The Global Financial Crisis and Australia’s International Trade Position

Meena Chavan
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Abstract: The current notion, rampant throughout the world today, is that the worst of the Global Financial Crisis (GFC) is over. Are we truly over and done with the GFC? The Global Financial Crisis was accompanied by an extraordinary collapse in world trade. Australia withstood the GFC much better than most other countries and, notably, trade was seen to be stable and steady. What is the rationale for this? This paper explores the impact of the GFC on trade and Australia’s distinctive position. How does Australia’s trade position look today? The Global Financial Crisis created major challenges and opportunities for Australia. But Australian products were seen to be more cost competitive in the global market. They retained strong relations with their traditional trading partners in the European Union and United Kingdom during the course of the GFC and stepped up trade with the emerging markets in Asia. Today, after the GFC, Australian exporters are seeing a slowdown in business due to waning demands from international markets. The GFC and today’s vibrant trade environment means that Australian industry must become accustomed to dynamic international engagement. This paper presents concise theoretical evidence supporting the relationship between trade and crisis before moving to the appraisal of the GFC and its impact globally and on Australia’s trade in particular. It presents key pragmatic indices that give a succinct indication of its scale and scope. The paper concludes with an assessment of the GFC’s implication for Australia’s International trade position and illustrates the factors supporting Australia’s sustainable trade position during the GFC.

Keywords: Global Financial Crisis, Relation Between Trade and Crisis, Implication of GFC on International Trade, Australia’s Trade Position

Objective

The overarching objective of this paper is to demonstrate the impact of financial crises on trade. The paper presents concise theoretical evidence supporting the relation between trade and crises through the appraisal of the GFC and its impact on global markets in general and Australia’s trade in particular. The research scrutinizes the model of international trade over the GFC business cycle and presents key pragmatic indices that give a succinct indication of its scale and scope. The paper concludes with an illustration of the factors supporting Australia’s sustainable trade position during the GFC.

Methodology

This is a conceptual paper which explores the question: How do the mechanisms that emerge from financial crises impact trade? Although the world has seen many financial crises, this one cannot be matched in terms of scale and scope. As such, not a lot of specific research on the GFC exists. As a result, this paper is largely deductive and is based on secondary data collected from UNCTAD, World Bank, UN and ABS. The theoretical framework demonstrates links between financial crises and trade.
Introduction

The GFC (Global Financial Crises) was set in motion in August 2007 and reached its peak in September 2008. Optimists believe that the world entered the last phase of the GFC in 2010.

The GFC was officially affirmed by the Reserve Bank of Australia Governor Glenn Stevens in March 2010.

To understand the situation we face as we come out of the crises, it is important to elucidate the background of the crises itself.

The world economy was facing a severe global crises that spilled over from the financial sector to the real economy in the last quarter of 2008. The financial crises that began in August 2007 and was exaggerated in the middle of 2008 pushed the global economy into a brutal downturn that some have called the Great Recession. World trade collapsed at a pace unseen since the Great Depression of the 1930s. The decline in trade and the protectionist instincts that invariably come to the fore in difficult economic times have raised concerns that today’s crises may lead to deglobalization, which is the reversal of the globalization.

How did the crises happen? And where are we today?

The beginning of 2008 saw a fall in housing prices in the US and an increase in mortgage defaults hitting the US and foreign banks that held these default mortgages in the form of securities. These default estimates were in no manner small—they ranged from $3trillion to $4 trillion.

This US subprime mortgage crises shook the global economy. Over the last decade, this market has extended radically, growing from a small niche section into a key segment of the overall US mortgage market. The crises resulting in a number of collapses and delinquency rates all seemed to be the result of a credit boom.

It was not until September that the collapse of the Lehmann Brothers took its toll on Australia and other Asian countries. Exports to the US and Europe from Asia declined, and Singapore, Hong Kong and Thailand went into recession. In the early stages the GFC did not harm Australia. GDP growth was strong and exports were doing well. The only issue was the share market, which had hit a few hurdles after peaking in November 2007. But in the second quarter of 2008 Australia was pulled right in.

The demand for Australian exports fell and the falling prices for these exports led to further downfall. The banking sector was suffering due to the tightening of lending standards, and businesses were finding it difficult to obtain credit. The entire economy was struggling.

At the end of 2009 the Australian government comprehended that action needed to be taken and that we had not evaded the GFC. A number of steps were taken by the Australian government, such as the lowering of the RBA interest rate, cash hand-outs, and the stimulus package. Bank deposits were restored by guaranteeing their safety, thereby stopping the flow of funds out of the banks and enabling the banks to continue business, which helped stabilize the economy.

