

# Export Trends and Free Trade in Australia:

## An analysis

Lalith Shanaka de Silva

*Otemon Gakuin University*

### Abstract

This paper presents an analysis of Australia's past and future export trends and Australia's free trade in the context of global markets. Australia respects to free trade and its economy largely depends on exports. Australia's international trade negotiations are based on free trade policy. As a result of accelerated business operations in recent years, globalization of trade, changes in the global competition and rapid development of Asian economies, Australia's export trends have drastically changed in recent years. Now, Australia's export trade has shifted gradually from major trade partners in the west to fast growing markets in Asia. Presently, the Asian region is the biggest export market block for Australian commodities. Australia is proactively engage in efforts to increase its market share in which China is the largest fast growing market in the world. China, Japan and South Korea are leading export destinations for Australian commodities. In addition, India, Malaysia, Indonesia are also potential markets for Australian exports.

A wide range of research methods applied to conduct this study. To analyze the export trends in Australia, the data was collected from various sources such as export trade documents annually and quarterly published by the Australian Government, Ministry of Foreign Affairs and Trade, Australian Bureau of Statistics and Reserve Bank of Australia. In addition, preliminary data and information also collected from a field survey conducted during the period August-September 2014 in Victoria, Australia. During the field survey, data collected from various sources including AUSTRADE, Australia Customs, trade organizations, and export-oriented business organizations. In the first half of this paper, Australia's recent export trends will be investigated and the latter half will be allocated for the analysis of Australia's free trade policy with special reference to Australia's recent free trade agreements with South Korea and China.

### Introduction

Australia's export strategy and export destinations are changing rapidly. In 1980s Australia had strong trade relations with developed countries such as U.S. and the United Kingdom. From 1990 onwards, this trend has changed drastically. Australia's new export strategy is targeted Japan, China, South Korea, India, ASEAN and fast developing countries in South Asia and Africa. Maintaining strong trade relations with neighboring New Zealand, Australia is now expanding its international trade relations to the rest of the world. Australia respects to the free trade. Australia's

free trade policy and free trade agreements with other countries have a major impact on Australian trade. The reduction of trade barriers, and cheaper transportation and communication costs have contributed to Australia becoming more open and more closely integrated into the global economy, a trend that Australia shares with many other countries.

Australian exports are heavily influenced by trends in global demand and Australia's competitiveness in international markets. As a major exporter of resource commodities, the resource-intensive nature of the rapid growth in emerging Asia has been an important driver of developments over the past 10 years. Over the same period, the competitiveness of Australia's non-resource exporters has been reduced by the appreciation of the exchange rate, which has lowered export revenue relative to domestic production costs.

Australia's export strategy is changing rapidly. Australia's share of exports to Asia is fast growing. In response to the rapid growth in emerging Asia, Australia's trade has continued to shift towards Asia and away from more traditional destinations such as the United States and Europe. In 2009, China overtook Japan to become Australia's largest export destination and in 2012 accounted for around a quarter of Australia's exports.

Australia trades with over 220 countries, although the 10 largest export destinations by value account for about two-thirds of the total. China, Japan, Republic of Korea and India have long been the largest markets for Australian exports (Table 1). As shown in Table 1, in 2012–13 Australia exported A\$ 77973 million of goods to China, A\$46481 million of goods to Japan, and A\$19116 million of goods to Republic of Korea. Australia's services exports also rapidly expanding to same destinations. For example, as shown in Table 1 during the same period, Australia exported A\$6662 million of services to China, A\$2101 million of services to Japan and A\$ 1698 million of services to South Korea. In addition, the United States, New Zealand, Singapore, United Kingdom and India are important services export destinations for Australia.

To expand the export market for both products and services, free trade is essential for Australia. With the economic slowdown in the world economy since late 2000, exports gradually declines to most major markets. Among the big economies, large falls occurred in exports to Japan and the US. For Japan, merchandise exports through 2001 fell by almost 5 per cent. This reflected both the recession in Japan, and the weaker conditions throughout the region, which dampened demand for Australian-sourced materials embodied in Japanese exports. There have been exceptions to this general weakness, however, with exports to the Middle East, China and India expanding at double-digit rates.

For the expansion of the global market share in trade and services, identification of potential markets for goods and services is an urgent need for Australia. Furthermore, development of new value-added commodities and services for the global market are new challenges for Australia.

