



## Fifty years of Australia's trade

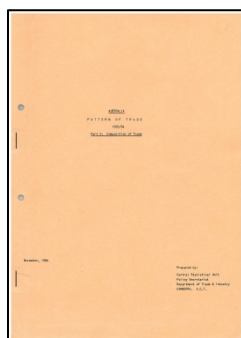
### Introduction

This edition of Australia's Composition of Trade marks the publication's 50th anniversary. In recognition of this milestone, this article analyses changes in the composition of Australia's trade from the inaugural 1963-64 edition to today. It explores the overall trends and growth of import and export trade, the shifts in the countries we trade with and the commodities we trade.

### Australia's Composition of Trade publication

When the first Composition of Trade was released by the Department of Trade and Industry in 1964, trade constituted 28.7 per cent of Australia's Gross Domestic Product (GDP) with two-way goods and services trade at \$6.1 billion<sup>1</sup>. Trade now constitutes 42.3 per cent of GDP and two-way trade has increased to \$669.2 billion<sup>2</sup>.

The first Composition of Trade publication was a 21 page, single sided booklet with basic content, covering merchandise trade and direction of trade for exports. Today, the Department of Foreign Affairs and Trade publishes a suite of products and time series data on a financial year and calendar year basis. The data published includes: Australia's two-way goods and services trade by commodity; breakdowns by country and country groups; Australia's rank in world trade; commodity forecasts and more. The data can be found on the [Trade and economic statistics](https://www.dfat.gov.au/trade/trade-and-economic-statistics.html) page on the DFAT website (<https://www.dfat.gov.au/trade/trade-and-economic-statistics.html>).



Financial year 1963-64  
"Pattern of Trade  
Part 2 – Composition of Trade"



Financial year 2013-14  
"Composition of Trade"

<sup>1</sup> In 1963-64 prices (Australian pounds have been converted to dollars at 1:2 ratio).

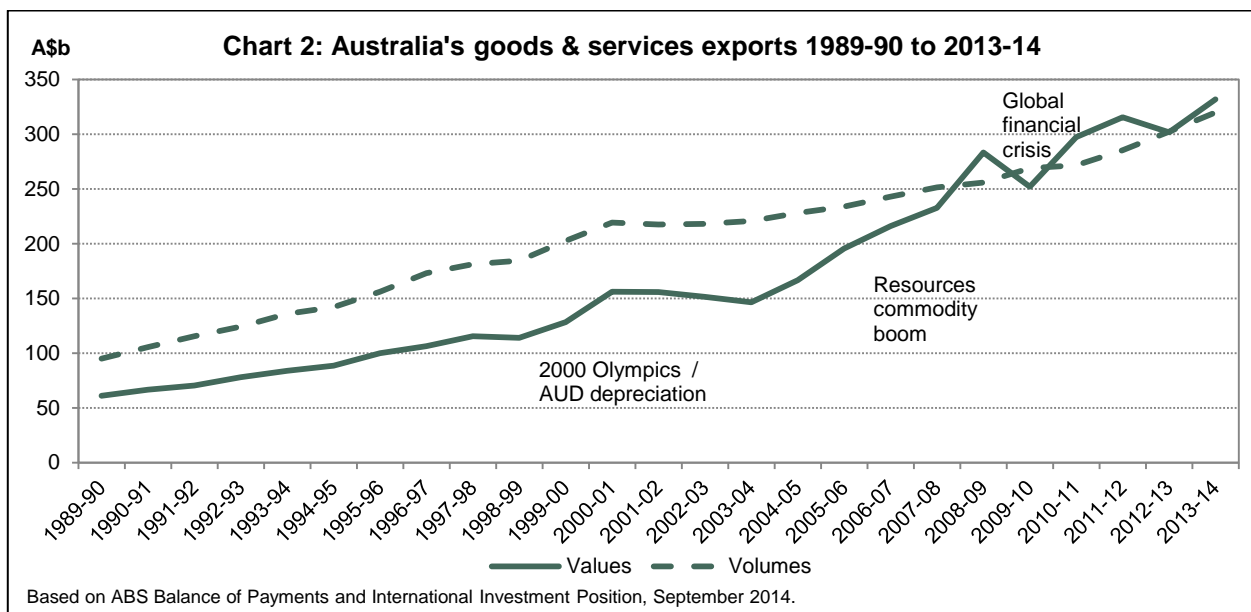
<sup>2</sup> In 2013-14 prices.

