

Associate Paper

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Too Many Eggs in the Dragon's Basket? Part Two: Diversifying Australia's Export Base

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Key Points

- Despite serious current issues, Australia's export reliance on China as a key destination for valued commodity exports will continue. Concurrent initiatives to broaden and grow the export base have to be pursued.
- Australia has an unequivocal global advantage in resources and human capital. The extent of foreign investment and technology imported to develop commodity industries has over-concentrated export type and destination.
- Australia does not have a deep historical trading tradition, as a proportion of gross domestic product. Insufficient companies export, while geography, economic history and structural constraints have restricted diversification.
- The opportunity exists to engender in business a pioneering, self-initiated exporting spirit. Governments, industry bodies, chambers of business and commerce, export-oriented industry clusters, research organisations and interested academia all have a role to play in developing a 50-year strategy with practicable, achievable pathways to a broader and deeper export base beyond resources commodities.

'It takes one hen to lay an egg, but seven men to sell it.'

C.J. Dennis, Australian Poet.

Summary

Since the publication of [Part One of this paper](#), further deterioration in the Australia-China political and trading relationships has occurred, with the media offering useful commentary

and analysis of the escalation, including as it relates to exports of wine, barley and coal ([here](#), [here](#) and [here](#)), so this paper will not dwell on such matters.

Trade advocacy, multilateral or bilateral trade agreement dispute resolution processes and appropriate appeal to the World Trade Organisation are required to remedy Australia's serious existing trade issues with China. Particular care is needed, however, to not allow miscalculation or errant politics to kill the "golden goose" that forms our [leading trade partner](#). Australian exports to China may presently be telescoped and will dominate Australia's two-way trade for some years to come, but the high degree of current dependency is escapable. There is perhaps a [need to expedite](#) diversification: the volumes of Australia's once-biggest export, coal, have been steadily declining for some years, to be down by 30 per cent over the past year to September, with liquefied natural gas (LNG) down by 53 per cent over the same period and iron ore exports into China forecast to fall by 22 per cent into 2021.

This paper seeks to identify if, where and how Australia can diversify its export base.

Analysis

Fundamentals

The Australian economy, relative to trade, displays four primary paradoxes.

1. *It is prosperous and developed, but also shows growing structural disparities.*

Australia's nominal [Gross Domestic Product \(GDP\)](#) was US\$1.394 billion in 2019, being the then thirteenth-largest economy in the world. Australia experienced [average annual economic growth](#) of 3.3 per cent over the period from 1992 to 2017. This balances with the [historical perspective](#), when Australia's GDP average from 1900 to 2000 was 3.4 per cent. Unfortunately, due to COVID-19, Australian GDP [fell](#) 0.3% in 2019-20. [GDP per capita in Australia](#) in 2019 was US\$54,352.00, although it [fell](#) by 1.7% into 2020, the first decline in 11 years. According to a standard reference on wealth comparison, the annual [Credit Suisse Global Wealth Report](#), in terms of median wealth, Australia was second only to Switzerland in 2019, having been first-placed in 2018. Notably, 58 per cent of Australia's wealth is in non-financial assets, particularly property; one of the highest ratios in their research and, due to compulsory superannuation, Australia enjoys a lower inequality of wealth than in other high-wealth countries, with 66 per cent of people having wealth over \$100,000 (as measured by the Gini Co-efficient).

Australia may be a wealthy country, but [research](#) by the Australian Council of Social Service and the University of NSW shows that between 2003 and 2016, the average wealth of the highest 20 per cent of the Australian population rose by 53 per cent, while that of the lowest 20 per cent declined by nine per cent. [Other research](#) shows income disparity has a Gini Co-efficient of 32 per cent, with the top 20 per cent of households having nearly six times the income of the lowest 20 per cent, a gap that

is growing. These issues are important, because a country's ability and capacity to create exports depends on societal factors alongside commercial expertise.

2. *Australia is rich in natural and human capital, but dependent on foreign investment.*

For several decades, the [World Bank has created a different approach](#) from GDP to evaluate a nation's wealth. Australia ranks fourth in *produced capital* (as in physical structures), behind three small, high-wealth countries in Europe and fourth again, in *natural capital* (as in energy and minerals) behind a number of Middle Eastern oil and gas producers. Perhaps most surprisingly, the Bank ranks Australia fifth in *human capital* (as employment and wages). The key finding, however, is that of 141 surveyed countries, Australia has the third-highest dependency on *net foreign capital* (as in resident inwards investment).

