3

International comparisons

3.1 A comprehensive evaluation of the state of value-adding in Australia also requires the close examination of how the Australian experience compares with the rest of the world. Such a comparison can highlight the strengths and weaknesses of the Australian performance and provide an indication of where it may be possible to improve this performance.

3.2 Some care needs to be taken, however, in interpreting such a comparison. While an exercise of this nature can identify differences, it generally provides little information on the reasons for those differences. The variations in structure can highlight areas of under (or over) performance or may be merely driven by the various countries' relative comparative advantages in producing particular types of product.

3.3 It does, however, serve to demonstrate the differing industry emphasis in the various economies.

Output comparison

3.4 It is clear from the comparative data in Table 7 that the Australian economy relies more heavily on its primary industries than do some other similarly developed economies around the world.

3.5 The mining and quarrying sector accounted for some 4.8 per cent of Australian output and represented a more substantial part of the Australian economy in 1995 than it did in most of the other selected OECD countries. The only exception was Canada with 4.9 per cent of its output attributed to mining and quarrying.

Table 7 Contribution to gross value-added, by industry and country, 1995 (per cent)

Industry	Australia	Canada	France	Germany	Japan	United Kingdom[a]	United States[a]
Agriculture, hunting, forestry and fishing	2.9	2.9	4.1	1.9	2.2	2.1	2.3
Mining and quarrying	4.8	4.9	0.6	..	0.2	3.6	2.1
Manufacturing	14.0	22.1	25.9	30.8	28.7	24.0	20.3
Services	78.3	70.1	69.4	67.3	68.9	70.3	75.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: **a** 1994 data used for the United Kingdom and United States due to data availability.
Source *OECD International Sectoral Database.*

3.6 The agriculture, hunting, forestry and fishing sector was also relatively more important in Australia. This sector, with 2.9 per cent of gross value-added, was responsible for a larger proportion of economic output in all the selected countries other than France (4.1 per cent). The French result, however, is likely to have been affected by the high levels of assistance provided to the sector in countries that are members of the Economic Union.

3.7 The other aspects shown by this table are the relatively small size of the manufacturing sector in Australia and the marked importance of services.

3.8 The services sector, with 78.3 per cent of national value-added in 1995, provided a greater proportion of national output in Australia than in any of the other countries examined. The country closest to Australia was the United States, with services accounting for 75.4 per cent of that nation's industry output.

3.9 The manufacturing sector in Australia (the sector undertaking raw materials processing), on the other hand, provided a relatively small part of the nation's gross value-added when compared to the contribution of the same sector in the other OECD countries examined. The 14 per cent share in Australia was particularly low compared with Germany (30.8 per cent) and Japan (28.7 per cent).

3.10 Some understanding of the reasons for the difference in the relative size of this sector can be obtained from an examination of the components that make up this sector.

3.11 The data in Table 8 have been compiled to provide such a comparison, although care needs to be taken in interpreting the results because the Australian information is from a different source and is not strictly comparable. It does, however, provide a useful guide to the relative

importance of the various parts of the manufacturing industry in Australia.

Table 8 Contribution to gross value-added, by manufacturing industry and country, 1995 (per cent)

Industry	Australia	Canada	France	Japan	United Kingdom[a]	United States[a]
Food, beverage and tobacco	2.8	3.1	3.5	2.9	3.5	2.0
Textile, clothing, footwear and leather	0.9	1.0	1.4	0.5	1.3	1.0
Wood, paper products and printing	2.6	4.3	2.7	0.7	3.1	3.0
Chemicals, coal and petroleum	2.0	2.9	5.1	3.4	5.1	3.5
Non-metallic mineral products	0.8	0.6	1.1	1.0	0.8	0.5
Basic metal products	2.9	1.4	1.2	2.2	2.3	0.9
Machinery and equipment	3.3	8.1	10.4	14.2	7.5	9.1
Other manufacturing	0.6	0.6	0.4	3.8	0.5	0.4
Total manufacturing	15.9	22.1	25.9	28.7	24.0	20.3

Note: **a** 1994 data used for the United Kingdom and United States due to a lack of data availability.
Source *ABS 5206. OECD International Sectoral Database.*

3.12 As indicated by this table, the major reason for the relatively small manufacturing sector in Australia was its relatively limited involvement in producing machinery and equipment. All the other countries examined had developed substantially bigger machinery and equipment industries (relative to the size of their economies), with the industry, for example, accounting for 14.2 per cent of national output in Japan and 10.4 per cent of output in France.

3.13 The other areas where Australia appeared to have fallen significantly behind were the chemicals, coal and petroleum industry and the textiles clothing and footwear industries. The chemicals, coal and petroleum industry, for example, accounted for only 2.0 per cent of economic activity in Australia compared to 5.1 per cent in both France and the United Kingdom.

