

Box A

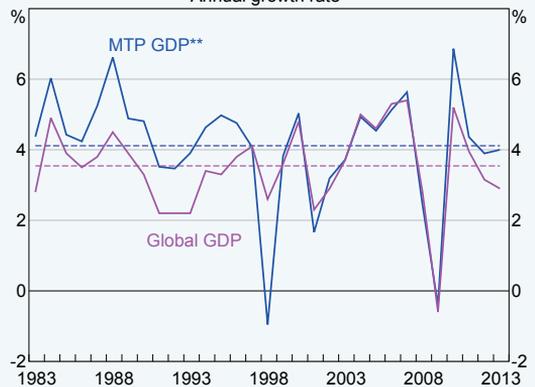
Growth of Australia's Major Trading Partners

Over the past 30 years, annual growth in the GDP of Australia's major trading partners (MTPs) has averaged a little over 4 per cent (weighted by exports) (Graph A1).¹ This is higher than the average growth in global GDP because a large share of Australia's exports is to fast-growing economies in Asia. While MTP growth has experienced relatively short-lived cycles, the average rate of growth has not really changed over time. This stability has occurred despite declines in the trend rate of growth of some large trading partners, notably Japan from the early 1990s and China more recently.

Prior to the early 1990s, Japan had experienced a long period of relatively rapid GDP growth, averaging over 4½ per cent a year through the 1980s. At that time, Japan was Australia's largest trading partner, accounting for over one-quarter of Australia's exports (Graph A2). The majority of exports to Japan were raw material inputs for its rapidly growing industrial sector and for its rising energy needs. Japan's growth slowed sharply in the early 1990s, following a crash in Japanese asset prices and related banking problems, and Japan's demand for Australian exports moderated. The sharp decline in the share of Australian exports destined for Japan was offset by a pick-up in demand for Australia's exports from other fast-growing Asian economies, including Korea. As a result, Australia's MTP growth remained strong despite the slowdown in Japan.

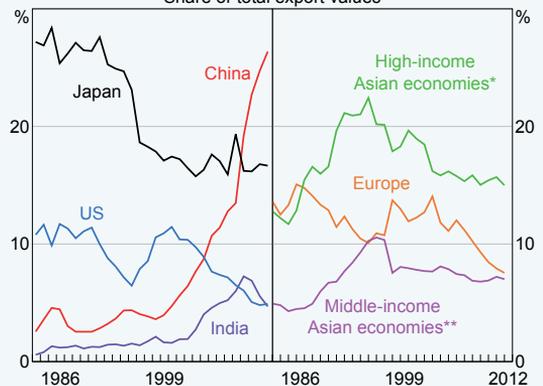
¹ MTP GDP weights together the growth of Australia's 23 largest trading partners according to their share of the total value of goods and services exports. Global GDP, on the other hand, weights together growth of a larger set of countries according to their share of global GDP at PPP exchange rates.

Graph A1
Trading Partner and Global GDP
Annual growth rate*



* 30-year averages shown as dashed lines
** Aggregated using Australia's export shares
Sources: ABS; CEIC Data; IMF; RBA; Thomson Reuters

Graph A2
Australian Exports by Destination
Share of total export values



* Hong Kong, Singapore, South Korea and Taiwan
** Indonesia, Malaysia, Philippines and Thailand
Sources: ABS; RBA

Since China became a member of the World Trade Organization in 2001, it has become deeply integrated in global trade. China's continuing rapid growth since then, in particular its sharp increase in demand for resources to build its capital stock as well as inputs for use in its expanding industrial sector, has seen the share of Australian exports destined for China increase dramatically. In the late 2000s, China overtook Japan as Australia's most significant destination for exports. China now accounts for over one-quarter of Australia's exports, up from around 6 per cent in 2001.

Even though China's GDP growth has slowed from rates of 10–12 per cent a few years ago to around 7½ per cent – still a very strong rate – over more recent years, Australia's MTP growth has remained around 4 per cent. This stability in MTP growth reflects two things. First, the Chinese economy continues to record faster growth than Australia's other major trading partners and, second, it accounts for an increasing share of Australia's exports.

The vastly increased size of the Chinese economy means that even with a slower rate of growth, it is making the same if not larger contributions to growth in global economic activity, and even more so to Australia's MTP GDP, than when it was smaller but growing more rapidly. For example, China grew

by 12¾ per cent in 2006, which corresponded to a CNY1 054 billion increase (in constant 1998 prices) in its GDP, while growth of 7¾ per cent in 2013 corresponded to an even larger increase of CNY1 265 billion. Similarly, the increasing importance of China as a destination for Australia's exports means that China's growth of 7¾ per cent in 2013 made around the same percentage point contribution to Australia's MTP growth as growth of 10½ per cent in 2010, and a larger contribution than growth of 14 per cent in 2007 (Graph A3). ↘

Graph A3
Trading Partner Growth and China



* Aggregated using Australia's export shares
Sources: ABS; CEIC Data; RBA; Thomson Reuters