

## YEAR 9 Unit 1 Resource allocation and making choices

# Understanding the economy

At its most basic level, economics is the study of how people produce goods and provide services for other people to consume or use. More specifically, economics is about maximising the amount of goods and services that can be produced from a limited supply of resources. Every country has its own way of organising the production and consumption of goods and services. This is known as an **economic system**. In Australia, we use a **market capitalist system**. Under this system, producers exchange goods and services with consumers in return for money.

Countries all over the world also exchange goods and services with each other. This is called **trade**. Today, international trade is more common than ever before.



## chapter 17

**Source 1** Today, many food products that were once made and sold in Australia by Australian companies are produced by multinational corporations. More than ever before, Australia is part of a global economy.

### 17A

#### How does the economy work?

- 1 Make a 'wish list' of all the items you would love to buy. Explain why most of us can't just buy everything we want. Why can't the economy produce everything that people wish to consume?
- 2 Have you ever purchased an item on sale? Why do you think the price of the item was reduced? Why is buying the sale item good for both the buyer and seller?

### 17B

#### What is Australia's place within Asia and the global economy?

- 1 Do you buy Nike runners or have an Apple iPad? These are imported goods. What other imported goods do you like to buy? Why?
- 2 Have you ever bought any of the items in Source 1? Many of these popular foods are produced by foreign-owned companies operating in Australia or are imported from overseas. Why might a country like Australia import food?



# 17.1 The Australian economy — an introduction

Most of us know more about economics than we think. Test your own economic knowledge by answering yes or no to these simple questions.

Test your economic instincts	Yes	No
1 You are given a wardrobe of new clothes. Would you still like to purchase other goods such as shoes or a new backpack?		
2 You already have a television, but have the opportunity to purchase a better one at a very reasonable price. Are you likely to purchase the new television?		
3 If you were selling homemade pies and knew they were popular, would you keep the price low?		
4 Mango farmers have experienced bumper crops. Is the price of mangoes likely to rise?		
5 Are bananas more expensive than diamonds?		

Source 1 Quiz: See what you know about economics

## casestudy

### What do you spend your money on?

How much money do you spend per week and what do you spend it on? According to market research company TRU, average spending per week ranged from \$56 for those aged 12 and 13 to \$192 for 18 and 19 year olds. Based on an online questionnaire, and using the answers of a sample of 810 young people, the study found that the most popular items to spend money on were clothes, transport, mobile phones, electronics and fast food. Favourite brands were Apple, Coca-Cola, Nike, McDonald's and Adidas.

Teenagers receive money from parents, part-time jobs, gifts and allowances. According to the Australian Bureau of Statistics (the ABS) a third of full-time

If you answered yes to the first two quiz questions and no to the rest, you already have some understanding of economics. Our needs and wants are virtually unlimited and many of us would like to purchase more goods and services. Read the case study 'What do you spend your money on?' Goods are physical items you can feel and touch, such as clothes, a skateboard, an iPad or even food. Services are non-physical things that assist us in some way or that we experience, such as attending a concert, having a haircut or getting help from a tutor.

At a very early age we learn that we 'can't have everything we want'. It's the same in the wider economy. We have to make choices about what can be produced and therefore consumed, because resources (used to make goods and services) are limited. Choices must be made about how best to use limited resources.

## Resources in the economy

Natural resources, labour resources and capital resources are the ingredients used to make all goods and services (see Source 3). These resources are limited.

secondary school students had a part-time job.

Many teenagers now have the technology that allows businesses to market and advertise their products. Advertising through social networking sites and emails keep teenagers abreast of the latest consumer goods on the market. Video games have also become a popular marketing tool to reach teenagers.



Source 2 Many businesses are now using social networking sites to market their products.



Natural resources such as:

- milk
- wheat
- sugar
- eggs
- cocoa.



Labour resources such as:

- technicians
- marketing executives
- bakers
- sales representatives
- managers.



Capital resources such as:

- ovens
- mixers
- cooling conveyors
- packing machines
- factories and buildings
- trucks.



Source 3 Resources used in the production of a chocolate biscuit

**Natural resources** are resources that come from nature, from above or below the ground. These can include coal extracted from the ground, fish from the ocean, or wood from trees.

**Labour resources** are the intellectual or physical skills of a worker that are needed to make a good or provide a service. The different jobs people do every day – whether it be a store manager, bricklayer or nurse – are all classed as labour. **Capital resources** are man-made resources such as machinery, buildings, roads and bridges that are used to produce and transport the goods and services we purchase.

## How to deal with the problem of scarcity – opportunity cost

There aren't enough resources available to satisfy all our needs and wants. This is because resources devoted to one type of production cannot be used to produce something else. Economists call this **scarcity**. Resources are limited, so we must make the best use of them. Economics is about how to make the best choices with our limited resources. At an individual level, for example, purchasing a car worth \$20000 means that person cannot afford their next best preference – going on an overseas holiday. Forgoing the overseas holiday is the real cost of buying the car. Economists refer to this as **opportunity cost** – the cost of the next best alternative use of resources.

## Check your learning 17.1

### Remember and understand

- 1 Why are needs and wants unlimited and resources limited?
- 2 Complete the following table by giving examples of the different resources used to produce each of the goods or services listed.

Good or service	Natural resources	Labour resources	Capital resources
Car wash			
Bunch of flowers			
Guitar lesson			

### Apply and analyse

- 3 Assume a farmer can grow either wheat or rice or both. The sale price of both crops is the same.

Production possibility	A	B	C	D
Wheat (tonnes)	0	100	200	400
Rice (tonnes)	200	150	100	0

- a What production possibility (A, B, C or D) would give the farmer the best outcome?
- b What is the opportunity cost (the next best option) of the farmer producing 400 tonnes of wheat?

### Evaluate and create

- 4 Do you think you spend more than your parents or carers did when they were teenagers? Why?



## 17.2 Economic systems and their characteristics

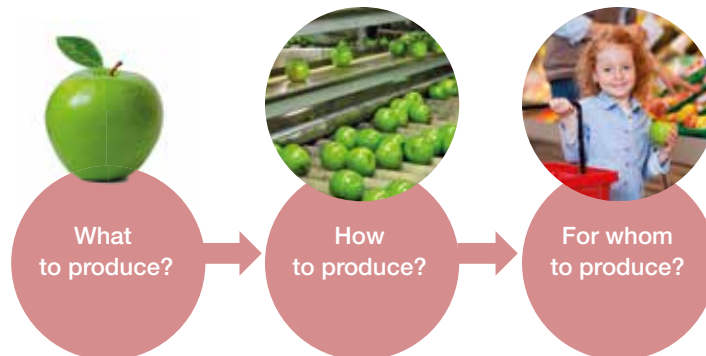
All countries use an economic system to ensure they use their scarce resources wisely. An economic system is a way of organising the production and distribution of goods and services. There are many different types of economic systems, but all of them must answer the three economic questions shown in Source 1.

