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## EU – AUSTRALIA. ECONOMIC PARTNERS?

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**Abstract:** The European Union (EU) remains among Australia's largest single trading partners. Economic relations between the EU and Australia have longstanding tradition and are based on diversified commercial and investment links. On the other hand, however, over the past 20 years Australia has been immensely expanding trade with Asia. Countries from Asia accounted for six out of Australia's top ten trading partners in 2008-09, accounting to 44.9% share of Australian total trade, and these were China, Japan, Republic of Korea, Singapore, India, and Thailand. Asia, one of the fastest growing regions in the world, will continue to drive Australia's trading performance in years to come, which may result in declining the role of the EU.

**Key words:** European Union, Australia, economic partners, cooperation.

### 1. Introduction

Despite the worsening of the global financial crisis, in 2009 Australia had recorded 18 successive years of growth and its economy remained relatively robust. Over the past 20 years, Australia has further integrated into the world economy. Trade as a share of GDP increased from 32.5% in 1988-89 to 47.1% in 2008-09.<sup>1</sup> Trade growth has been especially important factor of Australia's economic performance, and resulted from comprehensive economic reforms, unilateral trade liberalisation and liberalisation under the GATT/WTO auspices as well as bilateral free trade agreements with trading partners (New Zealand, Singapore, the United States, Thailand, Chile and ASEAN). Australia has a diverse export base and is a major exporter of food, resources, fuels and education. In 2008-09, Australia's two-way trade totalled A\$563.7 billion, up from A\$491.7 billion in 2007-08 and compared to A\$118.1 billion in 1988-89.

The European Union (EU) remains among Australia's largest single trading partners. Economic relations between the EU and Australia have longstanding tradition and are based on diversified commercial and investment links. As an aggregate, the EU has been Australia's largest partner in two-way trade in goods and

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<sup>1</sup> Data for Australian financial year (July 1 to 30 June), *Composition of Trade Australia 2008-09*, Government of Australia, Canberra, November 2009, p. 7.

services, the largest source of new foreign direct investment in Australia and second largest destination for Australian investments overseas.<sup>2</sup>

There are many reasons for developing that economic partnership over many decades. The EU and Australia are relatively open and liberal economies with trade and investment being among the most important stimuli to growth. Trade and investment help creating jobs, lifting incomes as well as they encourage firms to be more innovative. In addition, the European Union and Australia share strong cultural and historical ties which stem from common political and civilization roots and the European ancestry living in Australia. Almost 2 million people (over 40%) of the 4.5 million population of Australia born overseas were born in the EU.<sup>3</sup> The European community is active in promoting cooperation and is an important catalyst in overall relationship.

On the other hand, however, after growing rapidly in recent years, China became Australia's largest individual two-way goods and services trading partner in 2008-09, accounting for 14.7% of total trade as compared to the EU 27, counted as one, reaching 16.0%. Japan remained Australia's largest exports market (goods and services), accounting for 19.3% of total exports in 2008-09, China was second largest export market (15.6%), followed by the Republic of Korea (7.4%), India (6.6%), the United States (6.1%) and the United Kingdom (5.6%). The EU 27 amounted to 11.5%.

Expanding trade with Asia has also been a visible feature in the composition of Australian overall imports sources. Over recent period China has emerged as Australia's largest individual goods and services import source accounting for 13.8% of total imports in 2008-09, overtaking the United States which had always been the strongest source of imports. The United States, with share that equalled 12.8%, was followed by Japan (7.3%), and Singapore (6.4%). The United Kingdom was the fifth import source accounting for 5.1%, and Thailand was the sixth (4.4%). Germany was the other EU member country playing important role as imports source ranked seventh, and accounting for 3.6% of total imports. The EU 27, however, counted as one, reached 20.5% as imports source followed by the ASEAN economies amounting to 19.2%.<sup>4</sup>

The goal of this paper is to present Australia's economic partnership highlights with the European Union in the context of global Australia's trade connections, especially in Asia.

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<sup>2</sup> See also: K. Żołądkiewicz, *Unia Europejska jako partner handlowy Australii*, [in:] J. Bilski (ed.), *Unia Europejska w gospodarce światowej*, Folia Oeconomica 209, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2007, pp. 401-413. On Poland's relationship with Australia see: K. Żołądkiewicz, *Poland-Australia economic relations*, [in:] J. Pietrzak (ed.), *Polish Transformation Experience*, Fundacja Rozwoju Uniwersytetu Gdańskiego, Sopot 2006, pp. 67-81.

