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Article — Digitized Version

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Intereconomics

Suggested Citation: Stonham, P. E. (1967) : Australia's changing export pattern, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 12, pp. 321-323, <https://doi.org/10.1007/BF02930452>

This Version is available at:

<https://hdl.handle.net/10419/137838>

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Australia's Changing Export Pattern

by P. E. Stonham, Newcastle/Australia

Australia is frequently considered a farming country on the periphery of the world economy, whose exports are traditionally restricted to wheat, wool and dairy produce. However, this conception does not correspond anymore to the present shape of the Australian economy. After World War II structural changes linked up the country with the world economy on a broader base, and industrial products are becoming more and more important to Australian exports. The following article deals with the determining factors of Australia's export oriented industrialisation and the future prospects for its progress from a farming country to an industrial nation.

During the post-war period the composition of Australia's exports has undergone a marked change. The general shift has been from traditional exports like wool, wheat and dairy produce to an increased dependence on manufactured goods, metals and minerals. Although primary products are still of overwhelming importance in export in absolute terms, it is manufactured goods that are showing the most dynamic export performance in relative growth rates.

Concurrently with this shift, and partly connected with it, there has been a switch in the direction of Australia's export trade, the traditional markets in the UK and Europe declining in importance compared with markets in Asia, particularly Japan, and in North America. The changing emphasis in the composition of exports has been welcomed and encouraged by the Commonwealth Government for both economic and political reasons although such differential rates of growth in different sectors of the economy are bringing problems of adjustment.

To some extent the growth in manufactured exports reflects an increasing degree of domestic industrialisation in the Australian economy although internal conditions and policies have been only partly responsible for the change. Australia's export pattern has also responded to altered trading conditions in its overseas markets which were not under its control.

The Record of Change

Increasing the proportion of industrial production in total economic activity and diversifying exports is by no means a new feature of post-war economic objectives by nations, and this is particularly true of developing economies. The Australian case is interesting because Australia is one of the few largely primary-exporting countries that enjoy a relatively high per capita income level, possess many of the characteristics of a developed country and yet still give high priority to industrial production both

for domestic and foreign markets. This can only involve a structural re-organisation of production.

Between 1948/49 and 1965/66 the share of manufactures in Australia's total exports (including re-exports) increased from 5 per cent to 16 per cent; the increase in this share also appears to have accelerated since 1963. The increase is all the more significant since total exports of goods and services as a percentage of Gross National Product have fallen fairly steadily over the same period from around 25 per cent to around 15 per cent. In the 1960's, although the absolute growth in value of Australia's manufactured exports has been strong, part of their increased relative share in total exports is accounted for by slow-growing and in some years declining export receipts from primary products. Since 1963 greater export receipts from unprocessed mining products have less than offset declining receipts from raw wool, wheat and other grains. Rather more recently, declining receipts from processed foodstuffs have been compensated for by increased export receipts from processed mining products. Dealing in aggregates, however, does not give a very good picture of the statistical performance of Australian exports. This is because in Australian economic statistics exports of manufactures include in total value the value of primary products used as raw material inputs, and processed primary product exports include in total value the value added by simple manufacturing processes.

A disaggregated picture of the performance of individual groups and items of produce is more instructive. For example, in the last 10 years receipts from metals, metal manufactures and machinery as a group increased in absolute terms by some 240 per cent, with the share of total export receipts rising from 9.5 per cent to 14 per cent. The sub-group, machinery and electrical machinery, showed even greater gains. The absolute increase over the same period for minerals is 270 per cent and an increased share of total export receipts rising from approximately 4 per cent to 6 per cent. Export receipts

from iron and steel and petroleum have fluctuated a good deal over the later post-war years although, as a general rule, receipts from the former group have been tending to climb. Until 1965/66, the increase was spread over a wide range of manufacturing products, in the current year iron and steel and chemicals have been responsible for most of the gain.

In part these movements are explained by prices. Since the middle 1950's Australia has generally faced buoyant export prices for minerals, metals and metal manufactures, and depressed prices for foodstuffs, wool and sheepskins. This relative discrepancy in price movements has had its impact on the price-sensitive manufacturing sector.

Regarding the direction of trade, the change is equally marked. Between 1954/55 and 1965/66 the share of the UK in Australia's total exports dropped from 36.9 per cent to 17.4 per cent; at the same time Japan's share increased from 6.9 per cent to 12.4 per cent. Over the same period there has been an almost universal drop in Australian export shares of the six European countries now making up the European Economic Community. The share of the Six as a group fell from 22.1 per cent to 15.5 per cent, with the share of France in particular falling from 8.3 per cent to 4.4 per cent. The percentage decrease in Europe's share is almost equally matched by the increased share taken up by the United States and Canada over the same period. These two countries' combined share increased from 8.3 per cent to 14 per cent. Finally, apart from the marked increase in exports to Japan, the rest of trading Asia took an increased share over the period, but only a small one, and nearly all of this was accounted for by sales to mainland China.

The Reasons for Change

Changing patterns of trade are usually the result of a complex of factors, and this is certainly true in the case of Australia's exports. The change in the commodity composition of exports, for example, is the result of a number of factors operating both domestically and internationally.

