

INVESTING IN THE TRADED GOODS SECTOR¹

Over the past decade, the Australian economy has become increasingly integrated with the rest of the world. The dismantling of protection has brought about important changes in the structure of the Australian economy and its trade orientation. Australia has become a more outward-looking economy. For example, over the past decade:

- effective rates of assistance to industry have almost halved;
- the volumes of both exports and imports have increased significantly as a share of GDP;
- the share of national income contributed by export oriented industries has increased, while that contributed by import competing industries has fallen; and
- there has been an attitudinal change in the community that is reflected in the so-called 'export culture'.

It might be expected that these structural changes have altered the pattern of investment in the traded goods sector – that sector which produces exports and import competing goods. This article examines trends in the share of private investment allocated to the

traded goods sector as a whole. It then examines the share of private investment that is allocated to export oriented industries compared with those that are import competing.²

Identifying the Traded Goods Sector

The first step is to identify the traded goods sector. A common 'rule of thumb' is that the traded goods sector comprises the broad industry groups of agriculture, mining and manufacturing. Traditionally, agriculture and mining are thought to make up the exportable subsector, while manufacturing is thought to make up the importable subsector. However, not all industries within agriculture and mining are export oriented; many cater for domestic markets. Similarly, not all industries in manufacturing are import competing; many have become export oriented, while some are in the non-traded goods sector. Reference to these broad categories, therefore, tends to overstate the overall size of the traded goods sector. Furthermore, it does not permit an

1. This article draws on Dwyer, J. and C. Groeger (1994), 'Resource Flows to the Traded Goods Sector', Reserve Bank of Australia Research Discussion Paper No. 9401.
2. Examples of related work include: Treasury (1988), *Economic Round-up*, April; Bureau of Industry Economics (1989), 'Trade Performance of Australian Manufacturing Industry', Information Bulletin No 15; and Kent, C. and P. Scott (1991), 'The Direction of Australian Investment from 1985/86 to 1988/89', Reserve Bank of Australia Research Discussion Paper No. 9106.

accurate breakdown of its exportable and importable components.

An alternative approach is to classify *each* industry in the economy as being export oriented or import competing. The output of these industries can then form the exportable and importable subsectors of the economy. These subsectors can, in turn, be summed to form the traded goods sector as a whole.

Since few industries produce solely for export markets or to compete with imports, they are best defined according to the *degree* of their trade orientation. In this article, an industry is defined as export oriented if the ratio of its exports to total production exceeds 10 per cent. An industry is defined as import competing if the ratio of competing imports (for which there are local substitutes) to total production is more than 10 per cent.³

Using this classification system we find that the exportable subsector not only comprises industries in agriculture and mining, but also industries in selected parts of manufacturing and transport services. The importable subsector comprises industries primarily in manufacturing.

Having identified the traded goods sector, to what extent has investment been channelled into it? Specifically, has the increased outward orientation of the Australian economy been associated with an increased flow of investment to export oriented industries?

Investment in Traded Goods

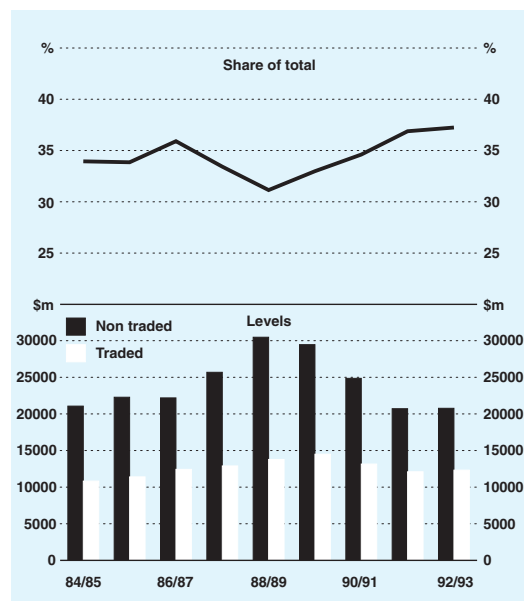
Disaggregated investment data are used to identify the share of total investment contributed by those industries in the traded goods sector. These data are, however, only available from the mid 1980s. Although this

does not enable an historical assessment of investment, it does permit examination of a period in which there has been a substantial increase in the openness of the economy.⁴

