

Box A: The Changing Country Composition of Australia's Trade

The pattern of Australia's international trade flows has shifted towards Asia in recent years. Asia's share of both exports and imports has increased, mainly at the expense of North America. China and India have had particularly important roles in this shift, driven by their growing demand for resource commodities, and to a lesser extent, services.

Japan has long been Australia's most important export destination, accounting for 18 per cent of total goods and services export values in 2005 (Table A1). The Asian region as a whole has gained importance of late, with the share of exports going to Asia rising from 57 per cent in 2000 to 62 per cent in 2005. This is a fairly large shift in share compared with previous five-year periods. The rise was mainly driven by the 23 per cent annual increase in exports to China, which overtook the United States to become Australia's second-largest export destination in 2005. Exports to the US fell 4 per cent annually over the same five-year period, taking its share from 12 per cent to around 8 per cent, although this partly reflects the fall from the unusually high level of export revenues from tourism and television rights during the Olympics.

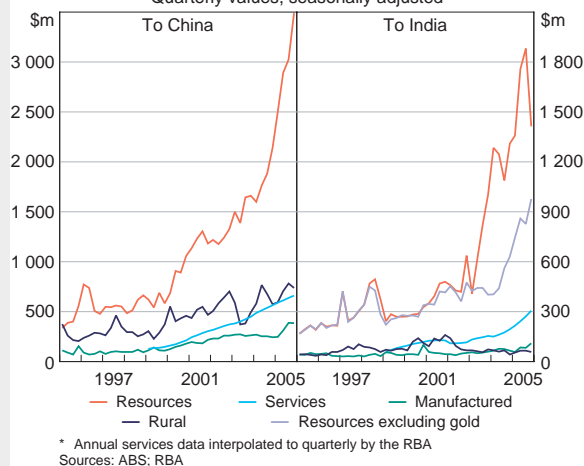
Table A1: Australia's Exports of Goods and Services by Destination

| | Share of total exports 2005, per cent | Average annual growth 2000–2005, per cent | Rank in 2000 |
|------------------|--|--|--------------|
| Japan | 17.9 | 4.4 | 1 |
| China | 10.6 | 22.5 | 7 |
| United States | 7.8 | -3.9 | 2 |
| Korea | 6.9 | 4.5 | 3 |
| New Zealand | 6.7 | 6.1 | 4 |
| United Kingdom | 5.2 | 4.5 | 6 |
| India | 4.5 | 28.8 | 13 |
| Singapore | 3.6 | -3.9 | 5 |
| Taiwan | 3.4 | -0.2 | 8 |
| Thailand | 2.6 | 13.8 | 12 |
| – North America | 9.6 | -2.3 | |
| – European Union | 12.9 | 3.5 | |
| – Asia | 62.0 | 5.9 | |
| Total | | 4.2 | |

Source: ABS

The surge in the value of exports to China has been the result of China's extraordinarily strong demand for raw materials, coupled with the related large rises in the prices of some of these commodities. Resource exports accounted for 18 percentage points of the 23 per cent annual average rise in total exports to China over the past five years (Graph A1). In 2005 alone, the value of resource exports to China rose by 62 per cent. The bulk of the rise came from metal ores, while coal, non-ferrous metals and gold also made small contributions. The value of service

Graph A1
Exports to China and India*
 Quarterly values, seasonally adjusted



* Annual services data interpolated to quarterly by the RBA
 Sources: ABS; RBA

exports to China has also grown strongly from a low base. In 2005, service exports to China increased by 19 per cent and they have risen at an average annual rate of 28 per cent since 2000. Around four-fifths of this increase came from education-related travel services. While Australia runs a trade deficit with China, the sharp rise in the value of exports in 2005 reduced it by around a third to \$3.9 billion, its lowest level since 2001.

India has also become an increasingly important export market in recent years, jumping from Australia's 13th largest export

market in 2000 to 7th largest in 2005. Annual growth of exports to India has averaged close to 30 per cent since 2000, propelled by India's ongoing integration into the world economy. Again, much of the increase resulted from strong Indian demand for Australia's resource exports. The earlier phase of the increase was driven by exports of gold, with some contribution from coal and metal ores, but the sharp rise in 2005 was largely due to higher coal exports. In addition, service exports made a sizeable contribution to growth in total exports to India in 2005, rising by more than 50 per cent in the year. As with China, this was mainly driven by the education component.

Asia is also becoming a more important source of imports, with its share rising from 44 per cent to 49 per cent over the past five years, while North America has experienced a corresponding decline (Table A2). The US nonetheless remains the largest source of Australia's imports. Since 2000, the value of imports from China has more than doubled, with China overtaking Japan as the second largest source in 2004. Around 90 per cent of imports sourced from China are manufactured goods, reflecting its comparative advantage in low-cost manufacturing and assembly. Resource imports from China also rose solidly in 2005, largely because imports of iron and steel more than doubled. ↗

Table A2: Australia's Imports of Goods and Services by Origin

| | Share of total imports 2005, per cent | Average annual growth 2000–2005, per cent | Rank in 2000 |
|------------------|--|--|--------------|
| United States | 14.4 | -1.4 | 1 |
| China | 11.6 | 18.1 | 4 |
| Japan | 9.8 | 2.0 | 2 |
| Singapore | 5.9 | 14.7 | 7 |
| United Kingdom | 5.3 | -1.0 | 3 |
| Germany | 5.1 | 7.6 | 5 |
| New Zealand | 3.8 | 3.8 | 6 |
| Malaysia | 3.5 | 6.1 | 8 |
| Thailand | 3.0 | 10.8 | 13 |
| France | 2.9 | 15.8 | 14 |
| – North America | 16.1 | -1.0 | |
| – European Union | 23.3 | 6.6 | |
| – Asia | 48.7 | 7.8 | |
| Total | | 5.4 | |

Source: ABS