Opportunities and Challenges for South Australians in a post-GFC International Economy

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Top 100 SA Lunch
Adelaide, 30 September 2010

Introduction

Thank you for that introduction, Mark. I am very impressed by the performance of the South Australian companies featured in the presentations by Graham and Max. These South Australian owned firms have not only prospered but they have done so in some relatively difficult conditions and across all major business sectors. The Top 100 are a terrific mix and we should celebrate the contribution they have made to the state and national economies.

Good afternoon, ladies and gentlemen. I would like to start by thanking the people at “In-Business” and our sponsors for inviting me to speak at today’s “Top 100 SA” lunch. I plan to focus on the opportunities and challenges for South Australian business in the post-GFC environment.
Most of the work of our Institute is outside of South Australia. However, we are proud residents of this
great state and over the years we have produced a number of studies on the implications for business
in this state of Australia’s international trade agreements. Through these studies and our interaction
with the local business community, we’ve learned a lot about where South Australia business fits in the
broader global picture.

International trade is very important to the South Australian economy. Our overseas trade in goods and
services accounted for more than a quarter of Gross State Product (GSP) in the most recent period,
with exports making up 57 percent of the total value of state trade.

Exports alone are slightly less than 15 percent of South Australian GSP. A state-to-state comparison
with Victoria is interesting: across the border, international trade overall is responsible for 35 percent of
Victorian GSP, but exports make up just 32 percent of Victoria’s trade picture, giving the state a trade
deficit with the world of $37 billion.

When we talk about trends, it is a good idea to set aside the most recent annual statistics which are
distorted by the global financial crisis. Last year, global trade fell by more than 12 percent – a decline
greater than that of the Great Depression of the 1930’s. Luckily, it seems trade is on a “V-shaped
curve”. Two weeks ago, the World Trade Organization issued a press release predicting that world
trade would increase by 13.5 percent in 2010.

Back to longer term trends for South Australia.

If we look at five year trends in our state’s international trade, we see that the state’s overall exports of
goods and services have grown by an annual average of 6.3 percent – with merchandise exports
growing at an annual average of 5.9 percent. Very importantly, the five year trend statistics for the
state show our services exports growing by a considerably higher 8.4 percent per year.

Another thing that’s interesting about our services exports is that, even in the disastrous year of
2008/2009, when merchandise exports fell by 8 percent, services exports out of South Australia grew
by 2.1 percent.

**Sectoral Opportunities for Growth**

In today’s “Australian” newspaper, the results of a new quarterly economic survey produced a
consensus that the Australian economy would grow by at least 3.6 percent this year and next – in large
part on the back of strong overseas demand for our resource exports.

The mining sector gets a lot of attention, both nationally and in the state. There’s no doubt that the
exploitation of our minerals resources is very important for South Australia and will remain so in the
future. But it would not be a good thing if this state’s economy became all about mining -- or even
mostly about mining.

For one thing, the mining sector’s exports will always be vulnerable to unanticipated demand shocks,
fluctuating prices (including through exchange rate movements) and the longer term potential for either
the discovery of alternative sources of supply or viable substitutes. And the mining sector cannot begin
to fully employ a growing population of highly educated young people.

The Commonwealth Bank – a principal sponsor of today’s event – undertook a survey recently that
suggested that while Australia’s mining states, including South Australia, are likely to grow faster than
non-mining states, resource-focused regions can also become unbalanced by related demographic shifts.

The Commonwealth Bank report concluded that “overall, regions with a more diverse industry and development base have a better chance of holding on to the gains from the resources boom”.¹

**Diversification & Small Business**

How diversified is our economy in the state? Last year, South Australian businesses' top five exports were alcoholic beverages, copper, automobiles, education services and lead. Most of these big ticket items are exported by a small number of very large and sophisticated firms that probably do not need advice on how to do their exporting. In some cases, these firms are operating in a sellers’ market.

We’re here today at the “Top 100” lunch, so we are naturally focussed on our biggest operators. It’s great to see that thirty-six of the top 100 do important business in overseas export markets.

But we have a large number of smaller businesses in South Australia and one thing that has to change is the notion that a business – because it might be relatively small – is too small to enter export markets and compete effectively.

This is nonsense. Whether we are talking of manufacturers or services companies there are some South Australian businesses I have come into contact with over the past eight years that are world leaders in their fields, and very successful in their exports. Of course, being small means you sometimes have to start in a well-researched niche market and then grow from there.

**The importance of services**

In terms of sectors for special focus, it is clear to me that much more attention has to be paid to the development of service sector exports. In Australia, the services sector accounts for 80 percent of the economy and 85 percent of national employment. Eighty-two percent of Australian firms are services firms and they employ 93 percent of Australians with qualifications equivalent to a university degree or above.

But in South Australia, services exports in 2008/2009 amounted to just over 17 percent of state exports. This compares unfavourably to the situation in other states where services exports accounted for 39 percent of Victoria's exports and 41 percent of total exports from New South Wales.

The capacity exists in South Australia to do much better. There’s the important knowledge spill-over from the growing defence sector. We have firms with unparalleled expertise in renewable energy, mining and engineering services, architectural services and water management. I have visited with a small South Australian firm that has the contract to manage the water supplies of Las Vegas.