The recent measures taken by the Obama administration to stabilize banks, stock markets, health and housing have shown positive signs of recovery worldwide (Crosby, 2009).

The market research company and business information provider IBIS World recently presented its findings on Australia’s leading export industries for 2010 and their viewpoint for the next five years. A forecast of $237 billion of joint export revenue for 2010 (representing 21.4% of the Australian economy) puts Australia in the top level of global exporters,
with only Germany (40.8%) and China (33.2%) recording higher export proportions of their total economic revenue. As predicted, mining constitutes Australia’s largest export industry, generating $283.7 billion of revenue for 2009-2010 — of which $128 billion was from exports. The industry is forecast to grow by 6.1% in the next five years. Manufacturing also fared well in 2009/2010, achieving $29 billion of export value from a total industry revenue of $246.9 billion. Higher education is another top export earner for the Australian economy, regularly drawing in around $8.1 billion of revenue (IBIS world, December 2010).

GFC and Australia’s Trade Position

The GFC has emphasized the reaction to the GFC on trade. It has been evident that the Global Financial Crises has taken its toll on trade. Exporter confidence levels have slipped for the first time in five years in Australia. This was expected according to the forecasts of the IMF and OECD. The IMF has predicted severe implications for trade in the aftermath of the GFC. A 2.5% contraction in world trade volumes was predicted, with a partial bounce back of 3.2%. A few observations on the Australian trade situation by the Austrade/Sensis research have been positive and, likewise, the Australian SME exporters have withstood and survived the GFC. The lower exchange rate has assisted exporters in enduring the fall in commodity prices and demand (Tim Harcourt, 2009).

The total number of exporters of goods and services in Australia in 2007-08 was 45,018, a 1% increase on 2006-07. In 2007-08, less than 1% of goods exporters had cumulative exports of $100m or more. These exporters contributed 79% by value to total goods exports, the same proportion as the previous financial year. 1% of services exporters had aggregate exports of $100m or more and contributed 22% by value to total services exports.

A large majority of exporters had aggregate exports of less than $1 million. 90% of goods exporters had exports of less than $1 million and contributed 2% to total goods exports. 67% of services exporters had exports less than $1 million and contributed 1% to total services exports.

Overall, the rising figures indicate that despite the challenges of the GFC, Australia’s trade has been less affected by the crises than most other OECD countries. As such, it is expected to experience a comparatively more vigorous recovery. Growth is projected to pick up to 2.5% in 2010 and 3.5% in 2011, with unemployment peaking at around 6¼% in 2010 and inflation predicted to be temperate (ABS, 2008).
Theoretical Evidence of Relation between Trade and Crises

A number of research studies have been conducted on the effects of economic and financial crises, but not much has been done on the impact of financial crises on international trade. Many research papers talk about why and how financial crises take place (Berman, 2006). A few have looked at the crises’ impacts on output (Dooley, 2000). The erratic character of trade’s reactions after currency and banking crises and the trade association in facilitating the contagion of crises was studied by Kaminsky and Reinhart (2000). They examine the role of international bank lending, the potential for cross-market hedging, and bilateral and third-party trade in the propagation of crises. Camarazza et. al (2004) examines the role of financial linkages through a common creditor in the spread of market crises during the 1990s. Using panel probit regressions on 41 emerging market countries, they explore how financial linkages played an important role in the spread of the Mexican, Asian, and Russian crises.

The significance of financial linkages in this research surfaces after controlling for the role of domestic and external fundamentals, trade spillovers, and financial weaknesses in the affected countries. It concludes that a sturdy financial linkage to the crises country of origin not only substantially raises the probability of contagion, but also helps to explain the observed regional concentration of currency crises.

Economic historians Barry Eichengreen and Kevin O’Rourke, suggest that a downturn in international trade has gone beyond the losses during the 1930s. Indexing to the peaks in global industrial production in both episodes, global trade fell 32% during the first year of the Great Recession, compared with 15% during the first year of the Great Depression. Trade constantly receded for years in the 1930s, an improbable scene this time around given the current developments in the world economy.