## Overall export trends

In the fifty years from 1963-64 to 2013-14, Australia's exports of goods and services grew from \$3.2 billion to \$331.2 billion in value terms, representing an annual average growth of 10.5 per cent (5.5 per cent in volume terms).

Through the 1960s, export growth was driven by the post war commodities boom and a reduction of trade barriers following four post-war General Agreement on Tariffs and Trade<sup>3</sup> negotiating rounds. Export growth averaged 7.6 per cent per annum in value terms (6.4 per cent in volume terms).

In the 1970s, export growth was particularly strong in value terms (averaging 16.6 per cent per annum) due to high global inflation brought on, in part, by the 1973 oil crisis. At the same time, competition in Australia's traditional export markets (as the United Kingdom increased trade ties with Europe) slowed volume growth to an average of 4.3 per cent per annum.



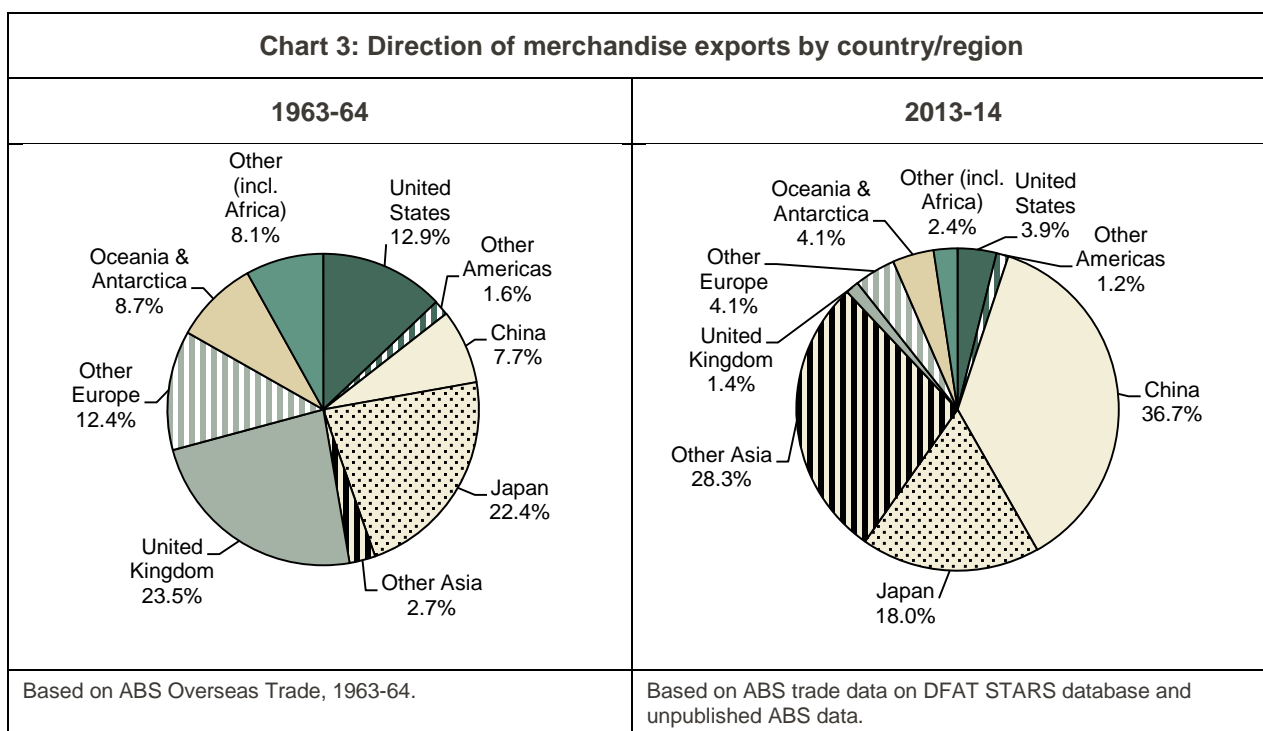
<sup>3</sup> General Agreement on Tariffs and Trade members became the founders of the World Trade Organization in 1995.