Imagine you are stranded with your classmates on a remote island, completely cut off from the rest of the world (see Source 2). In order to survive you would have to

develop a mini-economic system. 'What to produce?' will depend on what is available – perhaps fish and coconuts are readily available. The next question is 'How to produce?' Perhaps someone will cook the fish on a camp fire and someone else will use a rock to split the coconuts. Once you've produced the items you will need to decide 'for whom to produce?' Perhaps each classmate will be allocated the same amount of produce.

### Types of economic systems

There are different types of economic systems that answer the three basic economic questions in a different way. Before we discuss each type of economic system, it is important to understand that political beliefs influence the economic system chosen. In a capitalist economy there is a belief that resources (natural, labour and capital) used in production should be owned privately. Producers are motivated to provide goods and services for consumers with the aim of making a profit for themselves.



**Source 1** The three economic questions all economies must answer



**Source 2** If you were stranded on a desert island with your classmates, how would you organise what had to be done?

In a socialist economic system, it is believed that social ownership of resources is much fairer. In many socialist economies, this has meant the government (referred to as 'the state') owns all the resources on behalf of the people. Karl Marx, who wrote *The Communist Manifesto* and *Das Kapital*, observed that workers were exploited in the capitalist system and would eventually revolt, overthrowing the rulers and creating a classless society (see Source 3).

### 1 Traditional or subsistence economy

In a traditional or **subsistence economy**, producers are self-sufficient, producing enough to survive, rather than aiming to make a profit. Money is not used. 'What to produce?' depends on what is available through hunting, gathering and growing food. Shelter is basic. Custom and religious beliefs may influence the question of 'how to produce'. Production is usually shared, solving the question of 'for whom to produce'. There are very few subsistence economies in existence. Some villages in rural Alaska are self-sufficient, with its inhabitants fishing and hunting for food. The following case study illustrates how one man in England opted for a subsistence lifestyle.

**Source 3** An anti-capitalism poster printed in 1911



### case study

#### Could you live without money?

Mark Boyle, pictured in Source 4, is also known as the 'moneyless man'. He embarked on a life without money in 2008. He now lives by growing his own food and foraging, scavenging and bartering.

Surviving has led to some creative thinking as Boyle runs his laptop and shower using solar power. His stove is made of huge olive tins. Going to the toilet just requires a spade and some recycled newspaper to use as toilet paper. Toothpaste is no problem when you can make it from cuttlefish and fennel seeds. Nettles found in the forest make a healthy green tea.

Boyle says, 'If we grew our own food, we wouldn't waste a third of it as we do today. If we made our own tables and chairs, we wouldn't throw them out the moment we changed the interior decor. If we had to clean our own drinking water, we probably wouldn't contaminate it.'

Boyle, an Irishman now living in Bath in the UK, is one of a number of individuals who live without money. An

American man by the name of Daniel Suelo stopped using money in 2000 and currently lives in a cave in Utah.



**Source 4** Mark Boyle lives without money. Could you?



## 2 Market capitalist economy

In a **market capitalist economy** such as Australia, producers exchange goods and services with consumers in return for money. This exchange takes place in a market, which may or may not be an actual physical space (see Source 5). Producers decide 'what to produce' based on what consumers want and the price they are willing to pay. 'How to produce' is solved by the producer choosing the most cost-effective method of production. The question of 'for whom to produce' is determined by who has the money to pay for the goods and services. The majority of productive resources (labour, natural and capital resources) are owned by individuals and firms. Most countries, including Australia, the United States, Germany, France, the UK, Malaysia and Japan, have adopted a market capitalist economy.

## 3 Planned capitalist economy

In a **planned capitalist economy**, individuals and firms own the productive resources but the government determines 'what to produce', 'how to produce' and 'for whom to produce'. This type of economy does not currently exist.

## 4 Market socialist economy

In a **market socialist economy** the three basic economic questions are answered in the same way as the market capitalist system, but productive resources in this type of economy are mostly owned by the government ('the state') on behalf of the people of the country. The former Socialist Federal Republic of Yugoslavia is considered to have had a market socialist economy.

## 5 Planned socialist economy

In a **planned socialist economy** it is the government that determines 'what to produce', 'how to produce' and 'for whom to produce'. It is called a planned economy because production takes place in line with the government's long- and short-term plans. The majority of productive resources are owned by 'the state'. In these economies the emphasis may not be on



**Source 5** In a market capitalist economy buyers and sellers come together in what is called a market. When there is an oversupply of a good the price falls and many consumers will be enticed to buy, clearing the oversupply of goods.

producing goods and services consumers want but may be directed to areas the government sees as desirable, such as defence. As a result, shortages of consumer goods may occur. North Korea has a planned socialist economic system. Many consumer goods in North Korea are in short supply and trade in illegal goods through the black market thrives.

### The tale of two cows

The tale of two cows is a simple and humorous story that is commonly used to explain how different economic and political systems work. Here we will use it as a tool to understand the main differences between the economic systems we have been learning about.



1

#### Traditional or subsistence economy

You have two cows...

You milk the cows and make enough cheese for your own needs. This allows you to feed your own family.

2

#### Market capitalist economy

You have two cows...

You sell the cows' milk and have enough money to buy a sheep. You sell the wool from the sheep to buy a chicken and then sell the eggs. You're getting rich, but some others in your community might be poor.

3

#### Planned capitalist economy

You have two cows...

You continue to own the cows but the government tells you what to do. For example, they may want you to produce butter.

4

#### Market socialist economy

You have two cows...

The government owns your cows but you decide what to produce (perhaps cheese), how to produce and who you will sell your product to.

5

#### Planned socialist economy

You have two cows...

The government takes your cows, sets up a dairy farm to produce milk and decides who the milk will be sold to.

**Source 6** The tale of two cows – how different economic systems work

## Check your learning 2.2

### Remember and understand

- 1 What is an economic system?
- 2 Match the statements below to the correct economic system:
  - a Firms are told what to produce by the government who owns most of the productive resources.
  - b Workers produce what they need to survive and money is not used.
  - c This is a market economy in which productive resources are owned by the state.
  - d This is a market economy in which productive resources are largely owned by firms and individuals.
  - e There is no money, and people only produce enough to meet their own needs.

### Apply and analyse

- 3 Explain why very few subsistence economies exist today.
- 4 What are the advantages and disadvantages of living without money, as Mark Boyle does?
- 5 Look closely at the anti-capitalism poster (Source 3). What criticism is being made about the capitalist economic system?