A few authors who did look at the effect of crises on trade found vague outcomes. Hong and Tornell (2005) did not give much importance to the export sector in explaining the impact of the crises. Berman argued that exports are an important determination of the impact of

Table 1: Value of Exports over the Period of the GFC 2005-2008 (ABS, 2008)

<table>
<thead>
<tr>
<th></th>
<th>2005 - 06</th>
<th>2006 - 07</th>
<th>2007 - 08</th>
<th>2006 - 07 to 2007 - 08 08 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Exporters (No.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total goods exporters</td>
<td>40 849</td>
<td>42 654</td>
<td>43 098</td>
<td>1.0</td>
</tr>
<tr>
<td>Total services exporters</td>
<td>2 513</td>
<td>2 867</td>
<td>2 927</td>
<td>2.1</td>
</tr>
<tr>
<td>Total exporters(a)</td>
<td>42 194</td>
<td>44 548</td>
<td>45 018</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Value of Exports ($ m)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total goods exports</td>
<td>152 492</td>
<td>168 099</td>
<td>180 857</td>
<td>7.6</td>
</tr>
<tr>
<td>Total services exports</td>
<td>41 849</td>
<td>46 181</td>
<td>51 345</td>
<td>11.2</td>
</tr>
<tr>
<td>Total value of exports</td>
<td>194 341</td>
<td>214 280</td>
<td>232 202</td>
<td>8.4</td>
</tr>
</tbody>
</table>
the crises, and that some elements would affect exports negatively, thus preventing trade from having beneficial effects on the country (2006.)

The lack of previous studies in this area could be due to two reasons:
First, researchers tend to take this association between trade and crises for granted and depict it as simple and obvious. Secondly, due to the inability to undertake sufficient consideration of the different mechanisms through which crises may affect international trade. The current global financial crises and the sharp reduction in trade flows though have raised questions about the extent to which access to capital affects the ability of companies to produce and sell exports and to buy imports. Kletzer and Bardan (1987) have studied the role of the availability of finance and capital for international trade growth during a crises. The general understanding is that periods of rapid credit growth are liable to be accompanied by a lowering of the lending standards. Most major banking crises in the past have occurred in the wake of periods of extremely swift credit growth. But not all credit booms are followed by banking crises (Berman, 2006). For example, out of 135 credit booms acknowledged in Barajas et al. (2007) only 23 preceded systemic banking crises (about 17%), with that percentage rising to 31 (about 23%) if non-systemic episodes of financial crises are integrated. Unlike this, about half of the banking crises in their sample were preceded by lending booms. Larger booms, and those concurring with higher inflation and—to a lesser extent—lower growth, are more likely to end in a crises. Booms associated with fast rising asset prices and real-estate prices are also more likely to end in crises (Barajas, 2007 cited in Berman, 2006). The current US case was linked with the credit boom as data from over 50 million person loan applications found that delinquency rates increased more sharply in areas that experienced greater increases in the number and quantity of originated loans (Dell’Arco, 2008).

Standards tended to fall more where the credit boom was larger. This is consistent with cross-country data on cumulative credit booms. Lower standards were associated with a fast rate of house price appreciation, consistent with the notion that lenders were to some extent betting on a continuing housing boom, depending on the fact that borrowers in default could always liquidate the collateral and repay the loan (Berman, 2006).
The cyclical nature of global trade is well known. World trade has slumped before; recessions and downturns have historically impacted boom economies and severely challenged providers and consumers of credit. As recently as 1997, the Asian markets crises required intervention by the International Money Fund to stabilize currencies and stem a global meltdown. Trade activity throughout the region dropped off a cliff after the 1997 crises, and the IMF undertook a number of studies to better understand what actions should be taken to sustain trade flows through any future meltdowns. Despite these research studies, there has been insufficient consideration of the different mechanisms through which crises may affect bilateral trade. This research identified the mechanism discussed below, which emerged from the Australian experience and its impact on trade.

**Currency Crises**

High fixed costs of exporting and foreign borrowings can lead to exchange rate movements there by devaluing the home currency and leading to less export earnings, which in turn pushes exporters from the market (Berman and Berthou, 2005). Currency depreciation makes imported inputs more expensive, leading to a decrease in input imports and thereby leading to a decrease in the exports of goods that use imported inputs. Negative balance sheets have been seen to affect on investment during times of currency crisis.

P1Currency crises are positively related to a decline in trade.
Banking Crises

There is a reduction in the amount of liquidity available for meeting fixed costs for exporting thereby forcing them to use their own liquidity or borrow in foreign markets which impacts imports and exports. In this scenario the available finance is not adequate for firms in the country that has been affected and thereby exporters who are greatly dependent on external finance will be the most affected. Exporters need working capital for production and during a banking crisis their ability to provide collateral is low. New firms intending to enter new markets or existing firms trying to penetrate new markets would also face a credit crunch thereby deterring firms that would otherwise have engaged in exporting (Iacovone and Zavacka 2009).

P2 Banking crises are positively related to a decline in trade.

Country Industry Specialisation

The dependence of the industries in a country on external finance, the amount of fixed costs requirement by these home industries and the elasticity of substitution will change the way crises impacts trade.

P3 Industry specialisation has an impact on trade.