Economic deregulation during the 1980s and 1990s opened Australia's economy to the world and combined with new investment and global demand, contributed to strong export growth that continued over the next two decades. Growth through the period averaged 9.8 per cent per annum in value terms and volume growth recovered to 7.1 per cent per annum. Export growth spiked in the early 2000s due to depreciation of the Australian dollar and the 2000 Sydney Olympic Games.

From 2003-04 increased commodity prices with the resource commodity boom resulted in average annual value growth of 8.1 per cent in the ten years since (3.4 per cent in volume terms), a strong growth rate even through the global financial crisis.

### The direction of merchandise exports

In 1963-64, the United Kingdom was Australia's largest merchandise export destination<sup>4</sup>. At the time however, the United Kingdom was enhancing their trade relationships with their neighbours in Europe (having joined the European Free Trade Association in 1960), whilst Australia was enhancing ties with Asia. In 1966-67, Japan became our leading merchandise export destination and remained so until overtaken by China in 2009-10. By 2013-14, Asia accounted for 83.0 per cent of Australia's merchandise exports, up from just 32.8 per cent in 1963-64 (see **Chart 3**).



### The composition of exports

The commodities Australia exports have also changed significantly. In 1963-64 and through to the early 1980s, rural commodities such as *Wool* and *Wheat* dominated Australian exports (see **Table 1**). The shift toward mineral and fuel exports began in the 1970s and was driven by Iron ore and Coal.

*Services* exports increased in significance in the late 1980s. *Personal travel* became a major export with short term visitor arrivals into Australia increasing from around 137,000 in 1963-64 to over 2.5 million in 1991-92<sup>5</sup>. The growing contribution of both resources and services created a diverse composition of exports from the late 1980s to the early 2000s (see **Chart 4**), reducing Australia's reliance on rural exports.

<sup>4</sup> Services trade by country is not available prior to 1987-88.

<sup>5</sup> DFAT estimates.

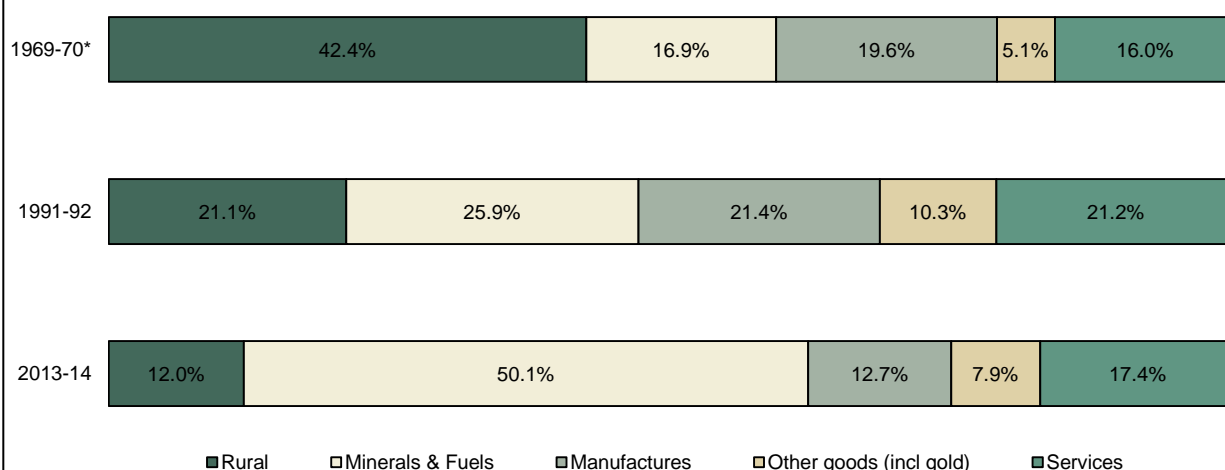
**Table 1: Australia's top 5 exports of goods and services (a)  
1963-64 and 2013-14 comparison**

