Chapter X

Trade Liberalization and International Performance of Australian Manufacturing Industries and ITs

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Abstract

Trade liberalization has played a pivotal role in improving the export orientation of the various Australian manufacturing industries (at the two-digit level) in the period 1974/75-2000/01. However, those industries subjected to industry-specific assistance measures — for example, the textile, clothing and footwear and the machinery and equipment industries (motor vehicle industry component) — have exhibited a superior export-oriented performance. The important lesson emanating from this result for the information technology sector is that although it is also subjected to these measures, their expansion can help alleviate the weak and stagnant export performance in information technology goods thereby helping to combat the projected large balance of trade deficit. Moreover, stronger output and employment growth will arise because of the significant contribution of these goods to the economy.
Introduction

The trade liberalisation process in Australia, which began in 1971, has exposed the manufacturing sector to stronger import competition, which, in turn, has played a pivotal role in stimulating economic efficiency and more generally an improvement in international competitiveness. The higher export profile has been reflected by an acceleration in the real rate of growth of exports from this sector as revealed by Garnaut (1991), Swan and Zeitch (1992), the McKinsey Report (1993), the Economic Planning Advisory Council (EPAC) (1993), Bullock, Grenville and Heenan (1993), Menzies (1994) and Athokurala (1995).

However, an important limitation of these studies is that they do not indicate whether the improved manufacturing export performance is sustainable. A study by Marks and Sadeghi (1998) has utilised both co-integration and regression analyses to reveal a statistically significant inverse relationship between falling levels of import protection and the rising export orientation of the manufacturing sector’s production in the period 1980:1-1996:2. The stronger international focus as reflected by rising proportion of manufacturing output exported in turn indicates sustainable manufacturing export growth.

The present study seeks to build on this latter result by assessing the impact of trade liberalisation on the degree of export-oriented production at the two-digit level of the manufacturing sector\(^1\). The outcome of this exercise will indicate the relative output and hence employment growth prospects of these manufacturing industries. Emphasis will also be placed on the export performance of the Australian information technology sector. This objective is important as international trade in this area has been exhibiting above average growth in the last 20 years (e.g., see UN Trade Statistics). Hence, a positive export performance by the Australian information technology sector will generate not only higher levels of output and employment growth, but also stronger growth in export receipts.

The Manufacturing Sector’s Export Oriented Response

The (real) export-oriented performance of the various manufacturing industries at the two-digit level that will be gauged include the food, beverages and tobacco (FBT), textile, clothing and footwear (TCF), metal products (MP), machinery and equipment manufacturing (MEM), chemical, petroleum and related products (PCC & AS) and miscellaneous manufacturing (MM) industries\(^2\). Movements in the export orientation of the manufacturing sector (MS) is also included. This task is undertaken for the period 1974/75-2000/01 with the assistance of Diagram 1\(^3\).

Diagram 1 depicts all the manufacturing industries to have improved their export orientation in the period 1974/75-2000/01, that is, an increasing proportion of output is being exported. The same result applies to the manufacturing sector. The TCF, metal
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