Table 1 Australia's Top 10 Export Markets 2012–13 (A\$ Millions)

	<b>Goods</b>	<b>Services</b>	<b>Total</b>	<b>% share</b>
China	77,973	6,662	84,635	28.1
Japan	46,481	2,101	48,582	16.1
Republic of Korea	19,116	1,698	20,814	6.9
United States	9,022	5,507	14,529	4.8
India	11,418	1,844	13,262	4.4
Nwe Zealand	7,309	3,559	10,868	3.6
Singapore	6,420	3,584	10,004	3.3
United Kingdom	5,520	3,927	9,447	3.1
Taiwan	7,531	647	8,178	2.7
Malaysia	5,197	1,663	6,860	2.3
<b>Total exports</b>	<b>249,0888</b>	<b>52,411</b>	<b>301,499</b>	<b>100.0</b>

Source: Department of Foreign and Affairs Trade, 2013

## The Theory and Concepts of Export Trade

Export trade is a major part of global business today. Export trade playing a vital role in the growth and development process in both developed and developing countries. Export trade drastically increased over the years due to the many benefits it has offered to both developed and developing countries across the world. Export trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance. The export trade accounts for a major part of a country's gross domestic product. It is also one of important sources of revenue for both developed and developing countries.

With the help of globalization process of world economies, free trade concept, trade liberalization, foreign direct investment, the role of multinational corporations, globalization of world economies, highly advanced transportation systems, transnational corporations, new emerging markets and rapid industrialization of developing countries, the export trade is growing and spreading very fast.

Export trade has a long history. In the long period of pre-modern worldwide poverty international trade was very limited and grew only very slowly. However, history suggests that in the past there were several instances of export trade. Traders used to transport various products such as silk, and spices through the Silk Route in the 14th and 15th century. In the 1700s fast sailing ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries

The economic value and social significance of export trade has been theorized in the economic and business literature. The rise in the export trade is essential for the growth of globalization and the balanced growth in the global economy. The restrictions to export trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade. The benefits of international trade have been the major drivers of growth for the last half of the 20th century. Nations with strong export trade have become prosperous and have the power to control the world economy. The global trade can become one of the major contributors to the reduction of poverty.

David Ricardo, in his principles of comparative advantage explained how trade can benefit to all sectors such as individuals, companies, society and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade<sup>1)</sup>.

## **Australian Economy**

The Australian economy has experienced continuous growth and features low unemployment, contained inflation, very low public debt, and a strong and stable financial system. By 2012, Australia had experienced more than 20 years of continued economic growth, averaging 3.5% a year. Demand for resources and energy from Asia and especially China has grown rapidly, creating a channel for resources investments and growth in commodity exports.

In the world economy, Australia is a leading exporter of wool, natural resources, energy, live animals fresh fruits and frozen food items. Australia's abundant and diverse natural resources attract high levels of foreign direct investment (FDI). The FDI has largely contributed to Australia's recent growth of international trade.

According to the World Fact book 2012, the Australian economy has experienced continuous growth and features low unemployment, contained inflation, very low public debt, and strong and stable financial system. The high Australian dollar has hurt the manufacturing sector, while the service sector is the largest part of the Australian economy, accounting for about 70% of GDP and 75% of jobs. Australia was comparatively unaffected by the global financial crisis, as the banking system has remained strong and inflation is under control. Australia has benefited for a dramatic surge in its terms of trade in recent years, stemming from rising global commodity prices. Australia is a significant exporter of natural resources, energy and food. Australia's abundant and diverse natural resources attract high levels of foreign investment and include extensive reserves of coal, iron, copper, gold, natural gas, uranium, and renewable energy sources. A series of major

---

1 ) Economic Watch, "Benefits of International Trade

investments such as US\$40 billion Gorgon Liquid Natural Gas project will significantly expand the resources sector. Australia is an open market with minimal restrictions on imports of goods and services. The process of opening up has increased productivity, stimulated growth, and made the economy more flexible and dynamic. Australia plays an active role in the World Trade Organization, APEC, the G 20, and other trade forums. Australia has bilateral trade agreements (FTAs) with Chile, Malaysia, New Zealand, Singapore, Thailand and the US, has a regional FTA with ASEAN and New Zealand, is negotiating agreements with China, India, Indonesia, Japan, and the Republic of Korea, as well as with its Pacific neighbors and the Gulf Cooperation Council countries, and also working on the Trans-Pacific Partnership Agreement with Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam<sup>2)</sup>.