<sup>3</sup> *European Union and Australia. Key Facts 2009*, Delegation of the European Commission to Australia and New Zealand, Canberra, March 2009.

<sup>4</sup> *Composition of Trade Australia 2008-09*.

## 2. Australia's trade and investment relations with the EU

Estimates based on a Balance of Payments<sup>5</sup> assess economic links between the EU and Australia to have exceeded A\$126 billion in 2008, or 18% of all Australian foreign transactions. It was much larger figure when compared with other major economic partners such as the ASEAN members (14%), the United States (13%), Japan (12%) and China (11%) by a significant margin, confirming the EU position as an important partner.

In 2008-09, the European Union remained Australia's largest trading partner, with two-way trade totalling A\$90.3 billion, more than 16% of total trade in goods and services. Among major countries in exports to Australia were the United Kingdom, Netherlands, Germany and France while in imports were the United Kingdom, Germany, Italy and France (see: Table 1).

**Table 1.** Australia's exports and imports of goods and services by major EU countries, financial year 2008-09

EXPORTS Major country	A\$ billions	% share		5-year trend	IMPORTS Major country	A\$ billions	% share		5-year trend
		EU total	world total				EU total	world total	
UK	15.9	48.5	5.6	10.9	UK	14.1	24.6	5.1	8.5
Netherlands	3.6	11.0	1.3	14.6	Germany	12.3	21.4	4.4	6.1
Germany	3.3	9.8	1.1	6.9	Italy	6.2	10.8	2.2	5.6
France	2.5	7.5	0.9	11.6	France	5.5	9.6	2.0	3.7
Italy	1.9	5.8	0.7	2.6	Ireland	2.9	5.1	1.0	6.7
Belgium&Lux	1.4	4.4	0.5	13.9	Sweden	2.6	4.6	0.9	7.2
Sweden	0.8	2.4	0.3	11.6	Netherlands	2.6	4.5	0.9	7.3
Ireland	0.6	1.9	0.2	1.9	Belgium&Lux	1.8	3.2	0.7	9.2
Greece	0.1	0.3	0.0	-0.5	Greece	0.5	0.8	0.2	5.8
Total EU	32.8	100	11.5	9.7	Total EU	57.5	100	20.6	7.6

Source: author's own compilation based on: *Composition of Trade Australia 2008-09*, pp. 31-32.

### 2.1. Trade in goods

Australian principal exports to the EU were primary goods and main imports from the EU were manufactured goods. It reflects traditional division of labour between both

<sup>5</sup> It takes into account trade in goods and services, foreign investment income and transfer payments. See: *EU Insight*, Delegation of the European Commission to Australia and New Zealand, Canberra, October 2009, p. 1.

partners, and corresponds with Australian exports dominated by primary products, and its imports dominated by manufacturers. It may also be noticed that exports of primary goods and imports of manufacturers maintained the tendency to rise (see: Table 2). In case of exports of primary goods this trend was also in conjunction with increases in commodity prices.

**Table 2.** Australia's principal merchandise exports and imports with the EU27, FY 2001-2009\* (A\$ billions)

EXPORTS					Goods	IMPORTS				
2001	2003	2005	2007	2009		2001	2003	2005	2007	2009
<b>14.2</b>	<b>16.1</b>	<b>13.9</b>	<b>19.1</b>	<b>24.0</b>	<b>Total goods</b>	<b>25.8</b>	<b>31.9</b>	<b>35.1</b>	<b>39.0</b>	<b>45.4</b>
<b>6.6</b>	<b>5.9</b>	<b>6.5</b>	<b>8.7</b>	<b>9.5</b>	<b>Primary goods</b>	<b>1.6</b>	<b>2.1</b>	<b>2.3</b>	<b>2.9</b>	<b>3.3</b>
0.2	0.2	0.2	0.2	0.2	Unprocessed food	0.1	0.2	0.1	0.2	0.1
1.5	1.6	1.8	1.8	1.5	Processed food	1.2	1.7	1.9	2.5	2.9
1.8	1.9	2.6	3.5	5.6	Fuels	0.0	0.0	0.0	0.1	0.0
1.4	1.1	1.3	2.8	1.4	Minerals	0.0	0.0	0.0	0.0	0.0
1.7	1.2	0.7	0.5	4.8	Other primary	0.2	0.2	0.2	0.2	0.2
<b>3.9</b>	<b>4.1</b>	<b>4.0</b>	<b>5.2</b>	<b>4.8</b>	<b>Manufactures</b>	<b>23.8</b>	<b>29.2</b>	<b>32.0</b>	<b>34.2</b>	<b>38.9</b>
0.8	0.8	0.6	1.3	1.0	STM**	3.1	3.3	3.1	3.2	3.8
3.1	3.4	3.4	3.9	3.7	ETM***	20.7	25.9	29.0	31.0	35.1
<b>3.7</b>	<b>6.1</b>	<b>3.4</b>	<b>5.2</b>	<b>9.7</b>	<b>Other</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>1.9</b>	<b>3.2</b>

\*FY = Financial Years starting on July 1<sup>st</sup> and ending June 30<sup>th</sup>,

\*\*STM = Simply Transformed Manufactures,

\*\*\*ETM = Elaborately Transformed Manufactures.