	1963-64			2013-14	
	A\$m	% share		A\$m	% share
<b>Total (b)</b>	<b>2,786</b>		<b>Total (b)</b>	<b>331,184</b>	
Wool	962	34.5	Iron ores & concentrates	74,684	22.6
Wheat	362	13.0	Coal	39,965	12.1
Transport services (c)	258	6.3	Natural gas	16,305	4.9
Beef and veal	154	5.5	Education-related travel services (d)	15,743	4.8
Sugar, raw	67	2.4	Personal travel (excl education) services	13,874	4.2

(a) Goods trade are on a recorded trade basis, Services trade are on a balance of payments basis. (b) Balance of payments basis. (c) Transport services exports includes freight, passenger and other transport services. (d) Includes student expenditure on tuition fees and living expenses.

Based on ABS Overseas Trade, 1963-64 and ABS Balance of Payments and International Investment Position, September 2014.

**Chart 4: Australian exports by sector**



\* Earliest period for which sector data is available.

Based on ABS Balance of Payments and International Investment Position, September 2014.

The past decade's export success has been led by minerals and fuels. Export values of minerals and fuels have grown at an average rate of 16.3 per cent per annum over the past ten years, more than double the rate of exports overall. From 23.7 per cent ten years ago, minerals and fuels now makes up 50.1 per cent of our total exports, more than rural exports did in the 1960s.

The change in sectoral share is apparent when comparing the top five export commodities in 1963-64 with 2013-14 (see **Table 1**). *Iron ore* and *Coal* are currently Australia's top two export commodities and drivers of export growth. *Iron ore* and *Coal's* share of goods and services exports rose from 11.1 per cent to 34.7 per cent over the past decade and Australia is now the world's largest exporter of iron ore (accounting for around 48 per cent of world exports<sup>6</sup>) and metallurgical coal.

Exports of *Natural gas* have also grown significantly in the past decade. Australia has become the world's third largest *Liquefied natural gas* exporter, with over 90 per cent exported to Japan in 2013-14. A DFAT article on "[Australia's Liquefied Natural Gas \(LNG\) exports – 2003-04 to 2013-14 and beyond](#)" will provide further analysis of LNG exports.

