

THINK

7. For each of the following businesses, explain how land, labour and capital are combined to produce goods and services:
- motor vehicle manufacturer
 - fruit and vegetable shop
 - house construction business
 - pizza shop
 - electricity supplier.

1.3 Trade with other economies

Australia has been involved in trade since European settlement. During the nineteenth century, the Australian colonies were a major source of agricultural products such as wool, and minerals such as gold, for Britain and its empire. In recent years Australia has developed strong trading links with our Asian neighbours: four of our five most important trading partners are now in Asia.

Trade and the Australian economy

Australia is an open economy, meaning that we trade in goods and services with other countries. Australian businesses sell **exports** to both consumers and producers in other countries. Australian consumers buy **imports** that have been manufactured in other parts of the world and brought into this country.

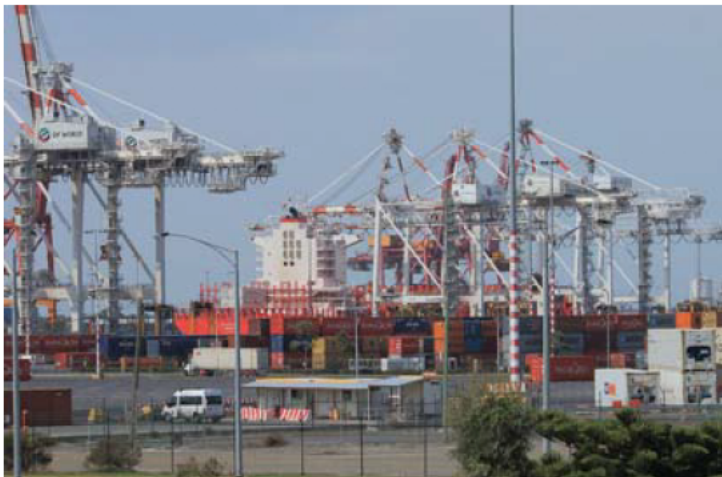


FIGURE 1 Australia imports many goods from overseas and exports to many other countries.

International trade can affect our economic system in a number of ways:

- Australia has a relatively small population, so if overseas consumers are willing to buy the goods and services we produce, this can help our local businesses to grow and employ more people. Today over 1.7 million jobs in Australia are directly or indirectly connected with the production of exports.
- Some products cannot be made here as efficiently as in other countries. A lot of the highly sophisticated machinery used in factories here is imported. However, such machinery can help local factories remain competitive by producing goods more cheaply.
- Imported goods are sometimes cheaper than locally produced goods, so local producers can find it difficult to compete with imported products. Some local producers may even be forced to close down. Australian clothing and footwear manufacturing has declined over the last 30 years as cheaper imports from Asian countries have increased dramatically. While this may not be good for those Australian manufacturers, it is a positive trend for consumers because they have access to cheaper clothing.

By adding overseas trade to the circular flow diagram, we can see how overseas consumers and producers participate in the Australian economy. As shown in figure 2, we can see that households spend money buying imports from overseas businesses, while businesses can earn money from exporting goods and services to overseas consumers. Exports are good for the Australian economy because they bring money into our market system, while imports take money out of the country and pay it to overseas businesses.

If we consistently spend more on imports than we earn from exports, money will continue to flow out of the country. Ultimately this will leave us poorer as a nation. Ideally we want to sell enough exports to provide us with the extra money needed to pay for the goods and services we need to import. If we have more money flowing into Australia from exports than we have flowing out to pay for imports, this additional money can add to our wealth as a nation.

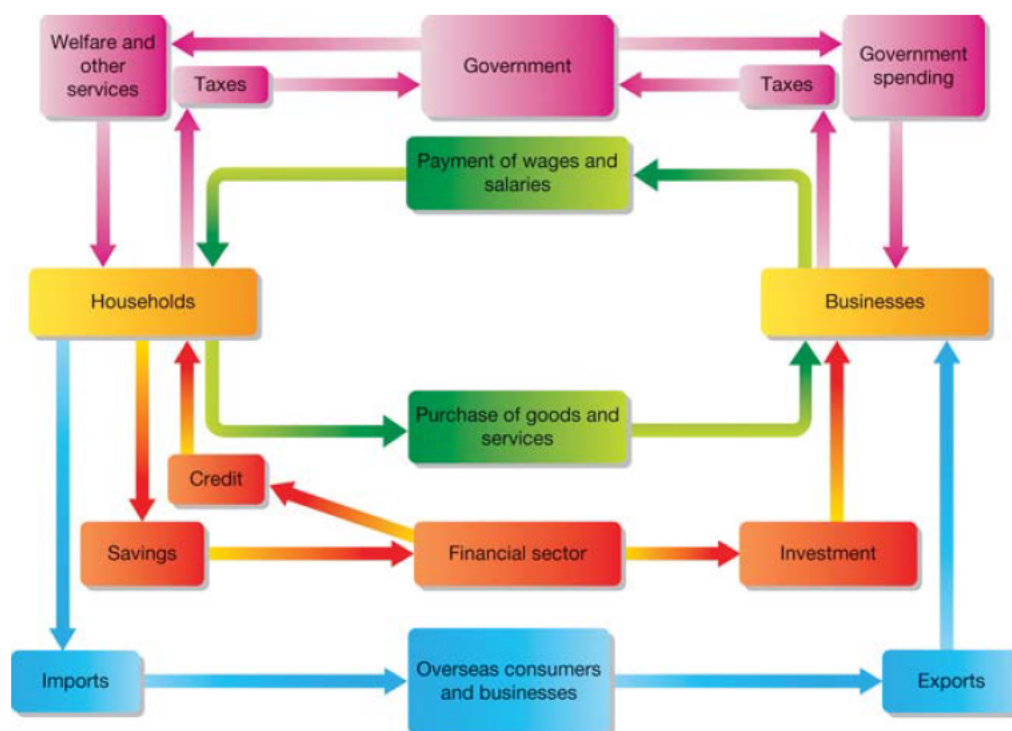


FIGURE 2 The circular flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses in the Australian economy