Protectionism

Countries resort to protectionism during times of crises. Substantial domestic and international tensions over trade have been seen between the US and China. Deficit countries will try and reduce imports and increase pressure to open foreign markets for exports. In surplus markets there will be pressure to maintain the government support and subsidies in the face of external hostilities.

P4 There is a strong relationship between increases in protectionism and declining trade.

Demand Conditions

This refers to the decline in demand that invariably comes to the fore in difficult economic times and which leads to fall in trade, particularly in developing nations.

P5 There is a positive relationship between a fall in demand and a fall in trade.
The following propositions emerged from the literature review:

- Currency crises are positively related to a decline in trade
- Banking crises are positively related to a decline in trade
- Industry specialisation has an impact on trade
- There is a strong relationship between increases in protectionism and declining trade
- There is a positive relationship between a fall in demand and a fall in trade

**GFC and Global Trade**

Exports of goods and services provide the main means for countries to fuel the foreign exchange necessary to pay for imports and to repay international debt. A deficit in a country’s balance of trade also tends to depress the value of its currency, which then increases the cost of debt service for governments, businesses, and households that have borrowed in international currencies (Nanto, 2009).

“Some of the precise effects exacerbating trade globally by the financial crises include changes in the international relations among countries, the role of the International Monetary Fund both as a lender of last resort and coordinator of international financial regulatory reform
is particularly notable.” “Among the basic philosophies being affected are the rise of state capitalism, trade protectionism, and doubts about what has been seen as the Western economic model of market based capitalism. Among the challenges stemming from the economic and financial fallout from the crises are questions about the dominance of the United States and the role of the dollar as a reserve currency, problems for developing nations caused by diminished inflows of capital and remittances and declining exports and prices for commodities.” (Nanto, 2009).

On March 19, 2009, the International Monetary Fund projected global economic activity to contract by 0.5% to 1% in 2009—the first such fall in 60 years (IMF, 2009).

Key Pragmatic Indices Indicating the Scale and Scope of the Impact of the GFC on Trade

These mechanisms are pretty much at force and cause of the downfall in trade during the GFC.

Declines of these magnitudes are unprecedented. According to the October 2009 edition of the International Monetary Fund’s World Economic Outlook, international trade as measured by total exports of goods and services will decline 11.9% in 2010.
Advanced economies’ exports will fall 13.6%, while emerging and developing economies face a more modest 7.2% slump (Chart 1).

Chart 2: Global Financial Crises & an Extraordinary Collapse in World Trade

In late 2008, the level of worldwide trade activity dropped dramatically as banks and companies alike struggled to weather the Global Financial Crises. In the second quarter of 2009, despite unprecedented and significant global pump-priming by the Central banks, importers and exporters were by no means feeling that skies had cleared.

All 104 nations on which the WTO reports experienced a drop in both imports and exports during the second half of 2008 and the first half of 2009.

Chart 2 shows how imports and exports collapsed for the EU27 and 10 other nations that together account for three-quarters of world trade; each of these trade flows dropped by more than 20% from 2008Q2 to 2009Q2; many fell 30% or more. Clearly, such statistics combine to paint a picture radically different from the booming trade environment of just two years ago.
Chart 3 shows that almost all product categories in world trade were positive in 2008Q2, almost all were negative in 2008Q4, and all were negative in 2009Q1. The categories most marked by international supply chains (mechanical and electrical machinery, precision instruments, and vehicles) saw some of the biggest drops.
As the left panel of chart 4 shows, the OECD nations slipped into recession in this period, with the largest importing markets—the US, EU and Japan (the G3)—seeing their GDP growth plummet more or less in synch. The US and Europe saw negative GDP growth rates of 3% to 4%; Japan was hit far worse.

**Actual and Forecasted Economic Growth Rates for Country Groups and Annualised Quarterly Changes for the United States, Japan and Ukraine**
Table 2 shows projected growth rates by quarter by Global Insight, an econometric forecasting firm. As can be seen, countries of the world are experiencing a concurrent slump, with the advanced industrialized countries of North America, Europe, and Japan dropping into recession, and a significant slowdown in economic growth rates in both developing countries and in emerging markets in Eastern Europe. The growth rates for China, which is still positive but down considerably, and those for Japan (the second largest economy in the world) and Ukraine are all facing severe recessions. There has been a decline in economic activity and a loss of trillions of dollars in equity markets, as well as a credit pinch that not only is affecting households and businesses worldwide but is putting a curb on the financing of activities such as world trade and oil exploration. The International Labor Organization has noted that after four years of consecutive declines in world unemployment, the number of unemployed persons had increased in 2008 by 14 million. As the crises continues to spread and job losses mount, worldwide unemployment could increase by at least 38 million by the end of 2009 (ILO, 2009 cited in Nanto, 2009).
Table 3: Change in Merchandise Export Levels for Selected Regions and Countries February 2008 - Feb 2009

Table 3 shows ballpark figures for the changes in export levels in February 2009 in contrast with those of the previous year. For the world, advanced economies, and emerging markets, exports were estimated to be down about 25%. For developing countries however, exports were down by more than a third. Exports were down from 9% to 64% for the other countries indicated. These are historic drops in trade volume. Even though imports also are falling, the dwindling of international trade is adding to the contraction in global economic growth and causing unemployment rates to rise (Nanto, 2009).