### Evaluate and create

- 6 Some North Koreans have recently been willing to pay up to a day's wage for chocolate biscuits called 'choco pies' on the black market. Why might there be a black market for items such as chocolate biscuits in North Korea?
- 7 Which type of economic system do you think is the best? Why?

## 17.3 Participants in the Australian economy

Australia has a market capitalist economy. Let's first look at two key participants or players in the Australian economy – consumers and producers, as shown in Source 5. Producers provide consumers with the goods and services they need, and in return consumers spend money buying these goods and services. Some

consumers earn wages (by providing the resource of labour) to pay for these goods and services.

One important characteristic or feature of Australia's economy is **free enterprise**, where individuals can set up a business and make a profit. Businesses are expected to pay tax to the government and comply

with regulations. Businesses similar to those in the case study benefit the economy because the government is able to collect more tax (boosting its revenue), consumers are provided with goods and services, and individuals are employed and earn a wage. The individuals in the case study used their own resources to establish their businesses.

The Australian economy doesn't just consist of consumers and producers. The government and financial institutions also play an important role, as outlined in Source 5.

Economic decisions made by any of the participants in Source 5 will have economic consequences. For example, if you decide to set up your own IT business, you will need capital equipment such as computers, desks and chairs. People will be employed making these capital products, and you may also have to employ IT consultants and administrators to help you run the business. These people will in turn earn wages, and they will spend their earnings on more goods and services after they have paid tax to the government. Some of the wages earned will also be saved by financial institutions, which will then use those savings to lend to consumers. In this way, participants in the Australian economy are interconnected.

The overseas sector, where we are linked to international markets, is another key part of the Australian economy.

Australians buy imported goods and services from other countries and we also export goods and services overseas. This trade with other nations directly affects our economic welfare. There are many factors that influence trade, especially the constantly changing **exchange rate**. The exchange rate is the value of one country's currency when swapped with another

country's currency. For example, \$1 in Australian currency might be worth 72 US cents. If the Australian dollar rises in value against other currencies, it means Australian exports will be more expensive and imports cheaper. If the Australian dollar falls in value against other currencies, Australian exports will become cheaper and imports will become more expensive (see Unit 2.4 for more information on Australian trade).

### Australia and the global economy

Globalisation is a term you will have heard before, probably in the news. It means that all the countries of the world are linked and should be seen as one worldwide, or global, economy.

Australia is linked to the global economy because of:

- trade with other nations – we import goods and services made overseas into Australia, and export goods and services from Australia to other countries
- foreign direct investment – foreign funds used to establish new or existing businesses in Australia
- an international market for labour – Australians work overseas and people from other countries come to work in Australia
- technology – allowing us to quickly and efficiently communicate with potential customers all over the world
- migration – settlers come to live in Australia.

Australian businesses are crucial to the economy's success and have had to adapt to the changing business environment. Many businesses now source products from overseas or have part or all of their products made overseas.

### case study

#### What are some of Australia's booming businesses?

##### Carman's Fine Foods

When Carolyn Creswell was 18, she used her \$1000 in savings to buy a muesli business. Twenty-one years later in 2014, she was ranked 25th on the BRW Young Rich list, with her wealth estimated at \$83 million. Carman's Fine Foods produces a range of muesli products that are Australian made and owned. Carman's is a major food retailer, exporting to over 32 countries and employing up to 20 staff.



Source 1 Carolyn Creswell

##### Adriano Zumbo Patisserie

Adriano Zumbo is an Australian patissier and chef. You may have seen him on television making his intricate desserts. After Year 10, Adriano finished school and started an apprenticeship as a pastry chef. Although he now owns six patisseries in Sydney and Melbourne, employing more than 100 staff, Adriano started out small, selling homemade cakes and pastries to local cafes.



Source 2 Adriano Zumbo

##### Milan Direct

Milan Direct is a market leader in selling designer furniture online and now has the biggest share of the Australian online household furniture market, according to a recent IBISWorld report. Dean Ramler, co-founder and CEO of Milan Direct, comes from a family of furniture makers. Dean's concept of selling designer furniture online only, with no retail store, has paid off. Milan Direct sells its furniture in Australia, the UK and Europe. The company employs 20 staff and is a multimillion dollar business.



Source 3 Dean Ramler

##### Shoes of Prey

Jodie Fox, Michael Fox and Mike Knapp didn't think that their business idea for Shoes of Prey in 2009 would become a multimillion dollar business within two years. The concept was unique, though, as the customer can design their own shoes using the 3D designer. The business has five offices globally and employs 150 staff.



Source 4 Jodie Fox



##### Consumers

- buy goods and services
- earn wages and salaries
- pay taxes
- receive government benefits
- save



##### Producers

- produce goods and services
- aim to make profit
- pay wages
- pay taxes
- borrow money
- import and export goods and services



##### Government

- charge taxes
- pay wages
- spend on goods and services
- provide benefits, payments and services to Australians
- borrow money



##### Financial institutions

- hold savings
- lend money
- aim to make a profit
- pay taxes

Source 5 Key participants in the economy are consumers, producers, the government and financial institutions.



## case study

## Where are your clothes made?

## The garment trade and sweatshops

It's highly likely the clothes you are wearing were not made in Australia. Have a look at the labels on your clothes and you might discover where they were made. Australian retailers such as Rivers, Coles, Target, Kmart and Cotton On order clothes from factories in Bangladesh. Bangladesh is one of the cheapest locations to make clothes, because wages are so low. Four million people work in the Bangladesh garment industry, typically working 12 hours per day. China, India and Cambodia also supply Australia with cheap clothing.

The global garment trade came under scrutiny and inspired protests (see Source 7) when more than 1100 people died in a garment sweatshop in Dhaka, Bangladesh, in 2013. This particular sweatshop was making clothes destined for the US and Europe. Building inspectors had requested the building be evacuated the day before it collapsed, but supervisors at the sweatshop declared it to be safe.

## Challenges for Australian fashion businesses

At the higher end of the fashion market, many Australian designers are struggling to keep their businesses afloat. Perth fashion designer Poppy Lissiman, for example, has put her fashion label on hold while investigating having her garments manufactured overseas to cut the costs of production.



**Source 6** Many Australian designers have their clothes made overseas.



**Source 7** An anti-sweatshop protest in Washington, D.C.

Fierce international competition has also led some designers to close their businesses. Smaller businesses in particular may struggle, as some large manufacturers overseas will only do business if the order is substantial. Online shopping has also had a significant impact on local fashion designers.

Some Australian fashion designers have managed international success, however. Australian fashion designers Peter Strateas and Mario-Luca Carlucci

launched their label during Paris Fashion Week. They bypassed Australia and went straight to the Paris catwalk with their striking designs, and now have 20 stockists around the world.