Trade with the Asia region

As a relatively wealthy and advanced economy, Australia is an important trading nation for countries in the Asia region. As illustrated in figure 3, in 2013 over 73 per cent of Australia's trade with our top ten trading partners was with Asian countries. Six of our top ten trading partners were Asian countries, including four of the top five.

Trade with Asia

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
1	China	101 590	52.3	49 329	39.8	150 919	47.4
2	Japan	49 532	25.5	21 221	17.1	70 753	22.2
4	South Korea	21 274	11.0	10 813	8.7	32 087	10.1
5	Singapore	9 209	4.7	17 878	14.4	27 087	8.5
8	Thailand	5 714	2.9	13 832	11.2	19 546	6.1
9	Malaysia	6 945	3.6	10 944	8.8	17 889	5.6
	Total	194 264	100.0	124 017	100.0	318 281	100.0

Non-Asian trade

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
3	United States	15 533	41.5	39 181	52.3	54 714	48.7
6	New Zealand	11 022	29.5	10 532	14.1	21 554	19.2
7	United Kingdom	7 841	21.0	12 044	16.1	19 885	17.7
10	Germany	3 023	8.1	13 099	17.5	16 122	14.4
	Total	37 419	100.0	74 856	100.0	112 275	100.0

Asian and non-Asian trade

	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
Trade with Asia	194 264	83.8	124 017	62.4	318 281	73.9
Non-Asian trade	37 419	16.2	74 856	37.6	112 275	26.1
Total	231 683	100.0	198 873	100.0	430 556	100.0

Source: Data derived from *Australia's trade at a glance*, Department of Foreign Affairs and Trade.

FIGURE 3 Australia's trade with our top 10 trading partners in 2013

Let us examine the importance of China as our largest trading partner. As you can see from figure 3, the value of our exports to China is A\$101 590 million. This represents just over 52 per cent of

our exports to Asia, and is more than double the value of imports from that country. The largest proportion of our exports to China is made up of iron ore and coal, which China buys to fuel its industrial growth. Japan and South Korea are also large buyers of Australian mineral resources. The value of our exports to each of these countries is also much greater than the value of goods and services we import from them. This adds to Australia's wealth, allowing us to use the money we earn from selling our exports to pay for the goods and services we import from other countries.

More than 83 per cent of the value of our exports in 2013 was earned from selling to Asian countries. This money was particularly important because most of our non-Asian trade involved much higher levels of imports than exports. When we compare the value of exports with the value of imports, we can calculate Australia's **balance of trade**. If the value of exports is greater than the value of imports in a particular period of time, we are said to have a *trade surplus* for that period. If the value of imports is greater than the value of exports, we are said to have a *trade deficit*. We can see from figure 3 that in 2013 Australia had an overall trade surplus with our ten largest trading partners. When we look at trade with individual countries, we see that we had a trade surplus with some of them and a trade deficit with others.

ACTIVITIES

REMEMBER

1. What is the difference between exports and imports?

EXPLAIN

2. Identify one benefit and one disadvantage of importing goods into Australia from other countries.
3. Explain the impact of international trade on the flow of money in the Australian economy.

DISCOVER

4. Use the **Department of Foreign Affairs and Trade** weblink in your Resources section to answer the following:
 - a. Which goods make up most of Australia's imports from Singapore, Thailand and Malaysia?
 - b. Which goods make up most of Australia's exports to the United States and New Zealand?
 - c. Which goods make up most of Australia's imports from the United Kingdom and Germany?

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THINK

5. Examine figure 3 and answer the following:
- Why was Australia's trade with China in 2013 of greater benefit to our economy than our trade with the United States?
 - With which country did Australia have its greatest trade deficit in 2013? Justify your answer.
 - With which country did Australia have its greatest trade surplus in 2013? Justify your answer.
 - In 2013 Australia had a trade surplus with only four of our top ten trading partners and a trade deficit with the other six. Should we regard this as a serious problem? Explain your answer.

1.4 Global events and the Australian economy

Today all countries are connected to a greater extent than ever before in human history. International trade has contributed to economic growth and the generation of wealth in all nations that engage in the import and export of goods and services. Developments in travel and communications have made trade easier and broken down many traditional barriers between countries. While we have benefited in many ways from these connections with other countries, there have also been some detrimental effects. The ease of travel between countries has seen the rapid international spread of infectious diseases, while the widespread use of electronic communication has made internet fraud and identity theft much easier for criminal groups.



FIGURE 1 International flights have made travel between countries both quick and easy, but they come with risks such as the possibility of spreading contagious diseases across the globe.