Impact of GFC on Australia's International Trade Position

Data shows that the value of exports has continued to grow in Australia by more than 20% despite the impact of the global downturn. Nationally exports jumped by more than 22% to $284 billion last year, (2009) compared with the previous financial year.

Western Australia led the way with exports rising more than 24% on the back of high prices for iron ore and gold. But Queensland, which surged ahead of New South Wales in the rankings, had the largest increase of 48.3%. Tasmania and South Australia were the only states not to record increases in the same period.

State-by-state Breakdown

Western Australia-$92.1 billion, up 24.2%, Queensland-$65.5 billion, up 48.3%, NSW-$60.4 billion, up 19.95, Victoria-$33.1 billion, up 1.8%, South Australia-$11.5 billion, down 6.4%,
Northern Territory-$7.1 billion, up 32.7%, Tasmania-$3.9 billion, down 4.3%, ACT-$1.0 billion, up 5.7%. (World News Australia, 2010).

Australia continues to rank amongst the most resilient economies, having ranked first in six of the seven years between 2002 and 2008. In 2009, Australia ranked third. After an extended period of strong growth, reflecting sound macroeconomic policies and favorable terms of trade, global events had slowed Australia’s economic growth. However, the downturn has been milder than in most other advanced countries.

In its October 2009 World Economic Outlook Report, the IMF forecast Australia’s real GDP to grow by 0.7% in 2009, compared with declines of 1.1% for the world and 3.4% for the advanced economies. The IMF is projecting Australia’s output growth to gradually strengthen to 2% next year. These are better expected outcomes than those for most other advanced economies. (IMF, 2009)

Table 4: Real GDP Growth 2001 - 2010

Contrary to that, the International Monetary Fund’s October 2009 World Economic Outlook Report forecasts Australia’s real GDP to grow by 0.7% in 2009, compared with declines of 1.1% for the world and 3.4% for the advanced economies. The IMF is projecting Australia’s output growth to gradually strengthen to 2% this year. These are better expected outcomes than those for most other advanced economies. (IMF, 2009)

Australia’s annual exports of goods and services exceeded US$230 billion for 2008, with a compound annual growth rate of 9% since 1988. While commodity exports continue to dominate as a share of total exports, service exports have grown significantly over the past decade. Australia’s foreign investment grew almost 75% over the five years to 2008. Top
sources of Australia’s foreign investment remain the UK (25%) and US (24%), although there has been an increase in recent years of capital flows from Asia, reflecting Australia’s closer ties to economies in this fast growing region (ABS, 2009).

Table 5: Australia’s two-way trade in goods and services, by major partners, 2008, Source: Australian Bureau of Statistics (ABS) (2009), 5368.0.55.004 and personal communication

On a Balance of Payments basis, which takes into account trade in goods and services, foreign investment income and transfer payments, economic activity between the EU and Australia is estimated to have exceeded $A126 billion in 2008, or 18% of all Australian overseas transactions. This figure, when compared with Australia’s other major economic partners (the ASEAN economies 14%, United States 13%, Japan 12% and China 11%), shows that the EU remains Australia’s largest economic partner by a significant margin (Slater, 2009).
The attractiveness of Australia as an inward investment destination, and as a centre for servicing regional and global operations, is sustained by our highly skilled and multilingual workforce, competitive infrastructure costs, a transparent regulatory environment, strong rule of law, political stability and safe and enviable lifestyle. International studies confirm Australia’s leading position in terms of the skill level of its workforce, particularly in financial services, where the availability of a deep pool of innovative, experienced and adaptive workers remains a key advantage (ABS, 2008).

**Mergers & Acquisitions (M&A)**

In the first half of 2009 Australia’s M&A activity announced deals totalling US$88 billion, accounting for 9.3% of the global total. Australia has taken a significantly greater share of the world market than China (4.1%), Japan (3.7%) and South Korea (1.6%).

Globally, M&A activities were sluggish over the past year, due to ambiguity in global credit markets. Merger and acquisition activity in Australia has also been dawdling but remains robust and amongst the highest in the region.