Source 6 shows how a dress might be made in various parts of the world – it's the process of globalisation in action.

## Check your learning 17.3

## Remember and understand

- Imagine you set up a hairdressing salon.
  - What service are you providing for the consumer?
  - What does the consumer give you in return for cutting their hair?
  - List some of the costs you incur as the owner of your hairdressing salon.
  - In what ways does the government affect your hairdressing business?
  - Why might you need the services of a financial institution such as a bank in running your business?
- List the economic consequences of opening up a new restaurant in your area.
- Explain what happens to the price of exports when the Australian dollar rises.
- Explain why Australia is part of the global economy.

## Apply and analyse

- In 2014 ALCOA (a metals and engineering company operating in 31 countries) closed its Point Henry aluminium smelter and two rolling mills. List the economic consequences of this decision in relation to:
  - employment
  - taxes
  - government payments, such as unemployment benefits.
- List five businesses that sell their products or services worldwide.
- Would companies such as Milan Direct and Shoes of Prey have been successful if they had not sold their products overseas? Why/why not?
- Take a few minutes to daydream.
  - If you were going into business, what product or service would you be most interested in selling?
  - Is there an international market for your product or service?
  - How will your product or service stand out from other products on the market?



17A rich task

# The decline of the automotive industry in Australia

Increased competition from overseas is one of the adverse effects of globalisation. This has led to some business closures in Australia.

Mitsubishi closed its last Australian car manufacturing plant in 2008. Holden, Toyota and Ford no longer manufacture cars in Australia (see Source 1). GM Holden boss Mike Devereux declared, ‘As painful as it is to say, building cars in this country is just not sustainable.’

Reasons for the decline in the Australian automotive industry include:

- Pressure from imports. Australians now have 65 brands and 365 car models to choose from, making it the most competitive automotive market in the world.
- The more cars that are produced, the cheaper they become, and Australia did not produce cars in large enough volumes.
- The high Australian dollar made our exported cars more expensive overseas and imported cars cheaper in comparison.

The Holden, Ford and Toyota closures have also sparked concern for those businesses supplying car parts. Lawyer Evan Stents, who specialises in the automotive industry, raised concerns about job losses in those businesses supplying car parts. In relation to Ford he said, ‘For every one manufacturing job at Ford, there are probably another four jobs that are threatened in the parts industry.’

Workers made redundant have their own personal tale to tell. Fifty-five-year-old Moji Behbahani, who has worked for Ford for 23 years, described losing his job, his hands shaking.

‘I have to work,’ Mr Behbahani said. ‘I have so many friends there, it is like a second family.’



Source 1 The end of car manufacturing in Australia.

skilldrill: Reasoning and interpretation

## Identifying the consequences of business decisions

Businesses make decisions all the time, such as whether to hire staff or produce a new product using sustainable resources. The closure of a business is an example of a decision that can have far-reaching consequences, not only for the business owners and staff, but for the economy as a whole. Identifying the consequences of a business decision is vital to:

- reduce unwanted side effects
- provide assistance to those who are affected by the decision
- turn a negative business decision into a positive outcome.

**Step 1** Clarify exactly what you are being asked to do. You must specifically ‘identify consequences’. Consider using a dictionary for the meaning of ‘identify’ and ‘consequence’. It is also helpful to find synonyms for these words. Rewrite the task if it is easier for you so that ‘identify consequences of a business decision’ becomes ‘look for the effects or outcomes of the business decision’.

**Step 2** Be clear about what business decision has been made and try to state the decision in just one sentence.

**Step 3** Who will be affected by the business decision? Identify groups/people that will be affected by the decision.

**Step 4** How will groups/people be affected by the business decision? Identify how each group might be affected by the business decision. Brainstorm possible effects on each group.

### Apply the skill

Identify the consequences of cars not being made in Australia anymore.

- 1 Read the information provided on the decline of the automotive industry in Australia, then copy the following table (adding as many rows as you need) and fill it out. Remember that the information provided will not provide all the answers; you will have to think about how the decision will affect certain groups yourself. The first answer has been done for you.

Those affected by cars not being made in Australia	How groups/people will be affected by not making cars in Australia
Car manufacturer	Their business will now survive and operations will continue in other countries where profit can be made.  Car sales may decline in this country.  Redundancy payments (when the employer makes a payment to the employee whose job is no longer needed) will need to be made, affecting profit outcomes.  The factory site will be sold and some of the proceeds returned to the company.

- 2 Write 2–3 paragraphs about the consequences of the decision to stop car manufacturing in Australia.

Extend your understanding

Identify the consequences of the decision by the Victorian Liberal Government in 2014 to give SPC Ardmona \$22 million to ensure the company still continued its operations in Victoria.

- 1 Use the following table to help you identify who will be affected and how they will be affected by the decision. Search the Internet for more information – you can search using the keywords ‘Victorian Government’ and ‘SPC Ardmona’.

Those affected by the government’s decision to save SPC Ardmona	How groups/people will be affected by keeping SPC Ardmona in Australia

- 2 Write 2–3 paragraphs about the consequences of the Victorian Government’s decision to assist SPC Ardmona in Australia.



## 17.4 Australia's place in Asia and the global economy

Australia's economy is relatively small by global standards, representing around 2 per cent of the world's production. Nevertheless, international trade – buying from and selling goods and services to other countries – is important to us.

Australia is both an exporter and importer of goods and services. Exports are goods and services produced locally and sold overseas. Australia exports around one-fifth of what it produces. Examples of Australian exports include beef, wheat, pharmaceuticals, wine, beer, and education and travel services. Imports are goods and services produced overseas and sold to Australia. Australia imports the equivalent of around one-fifth of its production. Examples of goods and services imported by Australia include cars, computers, telecommunications equipment and personal travel services.

Australia has an abundance of natural resources such as coal, iron, copper, gold, natural gas, uranium and renewable energy sources (see Source 1). These types of natural resources are sometimes referred to as commodities. These natural resources have been in high demand by Asian countries, particularly China, for the manufacture of consumer goods sold around the world. China's recent economic slowdown has, however, resulted in falling commodity prices.



**Source 1** Australia is rich in natural resources such as gold, which we export to the world. Australia is one of the largest gold producers in the world.

Australia is not a large exporter by world standards (see Source 2). Trade with other nations is important, though, because:

- Australia earns money by exporting our goods and services
- international trade provides employment for both Australians and people overseas
- Australia can buy products it does not produce itself from other countries
- Australia can sell products that other countries need.