3. *Australia is not a significant trader, and has an exposed export-import structure.*

Australia [trades around one-fifth of all its goods produced](#), a figure that has not varied significantly over the past 25 years. The goods exported are primarily commodities; Australia is not among the top ten global food exporters.¹ In 2019, the WTO ranked Australia the twenty-first-largest exporter in the world, with 1.4% of total exports and the twenty-fourth-highest importer, accounting for 1.2% of world imports.² Australia is, nonetheless, an exceptionally open economy, with [imports restricted](#) only if [safety, biosecurity or national security are at risk](#).

4. *It is a highly effective commodity exporter, but also possesses insufficient complexity.*

Australia is invariably promoted as a highly successful exporting nation. Indeed, it is, as demonstrated, in certain commodities, but that position may not be sustainable. One respected measure is the [Observatory of Economic Complexity](#). The model employs visualised Artificial Intelligence to compute economic complexity and infer what an economy can expect to export with effect. Australia, in 2019, received a rank of 72 out of 138, grouped around such energy economies as Qatar, Kuwait and Trinidad and Tobago. The relative volume and character of Australia's current mineral and energy exports, therefore, skews such an index into a (hopefully incorrect) perception that only a narrow and limited product range exists for export development.

Exports Snapshot

To demonstrate the collective impact of those paradoxes and indicate the position from which Australia has to diversify, below is a snapshot of Australia as an exporting country

¹ 'Chart 4.5: Top Ten Exporters of Food, 2019', *World Trade Statistical Review 2020, Chapter IV: Shifting Patterns in Trade*, World Trade Organization: Geneva, p. 36.

<https://www.wto.org/english/res_e/statis_e/wts2020_e/wts2020chapter04_e.pdf>

² 'Table A6: Leading Exporters and Importers in World Merchandise Trade, 2019,' *World Trade Statistical Review 2020*, p. 82.

<https://www.wto.org/english/res_e/statis_e/wts2020_e/wts2020_e.pdf>

(compiled by the author, based on data from [OECD](#), [DFAT](#), [Austrade](#), [Export Council of Australia](#), [ASX](#) and [ABS: here, here, here and here](#).)

- 2.3 per cent (56,772) of all 2,375,753 Australian companies are exporters.
- 0.3 per cent of all Australian companies deliver 96 per cent of all Australian exports.
- One per cent of the companies that export account for 61 per cent of all exports.
- Western Australia and Queensland combined account for 67 per cent of Australian exports.
- A typical company that exports does so to only one destination, with 4.2% of turnover.
- Three companies ([BHP](#), [Rio Tinto](#), [Fortescue Metals Group](#)) export nearly 19 per cent (\$61.5b) of all Australian commodity exports; primarily of one commodity (iron ore) to one market (China).
- \$492 billion, representing 48 per cent of all [foreign investment in Australia](#) (including real estate), is in mining and manufacturing. The latter primarily comprises subsidiaries of multinational companies making consumer goods for the domestic Australian market.
- Companies in at least six major industry sectors (Retail, Construction, Transport and Warehousing, Real Estate, Health Care, Finance and Insurance) containing over 1.3 million enterprises, effectively conduct little exporting.
- In 2018-19, Australians made over 11.2 million trips overseas, of which 84 per cent were for holidays or visiting families, and spent a median duration of 15 days away. Although Australia has some 34,451 small exporters (a figure that was growing at around one per cent prior to COVID-19), one would like to believe that business owners or influencers travelling abroad would unearth, or stumble into, more export opportunities.

Constraints

The limitations on Australia's capacity and opportunity to diversify its exports can be explained through four drivers.

First, overseas markets are sought and secured by companies exercising their marketing will. Assuming due regard for issues of compliance, such as product safety, excise, registration or licensing, Australian companies exist to design, produce and sell products and services of their choice wherever they see fit, maximising profits and returns to shareholders or owners. Companies are [not compelled or directed to export](#). Market forces, namely the ability to inherit, exploit, produce or enhance resources, products or services to relative cost or positional advantage, determine point of sale. That location may be local, regional, national or overseas, or, often, a combination.