Source: author's own compilation based on: *International Trade in Goods and Services*, Australian Bureau of Statistics, Cat. 5368.0, Australia, Canberra, February 2010.

In 2008-09, significant Australia's exports included:<sup>6</sup>

- gold and gold coins, worth A\$7.5 billion,
- coal, worth A\$5.5 billion,
- alcoholic beverages (mainly wine), worth A\$1.1 billion,
- medicaments, worth A\$0.7 billion.

Other major exports included oil-seeds, lead, nickel ores, other ores and iron ore.

The composition of Australia's imports from the EU largely consisted of:

- medicaments, worth A\$5.2 billion,
- passenger motor vehicles, worth A\$3.0 billion,
- gold, worth A\$2.7 billion,
- chemicals, worth A\$1.1 billion.

<sup>6</sup> Author's own compilation based on: *Composition of Trade Australia 2008-09*, pp. 114-116.

Other significant imports included miscellaneous manufactured articles, measuring and analysing instruments, civil engineering equipment, specialised machinery and parts.

## 2.2. Trade in services

The European Union is the most important partner in Australia's two-way trade in services (19%), followed by the ASEAN economies (17%), and the United States (15%). In 2008-09, trade in services between the EU and Australia was worth A\$20.9 billion.

**Table 3.** Australia's trade in services with the EU, FY 2001-2009 (A\$ billions)

EXPORTS					Services	IMPORTS				
2001	2003	2005	2007	2009		2001	2003	2005	2007	2009
<b>6.6</b>	<b>6.9</b>	<b>7.9</b>	<b>8.8</b>	<b>8.8</b>	<b>Total</b>	<b>7.3</b>	<b>7.4</b>	<b>9.3</b>	<b>10.2</b>	<b>12.1</b>
1.5	1.4	1.6	1.6	1.4	Transport services	1.7	2.0	3.0	3.2	2.6
4.0	4.2	4.8	5.3	5.3	Travel services:	3.3	3.1	4.1	4.3	5.3
0.3	0.4	0.3	0.5	0.5	business	0.6	0.5	0.6	0.5	0.6
3.7	3.8	4.5	4.8	4.8	personal	2.7	2.6	3.5	3.8	4.7
0.5	0.5	0.7	0.9	1.2	Other business services	0.7	0.9	0.8	0.8	1.7

Source: author's own compilation based on: *International Trade in Goods and Services*, Australian Bureau of Statistics, Cat. 5368.0, Australia, Canberra, February 2010.

The main trade in services between partners was in travel, and accounted for over 50% of total services trade. Of this, personal travel services were major component and amounted to nearly 90% of total travel services (46% of total services trade). Another major element of services trade was transportation, which equalled 19% of total services trade, and other business services, largely consisting of legal-, accounting-, engineering- and mining-related services, accounted for 14% of total services trade.<sup>7</sup> Services exports play a significant role in Australia's and the EU economies and represent approximately 70% of respective gross domestic product (GDP). Services also play an increasingly important role in international trade. So there are good prospects that both partners will continue to expand further their trade in services sector.

## 2.3. Australia-EU investment

Mutual investment flows are yet another foundation for economic cooperation between the EU and Australia. As of the end of 2008, the EU was Australia's largest

<sup>7</sup> Author's calculations.

two-way investment partner, with investment flows worth \$A871.5 billion, or 32% of Australia's total foreign investment stocks, exceeding the United States with \$A813 billion,<sup>8</sup> and well above the ASEAN economies with investments reaching \$A97.7 billion.<sup>9</sup>

Similarly, the EU was the largest investor in Australia, ahead of other trading partners. The EU investments recorded nearly A\$24 billion net inflow during the year and equalled 34% of total FDI stock in Australia, worth over A\$133 billion (see: Table 4) as compared to A\$15 billion from ASEAN members. There are nearly 2,400 EU companies present in Australia (manufacturing, finance and insurance sectors), which have a turnover approaching A\$270 billion or over 14% of total sales in Australia and creating directly 500 thousand jobs.<sup>10</sup>