In addition to the exchange of goods and services between Australia and the rest of the world, other countries invest directly in Australia by setting up business or expanding their existing business operations in Australia. Chances are your favourite chocolate bar was made in Australia, but the company that produced it was the foreign-owned British company Cadbury.

**The top 30 exporting countries**

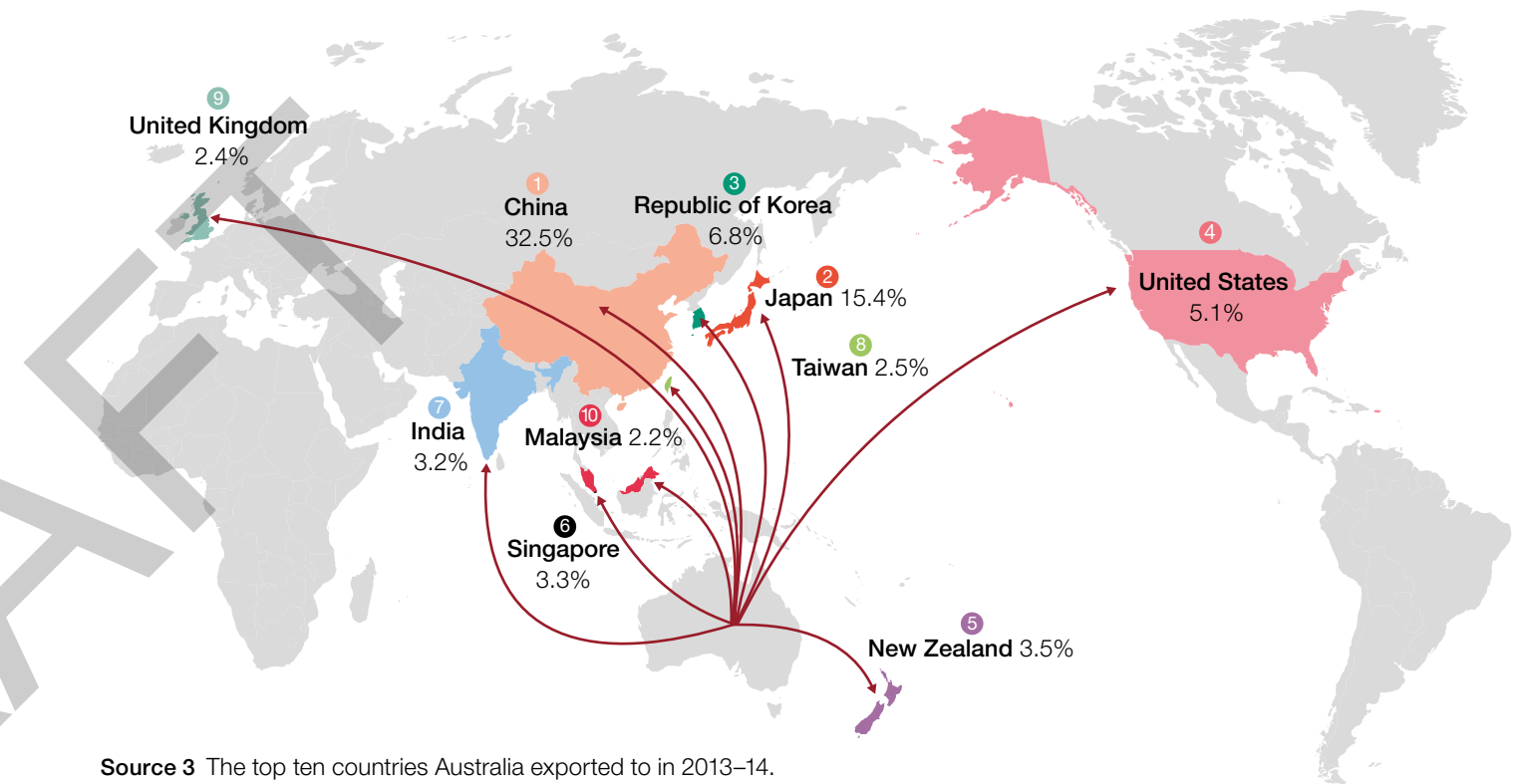
1	China	11	United Kingdom	21	Switzerland
2	European Union	12	Mexico	22	Saudi Arabia
3	United States	13	Canada	23	Thailand
4	Germany	14	Singapore	24	Malaysia
5	Japan	15	Russia	25	Poland
6	South Korea	16	United Arab Emirates	26	Brazil
7	France	17	India	27	Australia
8	Hong Kong	18	Taiwan	28	Vietnam
9	Netherlands	19	Belgium	29	Turkey
10	Italy	20	Spain	30	Indonesia

**Source 2** This table, constructed using figures from the CIA World Factbook website, shows the ranking of countries according to the value of export goods in 2015.

### Australia's major trading partners

The United Kingdom was Australia's major trading partner in 1900, receiving nearly 60 per cent of all Australian exports. This was because Australia was once a British colony and had strong historical ties with

Britain. This strong relationship continued into the 1950s, seeing Australia trading mainly with the United Kingdom and other European countries. Since then, there has been quite a dramatic shift in the countries we predominantly trade with. As you can see in Source 3, the United Kingdom now only receives 2.4 per cent of our exports, while China receives almost a third of our total exports of goods and services.



