

AUSTRALIA-CHINA AGENDA 2013

The Australian Economy in China's Shadow

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THE AUSTRALIAN Centre on China in the World engages with the public and policy discussion of relations with the People's Republic of China and the Chinese world. Australia-China Agenda 2013 is our contribution to this important election year and the on-going consideration of the bilateral relationship.

This is a relationship that touches on virtually every aspect of our national life. A mature and beneficial engagement of such breadth and depth requires the leadership and support of government at all levels, as well as public stewardship, media understanding, educational enhancement and the strategic involvement of the business community.

Australia-China exchanges are also profoundly influenced by regional and bilateral relationships. Australia and China trade in goods as well as culture, politics and people, ideas and education, community and personalities.

Australia-China Agenda: 2013 brings to the attention of the public and the media, politicians and specialists some reflections and policy ideas authored by specialists with a professional interest and involvement in the relationship.

—Geremie R. Barmé
Founding Director, CIW

2013

JANUARY 一月

FEBRUARY 二月

MARCH 三月

APRIL 四月

MAY 五月

JUNE 六月

JULY 七月

AUGUST 八月

SEPTEMBER 九月

OCTOBER 十月

NOVEMBER 十一月

DECEMBER 十二月

二〇一四年

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Canberra, Australia

THROUGH THE focus of the current Federal election debate is on how to improve the domestic economy, currently in a muddle due to the well-nigh exhausted mining boom, it is relatively easy to recognise the shadow of Chinese economics in Australia. A string of thorny issues that Australia faced in the cheerful times of its mining boom, such as the best terms of trade in history, the Australian dollar reaching historically high values, the two-speed economy, the mineral resources rent tax, and even the carbon tax, were brought about more or less by Australia coupling its wagon to the Chinese economic engine.

China has certainly increased the pull of its economic gravity on Australia, commensurate with the recent growth of its economy compared to Australia's – the International Monetary Fund put China's nominal GDP as being 5.3 times that of Australia in 2012.

In the field of bilateral trade, China has been Australia's largest merchandise trading partner for several years, in terms of both merchandise exports and imports, while Australia was ranked as China's sixth-largest importer and China's eleventh-largest exporter in 2012.

But China has a much greater influence on Australia's economy than Australia has had on China's. In 2012, Australia's export to China peaked at 29.5% of its total exports, implying almost one-third of Australia's exports went to China. Meanwhile, China's exports to Australia account for a mere 1.8% of China's total exports. Some 18.4% of Australia's imports come from China but, even with the booming resources trade, only 4.3% of China's imports come from Australia. And even in the nascent services trade, only 11.3% of total Australia's services exports went to China in 2012.

Resources have underpinned Australia's exports to China. In 2012, minerals exports made the big bucks, accounting for 74.1% of Australia's exports to China. Australia has prospered from its mining boom over the past years – its mining boom has been heavily reliant upon its trade with China.

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It is worthwhile to note that, for three decades now, China has had a long-run trade deficit with Australia. And this trade deficit is growing bigger and bigger. In 2012, the trade deficit ran to \$A95.4 billion, China's third-largest trade deficit after Taiwan and Korea. More importantly, China has never grumbled about this trade deficit in negotiations – in stark contrast to the regular pressure China faces from the US and EU while both of these areas run massive trade deficits to China.

China has risen to become a trading superpower, posing vital trade opportunities and potential to Australia. According to data from China's Customs Bureau, in 2012 China was ranked first in global merchandise exports, accounting for 11.1% of world exports, and second in merchandise imports, accounting for 9.8% of world imports. And the 29.5% of Australia's exports to China in its total exports is 2.5 times the figure of the 9.8% of China's share in world imports, highlighting that access to China's market is especially generous to Australia.

From the aforementioned, including China's three-decades-long trade deficit with Australia, we might see the years of Australian success in China's market has made relations plausible, privileged, and even coddled.

Australia's high levels of imports from China portray another beneficiary picture. As the argument of 'China exporting deflation' claimed, the flood of Chinese manufactured goods have greatly lowered the price of goods around the world, of course including Australia. According to an article on the official website of the Australian Treasury, 'the "made in China" tag has been common for some time now on manufactured products found in Australian homes. Australia imports around 25 per cent of its manufactured imports from China, and the fall in manufacturing prices has made many of these imports cheaper. The price of imported household electrical items has fallen by around 60 per cent in nominal terms since the end of 2001, while the price of imported toys, books and leisure goods has dropped by more than 35 per cent over the same period. Prices have fallen further in real terms given the rise in Australian wages over this period'. Chinese imports have significantly improved the welfare of Australian people.

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As manufactured imports from China brought down the price of consumption across Australia, Australian resources began to catch the wave of the voracious demand of China's rapid industrialisation and urbanisation. Australia is the largest exporter of iron ore to China, providing over 45 per cent of Chinese imports. Between 1999 and 2011, the annual iron ore exports to China grew at an average rate of 23% each year, growing from 26 million tonnes to 305 million tonnes. As a consequence, the price of iron ore has soared. Since 2005, its price began to rise dramatically, peaking at around \$US190 per tonne in 2011. There is no doubt that this price and quantity of exports contributes vitally to Australian mining

boom. In addition, the much higher price of mineral exports, combined with the much lower price of manufacture imports, have helped Australia's terms of trade to skyrocket to record levels, levels previously unseen in more than one hundred years.