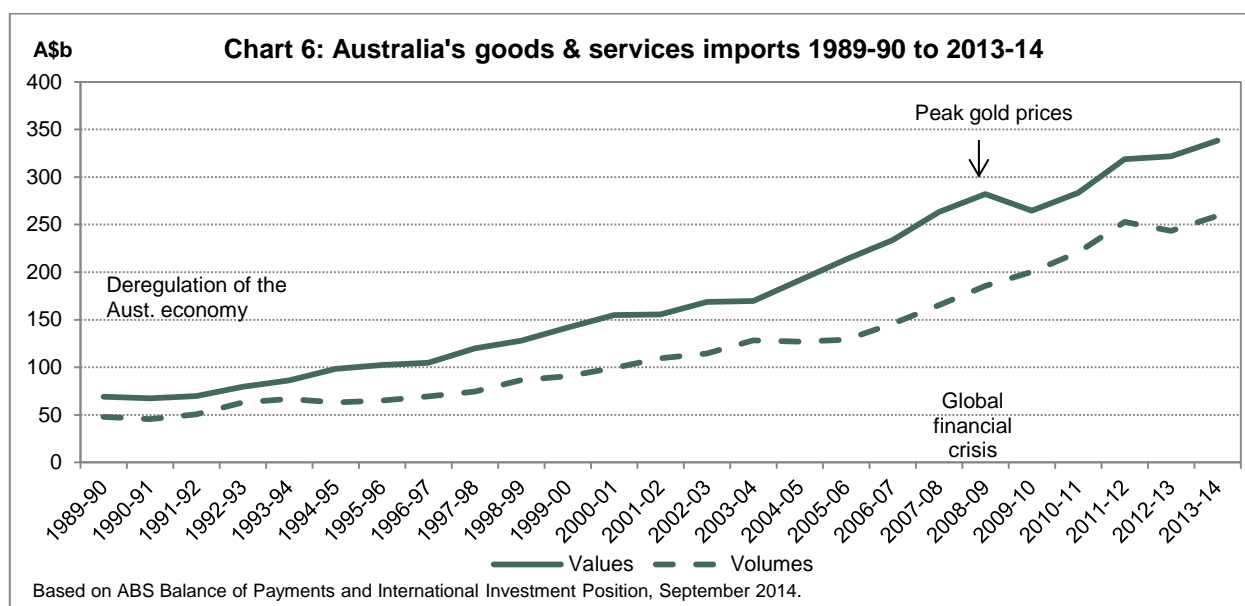
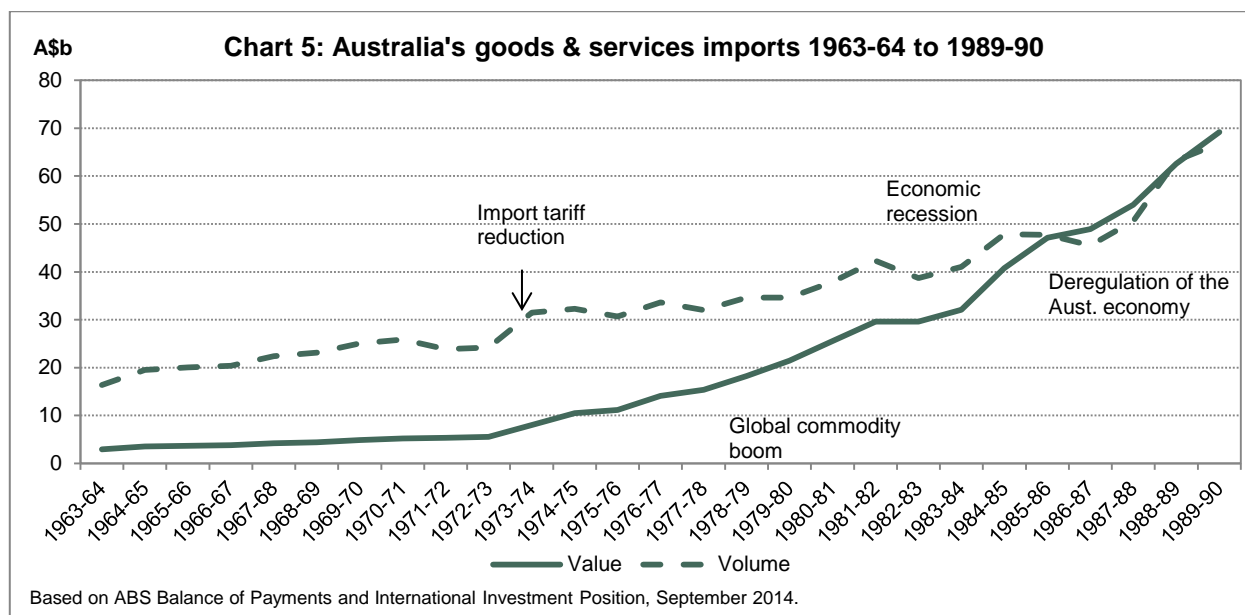
<sup>6</sup> In 2013, in value terms. Source: UN Comtrade database.

The position of *Education-related* and *Personal travel* services as the fourth and fifth largest export commodities signifies the rising importance of services exports in the Australian economy. They also demonstrate the increased diversity of exports from the services sector compared to 1963-64, when transport services dominated. In 2013, over 410,000 international students studied in Australia<sup>7</sup>, and 6.4 million foreigners visited Australia (compared to around 12,000 and 125,000 respectively in 1963).

## Overall import trends

In the fifty years from 1963-64 to 2013-14, Australia's imports of goods and services grew from \$2.9 billion to \$338.0 billion in value terms, representing an annual average growth of 10.5 per cent (6.1 per cent in volume terms).

In 1963-64 Australian imports, like exports, were still benefiting from the post-war global trade expansion. 1960s import growth averaged 8.1 per cent per annum in value terms (with volume growth averaging 7.3 per cent).



<sup>7</sup> Source: Australian Education International, Research Snapshot "International student numbers 2013", April 2014.

Import growth started off slowly in the 1970s, before Australia cut tariffs by 25 per cent in 1973-74 resulting in an upward shift of volumes. At the same time, increasing oil prices resulted in rapid growth in value terms which lasted almost a decade. Between 1973-74 and 1981-82 import growth averaged 18.8 per cent per annum in value terms.

