



2. Australia/United States trade and investment

Introduction

The United States plays a major role in the Australian economy. The trade and investment relationship with the US is more dynamic than with any other major trading partner. Trade and investment have grown faster with the US in the last five years than with any other country.

The US market accounts for around 11 per cent of total Australian exports and is the source of one fifth of Australia's imports. The US supplies one third of all foreign investment. It is the largest single country source. Australia is host to about 4 per cent of US foreign investment, similar to the share of US investment in Mexico and Japan.

Trade and investment between Australia and the US has accelerated in recent years. Australian exports have experienced strong growth to the US, particularly in elaborately transformed manufactures and wine exports. Over the past five years, merchandise exports to the US grew by more than exports to any other major trading partner. The US also remains the single most important partner for trade in services, making up almost two thirds of Australia's services trade. As with goods, services trade with the US has grown more rapidly than with other major trading partners in recent years.

Foreign investment from the US has been growing at an annual rate of 25 per cent, compared to 17 per cent for investment from all sources over the last five years. The United States is now host to over 50 per cent of Australia's overseas investment abroad, having surpassed the UK to become the largest destination for Australian foreign direct investment in 1998.

Australia ranks eighth among foreign owners of US assets and eleventh among destinations for US foreign investment.

Australia, being only 4 per cent the size of the US economy is less important to the US as a trading partner. United States exports to Australia account for just 1.6 per cent of total United States exports and Australia is the source of only 0.7 per cent of United States imports.

The importance of the United States in Australian trade

Japan and the United States vie to be Australia's largest country trading partner. In 1999–2000, total trade of each with Australia was around \$32 billion. Japan is Australia's largest single export market, accounting for 19.3 per cent in 1999–2000 (the US is the second largest market, with 9.8 per cent). The US is the largest single source of imports, accounting in the same year for 20 per cent, Japan accounting for 12.8 per cent).

There are significant differences in the growth and composition of trade. Since the Asian currency crisis, Australian exports to the US have grown faster than with any other major trading partner. In contrast, export growth to Japan has lagged average export growth, reflecting the poor growth in the Japanese economy.

Within the composition of trade for 1999–2000, exports to Japan were dominated by primary products. Seventy per cent of exports were primary products and 4.3 per cent were elaborately transformed manufactures (ETMs). In the case of the US, 57 per cent were primary products and 24 per cent were ETMs. Over the last decade and a half, ETMs have on average been Australia's fastest growing export sector. The US is the largest single market (19 per cent) for Australia's ETM exports.

The US is also the single most important trading partner for trade in services, making up almost two thirds of Australia's services trade.

A more complete analysis of Australia's international trade and the relative place of the United States in it is set out in Annex 2.

Merchandise Trade between Australia and the United States

Table 2.1 Total trade between Australia and the United States

Financial year, million A\$

	1984–85	1989–90	1994–95	1999–00
Exports	3458	5426	4643	9577
Imports	6426	12373	16044	23003
Trade balance	-2968	-6947	-11401	-13426

Source: Australian Bureau of Statistics

Australia has a trade deficit with the US. Exports to the US in 1999–2000 were \$9.6 billion and accounted for a little under 10 per cent of Australia’s total exports. Imports from the US were 21 per cent of the total at \$23 billion. The US economy has similarities with that of Australia, both countries are efficient agricultural producers and major mineral producers and exporters. Total trade is shown above at Table 2.1 and growth below at Table 2.2.

Table 2.2 Growth in trade between Australia and the United States

Financial year, percentage growth

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Export growth	6.49%	-9.66%	-5.36%	2.73%	-8.51%	-0.52%	19.64%	41.04%	2.44%	19.95%
Import growth	-7.26%	2.34%	10.74%	7.79%	14.46%	9.36%	0.55%	12.42%	5.34%	10.10%

Source: Australian Bureau of Statistics

Between 1984 and 1990, the US share of Australian exports ranged between 10.5 per cent and 11.4 per cent. In 1984, exports to the US were \$3 billion. Primary products accounted for 84 per cent of exports and manufacturing 16 per cent. By 1990, exports had almost doubled to over \$5.8 billion. Primary products were just over \$4 billion (72 per cent) and manufacturing comprised approximately \$1.6 billion (28 per cent). Exports of ETMs more than tripled their 1984 levels.

Within the five years between 1990 and 1995, exports to the US fell considerably, with primary products experiencing negative trend growth. This was primarily due to a fall in the exports of three primary products – meat, crude oil and alumina – due to restricted access to the US market and the development of other markets outside the US.¹ Over the five year period, exports of ETMs increased by 22 per cent. The US share of Australian exports fell to 6.9 per cent.