3.14 While Australia was also a little behind the average in industries such as food, beverage and tobacco and wood, paper products and printing, it was by no means the smallest player in these areas.[1]

3.15 Australia also performed relatively well in non-metallic mineral products and basic metal products. Indeed, the basic metal products industry in Australia accounted for a larger proportion of the nation's output (2.9 per cent) than in any of the other countries. This may reflect the ready access Australia has to the mineral inputs to this industry.

3.16 From an overall perspective, it appears that Australia performed relatively well in most areas of raw materials processing, particularly those industries involved in minerals processing. The only materials processing area where Australia was significantly behind the other nations was the chemicals, coal and petroleum industry.

Trend in output contributions

3.17 Another issue that can be usefully addressed as part of an international comparison is how the recent changes in the sectoral shares in Australia compare with those in the other countries. Table 9 compares the sectoral shares in 1985 and 1995 with those in a range of OECD countries.

Table 9 Contribution to gross value-added, by industry and country, 1985 and 1995 (per cent)

Industry	Australia		Canada		France		Japan		United Kingdom		United States	
	1985	*1995*	*1985*	*1995*	*1985*	*1995*	*1985*	*1995*	*1985*	*1994*	*1985*	*1994*
Agriculture, hunting, forestry and fishing	3.4	2.9	3.1	2.9	4.6	4.1	3.3	2.2	2.4	2.1	2.1	2.3
Mining and quarrying	4.6	4.8	4.9	4.9	0.8	0.6	0.3	0.2	4.2	3.6	2.4	2.1
Manufacturing	15.6	14.0	23.5	22.1	28.0	25.9	30.0	28.7	26.9	24.0	21.1	20.3
Services	76.4	78.3	68.5	70.1	66.6	69.4	66.4	68.9	66.5	70.3	74.4	75.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source *OECD, International Sectoral Database.*

1 AFFA included some slightly earlier data in its submission that provided similar results, see AFFA submission no. 34, p. 30.

3.18 For Australia, it appears that two of the economic sectors increased in relative importance while two declined over the decade to 1995. The services sector has shown the largest growth in relative size with its share of economic output increasing from 76.4 per cent to 78.3 per cent over the decade. The mining sector, however, has also achieved a slight increase, from 4.6 per cent of output to 4.8 per cent in 1995.

3.19 These increases were achieved at the expense of the agriculture, hunting, forestry and fishing sector (the sector's share declined from 3.4 per cent to 2.9 per cent) and manufacturing (which fell from 15.6 per cent to 14.0 per cent). While these two sectors continued to experience output growth during this period, their relatively slow growth (compared to that of the other sectors) resulted in them providing a dwindling share of overall gross value-added.

3.20 The other issue demonstrated by this table is that most of the trends in Australia are by no means unique. All the other countries examined have seen their services sector's share of output increase and their manufacturing sector's share decline. In most of them (with the exception of the United States) there has also been a decline in the relative importance of the agriculture sector.

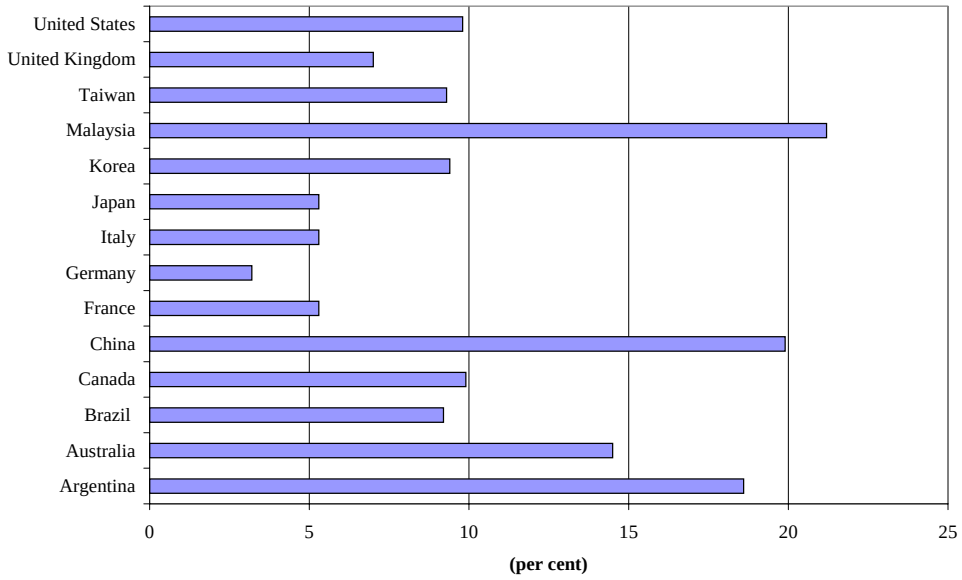
3.21 It appears that Australia's experience in the mining and quarrying sector, however, is a little different. All the other countries saw their mining sector decline in relative importance (albeit a minor decline in the case of Canada – which is not apparent in the rounded figures).

