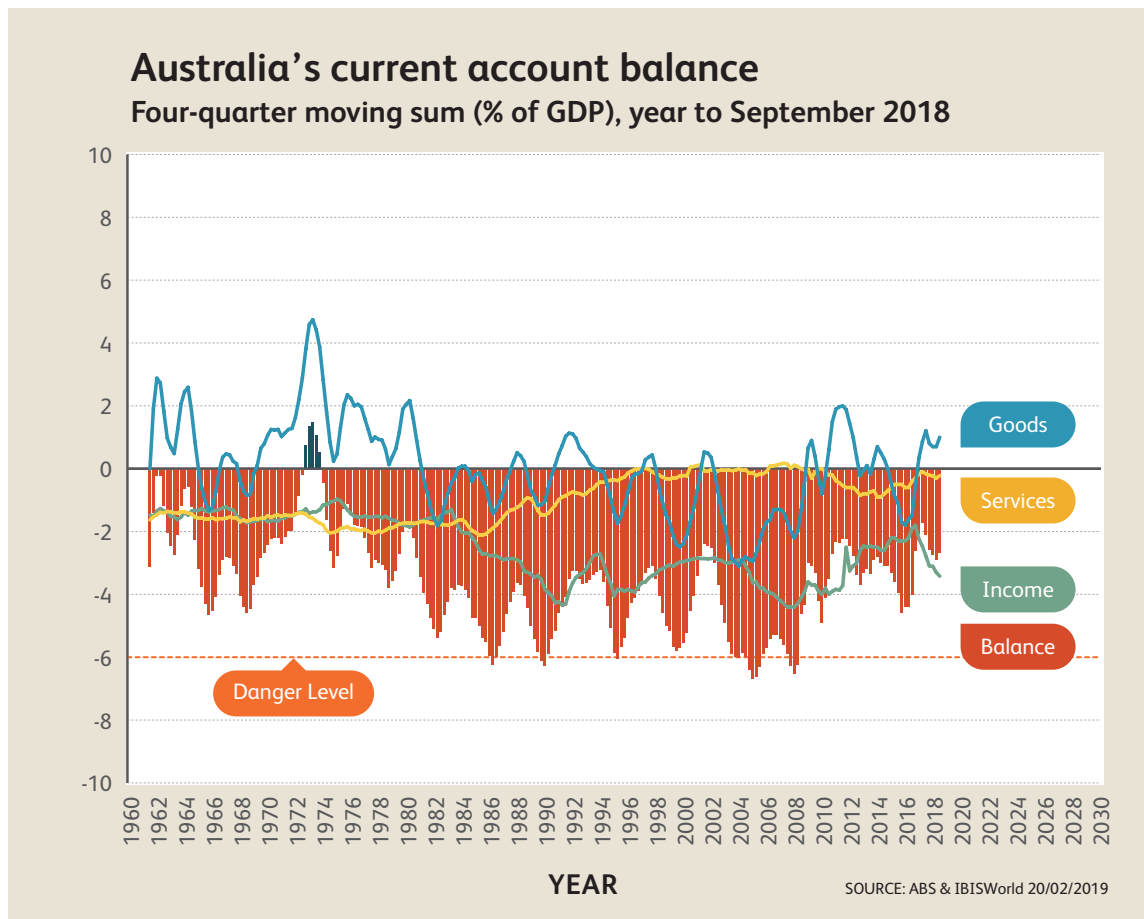
Much of our manufacturing, which has long been uncompetitive, subsidised and tariff-protected, is being displaced by imports, especially from emerging countries in the Asia-Pacific region and Asia at large (including the Indian subcontinent). We no longer have a motor vehicle industry. And manufacturing accounts for just 6% of our GDP, compared with 29% in the 1960s.

Australia is not alone in this shrinkage, although much larger economies have managed to keep their manufacturing sectors in the 10-20% of GDP range due to their economies of scale or focus on excellence. However, these economies may not necessarily keep their manufacturing sectors within this range indefinitely, given that the very large emerging economies in Asia can emulate these advantages in time.

The following two charts trace our trade balance (on goods and services) and current account balance (including incomes). We have long had a hard time balancing our trade, exporting low-value goods and importing high-value manufactures. And we frequently have deficits in excess of 2-3% of GDP, and occasionally worse.