In recent years, Australian exports to the US have been rising steadily. In calendar 2000, exports to the US were over \$10 billion and comprised nearly 10 per cent of all Australian exports. Primary products recovered from their 1995 levels. The value of crude oil exports increased substantially due to favourable oil prices and wine exports increased considerably. Although imports remain in excess of exports, export growth has tended to be faster than import growth. ETMs grew over 134 per cent above 1995 levels. Primary products accounted for 55 per cent of exports and ETMs accounted for 35.5 per cent.

¹ Department of Foreign Affairs and Trade, *Australia – United States Trade and Investment Review*, 1996, p55.

The overall trend in the US import share has been relatively stable at 20–23 per cent of the total. In the case of imports, the variety of US outputs means no one sector of manufactured goods dominates. Aircraft and parts, telecommunications equipment, computers and measuring and controlling instruments and car engines are the most important items. But together these account for only 30 per cent of the total.

The aggregate export and import trends disguise some major trade shifts. They are discussed in greater detail at Annex 2.

Australia's Services Trade with the US

Trade with the US for both goods and services grew much faster than the average. One reason for this is undoubtedly the fact that US trade in total grew rapidly in the period and we took our share of the growth in world demand generated by this. The US remains a major net exporter of services to Australia. In 1999–2000, compared to services exports of \$4.6 billion, Australia's imports were \$6.4 billion. Table 2.3 below gives a breakdown of our trade in services with the US since 1996–1997.

Table 2.3 Australia's Trade in Services with the US

\$million

		1996/97	1997/98	1998/99	1999/00	% change*
All Services	Exports	3220	4097	4394	4588	42
	Imports	4949	5521	5662	6248	26
Transport	Exports	617	671	654	722	17
	Imports	1069	1273	1065	1244	16
Travel	Exports	809	981	1136	1287	59
	Imports	1307	1355	1317	1578	21
Communications	Exports	257	376	223	288	12
	Imports	117	153	160	348	197
Insurance/Financial	Exports	511	577	584	555	9
	Imports	333	503	467	479	44
Computer/Information	Exports	100	336	449	442	342
	Imports	133	142	169	167	26
Royalties/Licences	Exports	177	290	263	330	86
	Imports	769	856	983	1036	35
Other business	Exports	576	704	855	815	41
	Imports	656	708	779	731	11
Other	Exports	173	162	230	149	-14
	Imports	565	531	722	665	18

*1999/00 over 1996/97

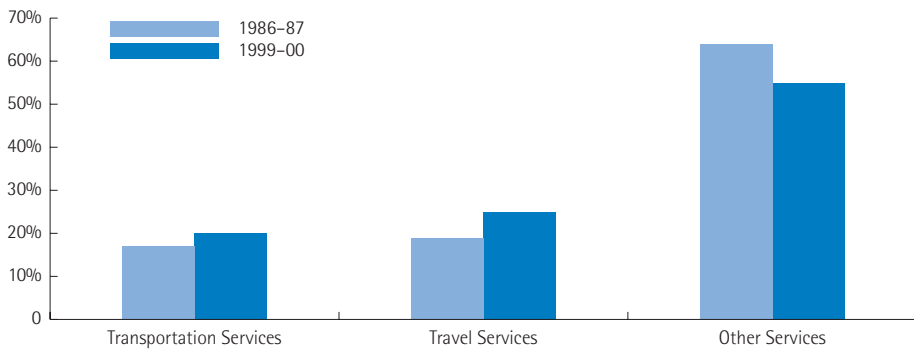
Source: Department of Foreign Affairs and Trade

During this period both exports and imports of services with the US have grown strongly, focused on transport and travel. Trade in services with the US has been characterised by a commensurately greater proportion of services trade in finance, computer/information services and other business services compared with services trade as a whole.

Over a longer time frame of a dozen or so years, the nature of service trade has changed. Travel and transportation have smaller shares (due to relatively lower prices) and there has been a growth in the “Other services” category. This is discussed in detail at Annex 2.

By contrast to the trends in services exports, travel and transportation have tended to show an increasing share of Australian services spending in the US. Figure 2.1 illustrates this.