Second, and related to the first driver, the Australian private sector does not, inherently, have to [promote foreign trade](#). Adjunct companies such as customs agents, freight forwarders and export credit insurers exist to [service exporters](#), but solely on a for-profit

basis. Productivity [benefits accrue from exporting](#), but the primary explanation is economically simplistic, in that countries promote their exports to cover the payments made for imports. Australia needs to continuously import an array of products and services that are not produced domestically but which are vital to sustaining the economy and preserving a high standard of living.

Third, the composition, direction and volume of [exports varies enormously](#) between countries and to differing effect. A country may be a high net exporter, such as Germany, or a significant net importer, as is the United States, with both positions enjoying sound economic growth. That is because internal factors, such as labour productivity, consumer consumption, inwards investment and competitive domestic suppliers, operate to create national wealth. Alternatively, a country may be a high net exporter, yet have a relatively fragile economy, as does Italy. Less desirable still is for a country to be a high net importer with a stressed economy, such as the Philippines. Countries with highly concentrated, valuable exports, such as Botswana (diamonds account for 50 per cent of Botswana's exports), with redistributive fiscal policies can create relatively sound economies, despite their vulnerability to external shocks. Some countries exporting in-demand valuable commodities, like hydrocarbons, by virtue of plutocratic governments, can have disparate societies. Some countries actively control what they import to balance an insufficient quantity or value of exports.

Fourth, for many of the commodities that Australia has historically, or continues, to efficiently and effectively export, it has had to rely to do so on foreign capital, technology and international marketing capability. LNG production for export provides the archetypal example. Some would suggest that foreign capital invested or operational control over the marketing of goods and services emanating from Australia is inconsequential, providing that the economy reaps a return directly by way of taxes or royalties, and indirectly, by way of employment, technology transfer or local purchase.

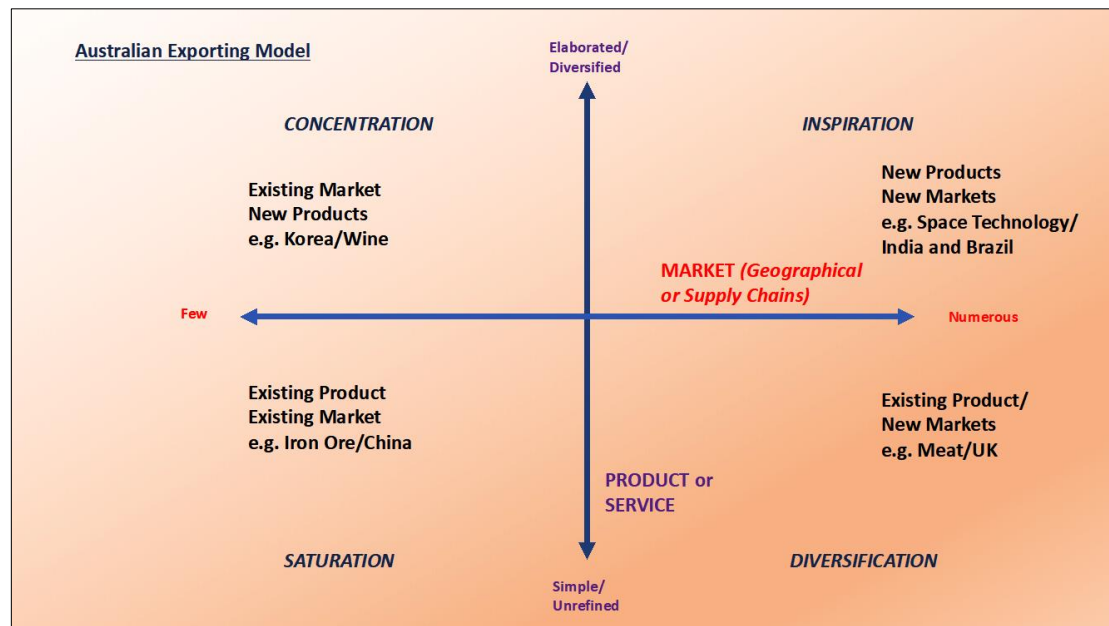
Diversification from Dominant Markets

The promotion of exports derives from three core national facilities:

- The reduction of tariff and non-tariff barriers through trade negotiation;
- Helping to identify, qualify and present trade opportunities and assisting to interpret foreign business cultures; and
- Fostering and supporting the design, development, commercialisation and timely exploitation of globally-competitive products and services.