Among domestic factors there is the readily apparent post-war trend by manufacturing and secondary industry to contribute an increasing proportion by value to GNP while, at the same time, the share of

primary industry continued to fall. Domestic manufacturing industry in Australia has been strongly protected during the post-war period by a policy of tariff protection whose average level in the early 1960's stood around 30 per cent. This strong growth of domestic manufacturing has been reflected in firms undertaking a greater proportion of production for export as being a logical extension of their domestic market. This is encouraged by the Commonwealth Government in the tangible form of pay-roll tax rebates and income tax deductions on market development expenditure.

A more appealing reason, however, is that as Australian manufacturing industries begin to achieve some degree of scale and cost-competitiveness, it becomes possible for their products to compete on world markets. It is also the case in Australian manufacturing that mineral discoveries and development are beginning to provide impetus towards greater heavy industry by providing low-cost raw materials for industrial processing. It is also possible that investment in Australia has become more conscious of the higher growth ability of manufacturing industry, and this is particularly true of foreign investment.

As far as external influences are concerned, there is little doubt that Australia has been facing the familiar problem of the largely primary-exporting countries, a secular deterioration in relative export prices for agricultural and pastoral products. Primary products (minerals apart) are generally the slowest-growing class of internationally-traded goods, and there are very few of such countries which are not actively engaged in encouraging the domestic production and export of manufactured goods and diversifying the general pattern of their export trade. Some of the highest growth rates attained in post-war international trade have occurred in manufactured goods and in those raw materials, e.g. fuels and ores, used as manufacturing inputs. It could be argued that the changing composition of Australia's exports is partly a natural response to relative changes in demand conditions in overseas markets for manufacturing versus agricultural products.

Changes in external influences have probably been the major cause of the changing post-war direction of Australia's exports. In the simplest case, the major markets to which Australia has sold its exports



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have grown at differential rates, the most dramatic examples being the UK and Japan. In the case of those two countries, it is the fact that the Japanese rate of growth of imports grew much faster than the British in the 50's and 60's that caused Japan to increase its share of Australia's exports at the expense of Britain's. By and large these two countries import the same classes of goods from Australia, and demand generally rose dramatically for most classes of Australia's exports in Japan just as, relatively speaking, the demand for the same classes of Australian exports in the British market was sluggish. The same effect is true of the North American market. Both the United States and Canada, over the post-war period, showed high rates of growth of GNP, increasing import levels, and an increased demand for the commodities that Australia exports.

In the case of the European market the effect has probably been more complicated. On the one hand the Common Market's agricultural policy has had a detrimental effect on exports of Australian primary produce, particularly wheat and dairy produce. On the other hand the high growth rate of the Six combined has caused increased demand for and increased sales of Australian fuels, minerals and industrial raw materials on which there is little tariff discrimination.

Future Prospects

It appears that there are a number of long-term trends as well as more immediate factors affecting the composition and direction of Australia's exports.

Since the Second World War the long-term trends have included a general shrinking in the proportion of the value of international trade taken up by primary, particularly agricultural produce. It is a function of both changing demand conditions in former markets and changing structures of production in supplying countries. There are no reasons for believing that these long-term supply and demand factors will not continue for the particular case of Australia's exports. Manufactured products and raw or semi-processed minerals are the most rapid-growing sector of international trade, indeed for many countries there appears to be a close connection between rate of industrialisation and rate of growth of GNP.

Reinforcing these long-term trends are certain shorter-term factors which have particular relevance to

Australia's exports. The Kennedy Round of tariff cuts on industrial goods and any future reductions are likely to give an impetus to Australia's manufacturing exports, particularly in already industrialised countries where tariffs have been most prominent on manufactured imports. The stepping up of programmes of industrialisation in developing countries, particularly in Asia, is likely to provide increased demand for the supply of minerals and industrial raw materials that Australia is increasingly providing.

The increasing integration of the European Economic Community and, to a lesser extent, of other regional trading blocs, e.g. in Latin America, is likely to intensify the already existing trade diversion on some of Australia's traditional exports. It does appear, however, that the growth of other markets, particularly Japan, the centrally-planned economies and the developing countries of Asia will provide more dynamic markets for these exports. At the moment there appears to be a positive trade effect by the Common Market for Australian exports of minerals, fuels and industrial raw materials as integration increases the input requirements of European manufacturing industry. Much depends on whether future growth of import requirements in the European Common Market is biased in favour of or against the sort of goods that Australia currently exports or is likely to export in the future.

All the remarks applying to the European Common Market are likely to be reinforced if the UK and part or all of the EFTA countries gain admission to the EEC. In the case of the UK there would be added discouragement to Australia's primary exports caused by the loss of Commonwealth Preference which is of considerable importance in the case of some primary products like dairy produce and fruit and fruit preparations.

Finally, there are strong indications of continuing structural re-organisation of production within Australia with agricultural production continuing to contribute a declining proportion by value of GNP, and an increasing emphasis on manufacturing industry and mineral development. The current trend of tariff protection, investment flows and domestic market growth all appear to point to strong growth in the secondary sector, and this cannot fail to have an impact on the future pattern of Australia's exports.



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