### Australia's Export Trade and Volume 2004–2014

Australian exports have recorded a rapid increase during the period-2004–2014. Australian exports increased to 26904 AUD Million in October of 2014 from 26457 AUD Million in September of 2014. Exports in Australia averaged 9226.07 AUD Million from 1971 until 2014, reaching A\$29372 Million in January of 2014 and a record low of A\$435 Million in October of 1971. Figure 1 shows Australia's export trend during the period 2004–2014. As shown in the figure, exports show a steady growth during the 10 year period except during the period 2009–2010. This trend was mainly due to high demand for natural resources from China and other Asian countries.

Australian export trade is based on preliminary industries because Australia is rich in natural resources. Australia is a leading exporter of natural resources. During the last 2 decades, Australia's export earnings increased considerably as a result of increased volume of natural resources. According to Australia custom figures, metals like iron-ore and gold account for 28 percent of total



Figure 1 Trend of Australia's exports

Source: Australia Bureau of statistics, 2014.

2) World Fact Book of the United States Central Intelligence Agency, 2012

exports, coal for 18 percent and oil and gas for 9 percent. Manufactured goods constitute 33 percent of the total exports with food and metal products and machinery and equipment accounting for the biggest share. Agricultural products, particularly wheat and wool make up 5 percent of trade outflows. Australia's largest export markets are China (22 percent of total exports), Japan (16 percent), South Korea (8 percent), India (7 percent) and the European Union countries.

### Australia's balance of Trade

Australia's balance of trade shows considerable fluctuation during the period 2004–2014 (Figure 2). Australia recorded a trade deficit of AU\$1323 Million in October of 2014. Balance of Trade in Australia averaged –AU\$500.66 Million from 1971 until 2014, reaching an all-time high of A\$2226 Million in February of 2009 and a record low of A\$3892 Million in February of 2008, according to the Australian Bureau of Statistics.

Trade balance compares the total value of imports and the total value of exports for the reporting period. A negative value indicates that more goods were imported than were exported (trade deficit), conversely, a positive trade balance means that exports exceeded imports (trade surplus). As shown in Figure 2, in 2010 and 2011 Australia reported consistent trade surpluses due to high price of commodities. However in 2012, the trade balance was deficit due to capital imports and other external market reasons. Metals, coal and oil and natural gas account for 54 percent of total exports. Australia is a major importer of machinery and transport equipment, computers and office machines and telecommunication lasers. Australian trade gap declined to AUD 1323 m in October 2014, a decrease of \$912 m (41%) on the deficit in September 2014 as exports rose and imports dropped. Between September and October 2014, in seasonally adjusted terms, exports rose AUD 409 m (2%) to A\$26,904 m. Non-rural goods rose AUD 700 m (4%). Non-monetary gold fell AUD 204 m (13%), rural goods AUD 115 m (4%). Services credits rose AUD 35 m (1%). In seasonally adjusted terms, imports fell A\$503 m (2%) to A\$28,227 m. Intermediate and other merchandise goods fell AUD 371 m (4%), consumption goods fell AUD 95



Figure 2 Australia's Balance of Trade

Source: Australian Bureau of Statistics, 2014

m (1%), capital goods fell AUD 43 m (1%) and non-monetary gold fell AUD 34 m (9%). Services debits rose AUD 39 m (1%)<sup>3</sup>.

In 2012–13, the balance of trade recorded a deficit of AUD 17.9 billion, a rise of AUD 14.8 billion on the deficit of AUD 3.1 billion recorded in 2011. Australia's goods and services exports fell 4.5 per cent to AUD 301.5 billion in 2012–13. Export volumes grew 6.0 per cent while export prices fell 9.9 per cent. The growth in export volumes was led by *Minerals and fuels* exports. These exports grew by 9.8 per cent in 2012–13. *Minerals* export volumes grew by 10.2 per cent while *Fuels* export volumes grew by 7.6 per cent. *Rural* export volumes also grew 8.7 per cent in 2012–13. Exports of *Primary products* (which accounted for 61.3 per cent of total exports) fell 6.7 per cent to AUD 184.9 billion in value terms. The major falls were recorded in *Fuels* (down 11.3 per cent to AUD 67.0 billion), mainly due to a fall in commodity prices (partly offset by increasing export volumes) and *Minerals* (down 7.2 per cent to AUD 79.4 billion). Exports of *Unprocessed food* rose 9.9 per cent to AUD 15.2 billion. *Manufactures* exports fell 5.2 per cent to AUD 39.5 billion (due to a 9.0 per cent fall in STM exports) while other goods – mainly Gold and Confidential items of trade – decreased 6.2 per cent. Services exports rose 3.7 per cent to AUD 52.4 billion<sup>4</sup>.