**Source 3** The top ten countries Australia exported to in 2013–14.

### What Australia imports and exports

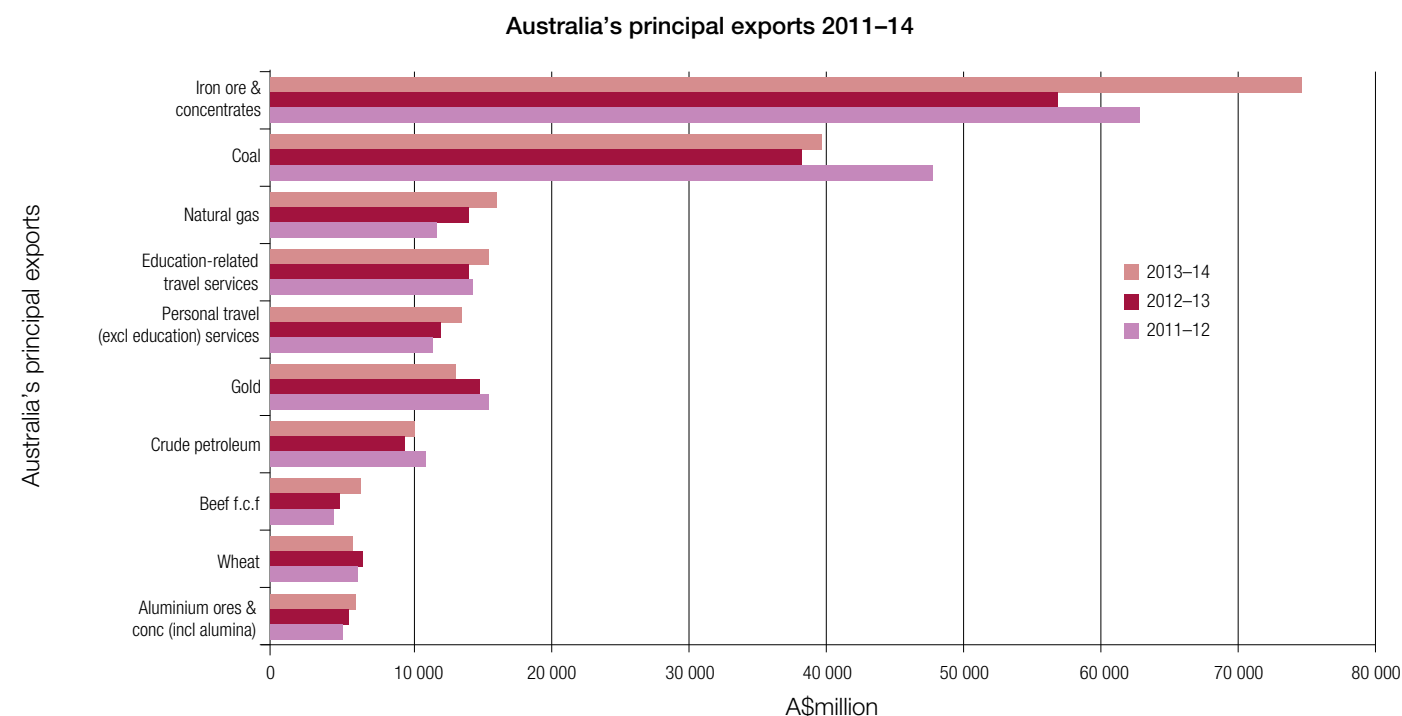
What Australia imports and exports is called the 'composition' of trade. Nearly 78 per cent of our exported goods in 2013–14 were in **primary products**. These are products that are produced from raw materials and are not manufactured. Nearly 16 per cent of our exported goods in 2013–14 were manufactured goods. Agriculture, fishing, mining, and forestry are examples of primary industries. Referring to Source 5, count how many of Australia's major exports are primary products.

Nearly 72 per cent of all the goods we imported in 2013–14 were manufactured products and just over 24 per cent of imports were primary products. Refer to Source 9 and count how many of Australia's major imports are primary products.



**Source 4** Primary products make up 75 per cent of Australia's exports.





**Source 5** This chart shows Australia's principal exports. Iron ores and concentrates are Australia's largest individual export items.



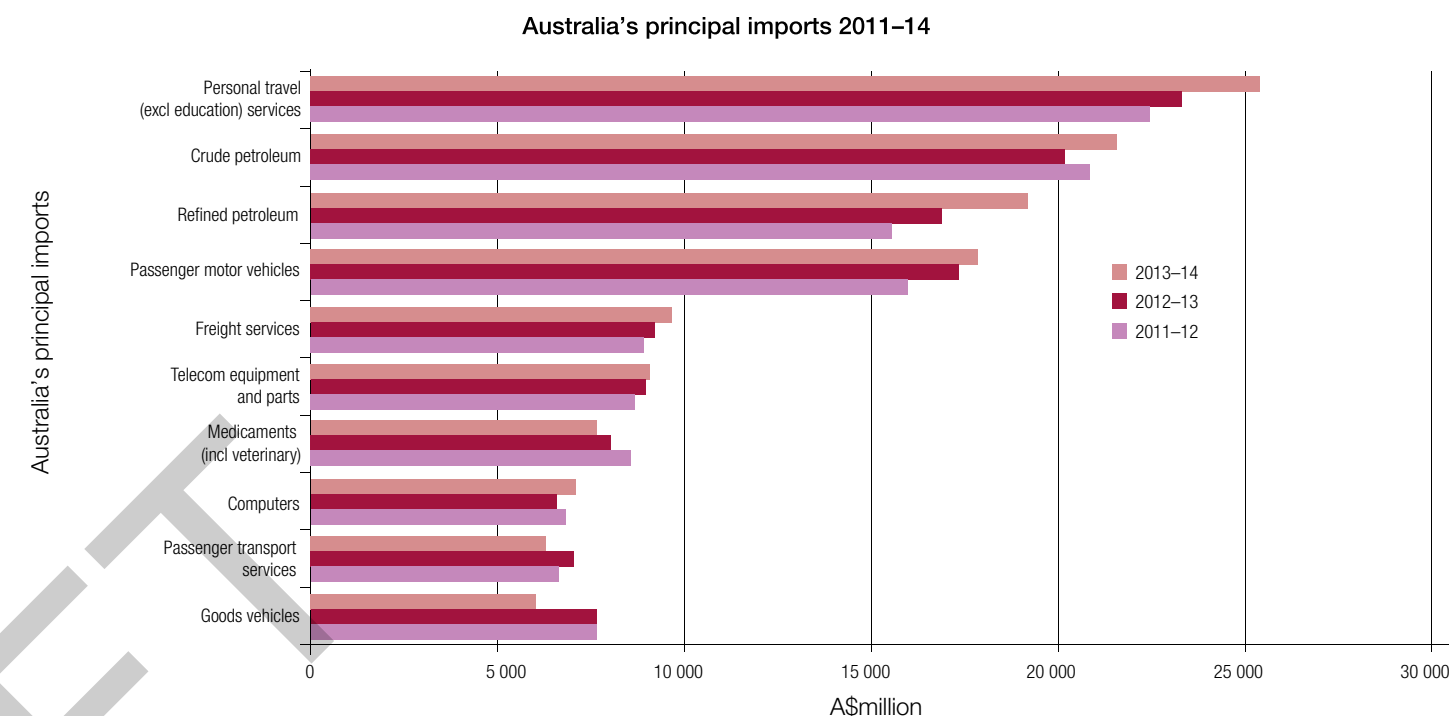
**Source 6** This iron ore mine in Kalgoorlie, Western Australia, is one of the largest artificial holes in the world. Iron ore and other mineral concentrates are by far Australia's largest export.



**Source 7** A huge coal loader prepares shipments of Australian coal for export to China. Coal is Australia's second-largest export.