In the early 1980s, falling oil prices and contracting economic growth in the industrialised world, including Australia, slowed import growth until 1983-84 when economic reforms (including further reduction of import tariffs and quota protection) restored growth. Between 1983-84 and 1989-90 imports grew an average of 12.9 per cent per annum in value terms (7.5 per cent in volume terms).

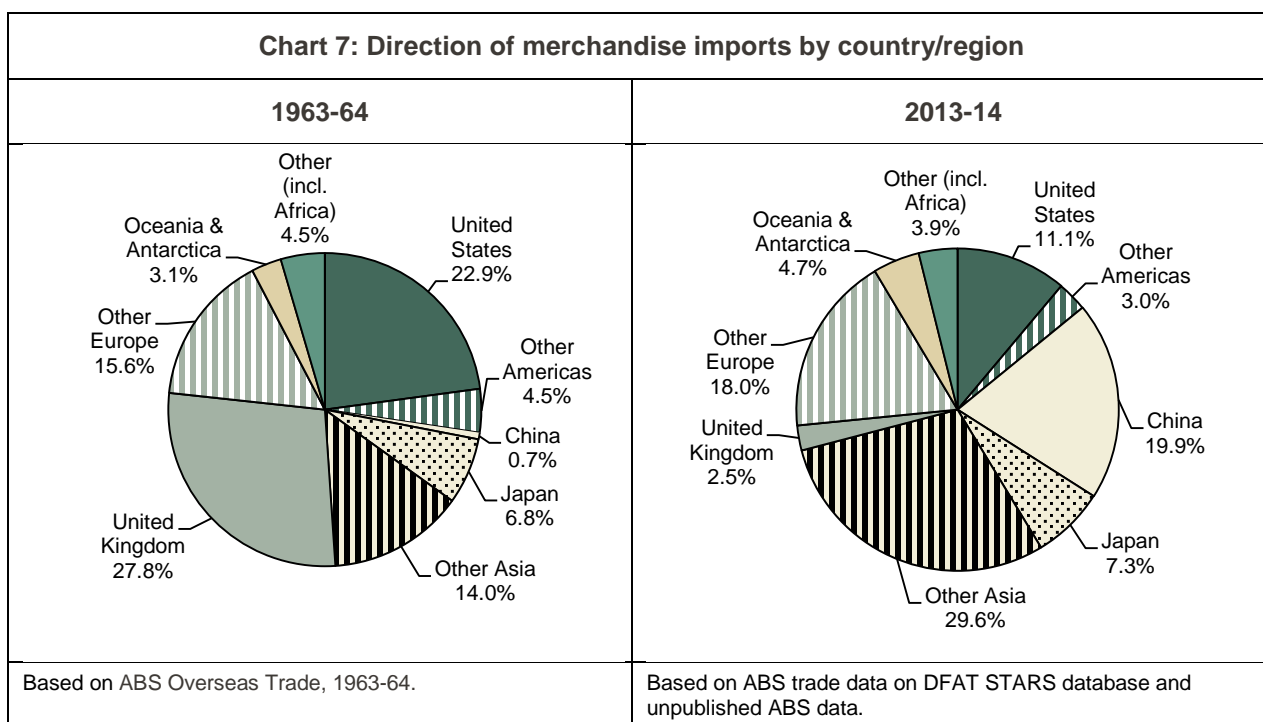
Imports grew steadily from the 1990s until the early 2000s, averaging 7.7 per cent annual growth in value terms (7.2 per cent in volume terms) between 1990-91 and 2003-04.

Australia's strong economic conditions from 2004-05 led to high import growth at an average annual rate of 11.4 per cent in value terms (10.8 per cent in volumes) until the global financial crisis took effect in 2007-08. Over the past five years, import growth has averaged 4.7 per cent per annum in value terms (6.0 per cent in volume terms).

### The direction of merchandise imports

Over the past fifty years, the dominant source of Australia's merchandise imports<sup>8</sup> has transitioned from Europe and North America to Asia. The United Kingdom was the main merchandise import source in 1963-64 and remained so until 1966-67 when overtaken by the United States. Aside from three years in the mid-1980s, when replaced by Japan, the United States remained Australia's number one source of merchandise imports for almost forty years and is still our largest source of services imports today.