People tend to think of Australian export assistance agencies like Austrade and the Export Finance and Insurance Corporation (EFIC) as being there mainly to assist Australian exporters of merchandise – but this is an outdated perception. EFIC and Austrade both work extensively with services exporters and there are quite a few important success stories that have been chalked up in recent years.

Exports of higher education services are the third most important Australian export and this sector accounts for an impressive 45 percent of South Australia’s total exports of services.

¹ The Australian, September 15, 2010, page 40.
Notwithstanding our impressive performance in the past, South Australian universities will be facing the same challenges as other Australian universities in continuing their high level of educational services exports given the anticipated impact of recent unfavourable policies introduced by the federal government. The good news is that our Adelaide-based universities have some obvious advantages over many others in the country.

We cannot say for sure what will eventually happen to our important international student market, but three universities in South Australia won’t prosper for long if they have to depend only on South Australian and international students for their primary enrolments. The demographics just don’t work for them. In my view, they need to develop specialities and be the best in Australia in these specialities. The University of Adelaide’s ECIC unit – one of our sponsors today – is a great example of how a university can develop specialized education programs.

If our universities get the message, they will be able to successfully export higher education services not just to China and India but, perhaps more importantly, to New South Wales, Victoria and Queensland.

I come from the United States where it is normal for kids to leave home and go away for their university education. Some do it to get away from their parents but most do it because they want to go to a university that is the best in offering the courses they want to take.

**How Can We Lift Our Game?**

I think it’s clear that the future of the SA economy and business profile will be increasingly shaped by our ability in South Australia to export specialised services and niche manufactured products – in particular in high technology products where we benefit from the important defence sector and focused research in our universities.

We have some terrific companies here in South Australia that are producing world class products. We should be proud of them, but I wish somebody would take down those “Buy SA” signs along Sir Donald Bradman Drive. As a state that exports considerably more than it imports and a state whose exports are often vulnerable in far-away markets to “food miles” and “carbon footprint” attacks, it is very poor judgment for us to give visitors the idea that we don’t want to be open to buying products from outside our state.

All our us love our South Australian wines and our winemakers are important exporters. These days, in part due to the enormous oversupply of wine in Australia, Australian wines are not very profitable in their export markets. The last thing our winemakers need is for Europeans and Americans to copy our “Buy SA” campaign.

**Evolving Global Markets**

Global markets for our exports are changing rapidly in many ways.

Increasingly, big retailers are calling the shots in consumer goods markets.

If they are not already, South Australian businesses need to take into account the evolution of global markets from the earlier “supply – push” model to today’s “demand – pull” model.
Advances in communications technologies, the rising power of global retailers and more informed consumers have all combined to mean that manufacturers can no longer produce whatever products they think they can sell and then go out and try to convince consumers to buy their product.

Instead, they need to produce the products the retailers tell them local consumers want and at the price consumers are prepared to pay. Our exporters also need to be able to produce goods that meet the retailers’ private standards that are increasingly important in Europe and America.

All of this means that to take advantage of export opportunities, South Australian producers need to integrate themselves successfully in a modern value chain structure where information and proposals for improved ways of doing business are shared back and forth across the entirety of the chain. A well-oiled value chain is much more than a supply chain.

**Where are the Export Markets of Today and Tomorrow?**

A final trend I want to comment on here is that South Australia is witnessing a shift in the relative importance of its export markets. The United States is still the number one market for our state’s exports, but the clear trend is toward our Asian neighbours.

The five year trend in annual export growth to the USA is 5.2 percent, compared to 33 percent for Vietnam, 23 percent for both China and India, 19 percent for Korea, and 12 percent for Thailand and Malaysia. Admittedly, sales to Asian nations are often off a smaller base, but that is changing rapidly.

It’s not clear yet whether the United States economy will be able to avoid falling back into recession. It is pretty clear that economic growth in most of Europe is going to be sluggish for some time to come.

On the other hand, according to recent news articles\(^2\), gross domestic product in Malaysia increased 8.9 percent in the three months to the end of June from a year earlier, after expanding 10.1 percent in the first quarter. In Thailand, the economy grew by 12 percent in the first quarter – the fastest since 1995.

It’s clear that there are some very real business opportunities in the ASEAN countries. To complement the picture, Australia has an important new trade agreement with these countries that entered into force earlier this year and which promises to yield important reductions in barriers to trade in both goods and services.

So, from a trade policy standpoint, business in South Australia needs to take steps to ensure that it is aware of the opportunities presented by recent Australian trade agreements. And new agreements are under negotiation with China, Korea and Japan.

**Conclusion**

Now, to wrap up. International trade is very important to this state’s current and future economic success. In many ways we are well-placed to take advantage of new opportunities for exports to regional markets where national economies are growing at impressive rates.

We have a good mix of export industries in South Australia, including in services, food and wine, specialised manufacturing and mining.

More than ever before, however, it is a dynamic environment out there that requires a successful exporter to be quick in their response to new challenges and opportunities. This applies to innovation at home, changed ways of doing business overseas and adjustments to past business practice that might be required in order to benefit from new trade agreements.

In recent years, Australian and South Australian firms have been doing pretty well at meeting the challenges. That's clear from the performance of the companies we are celebrating here today.

But it's going to require an ongoing effort to maintain our business success in the unpredictable environment of the future.

Thank you for your attention.