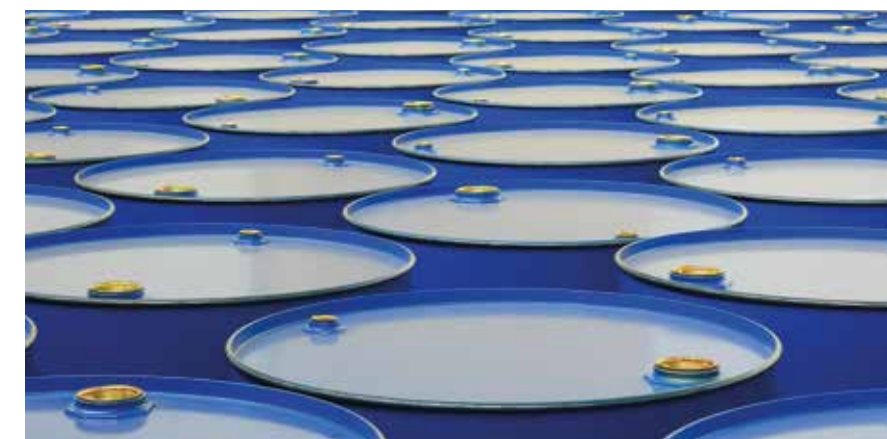
**Source 8** In 2013–14, gold represented Australia's sixth-largest export.



**Source 9** This chart shows Australia's principal imports. Many Australians travel. Our top import from 2010 to 2013–14 was personal travel services.



**Source 10** In 2013–14, Australians travelled overseas in record numbers. Personal travel services, that is people travelling overseas for holidays, is Australia's largest import, with countries such as Indonesia, Thailand and the USA among the hottest destinations.



**Source 11** Crude petroleum, used to manufacture a range of products from petrol to plastics, is Australia's second-largest import.



**Source 12** Passenger vehicles manufactured overseas in countries such as Japan, Korea and Germany are Australia's fourth-largest import.



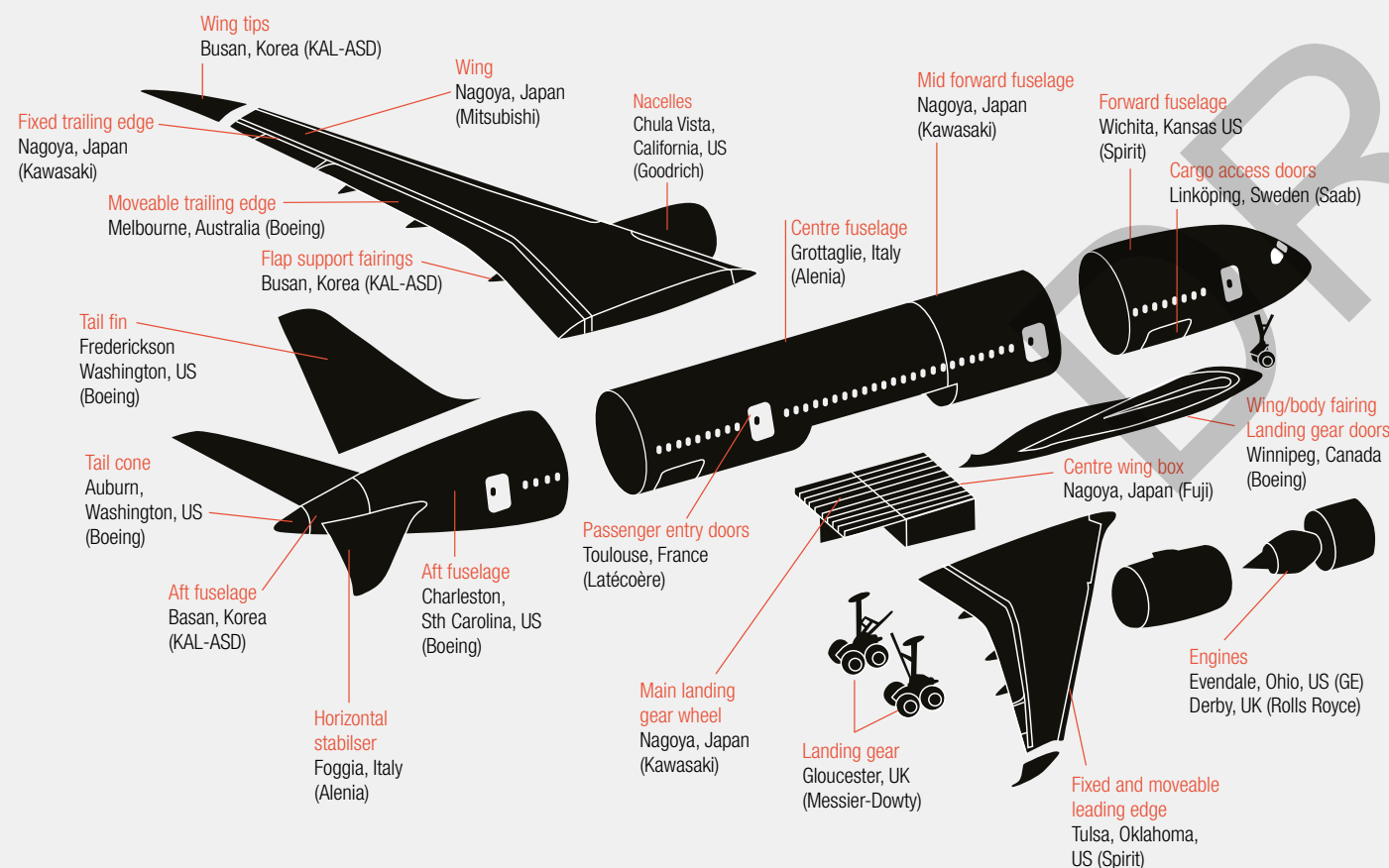
## casestudy

### How do you make a plane these days?

Soon there might have to be a label that reads 'Made in the world'. Products are increasingly being created internationally. A product may, for example, be designed, manufactured, assembled and marketed in several different countries.

The Boeing 787 Dreamliner is an example of a global product. Source 13 shows that the plane's parts or components are sourced from countries all over the world. Part of the plane's wing is designed and produced in Melbourne at Boeing Aerospace Australia. Assembly takes place in the United States.

Producing a global product may be beneficial for a number of reasons. The latest information technology in the world can be sourced. Costs of production may also be reduced by choosing the country that can assemble or produce the components the most cheaply.



Source 13 Countries from all over the world work together to make the Boeing 787 Dreamliner.



Source 14 The Boeing 787 Dreamliner took to the skies for the first time on 15 December 2009.



Source 15 The cockpit of a Boeing 787 Dreamliner.



Source 16 The economy cabin of a Boeing 787 Dreamliner.

## Check your learning 17.4

### Remember and understand

- 1 What is the difference between an import and an export?
- 2 Which two countries receive the largest proportion of Australia's exports?
- 3 Describe the change in Australia's major trading partners from the 1950s to today.