Since 2005-06 our largest merchandise import source has been China. Merchandise imports from China increased significantly from the mid 2000's onward and consist predominately of manufactures such as clothing, telecommunications equipment and computers.



### The composition of imports

The import of *Capital* and *Intermediate goods* has been critical for Australian development over the past fifty years. In 2013-14 *Capital* and *Intermediate goods* accounted for over 50 per cent of Australia's total imports. With lower tariffs and Australia's integration with the world economy, the share of *Consumption goods* has

<sup>8</sup> Services trade by country is not available prior to 1987-88.

increased, now accounting for around 25 per cent of total imports. By sourcing *Consumption goods*<sup>9</sup> from countries with cheaper manufacturing sectors, the price Australian's pay for *Consumption goods* has decreased significantly. The price of audio, visual and computing equipment for example, has fallen over 55 per cent in the past five years (to June 2014) alone<sup>10</sup>.

Overall, the composition of imports has remained relatively stable compared to the composition of exports (see **Table 2**). The top three imports of 1963-64; transport services, motor vehicles and petroleum are all top five imports in 2013-14.

**Table 2: Australia's top 5 imports of goods and services (a)  
1963-64 and 2013-14 comparison**

	1963-64			2013-14	
	A\$m	% share		A\$m	% share
<b>Total (b)</b>	<b>3,054</b>		<b>Total (b)</b>	<b>338,035</b>	
Transport services (c)	411	13.5	Personal travel (excl education) services	25,370	7.5
Motor vehicles, parts & accessories	247	8.1	Crude petroleum	21,588	6.4
Petroleum and shale oils	233	7.6	Refined petroleum	19,202	5.7
Motive power machinery (d)	129	4.2	Passenger motor vehicles	17,834	5.3
Cotton piece-goods (e)	72	2.4	Freight services	9,698	2.9

(a) Goods trade are on a recorded trade basis, Services trade are on a balance of payments basis. (b) Balance of payments basis. (c) Transport services imports includes freight, passenger and other transport services. (d) Includes tractors, engines and parts and other motive machinery. (e) Excludes apparel.

Based on ABS Overseas Trade, 1963-64 and ABS Balance of Payments and International Investment Position, September 2014.

The fourth largest import in 1963-64, motive power machinery, consisted mainly of tractors and parts. The demand for agricultural machinery has declined as Australia's economy has shifted from the agriculture industry to services and mining. Imports of cotton piece-goods have largely been replaced with imports of finished cotton products such as clothing imports from China.

Arguably the most dramatic change to the composition of imports is the rise of *Personal travel services (excluding education)*, reflecting the ever increasing propensity of Australians to travel abroad. *Personal travel* has been Australia's largest import since 2006-07 with short-term departures by Australians increasing from around 123,000 in 1963-64<sup>11</sup> to 5.1 million in 2006-07 and to 9 million in 2013-14. In 2013-14, the main destinations for short-term departures were New Zealand and Indonesia whilst travel to the United States contributed the most in value terms.

## Conclusion

Over the past fifty years, the direction and composition of Australia's trade has evolved, responding to shifts in Australia's economy and the global economic climate.

In the 1960s, the majority of Australia's trade took place with Europe and North America. Both our export market and import source has now shifted geographically towards Asia. Asia now accounts for over 60 per cent of Australia's two-way goods and services trade.

<sup>9</sup> As defined by the UN Broad Economic Category Classification. Includes consumer goods, goods intended for household consumption and non-industrial transport equipment (mainly passenger motor vehicles).

<sup>10</sup> Adjusted for changes in quality. That is, the movement in price takes into account quality adjustments of the product.

<sup>11</sup> DFAT estimate.

As Australia's export markets have shifted, so too have the commodities we export. At the beginning of the fifty year period, rural commodities dominated Australia's exports. After a period during which the four major export sectors shared a roughly even split of the export market, the minerals and fuels sector now dominates.

One thing has remained constant though: trade remains a critical contributor to Australia's economic prosperity.

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