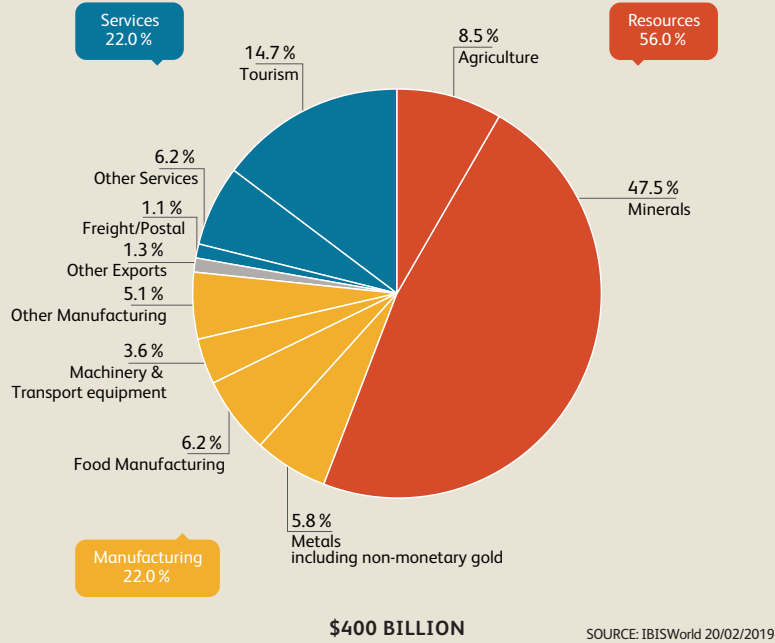
The current account balance shows a worse position due to deficits on incomes, in turn due to inadequate national savings. For example, the huge housing boom of recent years was fed in no small measure on capital imported by our banks for mortgage lending. Our deficits on the current account balance have often exceeded 6% of GDP, a level which makes economists and treasurers nervous.



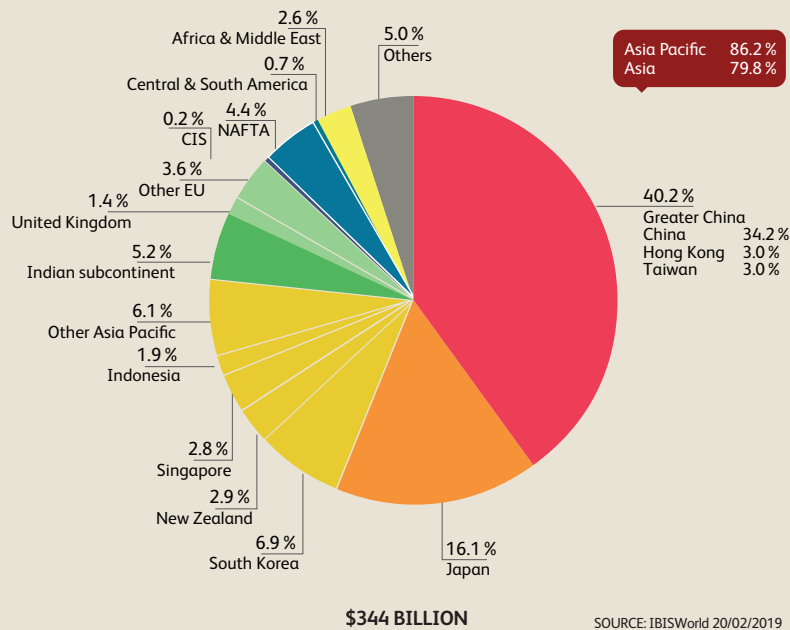
Despite this recalcitrance, our national debt as a share of GDP remains one of the lowest in the developed world, as does our business debt. However, our household debt is one of the highest, as a result of the housing boom, which is now defusing.

The two charts below show what we exported, and where to, in 2018.

**Australia's exports market:**  
**services, resources, manufacturing**  
 Year to June 2018



**Australia's exports market:**  
**merchandise goods**  
 Year to December 2018



The first of the above two charts reminds us of the dominance of our resources (minerals, agriculture and, to some extent, their value-added manufactured products).

However, tourism and other services are growing strongly, and will probably overtake our mineral exports by the middle of this century, if not sooner.

The second chart is a reminder of our new economic arena: Asia. This mega-region accounts for about 80% of our merchandise exports, over two-thirds of all exports, and over two-thirds of our inbound tourist and migrant numbers.

We are interlocking our future with Asia, which is the world's most populous mega-region (containing 57% of the world's population), its largest economy (accounting for 44% of the world's GDP) and its fastest growing economy (almost double the rate of the world's GDP growth).

But balancing our trade and balancing our current account will hopefully be one of the accompanying goals of this prospective and exciting century.



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