

# ACRI Opinion

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## Australia's destiny is China, not America

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Ask the average Australian whether China or the US is the country's most important economic partner and you'll likely get a bewildered look – it's China, of course. The Lowy Poll [shows](#) that by 2013, 76 percent of Australians were already convinced that China was No. 1, compared with just 16 percent choosing the US.

In fact, this year 43 percent of Australians [said](#) they regarded China as Australia's most important relationship overall. This was the same proportion nominating the US, our security ally.

Over the past 12 months China snapped up \$95 billion of Australian goods, eight times more than bought by the US. What's become apparent more recently is also China's voracious appetite for Australian services, worth another \$11 billion.

Yet earlier this week, [a new report](#) by the United States Studies Centre led with the punchline: "No single country plays a larger role in Australia's economy than the United States."

The research rightly highlights the benefits of investment between Australia and the US. And as the report points out, the stock of US investment in Australia is \$860 billion, 10 times more than that from China.

But it's quite a leap to conclude that the Australian public have got it wrong.

### Accumulated over decades

Yes, the stock of US investment in Australia is much greater than China's. But that is a sum that has taken many decades to accumulate.

As Australian National University economist Shiro Armstrong pointed out in 2014, [a more sensible measure](#) of relative economic importance would, in a given year, add investment flows to trade flows, not the entire accumulated investment stock.

In 2016, [trade](#) and [investment](#) flows with China stood at \$178 billion. Those with the US were not only less than with China, they were less than zero, -\$27 billion. As usual, trade with China last year towered above that with the US. But US investors also pulled \$66 billion more out of Australia than they put in, while Australian investors dialled back their US asset holdings by \$25 billion.

The last time the US outperformed China on the defensible metric was back in 2011.

Aside from the scale of combined trade and investment flows, another key distinction is that there are often substitutes for US investment.

Many of Australia's biggest corporations may regularly head to New York to raise capital. But London, Brussels, Tokyo, Hong Kong and Singapore would all welcome increased Australian business.

Last year, a US-based fund manager took a 40 percent stake in Australia's busiest port, the Port of Melbourne. But half of its contribution was [sourced from China's sovereign wealth fund, China Investment Corporation](#).

### No substitutes for demand

In contrast, there are frequently no substitutes for Chinese demand. Consider the predicament if Chinese steel makers no longer needed Australian iron ore. There is no prospect of any other country, or even group of countries, stepping up and absorbing the 650 million tonnes that China does.

In 2014, then US secretary of state Hilary Clinton [cautioned Australia](#) not to put all its eggs in the China basket. Then communications minister Malcolm Turnbull quipped, "I'm sure that we'd love to export vast quantities of iron ore to the United States but they've never shown any enthusiasm in buying them".

Such scenarios help to explain why one recent, independent economic modelling exercise reported the [sobering finding](#) that if China's growth rate slowed from the targeted 6.5 percent this year to less than 3 percent, up to 500,000 local jobs could be lost.

China is also Australia's growth market, buying more Australian iron ore and other natural resources such as liquefied natural gas than ever before.

And the North American and European middle classes are [expected to be stagnant](#) between 2009 and 2030, while China's will add an extraordinary 850 million. In 2030, China is set to account for 22 percent of global middle class spending, three times greater than the US share.

And while there is a way to go, China has already overtaken Japan to become the [world's second-largest source country](#) of new overseas direct investment.

The growing economic weight of China is remaking the strategic balance of our region. Australia's relationship with the US will be a valuable asset for both countries in navigating these shifts. But pursuing Australia's national interest means accepting that Australia's most important economic relationship is now with China.

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