Figure 2.1 Share of Selected Services in Australian Imports of US Services



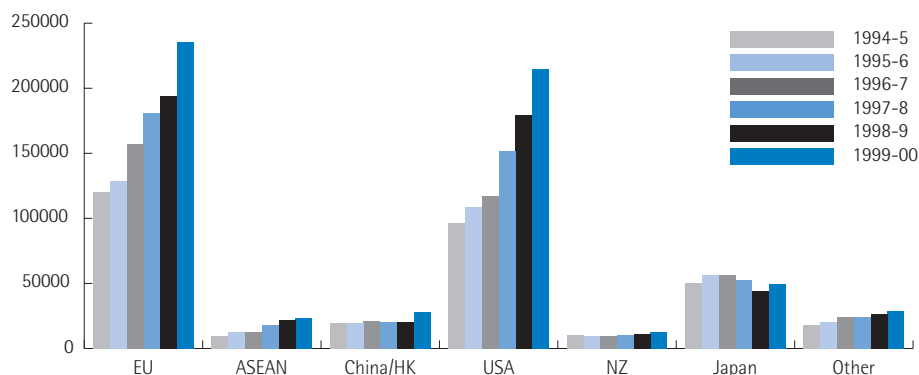
Source: Australian Bureau of Statistics, Cat 5363, various issues

US Investment in Australia

According to ABS data, investors in the USA presently account for over one third of Australia’s investment inflow. It is the largest single country source of investment in Australia. The total value of US investment in Australia amounted to \$215 billion in 1999-2000. As Figure 2.2 below illustrates, foreign investment from the USA is slightly below that from the EU aggregated with these two sources dwarfing all others.

Over the past five years, the value of total foreign investment has increased at an average annual rate of 17 per cent. Investment from the US has increased at an average rate of 25 per cent. Australia is a significant venue for US investment. It accounted for about 4 per cent of the total stock of US Foreign Direct Investment abroad in 1999, a share similar to that of NAFTA partner, Mexico, and comparable to that of much bigger economies like Japan and France.

Figure 2.2 Foreign Investment Levels in Australia



Source: Australian Bureau of Statistics, Cat 5363

US Investment in Australian Privatised Businesses

The privatisation of government owned assets in Australia was a major policy feature during the second half of the 1990s. US businesses tend to have been the most important foreign investors, buying 28 per cent of the assets by value. It is in the energy sector that the US buyers have dominated. US buyers took major shares in the Victorian distribution and transmission privatisations. Four of the five Victorian electricity and two of the three gas distribution businesses were bought by US energy companies; several of the electricity businesses have since had ownership changes. US firms have also been active in buying gas pipelines in other states and have bought and constructed power stations in Victoria, Western Australia and Queensland.

These developments have led to a new wave of US businesses actively involved in Australia. In addition to the traditional heavyweights like Ford, General Motors, General Electric, IBM, Kellogg's, Exxon etc., we now have firms like Duke Energy, EPIC, Mission, Texas Utilities, AES, Utilicorp, and AEP as major US investors.

In addition to these major energy investors, the privatisations have brought US firms like RailAmerica, and Genesee & Wyoming into Australia.

Investment in Agrifood businesses

Agriculture and food processing is a notable and expanding sector for US investment in Australia, reflecting in part Australia's growing importance as a food exporter to Asia. Those corporations range from long established major US agrifood corporations such as Cargill, Kraft Foods and Coca-Cola, right through to much smaller family-owned US agrifood companies such as JM Smucker Company and the OSI Group. Some, like Kraft Foods, Kellogg Co and HJ Heinz, have been active in Australia for well

over half a century; while others have arrived only recently, such as ConAgra, Archer Daniels Midland and Chiquita.

Australian Investment in the United States

According to the US data, Australia ranks eighth among foreign owners of US assets.² About 1.7 per cent of foreign owned assets in the US are ultimately owned by Australian companies, which together employed around 84,000 workers in 1998.

When analysed as a cumulative stock of foreign direct investment³, Australian direct investment in the US totalled \$US13 billion in 1999, the eleventh largest source of foreign investment to the United States. This comprised a little over 1.5 per cent of the total stock of foreign direct investment. Australian Bureau of Statistics data, which use a more accurate assessment of the market value of assets, put the June 2000 level of Australian direct investment in the US at \$89 billion (\$US46 billion), a fivefold increase since 1995.⁴ This made the US easily the most important destination for direct Australian investment abroad, accounting for 51 per cent of the total. When portfolio investment to the US of \$43 billion is included, we find the US accounting for 2 per cent of Australia's total foreign investment.

In 1998, there were 134 companies in the US ultimately owned by Australian interests, most having multiple operations. Their total value was around \$US59 billion (\$96 billion). This compares with the 2000–2001 Australian 'all ords' market capitalisation of \$653 billion.

Australian owned companies are prominent in broadcasting, building materials manufacture, mining, steel manufacturing and real estate. Australian owned firms have shown an increased presence more recently in information technology and wine.

Prominent investments include many of Australia's largest companies in all sectors – resources, agriculture, manufacturing and services. A list of leading Australian investors in the US is included in Box 2.1 below.