**Table 4.** Level of Australia-EU foreign investment level in selected years

Australian Investment Abroad. Level at end of December (A\$ billions)					
	2001	2003	2005	2007	2008
Australian investment abroad	134.5	165.1	190.1	189.7	304.0
Direct investment abroad	48.0	52.1	50.7	55.4	42.6
Foreign Investment in Australia. Level at end of December (A\$ billions)					
Foreign investment in Australia	295.8	343.5	419.8	543.6	567.5
Direct investment in Australia	80.2	87.3	105.3	136.7	133.2

Source: author's own compilation based on *International Investment...*

The EU plays also an important role as a destination for 30% of total Australian investment abroad with stocks amounting at over A\$304 billion and FDI component reaching A\$42.6 billion. It gives the EU the second position, behind the United States (ASEAN respectively A\$34.4 billion and A\$13.8 billion).

### 3. Conclusions

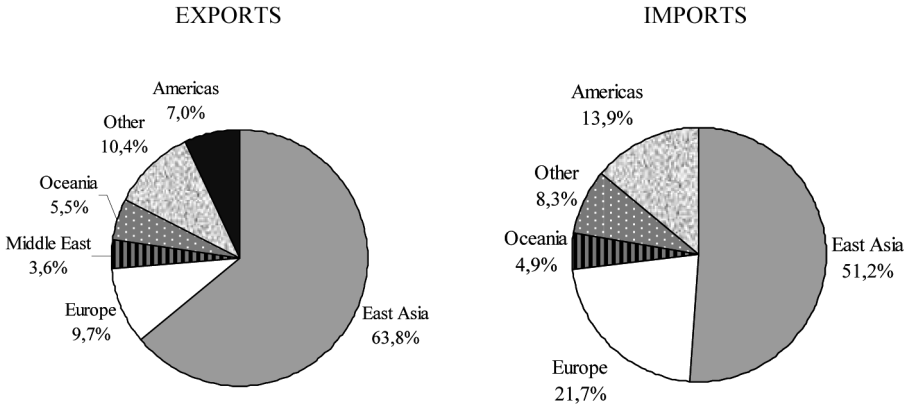
An overview of Australia-EU economic partnership explains its importance. Hence, another reflection may result from comparison with value and trend of other directions in Australian relations, especially with Asia region. Even with regard to data on

<sup>8</sup> *EU insight...*, p. 3.

<sup>9</sup> All data for ASEAN investments also from: *International Investment Position*, Australia: Supplementary Statistics, Australian Bureau of Statistics (ABS) Cat. 53520, Canberra 2008.

<sup>10</sup> When account is taken of the flow-on (multiplier effect) than it makes total direct and indirect investment equivalent to more than 1,4 million jobs (over 12% of the Australian workforce). *European Union Investment in Australia, 2009 Update*, Delegation of the European Commission to Australia, Canberra 2009.

Australia’s merchandise trade in 2009 only (see Figure 1) Europe, as a geographic region, represents much smaller share in Australia’s trade (10% in Australia’s merchandise exports and 22% in imports) than East Asia (respectively nearly 64% in Australia’s merchandise exports and over 51% in imports).



**Figure 1.** Australia’s merchandise exports and imports by geographic regions, 2009

Source: author’s own compilation based on Department of Foreign Affairs and Trade, Market Information and Analysis Section Statistics, Government of Australia, Canberra, April 2010 (DFAT materials).

Due to financial crises Australia’s trade with all major partners, except for China and South Asia, significantly decreased in 2009 (see: Table 5). Exports to the EU decreased 26% (with the U.S. over 20%, Japan – 25%, ASEAN – 15%) and imports decreased 17% (with the U.S. 16.5%, Japan – 17.5%, ASEAN – 18%). It should be noted, however, that in 2009 Australia’s merchandise exports to China rose over 31% and exports to South Asia increased by over 8%, but imports from China increased only by 1.5% and from South Asian region increased over 13%. On the other hand, although there was a significant decrease in the value of merchandise trade turnover, the EU has remained the largest source of merchandise imports into Australia since 1995, with imports valued at A\$39.5 billion in 2009 as well as an important direction for merchandise exports with transactions valued at A\$17.4 billion but behind China, Japan and ASEAN.

The European Union and Australia have been no doubt important economic partners for many years. Viewed from the Australian perspective, the EU was ranked as the largest partner in both two-way trade in goods and services, the largest investor and second largest destination for Australian foreign investment. The significance of the European Union as Australia’s economic partner will unquestionably remain crucial.