### **Australia's top exports and new export commodities**

Australia's exports show considerable diversification. This is mainly due to the Australian government's efforts to promote new commodities in the foreign markets. Australia is expanding its export markets from primary commodities to new commodities. From various export commodities, Australia estimated to generate AUD 317.6 billion in revenue in 2013–14, rising as a percentage of GDP over the past decade. Bulk commodities such as iron ore, coal, gold and natural gas, crude petroleum, aluminum and copper have been Australia's biggest exports (See Table 2). Asia is Australia's most significant export market, accounting for the majority of exports. Australia's export landscape is evolving. The IBIS World has identified five new export commodities with high demand in the fast growing foreign markets. The top 5 new exports are food manufacturing, oil and gas extraction, beer manufacturing, education services and related travel services, and legal services.

The demand for Australian new export commodities is increasing fast from emerging markets and fast growing markets such as India, China, Malaysia and Indonesia, Bangladesh and Sri Lanka. Australia's high food standards and quality ingredients are the driving forces behind export growth in emerging markets. The demand for Australian process food and dairy products show a steady

---

3) ABS [anna@tradingeconomics.com](mailto:anna@tradingeconomics.com) 2014

4) ABS [anna@tradingeconomics.com](mailto:anna@tradingeconomics.com) 2014

growth from emerging markets. An emerging middle class and upper middle class in these countries changing their dietary habits such as consuming more meat, dairy, and Australian made wine. Growing middle class in the emerging markets has a direct impact on high demand for Australian process foods and dairy products. Habits Australia's high food standards and quality

Table 2 Australia's Top 25 Exports Goods and Services

Rank Commodity	2009–10	2010–11	2011–12	% growth	
				2010–11 to 2011–12	5 year trend growth
Total (b)	253,136	297,322	315,774	6.2	7.4
1 Iron ore & concentrates	35,075	58,396	62,703	7.4	33.6
2 Coal	36,447	43,853	47,912	9.3	16.3
3 Gold (b)	14,300	14,256	16,650	16.8	7.2
4 Education-related travel services	17,350	15,510	14,768	-4.8	5.6
5 Personal travel (excl education) services	12,114	11,928	12,007	0.7	0.6
6 Natural gas	7,789	10,286	11,962	16.3	17.3
7 Crude petroleum	8,955	11,090	11,176	0.8	7.1
8 Wheat	3,636	5,482	6,354	15.9	18.5
9 Copper ores & concentrates	4,529	5,130	5,371	4.7	7.2
10 Aluminium ores & conc (incl alumina)	5,042	5,281	5,277	-0.1	-3.9
11 Beef, f.c.f.	4,109	4,527	4,683	3.4	-1.0
12 Aluminium	4,129	4,693	4,141	-11.8	-7.4
13 Business travel services	2,808	3,276	3,898	19.0	8.3
14 Copper	2,513	3,978	3,689	-7.3	3.5
15 Medicaments (incl veterinary)	3,709	3,359	3,622	7.8	0.6
16 Professional services	3,109	3,117	3,576	14.7	1.4
17 Technical & other business services	3,277	3,714	3,337	-10.2	1.8
18 Refined petroleum	2,412	2,665	3,186	19.5	-2.1
19 Cotton	755	1,367	2,737	100.2	31.7
20 Wool & other animal hair (incl tops)	2,013	2,623	2,693	2.7	0.4
21 Passenger transport services (d)	2,610	2,714	2,615	-3.6	-9.1
22 Meat (excl beef), f.c.f.	2,157	2,325	2,362	1.6	2.9
23 Other transport services (c)	2,188	2,253	2,283	1.3	2.0
24 Alcoholic beverages	2,302	2,122	2,028	-4.4	-7.9
25 Telecom, computer & information services	1,743	1,713	1,640	-4.3	-3.0
-----					
Analytical industry series					
Education (e)	17,931	16,102	15,306	-4.9	5.7
Tourism (f)	22,686	23,681	nya	--	--