### Apply and analyse

- 4 What type of products does Australia mostly export and why?
- 5 Why can trade with another country affect employment?

### Evaluate and create

- 6 The following is a list of the top ten countries Australia sourced its imports from in 2013–2014: Malaysia 3.8%, United States 12.2%, Japan 6.3%, Singapore 5.5%, Thailand 3.9%, China 15.4%, Germany 4.1%, United Kingdom 3.7%, New Zealand 3.3%, Republic of Korea 3.6%
  - a Rank the countries in order from one to ten. Number one ranking is the country we import from the most.
  - b Using these statistics, create a bar chart (either in Excel or by hand) to display the top ten countries we import from.
- 7 Describe Australia's place in the global economy in relation to the following:
  - a our world ranking as an exporter
  - b the total percentage of world exports Australia produces
  - c the total percentage of world production Australia is responsible for.
- 8 Go to the Department of Foreign Affairs and Trade website and select the 'Countries and regions' section. Each country has a fact sheet. Choose a country you are interested in and create a PowerPoint presentation of our trading relations with that country. Include the following:
  - a a map showing where this country is in relation to Australia
  - b the major goods and services exported and imported between the countries
  - c the total value of our exports and imports with this country
  - d our trade relations and trading history with the country.



## 17B rich task

# The rise of China as Australia's largest trading partner

China is Australia's largest trading partner. China's economic reforms in the 1970s saw it change from a planned socialist economy to a more market-based economy. China also increased its trade with the rest of the world, reducing its **tariffs** (taxes on imported goods and services) and other barriers to trade.

The China–Australia Free Trade Agreement was signed between Australia and China in 2015. When the agreement is fully implemented, 95 per cent of Australian exports to China will be tariff-free. That means Australia's goods and services will be cheaper to buy in China, so the hope is that demand for Australian exports will rise. Australian tariffs on Chinese imports will also be eliminated over time, resulting in lower prices and greater availability of Chinese products in Australia.

Since 1979, China's economy has grown very rapidly. It is estimated that this growth has helped around 500 million people in China to move out of extreme poverty. This growth has led to higher living standards and increasing urbanisation, as people move from farms to large cities to live and work. China is now the second-largest economy in the world behind the United States.

Major Australian exports to China include iron ores and minerals, coal, gold and crude petroleum. These exports are needed for China's huge manufacturing industries, which produce consumer goods sold throughout the world. Major Chinese imports into Australia include telecommunications equipment and parts, clothing, computers, furniture, mattresses and homewares.

In the Australian business news we hear daily reports about how the Chinese economy is performing. The performance of the Chinese economy is important to Australia because it affects Australia's export performance. Over a quarter of all Australian exports are currently sent to China. It is hoped that there will be continued demand for our exports in the future. Also, as incomes in China grow, there may be increasing demand for Australian food products, manufactured products requiring skilled creation and assembly, and services.

Australia's goods and services trade with China (A\$ millions)

Description	2009	2010	2011	2012	2013
Total exports from Australia to China (A\$ millions)	47 763	64 304	77 596	79 260	101 590
Total imports from China to Australia (A\$ millions)	37 399	41 029	44 030	46 402	49 329

**Source 1** The value of Australia's imports and exports with China, between 2009 and 2013



**Source 2** China is now Australia's major trading partner. In 2013 we exported 28.1 per cent of our total exports to China and imported 14.5 per cent of our total imports from them.

## skilldrill: Reasoning and interpretation

### Reading and interpreting data tables

A table consists of rows of data that run horizontally and columns of data that run vertically. The first row and column of the table typically do not include any numerical information. Instead, identify the names of what is being shown.

Being able to read and interpret a table of statistics provides the information we need to solve problems, investigate reasons why a problem has occurred, prove a point and strengthen an argument we are trying to make.

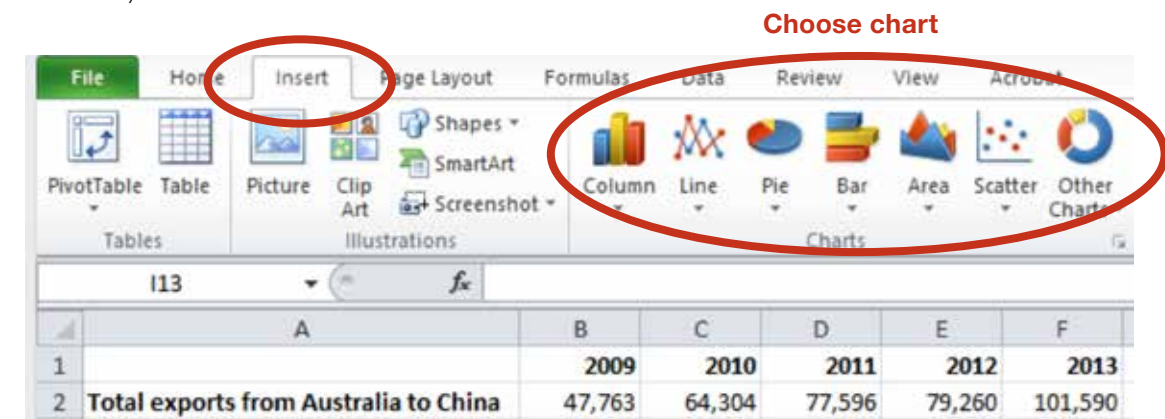
**Step 1** Read the table heading to gain an overall idea of what the table is about. Then, read the names of the columns and rows that do not have numbers in them. The first row of column 1 in Source 1 tells us that the data is annual data. The second row of column 1 tells us that the data contained in each square or cell is the value of total exports in millions of Australian dollars. Read across to the year 2009 and then down to the next row to see the value of total exports from Australia to China for that year (A\$47 763 000 000, or over 47 billion!).

**Step 2** Now try to make some observations about the data you see. As you read the value of exports for each year try to observe whether there is a trend. Are the numbers generally increasing or decreasing or do they fluctuate? It's not enough to say that Australian exports to China have increased over the last five years to 2013. Has there been a gradual increase from one year to the next or has there been drastic growth in the value of exports to China? Are there any years that stand out as exceptionally good or poor? It may also help if you calculate the percentage change from one year to the next.

**Step 3** Consider drawing a chart from the data so you can more easily see the trends. Copy the table into an Excel spreadsheet, select the table, click the 'Insert' tab and choose a chart.

### Apply the skill

- Interpret the table in Source 1 and describe the change in Australia's total exports to China in the five years to 2013. Provide an Excel chart with your description.



**Source 3** How to create a simple chart in Excel

## Extend your understanding

- Compare imports and exports in the year 2013. Did we export more goods and services to China than we imported from them?
- Explain why the performance of the Chinese economy may affect Australia's export performance.