[Trade promotion agencies](#) professionally speak of “demand-pull” or “supply-push” to describe avenues of growing or diversifying a country's exporting profile. Either a geographical (or supply chain) market opportunity attracts the company to export, or domestic market saturation and sales advantage offshore causes a company to export. Of course, both motivators can be operating at the same time, especially for transnational or multinational companies that can often effectively create their own markets. The

product/market mix will vary, too, and a model to represent this dynamic with reference to Australia is suggested below.



Australian companies are certainly not detached from the world. In measures of international travel, adaptation of technology, incorporation of leading-edge industrial or commercial practice and process, capitalisation and financial arrangement, Australians walk proud. Globalisation and supply chains inherently pull some Australian companies into what could be described as prescriptive export, and a number then independently diversify into new markets. A preferred approach is to engender a pioneering, self-initiated exporting spirit into all Australian business.

New Baskets for Australia's Trade Eggs

The following three initiatives are offered as starting points to help diversification.

1. [Transform](#) proven, existing centres of global excellence, such as mining efficiency, medical and biological research, tropical agriculture, superannuation management, horticulture and viticulture, and certain software into a broad and exportable range of products and services. In part, this is occurring, but not at scale. Australia needs to use its existing strengths to gain time-to-market advantage. One entire industry in which Australia had an opportunity to create comparative strategic advantage is renewable energy, but that door has nearly closed due to insufficient government support and/or concomitant private sector capital.
2. Second, which follows from the first, is to better employ Australians' travelled knowledge of the world, their multicultural roots, propensity to adopt technology, innate ability to grasp the abstract, an adaptability that finds possibility from improbability, and emerging small business ingenuity, to create and grow significant centres of excellence and export opportunity hubs. From a starting perspective of identifying global-scale export opportunities or investments, research and technology commercialisation solutions beyond the admirable existing [collaborative](#)

[research centres](#) must be sought out for Australian businesses to capture. Based primarily on known global advantage, Australian companies need to design and manufacture products that, almost from their conception, can sell to the world. Enough role models exist for stakeholders to work collaboratively. To link them into global markets, government and industry stakeholders can unite to plan, create and operate regional international “market qualification centres” that qualify comparative advantages in capability and capacity, and initiate lead contacts. They might, for instance, be modern expressions of the [VOC](#), [East India](#), [Sogo Shosha](#) or [Hudson’s Bay](#) Companies, without actually selling. Although small, the centres should act as “strategic scouts” for Australian industry working with, but not being part of, Federal and State Government diplomatic and trade and investment promotions. The centres would be regional in scope, but located in viable scale markets, such as Indonesia, Vietnam, India, Mexico, Brazil, Poland and Nigeria.

3. As with climate change education, Australia must build from its youth an international entrepreneurial spirit. Australia’s recent [national brand initiative](#) moves beyond kangaroos and koalas with laudable achievements promoted, but it has to look at an alternative scale. Australian business needs a 50-year export strategy that pre-empts a continent bereft of its coal, iron ore, LNG and gold, and with overseas investment no longer being attracted. When we have a “Big Australia”, that means a big population to feed, educate and employ, beyond exhausted natural capital. The skills, ingenuity and global marketing perspectives of the Australian people will, like never before, have to become an exportable commodity. The Australian Department of Defence in 2018 designed such a [strategy](#), because, although it took decades to properly realise, it knew that, for industrial support and sustainability, exports have to feature in equipment design and construction.

Roles to Play

The private sector may view export promotion to be the purview of the Federal and, to a lesser extent, State/Territory Governments, or through individual companies pursuing their own exporting opportunities. That should not be the case. Peak industry bodies, national and regional chambers of business and commerce, new export-oriented industry clusters, research organisations, schools and interested academia all have parts to play as well, and should actively seek to identify their roles in increasing the variety, quantity and value of exportable Australian products and services.

About the Author: Greg Hull graduated into the Australian Army from the Royal Military College and served in a range of command and staff appointments, including counter-terrorism, strategic intelligence and scenario planning. He held overseas exchange appointments with the British and US Armies. Greg changed careers into the Australian Trade Commission (Austrade) as National Industry Manager, Defence and Aerospace, before serving as Senior Trade Commissioner for Mexico/Central America and Mid-West USA (as Consul-General in Houston), then Papua New Guinea/South-West Pacific, Middle East (Iraq/Jordan/Syria/Lebanon) and Africa (Johannesburg). On leaving Austrade, Greg consulted in Africa and for the Australian Department of Foreign Affairs and Trade in Thailand. Greg holds a BA, Grad Dip Fin Mn and Dip AICD.

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