**Financial Institutions**

Australian based financial institutions are extending their activities. The series of involvement extends through North America, Europe and into the Asia Pacific region, reflecting Australia’s comparative strengths in funds management, investment banking and property and infrastructure funds. These financial institutions are actively looking for opportunities in emerging markets, while the funds management sector is looking to position Australia as an innovative product manufacturing hub for the region. At the same time, global investment banks con-
continue to see Australia as an attractive location for high value added transaction processing for complex products and for process innovation.

Australia’s Performance Figures Aftermath of the GFC

The performance figures for the period above show that Australia’s economy held out amazingly well. While the GFC saw nations including the UK, US, Canada, Germany, Italy, France and Japan plunge into recession, Australia’s national GDP only fell in one quarter—the December 2008 quarter—by 0.9%.

To put this into a global viewpoint, the recession saw the UK record a plunge of -6%, USA -3.8%, Canada -3.2%, Germany -6.7%, Italy -6.4%, France -3.5%, and Japan a whopping -8.6%.

Increasing fears of a global financial crisis saw governments around the world apply strategies to contest falling output—such as the Economic Stimulus Packages provided in Australia.

The first round of stimulus assistance arrived in bank accounts in December 2008, enhancing Christmas spending, and the second was disseminated in April 2009, lifting end-of-financial-year expenditure.

The incentive packages arrived at a time when Aussies were feeling the strain of the economic downturn, and assisted in increasing spending. The positive effect of this cash injection can be seen in the performance figures—national disposable income increased by 8.7% in the December 2008 quarter to $195,733 million, and again by 1.7% to $198,939 million in the June 2009 quarter. Falling interest rates also helped in alleviating some of the strain, reaching a 49-year low of 3% in April 2009.

While GDP certainly fell during the GFC, Australia did not slide into an official recession. And while the unemployment rate rose (reaching a high of 5.8% in June 2009), those that retained employment actually experienced an overall increase in disposable income.

Many Australians are actually in a better position now than before the downturn—due to lower interest rates (currently at 4%, compared to 7.25% at the start of September 2007) and
greater national disposable income (estimated by IBIS World to reach $194,500 in the March 2010 quarter, compared to about $181,000 million in late 2007).

Add to this lower fuel-prices (now at US$80 per barrel compared to US$145 per barrel in mid-2008) and it’s not surprising that household spending has been relatively strong over 2009-10.

**Current Australian Trade Position-April 2010**

Trade in Australia with its traditional trading partners—the UK, US and EU—is stable.

The trade deficit was $1.2 billion in January 2010, down from a trade deficit of $2.2 billion and $1.9 million in February, which was related to imports of capital goods and low coal exports. The merchandise exported to China rose by $3.2 billion and the automotive sector exports jumped 14.6%.

The Australian government remains focused on expanding its trade relationship with the largest ever FTA with ASIA.

Current data shows that the value of exports has continued to grow in Australia by more than 20% despite the impact of the global downturn. Nationally exports jumped by more than 22% to $284 billion last year (2009) as compared with the previous financial year. Australia continues to rank amongst the most resilient economies, having ranked first in six of the seven years between 2002 and 2008. In 2009, Australia was ranked third. After an extended period of strong growth, reflecting sound macroeconomic policies and positive terms of trade, global events had made Australia’s economic growth sluggish. However, the downturn has been milder than in most other advanced countries.

Despite the worst global downturn in more than 70 years, the value of Australian services exports increased to a record $53.3 billion in 2008-09. The most pleasing aspect of current figures was the strong rise in the value of exports, as can be seen in the state breakdown below.

**State - by - state Breakdown**

<table>
<thead>
<tr>
<th>State</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Australia</td>
<td>$92.1 billion</td>
<td>up 24.2%</td>
</tr>
<tr>
<td>Queensland</td>
<td>$65.5 billion</td>
<td>up 48.3%</td>
</tr>
<tr>
<td>NSW</td>
<td>$60.4 billion</td>
<td>up 19.9%</td>
</tr>
<tr>
<td>Victoria</td>
<td>$33.1 billion</td>
<td>up 1.8%</td>
</tr>
<tr>
<td>South Australia</td>
<td>$11.5 billion</td>
<td>down 6.4%</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>$7.1 billion</td>
<td>up 32.7%</td>
</tr>
<tr>
<td>Tasmania</td>
<td>$3.9 billion</td>
<td>down 4.3%</td>
</tr>
<tr>
<td>ACT</td>
<td>$1.0 billion</td>
<td>up 5.7%</td>
</tr>
</tbody>
</table>