Graph 1 shows the share of real investment spending by the private sector in those industries that make up the traded goods sector. In the mid 1980s, at a time when the real exchange rate was low and the economy was opening rapidly to world markets, there was an increase in the share of investment allocated to the traded goods sector. Subsequently, in the late 1980s, the share of investment allocated to the traded goods sector fell; at this time, the growth in investment in the traded goods sector was outstripped by the boom in investment in the non-traded goods sector, noticeably non-residential construction. More recently, the share of total investment in the traded goods sector has increased, rising from about

Graph 1

Investment in the Traded Goods Sector
(Average 1989/90 prices)



- The sensitivity of the results to the choice of benchmark was examined. At benchmarks of 2 percentage points either side of 10 per cent, the profile of the traded and non-traded goods sectors remained stable. Above this range, only a narrow class of industries qualified as traded, while below it an implausible number of industries qualified as both export oriented and import competing.
- Published data from the national accounts are supplemented by unpublished data from the Capital Expenditure Survey. For a detailed description of the data, and the way in which the alternative sources have been reconciled, see the Research Discussion Paper. The Bank wishes to acknowledge the assistance of the ABS and Treasury.

31 per cent in 1988/89 to about 37 per cent in 1992/93.

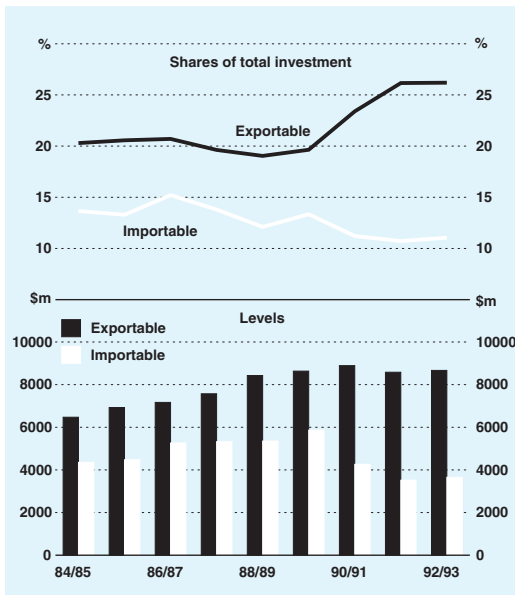
The recent increase mainly reflects the fact that the absolute *level* of real investment in the traded goods sector has fallen only slightly since the recession, while the absolute level of real investment in the non-traded goods sector has fallen sharply from its late 1980s peak.

As shown in Graph 2, much of the recent increase in tradeable capacity has been driven by investment in export oriented industries, where levels of real investment have been remarkably resilient in the recession.

In fact, the extent of the switch in investment towards industries that are export oriented is most pronounced when one examines patterns of investment in manufacturing. Graph 3 shows that, with the exception of the most recent year, there has been a sharp increase in the share of manufacturing investment in export oriented industries. This is the result of an absolute increase in the level of investment in such industries, while the level of investment in import competing manufactures has fallen markedly. As might

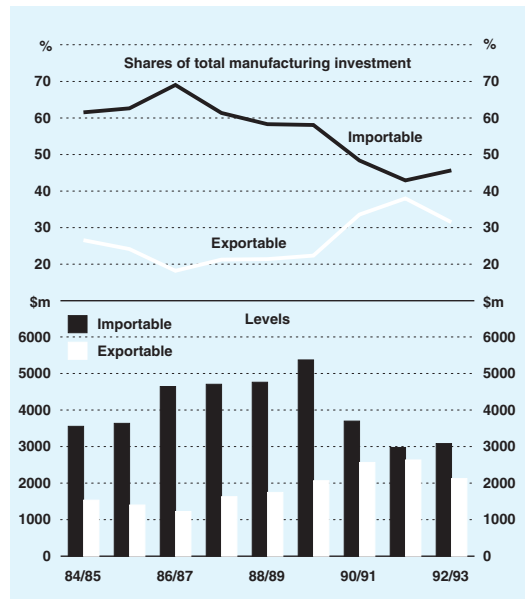
Graph 2

Investment in Exportable and Importable Subsectors
(Average 1989/90 prices)



Graph 3

Investment in Manufacturing
(Average 1989/90 prices)



be expected, the growth in exportable capacity of the manufacturing sector coincides with the acceleration of growth in manufactured exports.

Conclusion

The recent switch towards investment in export oriented industries is a measure of the increasing outward orientation of the Australian economy. It is a predictable development. As economies become more open to world markets, the pressure of international competition encourages them to specialise in those things that they do best. In the Australian case, this has resulted in the development of export industries and a reduced focus on the replacement of imports. A potential long-term advantage of this change is that outward-looking, export oriented countries tend to attain higher rates of economic growth than do countries with inward-looking policies of import replacement.