(a) Goods trade is on a recorded trade basis, Services trade is on a balance of payments basis. (b) Balance of payments basis. (c) Other transport services exports covers a range of services provided in Australian airports and ports, including Cargo & baggage handling services, *Agents fees associated with freight transportation and Airport & port charges*. (d) *Includes Related agency fees & commissions*. (e) *Education services Includes Education related travel services, Royalties on education services and Other education services*. (f) *Tourism is based on the ABS Tourism Satellite Account (TSA) and is only available on a financial year basis*.

Account (TSA) and is only available on financial year basis.

nya – not yet available

Based on ABS trade data on DFAT STARS database and ABS catalogue 5368.0 (Sep 2012).

Source: Australia Bureau of Statistics, 2012



ingredients are the driving forces behind export growth in emerging markets. IBIS World forecasts manufacturing sub-sectors – including baby food and dairy – to shine in the next five years. “Revenue for Australia’s baby food manufacturing industry is forecast to grow by 2.9% per year over the next five years to reach AUD 6.7 billion, while revenue for dairy product manufacturers is forecast to grow by 2.1% to reach AUD 2.8 billion. Exports are playing a key role in driving growth in both of these sectors. Baby food exports are anticipated to rise by 6.5% per year to AUD 2.5 billion by 2018–19, while dairy product exports are expected to rise by 5.2% per year, with milk powder and cheese exports performing particularly well. Key markets driving growth include China and India, which are exhibiting growing demand for a greater variety of high-quality products. Population growth and increasing wealth in the growing middle classes of Asian trading partners has made these products more accessible to a wider market.

Growing global demand and higher prices for gas in the world market are major factors behind the capital investment in the oil and gas extraction industry in Australia, which is supporting rising output.

On the other hand, Australian beer manufacturers will place an increased focus on new export markets in the Asia-Pacific region over the coming five years, as domestic consumption of traditional beer products – such as VB and Carlton – continues to fall as Australians opt for alternative beverages such as craft beer, cider and wine. The education and training sector in Australia has grown at 2.6% per year over the past decade and there has been a steady increase in demand for postgraduate courses following the global financial crisis, as workers upskilled to boost job security and future employment prospects

While the past five years (2008–2013) have been difficult for the legal services industry, as a result of cost-cutting measures and fiscal conservatism post-global financial crisis, exports as a share of revenue are forecast to rise. This year, the industry will post revenue of AUD 20.7 billion and is expected to expand at an annualized 2.9% to reach AUD 23.9 billion by 2018–19.

### **Australia’s export destinations**

For many years, Britain and other European countries were Australia’s major trading partners, with its purchase of Australian farm products and supplies to Australia of consumer goods. Britain’s trade with Australia has declined since the 1960s, so that it now ranks 12th behind Australia’s top 20 trading partners, which are China, Japan, South Korea, United States of America, India, Singapore, New Zealand, Taiwan, Malaysia, Indonesia, and Thailand (Table 3). Australia still exports primary products such as minerals, wheat and fruit to Britain and other western European countries despite the decline in trade. However, China has become Australia’s largest trading partner with its importing of Australian wool and minerals such as coal and iron ore. In addition to

Table 3 Australia's top 30 export destinations (2014)

Country of final destination	Goods exported	
	Sm	%
China	100,807.3	36.7
Japan	48,463.5	17.7
Korea, Republic of	20,478.4	7.5
United States of America	10,067.3	3.7
India	8,350.8	3.0
New Zealand	7,544.8	2.7
Singapore	7,395.8	2.7
Taiwan	7,186.4	2.6
Malaysia	5,377.6	2.0
Indonesia	4,901.0	1.8
Thailand	4,727.1	1.7
United Kingdom	3,588.3	1.3
Hong Kong (SAR of China)	2,766.0	1.0
Vietnam	2,728.2	1.0
United Arab Emirates	2,721.4	1.0
Papua New Guinea	2,397.8	0.9
Saudi Arabia	2,229.8	0.8
Netherlands	1,982.9	0.7
Germany	1,800.3	0.7
Philippines	1,478.6	0.5
South Africa	1,233.3	0.4
Canada	1,225.0	0.4
France	1,182.8	0.4
Belgium	1,087.5	0.4
Switzerland	830.7	0.3
Brazil	771.8	0.3
Russian Federation	714.6	0.3
Turkey	709.1	0.3
Bahrain	706.9	0.3
Italy	665.6	0.2
Total top 30	256,120.7	93.3
Other	18,404.8	6.7
Total	274,525.5	100.0

p = preliminary (as at June 2014 release)