(IBIS WORLD, 2010)
Current World Position

The world economy is expected to grow by 2.7% in 2010 and 3.2% in 2011. Global GDP, which declined by 2.2% in 2009, is expected to grow 2.7% and 3.2% in 2011. Gross Domestic Product (GDP) in developed countries, which dropped by 3.3% in 2009, is expected to increase—by 1.8% in 2010 and 2.3% in 2011. World trade volumes are projected to expand by 4.3% in 2010 and 6.2% in 2011 (a stark contrast to a staggering drop of 14.4% in 2009). Recovery is underway but there is still a long way ahead. The world economy is now emerging from the crises. GDP growth rates are starting to improve. World bank data shows a very positive trend. Government policy, arresting protectionism and partnerships with trading partners will gradually move the world’s economy out of the crises. At the spring G20 Summit world leaders pledged to increase resources available to the International Monetary Fund by $250 billion — a move to stimulate international trade over the next two years. Government policy, arresting protectionism and partnership with trading countries would also stimulate trade in the long run.

Conclusion

The data above shows how trade continued to grow in Australia through the GFC period and this can be explained in relevance to the different mechanisms which emerge from crises and impact trade.

Currency Crises: During the GFC there was a sharp fall in the Australian dollar, which helped to keep Australian products competitive in comparison to the rest of the world and allowed the country to retain exports with it tradition partners while also developing new trade relations with Eastern Europe, China and India. Australia continued to build strong ties in Asia through new trade agreements.

Banking crises: Banks in Australia were in a better shape than G20 countries. Australian banks proved to be more pliant during the crises because they hadn’t bared themselves to as much toxic debt as other nations. The big four banks (Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Bank of Australia and Westpac Banking Corporation) stayed profitable, maintained their top credit ratings and wrote down less than US$4 billion between them. The stringent banking regulations assisted in keeping the currency crises at bay.

Liquidity: When the credit crises hit, Aussie banks were able to raise short-term capital, as their credit ratings were strong. The government helped, too by instituting a three-year uncapped bank deposit guarantee in November 2008. Since then deposits shot up at an annual rate of 20%, another source of low-cost funds for the banks. In short, finding the cash to survive has not been the struggle it has been elsewhere, and the focus has been on growth, not survival.

The RBA helped, too, by keeping interest rates relatively high prior to the crises.

Demand: As China grew over the past decade, it became Australia’s No. 2 export market (after Japan). China’s exports needs for Australia’s rich supply of iron ore grew every year over the last decade, and China was also one of the few economies to show significant growth through the crises years. Besides, Australia retained the demand for exports from its traditional partners in the UK and Europe.
Country Specialisation: Australia specialises in the service industry, natural resource sector and the primary industry which assisted in keeping its trade position strong. The mining boom with nil elasticity of substitution assisted in keeping the exports performance of the country strong.

Protectionism: Australia has just signed the agreement establishing the Association of Southeast Asian Nations (ASEAN)–Australia-New Zealand Free Trade Area (AANZFTA) on 27 February 2009 in Hua Hin, Thailand, thus establishing the fact that it is all pro trade and does not promote protectionism. Government policy, arresting protectionism and partnership with trading countries would also stimulate trade in the long run.

Government Policy: The large fiscal stimulus measures by the government have assisted in maintaining the trade situation.

To sum up, the strong demand from Asia has done the lion’s share of boosting Australia’s trade position, states the world’s most comprehensive and long-running study. The 2010 World Competitiveness Yearbook, produced by IMD’s World Competitiveness Centre with the help of CEDA and other international partners, states that Australia moved up to 5th among the 58 nations included in the study, after ranking 7th for the past two years. For the first time in decades, Singapore (1) and Hong Kong (2) pushed the US (3) from first place. However, according to IMD, they are so close it is better to define them as the leading “trio.” Of Australia’s ranking, CEDA’s Chief Executive, David Byers, said the rise to 5th place pointed to the relative strength of the domestic economy and its resilience to economic cycles. As strong Asian demand for commodities had underpinned the rise, it emphasized the critical need to maintain high levels of investment in the resources sector. “The Yearbook provides independent, international verification that Australia is in a solid comparative position after the GFC,” Mr. Byers said. The terms of trade remain in Australia’s favor, but the country needs to build on its services and resource industry strengths and boost exports as a percentage of overall GDP, he said. In this context, the Federal Government’s plan for a Resources Super Profits Tax could become a real concern. “Mining is a risky business and like other risky businesses, the distribution of profitability has a greater variance than the more predictable manufacturing and services sectors. The proposed ‘super profits’ tax is a tax on all uncertain (that is, most) projects and risks sending capital investment elsewhere. The proposal to tax those that are most successful is a tax in fact on all prospective and uncertain investments, not a tax on so-called pure economic rent,” he said. The results also highlight the importance of delivering a robust competitive telecommunications industry through a variety of channels. “Infrastructure has dropped another six places in the rankings due primarily to low rankings in technological and telecommunications infrastructure,” he said.
“Improving delivery of broadband services remains an issue but previous work by CEDA suggests that the Federal Government’s current approach is not the way to go. The proposed National Broadband Network is a $43 billion mistake. The task is to promote real competition across the four infrastructure ‘doors’-copper telephone lines, wireless, coaxial cable and fiber-allowing rivals to differentiate their services and compete more vigorously along their supply chains.”