Comparison of trade performance

3.22 The Department of Foreign Affairs and Trade provided a comparison of Australia's trade performance with a number of other countries. While its international data base does not allow it to distinguish between exports of unprocessed and processed raw materials, the Department claims that it is clear that Australia is performing strongly in manufactures, particularly elaborately transformed manufactures (ETMs).

3.23 As indicated by the international comparisons of the rate of growth in exports of ETMs provided in Figure 2, Australian exports in this area grew by an average rate of some 14.5 per cent between 1990 and 1997. This was significantly higher than the rate in other developed countries represented, including countries such as Japan, the United States, the United Kingdom and Germany.

Figure 2 Rate of growth in ETMs exports, 1990 to 1997



Source DFAT UN Stars Database

3.24 The comparison also demonstrates that the growth in Australia's exports of ETMs over this period compared relatively favourably with some of the fastest growing export-oriented manufacturing economies in East Asia.

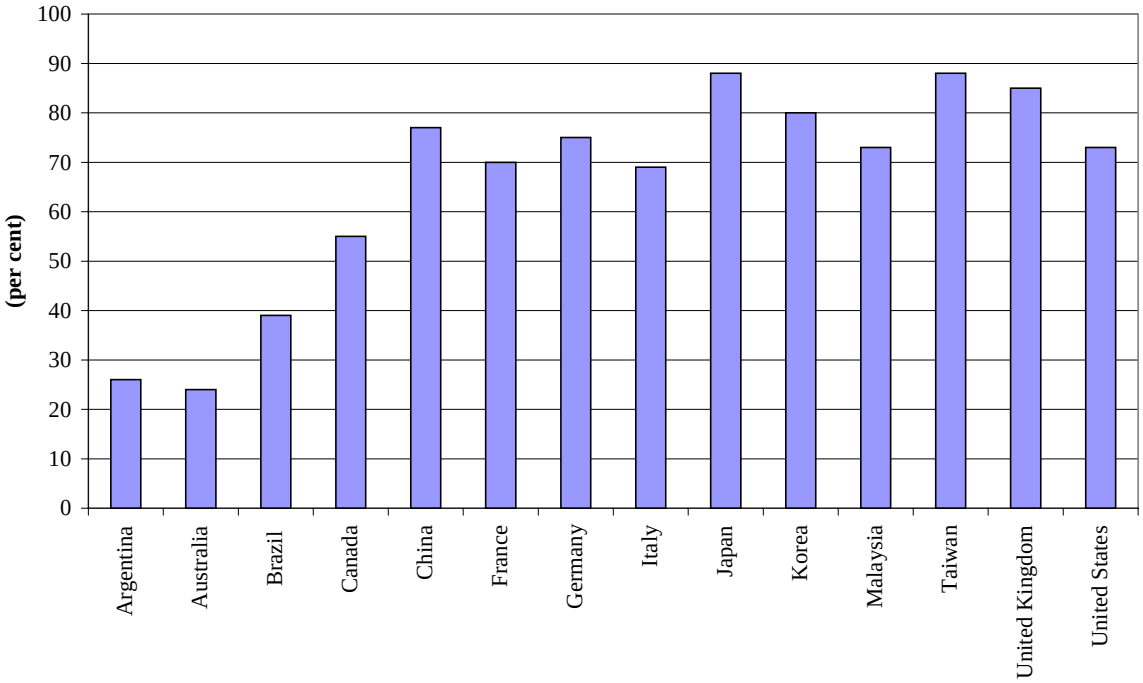
3.25 DFAT noted that, despite this strong performance, the total contribution of ETMs to overall export performance lags considerably behind many other countries (Figure 3).

3.26 The Department suggested:

> This is because Australian ETMs exports are growing quickly compared to other countries, but from a lower base. The lower overall contribution of ETMs to Australia's exports reflects Australia's natural advantage in agricultural and resource exports. It also reflects the fact that a considerable amount of global ETMs trade comprises trade between near neighbours such as the United States and Canada, between the members of the EU and between some East Asian countries.[2]

2 DFAT, submission no. 32, p. 10.

Figure 3 Exports of ETMs as a percentage of merchandise exports, 1997



Source DFAT, submission no. 32, p. 11. The data are from the DFAT UN Stars Database.