2 US Department of Commerce: Bureau of Economic Analysis, *Foreign Direct Investment in the US: operations of US affiliates of foreign companies*, (1998). This survey of all US companies with more than 10 per cent foreign ownership represents the most accurate picture of Australia's investment interests in the US. Its key advantage over Balance of Payments data is that it identifies the ultimate owner of the investment rather than the first non-US owner. The first seven countries on the list of foreign owned assets in the US are the UK, Japan, the Netherlands, Germany, Canada and Switzerland, which together account for around 80 per cent of the total.

3 Bargas, S.E., *Direct Investment Positions for 1999*, Survey of Current Business, July 2000, Bureau of Economic Affairs.

4 Australian Bureau of Statistics, *Balance of Payments and International Investment*, Cat. 5363.0 1990–2000. The equivalent US Bureau of Economic Affairs data use historical cost valuations of the original investment flows. This can be misleading when trying to assess the level of activity: the investment flows are valued at market prices and large capital flows may not necessarily be reflected in increases in the measured investment position.

Box 2.1 Leading Australian investors in the United States

- **News Corporation**, although nowadays having a predominantly non-Australian share register, is one of the world's largest media companies. News Corporation's diversified global operations cut across all facets of publishing and broadcasting.
- **Lend Lease**, through Lend Lease Real Estate Investments, manages around \$US41 billion worth of real estate in the U.S. primarily in shopping centres and office space.
- **Westfield** is a major player in the U.S. shopping centre market, with interests in 40 major retail centres branded nationwide as 'Westfield Shoppingtowns' across 9 states.
- **BHP Billiton** has major U.S. interests in petroleum exploration and production and thermal coal mining. BHP Petroleum is a highly successful leader in exploration for offshore petroleum in the Gulf of Mexico,
- **CSR** is one of the largest construction materials companies in North America through its U.S. subsidiary, which operates at more than 250 sites across 30 states and employing more than 9000 people.
- **Orica North American Explosives** offers a comprehensive distribution network of explosives systems, services and products through 32 sites across the U.S.
- **Ansell**, which remains 80 per cent owned by Pacific Dunlop, makes more than 50 per cent of global sales in the U.S. market.
- **PBR Automotive**, a division of **Pacifica**, is a major supplier of brake components to the U.S. market through its plants in Columbia, South Carolina, and Knoxville, Tennessee.
- **Pasminco** operates two underground zinc mines at Gordonville and Clinch Valley in Tennessee and an electrolytic zinc plant in Clarksville, Tennessee
- **Tower Software's** US operation, based in the Washington D.C. area, is focused on support for its widely used TRIM Captura electronic document and records management software solution.

Box 2.1 continued

- **Southcorp** is a major player in the U.S. wine market, not only through its exports from Australia, but also through its Californian wine operation, Seven Peaks.
- **LookSmart**, founded by an Australian couple, is a major search engine for the Internet, employing more than 500 people in the U.S..
- **Simsmetal America** operates public Recycling Centres and scrap processing facilities and mill services in 13 locations in California, Virginia and Illinois.
- **James Hardie** is the largest manufacturer of fibre cement products for use in residential construction and is a leading company in the U.S. siding market. It also has a large gypsum wallboard operation.
- **Wattyl** generates around one quarter of total sales revenue from its U.S. operations, which includes a production plant in Baltimore.
- **Western Mining Corporation** owns 40 per cent of Alcoa World Alumina and Chemicals (AWAC), the world's largest alumina producer.
- **Fosters**, through Beringer Blass, manages six Californian wineries, an investment worth around \$2 billion.
- **Pratt Industries** has major operations throughout the Eastern USA, covering all aspects of corrugated packaging production, with headquarters in Georgia.
- **QBE** provides general insurance and reinsurance services in most states, employing 70 people, with headquarters for the Americas in New York.
- **Village Roadshow's** production division, based in Los Angeles has as production partnership with Warner Bros. Its most successful movie to date has been *The Matrix*, one of the 25 highest grossing films of all time.
- **Austal**, the fast-ferry maker from Perth, has a joint venture with a US shipbuilding company in Mobile Alabama expected to be employing 1000 people within 5 years.

Conclusion

The trade and investment relationship between Australia and the United States reflects the similarities between the economies and the general openness of each economy. The US has been a market for Australian agricultural and minerals products for many years, although some agricultural industries face trade restrictions. The economic relationship, already strong, is growing. This reflects the new global competitiveness of the Australian economy, particularly in the manufacturing and services sectors.

Australian investment in the United States has risen significantly, reflecting competitiveness in particular in Australian services industries. The Australian services sector is by and large globally competitive and many large companies have established in the US market because market growth is no longer available in the smaller Australian market. Services sectors are generally undeveloped in Asia. There is also expansion into services markets in Europe, but the expansion appears to be greater in the United States.