The survey shows that the biggest decline in overall performance for Australia (measured by largest percentage change) was in the government’s financial position, with the budget deficit increasing from -0.4% of GDP to -4.87% of GDP. Three of the top five nations (Singapore, Hong Kong and Switzerland) were in a stronger Government budget position (measured as surplus/deficit% GDP). The question remains where are we now?

Over the following 10 months the global economy experienced a strong fall in output levels, with the global economy in recession for the last quarter of 2008 through to mid 2009. Unemployment was at its peak, with the US unemployment rate rising to almost 10%. This was accompanied by a sharp reduction in global trade levels, reduced bank lending levels, substantially reduced business and consumer confidence levels and further substantial falls in house prices.

The world economy finished the year in much better shape than it began. Government and policymaking helped significantly. The stimulus policy underpinned a recovery in confidence and economic activity. Economic indicators suggest that the global economy will continue to recover slowly throughout 2010.

Australia weathered the storm well, assisted by excellent supportive policy making and the structure of its financial and regulatory system. The Australian economy promises to grow vigorously over the course of 2010, helped by trend rates of growth in its major trading partners. The continued expansion of Australia’s financial sector capability is also helping with leading Australia in a position of strength as a regional and global financial centre.
Australia did witness a decline in output, but avoided large-scale declines sharp falls in the Australian dollar. In addition, Australia’s natural resources sector continues to benefit from its strong trade relationship with China and the broader Asian region. Australia also had little exposure to the sub-prime housing market, as it did not succumb to the fancy financial instruments used by the US banks. As a result, its banks were in fundamentally better shape than most of its US and European counterparts leading into the crises.

In terms of Australia’s international trade position, Australia’s annual exports of goods and services exceeded US$230 billion for 2008, with a compound annual growth rate of 9% since 1988. While commodity exports continue to dominate as a share of total exports, service exports have grown significantly over the past decade. Australia’s foreign investment grew almost 75% over the five years.

The most recent data shows that the value of exports has continued to grow in Australia by more than 20% despite the impact of the global downturn. Nationally, exports jumped by more than 22% to $284 billion last year, (2009) compared with the previous financial year.

Western Australia led the way with exports rising more than 24% on the back of high prices for iron ore and gold. But Queensland, which surged ahead of New South Wales in the rankings, had the largest increase of 48.3%. Tasmania and South Australia were the only states not to record increases in the same period.

Australia has come across as one of the most resilient economies, having ranked first in six of the seven years between 2002 and 2008. In 2009, Australia was ranked third. After an extended period of strong growth, reflecting sound macroeconomic policies and positive terms of trade, global events had slowed Australia’s economic growth. However, the downturn has been softer than in most other advanced countries and international trade continues to thrive. Australia did witness a decline in output, but so far has managed to avoid the large-scale declines endured by other G20 economies.

The major factors leading to this have been large fiscal stimulus measures, a sharp decline in interest rates and, initially, a sharp fall in the Australian dollar. All of these macroeconomic policy measures have helped stabilize the economy and improved confidence. In addition, Australia’s natural resources sector continues to benefit from its relationship with China and the broader Asian region. Australia also had little exposure to the sub-prime housing market, so its banks were in fundamentally better shape than most of its US and European counterparts leading into the crises.

**Future Research**

Can the growth be sustained or was it a result of the stimulus package?

There are other challenges on their way. Will those be sustained?

1. Slowing of growth due to changes in policy. The challenge is to sustain growth while restoring normal policy sans stimulus.
2. Household spending is down.
   This will impact economic growth in the shorter term and people and corporations need to avail of credit and spend to revive the economy.
3. Reliance on China

The reliance on China needs to be reduced. We need to diversify and put our eggs in several baskets through trade relations with other countries in the Asia Pacific Rim.

Despite these challenges, current financial figures, the high Australian dollar and the fair share market validates that Australia has slowly and steadily moved away from the GFC towards a new era. This research has been based on secondary data and has touched the tip of the iceberg. Propagation and proliferation of new academic research in this area will assist in further exploring the relation of crises to trade and probably enable researchers to recommend suggestions on precautionary measures that countries can take as a result of understanding the consequences and the mechanisms that explain the relationship between crises and trade.

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