Source: Australia Bureau of Statistics (Unpublished data, 2014)

Table 1, Table 3 shows how Australia has expanded its export destinations in 2014. The 30 leading trading partners of Australia represent 93.3 per cent of Australian exports. It is interesting to note that many Asian countries are major export destinations for Australian commodities.

Since the 1970s, Australia's international trade has shifted towards Asia and Pacific countries. When Great Britain joined what is now known as the European Union in the 1970s, Australia lost many trading advantages with that country and sought new markets closer to home. Now, as shown in Table 2, Australia's main export destinations are China, Japan and Republic of Korea. Also as shown in the Table 2, Australia has strong export relations with many Asian

countries including India, Singapore, Taiwan, Indonesia, Thailand, Hong Kong and Vietnam.

Several factors influenced to Australia's change of export destinations. First, the increasing demand for various Australian commodities from fast developing Asian countries. Demand for Australian commodities from countries like China, India, ASEAN, Bangladesh and Sri Lanka show drastic increase. On the other hand, China, Japan and South Korea have established strong long-term trade relations with Australia. Second, as a part of export strategy, Australia has focused to new trade relations including free trade agreements with fast growing economies. The aim of this trade strategy is to maintain stable export market for Australian commodities. And, third, in the recent past Australia has established strong diplomatic and trade relations with fast growing economies in Asia and African countries. Australia's strong diplomatic relations with new economies has a strong impact on expansion of Australian export trade.

### **Australia's Free Trade**

Free trade is a major concept of globalization today. Both developed and developing countries now change their international trade policy from trade restrictions to free trade. Economists define free trade in many ways. The most common definition for free trade is unrestricted purchase and sale of goods and services between countries without the imposition of trade barriers such as high tariffs, custom duties and quotas. Free trade is a win-win proposition because it enables countries to focus on their core competitive advantage(s), thereby maximizing economic output and fostering income growth for their people. Formerly socialist economies such as China and India have expanded at much faster growth rates since they adopted free trade principles in the 1980s and 1990s, respectively.

With the rapid globalization of world economies, free trade has become an essential component of the international trade. Free trade and free trade agreements enables countries to concentrate their efforts on manufacturing products or providing services where they have a distinct comparative advantage, according to the theory first espoused by economist David Ricardo two centuries ago. A free trade policy should enable a nation to generate enough foreign exchange to purchase the products or services that it does not produce locally. The process works best when there are few if any barriers to entry for such imports. The imposition of artificial trade restrictions such as tariffs on imports or the provision of subsidies to exports will introduce distortions and impede free trade.

Australia's free trade policy has a great impact on its international trade and macro-economic development. Presently Australia has a number of Free Trade Agreements including ASEAN-Australia-New Zealand FTA, Australia-Chile FTA, Australia-USA, FTA, Korea-Australia FTA, Malaysia-Australia FTA, Singapore-Australia FTA, and Thailand-Australia FTA. In addition,

Australia signed a free trade agreement with Japan and China-Australia FTA is also concluded. FTA, Free trade agreement is a treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market) capital or labor may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries.

The following part of this paper will investigate Australia's two recently concluded free trade agreements namely, the Korea-Australia free trade agreement and China-Australia free trade agreement and their trade benefits to Australia.

### **Korea-Australia Free Trade Agreement**

Australia respects to free trade policy. Australia and South Korea signed a free trade agreement in 2014. The Korea-Australia free trade agreement expanding new trade opportunities in Australia's third largest export market. Small and medium businesses in Australia are encouraged to explore new export opportunities in the fast growing South Korean consumer market by the Korea-Australia Free Trade Agreement (KAFTA).