China's dizzying direct investment in Australian mines equally contributes to Australian mining boom. As China has sought to 'go global' with its capital since 2005 – with its Renminbi kick-starting the pace of appreciation – China's investment in Australia has surged. Over the recent years, Australia has been China's top overseas foreign direct investment destination. The stock of Chinese investment in Australia until 2012 was \$22.9 billion, more than four times the size it was in 2007. Meanwhile, China has been ranked in Australia as the third largest source of proposed in-country investment for the last three years. Apparently, the majority of these direct investments have flocked to mining and resources investments, though some now also turn to the agriculture and property markets. These investments have helped create Australian jobs and provided economic benefits.

The mining boom, together with the record high price of Australian minerals exports, has made the Australian dollar a 'commodity currency'. Thus, the Australian exchange rate reached record levels not seen since the dollar was made freely convertible in

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early 1980s. This high Australian dollar makes imports cheaper, and keeps the price of domestic consumption goods down, but it makes Australian exports more expensive, hurting the already faltering domestic manufacturing industry.

While enjoying the benefits mentioned above, the Australian economy has suffered some pains from its strong links with China. The Australian media coined the term 'the two-speed economy' to define the plight of widening divides between regions in Australia caused partly by its mining boom. The states of Western Australia and Queensland, plus the Northern Territory, with their rapid economic growth rate, have become the upstarts, built upon a flood of exports of their mineral resources to China, and the subsequent Chinese investment wave.

However, other states in Australia, like Victoria, with its slower economic growth rate, bear the brunt of lost manufacturing sector jobs, which

has been caused in part by the movement of capital and labour into the more profitable mining sector. This yawning divide helped create some political strains within different Australian states. For example, Western Australia advocates integrating itself more into the Asian region and asks for greater economic autonomy.

In classical economics terms, this 'two-speed economy' could also be called a case of the 'Dutch disease'. Many other countries in the world like Australia, including Russia and some Latin American countries, have suffered from the same disease based on their growing resource exports to China and the simultaneous squeezing out of their manufactured goods. In this sense, we can understand how the economic rise of China has changed the landscape of world economics.

China has become so important to Australia that Australia thinks it necessary to brace for the coming challenges and opportunities. The Australia in the Asian Century White Paper illustrates the determination of the Australian government to jump on the bandwagon of dynamic Asia.

What's interesting here is that the mining boom has spawned some thorny issues in the Australian political agenda. The issue of the Minerals and Resources Rents Tax (MRRT) was brought about by the federal government's intention to grab some of the bigger pie of mining profits caused by the mining boom. This issue has afflicted the Labor party, and Team Rudd, deeply. Another issue is the controversial carbon tax. Labor wanted to make use of the rare and valuable opportunity of the mining boom to do something about climate change. But the Coalition has threatened to scrap the carbon tax if it takes office.

It is because the Chinese economy is so important to Australia that Australia now always worries about what's happening in the Chinese economy. Indeed, we could even say that China's economic cough might cause economic pneumonia in Australia if it is not addressed properly. With a Chinese economic slowdown looming large, the mining boom in Australia appears that it might soon draw to a close. How will the Australian economy survive and grow while the shadow of the Chinese economy shrinks?

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AUSTRALIAN CENTRE ON CHINA IN THE WORLD

The Australian Centre on China in the World (CIW), College of Asia & the Pacific (CAP), The Australian National University (ANU) is an initiative of the Commonwealth Government of Australia in collaboration with ANU, a university with the most significant concentration of dedicated Chinese Studies expertise and the publisher of the leading Chinese Studies journals in Australia. CIW is a national research centre that is jointly managed by a body of academics that includes scholars of China at universities in Adelaide, Brisbane, Hobart, Melbourne and Sydney.

The Centre is a humanities-led research institution that is engaged with the broad range of social sciences to produce academic work that, while relevant to the full spectrum of demands of international scholarship, also relates meaningfully to those in the public policy community, and to the broader interested public, both in Australia and overseas. It values a New Sinology, that is an intellectual, cultural and personal involvement with the Chinese world (be it in the People's Republic, Hong Kong, Macau, Taiwan or globally) that is underpinned by traditions of academic independence, local fluency and disciplinary relevance.

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CIW sites

<http://ciw.anu.edu.au>
<http://www.thechinastory.org>

CIW publications (also available online)

China Story Yearbook 2013: Civilising China,
 October 2013

China Story Yearbook 2012: Red Rising, Red Eclipse,
 August 2012

Stephen FitzGerald, *Australia and China at Forty—Stretch of the Imagination*, 澳大利亚与中国已届四十年—舒展的想象力, February 2013

Australia and China: A Joint Report on the Bilateral Relationship 中国和澳大亚：关于双边关系的联合报告, with the China Institutes of Contemporary International Relations (CICIR), February 2012

CIW journals

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 (<http://www.chinaheritagequarterly.org>)

East Asian History
 (<http://www.eastasianhistory.org>)

The China Journal, co-published
 (<http://ips.cap.anu.edu.au/chinajournal/>)

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 (<http://www.danwei.com>)