**Table 5.** Composition of Australia's merchandise exports and imports by selected trading partners, in CY\* 1999-2009 (A\$ billions)

Australia's exports					
Trading partner	1999	2002	2005	2008	2009
USA	8.4	11.5	9.3	12.1	9.6
Japan	16.7	22.2	28.5	50.8	38.2
China	4.1	8.4	16.1	32.3	42.4
ASEAN	11.2	14.6	15.9	22.9	19.6
EU**	10.8	14.8	14.9	23.5	17.4
<b>Total exports</b>	<b>86.9</b>	<b>119.5</b>	<b>139.1</b>	<b>222.3</b>	<b>196.5</b>
Total APEC	63.3	86.6	102.3	193.1	147.8
EU in total exports	12.4%	12.4%	10.7%	10.6%	8.9%
ASEAN share	12.9%	12.2%	11.4%	10.3%	10.0%
APEC share	72.8%	72.5%	73.5%	86.9%	75.2%

Australia's imports					
Trading partner	1999	2002	2005	2008	2009
USA	21.1	23.1	21.4	26.7	22.3
Japan	13.6	15.7	17.1	20.2	16.7
China	6.6	12.8	21.4	35.3	35.8
ASEAN	14.2	19.2	28.0	47.7	39.3
EU**	23.1	29.3	36.1	47.5	39.5
<b>Total imports</b>	<b>101.5</b>	<b>127.7</b>	<b>155.7</b>	<b>225.9</b>	<b>200.6</b>
Total APEC	71.2	89.1	108.7	188.7	140.6
EU in total imports	22.8%	22.9%	23.2%	21.0%	19.7%
ASEAN share	14.0%	15.0%	18.0%	21.1%	19.6%
APEC share	70.1%	70.0%	69.8%	83.5%	70.1%

\*CY=calendar year,

\*\*EU 15 to 2004, EU 25 from 2005, EU 27 from 2007 onwards.

Source: authors own compilation based on *Composition of Trade Australia 2003* and *2006*, Government of Australia, Canberra, May 2004 and May 2007; Department of Foreign Affairs and Trade, Market Information and Analysis Section Statistics, Government of Australia, Canberra, April 2010 (DFAT materials).

On the other hand, however, over the past 20 years Australia has been immensely expanding trade with Asia. In 2009, about 67.9% of Australia's trade, 70.2% of total



exports and 66.5% of total imports was with the member economies of the Asia-Pacific Economic Cooperation (APEC) forum. As compared with previous year, exports to APEC countries rose 24.5%, and imports grew 5.2% while to members of the European Union exports increased by 12.9% and imports increased also by 5.2%. Japan, China, the United States and Singapore were the nation's top four trading partners. In addition, even that the European Union was Australia's largest import source, it only marginally overtook the ASEAN economies, followed by China and the United States. Moreover, only two EU member states (the United Kingdom and Germany) are among Australia's most important trade partners in a group of top ten merchandise trade partners, behind China, Japan, the ASEAN economies. Countries from Asia accounted for six out of Australia's top ten trading partners in 2008-09, accounting for 44.9% share of Australian total trade, and these were China, Japan, Republic of Korea, Singapore, India, and Thailand.

Australia is an active and successful global trader of goods and services. It may be argued that Asia, being one of the fastest developing regions of world economy, will continue to rise its share in Australia's trade. It will further play a role of driver of Australia's trading performance, which may result in declining a participation and position of the European Union.

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## UE – AUSTRALIA. PARTNERZY HANDLOWI?

**Streszczenie:** Unia Europejska jest jednym z największych partnerów handlowych Australii. Stosunki ekonomiczne między UE a Australią mają długą tradycję i oparte są na zdywersyfikowanych powiązaniach handlowych i inwestycyjnych. Jednocześnie w ciągu ostatnich 20 lat Australia znacznie rozszerzyła swoje relacje handlowe z Azją. W latach 2008-2009 sześć krajów azjatyckich znajdowało się wśród dziesięciu głównych partnerów handlowych Australii. Ich udział w australijskiej wymianie handlowej stanowił 44,9%, a były to: Chiny, Japonia, Korea, Singapur, Indie i Tajlandia. Azja, jeden z najszybciej rozwijających się regionów świata, będzie niewątpliwie najważniejszym motorem rozwoju Australii w najbliższych latach, co jednocześnie może skutkować zmniejszeniem się pozycji i roli UE.