The KAFTA enhances the competitive position of Australia's businesses in South Korea. Australian exporters gain significantly improved market access in goods, with tariff elimination on nearly all Australia's current exports by value by full implementation of the Agreement. Under KAFTA, Australian services providers receive the best treatment Korea has agreed with any trade partner. Investment commitments in the Agreement protect and enhance investment in both directions. The Korea-Australia free trade agreement provides benefits to a wide range of small and medium business enterprises. According to this agreement, 85% of Australia's merchandise exports to South Korea by value enter duty free, rising to 99.8% when the agreement is fully implemented. The tariff outcomes for small to medium agricultural enterprises for example are substantial; tariff cuts on commodities including beef, dairy, sugar, cherries, oranges, wheat and wine will benefit existing export businesses, and hopefully encourage more producers and manufacturers to seek-out opportunities in international markets. The Agreement would also enhance the competitiveness of Australian small and medium size manufacturers, including parts and component producers in Australia. South Korea is for example a major market for Australian automotive parts and components, such as gear boxes, engines and other items, and from today Korea's 8 per cent tariff will be eliminated. The elimination of tariffs on Australian parts and components will enhance the competitiveness of Australian high end manufacturers and open up new opportunities in the South Korean market. Tariff cuts provide a significant boost for Australian exporters at a time when Australian goods and services are in high demand. Further, a variety of service providers will

benefit from the Agreement, with new access for legal, accounting and telecommunications services. The services outcomes in KAFTA will allow Australian SMEs to better access the Korean market engage with millions of potential new customers and deploy their world-leading expertise.

On the other hand, under the KAFTA, Australia has committed to eliminating its remaining tariffs on imports from Korea.<sup>7</sup> Lower tariffs mean cheaper business inputs, supporting competitiveness and profitability for Australian small businesses and family enterprises. “Investment outcomes in KAFTA will also strengthen the ability of Australian businesses – large and small – to attract greater investment from Korea. KAFTA, together with Australian free trade



Figure 3 Australia's trade and investment with Korea

Source: Korea-Australia Free-Trade Agreement, Australian Government Department of Foreign Affairs and Trade, 2014

agreement with Japan and China, helps create an economic environment in which businesses can prosper.?

Figure 3 shows Australia's trade and investment with Korea in 2012–13. As shown in Figure 3, Australia's top 5 imports from Korea in 2012–13 are: refined petroleum (\$2.93 b), passenger motor vehicles (\$2.04 b), heating and cooling equipment and parts (\$355 m), Pumps (excluding liquid pumps) and parts (\$257 m) and telecom equipment and parts (\$246 m). On the other hand, Australia-Korea trade volume in 2012–13 is exports: \$20.79 b, total imports \$9.67 b and total two-way trade is \$30.46 b. Australia's total exports to Korea in 2012–13 are: Coal: \$5.09 b, Iron ore \$4.93 b, Crude petroleum \$1.53 b, education-related travel service: \$707 m and Beef: \$703 m.

### **China-Australia Free Trade Agreement**

Australia's free trade policy strengthens its foreign trade. In 2014, Australia and China signed a free trade agreement. According to export statistics released by Department of Foreign Affairs and Trade, in 2013, China is Australia's largest export market for both goods and services, accounting for nearly a third of total exports, and a growing source of foreign investment. This agreement gives Australian exporters to wider access and benefits to the lucrative Chinese market. As a result of this agreement, about 85% of Australian exports into China will not incur tariffs, including dairy, beef, leather, mineral commodities and horticulture.

Australia gains a number of trade benefits from this agreement. This agreement will add billions of export revenue to the Australian economy create more new jobs and drive higher living standards for Australians. Australian businesses will have unprecedented access to the world's second largest economy. It greatly enhances our competitive position in key areas such as agriculture, resources and energy, manufacturing exports, services and investment. More than 85 per cent of Australian goods exports to China will be tariff free upon entry into force, rising to 93 per cent in four years. Some of these goods are currently subject to tariffs of up to 40 per cent. On full implementation of this agreement, 95 per cent of Australian goods exports to China will be tariff free.

China will abolish tariffs for Australia's livestock industry. As a result of elimination of tariffs, Australia's dairy, beef and sheep farmers will also gain the competitive advantage in the Chinese market. Tariffs on Australian wine of 14 to 30 per cent will go within four years, while restrictive tariffs on a wide range of seafood will also cease within four years. Tariffs will also be removed on a range of Australian resources and energy products, including 8% cent tariff on aluminum oxide. Further, as a result of this trade agreement, tariffs will be also eliminated on a number of manufactured goods in Australia, including pharmaceutical products and car spare parts. Australia has secured the best ever market access provided to a foreign country by China on

services, with enormous scope to build on an export market already worth seven billion. Legal services, financial services, education, telecommunications, tourism and travel, construction and engineering, health and aged care services, mining and extractive industries, manufacturing services, architecture and urban planning, and transport are other sectors benefitted from this trade agreement. With a view to maximizing the benefits of the FTA for business, Australia and China have also agreed to review their bilateral taxation arrangements, including relief from double taxation.

## **Conclusions and Final Remarks**

Australia's major export destinations are fast changing. Globalization of world economies, new trade links with fast growing economies, the reduction or elimination of trade barriers, and free trade agreements with developing countries, have largely contributed to Australia becoming more open to the global trade. Australia trades with over 220 countries, although the 10 largest export destinations by value account for about two-thirds of the total. Some 20 years ago United Kingdom, United States and New Zealand were leading export destinations for Australia's major commodities. Now this trend is fast changing. Asia has become the leading trading partner for Australia. In the past couple of years, Australia has strengthened its trade relations with China, Japan, South Korea and India. This trend is expected to change with the rise of emerging markets such as Bangladesh, Pakistan Indonesia and Malaysia. For Australia, these markets are potential markets for its traditional export commodities and new market commodities.

Australian economy is mainly depends on mineral resources exports. However, in the recent past, Australia introduced a number of new commodities to the export market. Also a number of new industries have entered to the export trade. This includes food manufacturing, baby food, beer and education. In the future these new sectors and sub-sectors expected to play a key role in the Australia's export trade. China and Indian market will become major export destinations for these products as a result of growing middle class in these two countries.

On the other hand, Australia's free trade policy has a major impact on growth of the Australian economy. Australia has signed a number of new free trade agreements with South Korea and China to increase the export trade volumes to these two countries. Free trade agreement with South Korea will boost the trade with Korea and Korea will get new trade opportunities and free access to the Australian market. Also Australia's free trade agreement with China will get new trade opportunities and competitive advantage in the Chinese market for Australia commodities.

### References

- Australia's International Business Survey 2014 AIBS Industry Report (AUSTRADE)
- Australia's International Business Survey 2014 – Elaborate Manufacturing (AUSTRADE)
- Australia's International Business Survey 2014 – Mining equipment, technology and services (AUSTRADE)
- Australia's International Business Survey 2014 – Professional Services and Consulting (AUSTRADE)
- Australia's International Business Survey 2014 – Software, media and ICT. (AUSTRADE)
- Australia's International Business Survey 2014 – Food Manufacturing (AUSTRADE)
- Australia's International Business Survey 2014 – China (AUSTRADE)
- Business Opportunities and the Korea-Australia Free Trade Agreement Presentation, 2014, (AUSTRADE)
- China market summary, 2014 (AUSTRADE)
- Economic Engagement in Australia's Development, Diplomatic and Trade Portfolios: Department of Foreign Affairs and Trade (AUSTRADE 2014)
- Republic of Korea Market Overview, 2014 (AUSTRADE)
- The APEC region trade and investment 2014
- Trade in services Australia 2013
- Trade in services Australia 2012–13, March 2014:
- Trade in Primary and Manufactured Products Australia 2012–13, December 2013:
- Trade at a Glance 2013, December 2013:
- Trade in primary and manufactured products 2012, June 2013
- Australia in Brief, October 2014
- Australia's trade with East Asia Final issue, October 2014.
- Australia's trade and investment with the G20 [PDF 1.13 MB] August 2014
- Australia's trade and investment with the G20, 2013, December 2013
- Close-Up: Celebrating 40 years of Australian aid, December 2014
- Composition of Trade Australia 2013–14 December 2014
- Composition of Trade 2013, July 2014
- Composition of Trade 2012–13, December 2013
- Composition of Trade Australia 2012, June 2013
- International Investment Australia, October 2014
- Monthly Trade Data – October 2014 [PDF 85 KB] December 2014
- The APEC region trade and investment 2014, October 2014
- Trade in services Australia 2013 August 2014
- Trade in services Australia 2012–13, March 2014:
- Trade in Primary and Manufactured Products Australia 2012–13, December 2013:
- Trade at a Glance 2013, December 2013:
- Trade in primary and manufactured products 2012, June 2013