

Understanding Australia's economic dependence on China



While Australia's economic relationship with China has rapidly grown, so too have fears that this exposure presents Australia with excessive risk. This factsheet draws on data from an Australia-China Relations Institute report, 'Small grey rhinos: understanding Australia's economic dependence on China', which discusses the market forces driving the Australia-China economic relationship as well as the three main attendant risks.

1. The annual value of Australia's exports to China is \$144 billion – 2.4 times that of Japan, Australia's next largest customer.¹ Total two-way trade with China is worth 11.7 percent of Australia's GDP.²
2. The Australian government has been pursuing a diverse suite of regional and bilateral trade agreements to promote greater market diversification. Nonetheless, market forces – economic complementarities and purchasing power – are leading to stronger economic ties with China.
 - a. Exports to China have increased by \$78.5 billion over the past decade. This compares with a decrease of \$0.2 billion to traditional markets, the US and Japan, and an increase of \$5 billion to emerging markets, India and Indonesia.³
 - b. The Australian government expects \$21 trillion in purchasing power to be added to China's economy by 2030. This compares with \$12.2 trillion for India, \$5.4 trillion for the US, \$2.5 trillion for Indonesia, and \$0.7 trillion for Japan.⁴

1 Australian Bureau of Statistics (ABS), 'Merchandise exports: exports by country', 2019 <<http://stat.data.abs.gov.au/>>; ABS, 'International trade: supplementary information, calendar year, 2018', May 24 2019 <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5368.0.55.0042018?OpenDocument>>.

2 ABS, 'Australian national accounts: national income, expenditure and product,' March 2019 <<https://www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0>>.

3 Australian Government Department of Foreign Affairs and Trade (DFAT), 'Trade time series data', June 2019 <<https://dfat.gov.au/trade/resources/trade-statistics/pages/trade-time-series-data.aspx>>.

4 DFAT, 2017 Foreign Policy White Paper, November 22 2017 <<https://www.fwhitepaper.gov.au/>>.

This fact sheet was prepared by James Laurenceson, Acting Director, Australia-China Relations Institute, University of Technology Sydney and Michael Zhou, Project and Research Officer, Australia-China Relations Institute, University of Technology Sydney.

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3. India does not represent another China. A report commissioned by the Australian government in 2018 set a target to treble annual exports to India from \$14.9 billion at present to \$45 billion by 2035.⁵ This target represents one-third of the current value of exports to China.
4. Economic exposure to China presents Australia's economy with risks. These include: 1) a sharp slowdown in Chinese economic growth reducing demand for Australian goods and services; 2) a shift in Chinese growth away from investment towards consumption, with negative implications for Australia's natural resources exports; 3) China using trade as a tool of coercion.
 - a. Recent studies point to Australian GDP decreasing by between 0.1–0.2 percent in response to a one percent fall in Chinese GDP. For context, Australia's annual GDP growth averages around three percent. The scale of impact in Australia pointed to by modelling is similar to that in the US, Japan and Korea. These findings imply a Chinese economic 'hard-landing' would be manageable at more aggregate levels, although potentially far more serious at sectoral or firm levels.
 - b. Currently consumption and investment account for 53 and 44 percent of China's GDP, respectively.⁶ A recent study by the Reserve Bank of Australia finds that an immediate and large-scale shift in Chinese expenditure – specifically, a 15 percentage point rotation away from investment towards consumption – would lead to a 0.3 percent decrease in Australia's GDP.⁷ This is equal to one-tenth of Australia's annual average GDP growth rate. Japan would also face a 0.3 percent fall, while South Korea would face a 0.6 percent fall.
 - c. China has a track record of using trade as a tool of coercion, such as when it restricted tourism exports to Korea in 2017.⁸ In 2018, there were reports that the Chinese government may have begun targeting Australian exports of beef, wine, tourism services and higher education in response to political tensions.⁹ By the end of 2018, Australian exports to China grew by 18 percent overall,¹⁰ with growth of:
 - i. 18 percent in wine;¹¹
 - ii. 4.8 percent in beef;¹²
 - iii. 14 percent in Chinese student enrolments;¹³ and
 - iv. 6 percent in Chinese tourist arrivals.¹⁴
5. In 2019, there were reports of Australian coal shipments to China facing delays at Chinese ports.¹⁵ In the 12 months to April 2019, the volume of Chinese imports of Australian coal grew by 3.2 percent year-on-year. Total Chinese imports of coal in the same period grew by 1.3 percent. In the first four months of 2019, imports of Australian coal decreased by 2.2 percent compared with the same period in 2018. In comparison, China's total imports of coal increased by 1.8 percent.¹⁶

The full report, *Small grey rhinos: understanding Australia's economic dependence on China*, is available at australiachinarelations.org

5 Peter Varghese, *An India economic strategy to 2035*, DFAT, April 27 2018 <<https://dfat.gov.au/geo/india/ies/pdf/dfat-an-india-economic-strategy-to-2035.pdf>>.

6 CEIC Data, 'China premium database', 2019 <<https://www.ceicdata.com/en>>.

7 Guonan Ma, Ivan Roberts and Gerard Kelly, 'Rebalancing China's economy: domestic and international implications', *China and World Economy*, January 12 2017 <<https://doi.org/10.1111/cwe.12184>>.

8 Javier Hernandez, Owen Guo and Ryan McMorrow, 'South Korean stores feel China's wrath as U.S. missile system is deployed', *The New York Times*, March 9 2017 <<https://www.nytimes.com/2017/03/09/world/asia/china-lotte-thaad-south-korea.html>>.

9 Fergus Ryan and David Crowe, 'Trade Minister Steven Ciobo downplays risks to China trade as industry anxiety persists', *The Sydney Morning Herald*, June 6 2018 <<https://www.smh.com.au/politics/federal/trade-minister-steven-ciobo-downplays-risks-to-china-trade-as-industry-anxiety-persists-20180606-p4zjv6.html>>.

10 DFAT, 'Trade time series data', June 2019 <<https://dfat.gov.au/trade/resources/trade-statistics/pages/trade-time-series-data.aspx>>.

11 Wine Australia, '2018: an impressive year for Australian wine exports', *Market bulletin issue 140*, January 22 2019 <<https://www.wineaustralia.com/news/market-bulletin/issue-140>>.

12 Meat and Livestock Australia, 'Australian beef exports to Greater China', January 2019 <<https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/os-markets/export-statistics/australian-beef-exports---greater-china-summary---1901.pdf>>.

13 Australian Government Department of Education and Training, 'International student data 2018', 2018 <https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2018.aspx#Pivot_Table>.

14 ABS, 'Overseas arrivals and departures, Australia, Apr 2019', June 12 2019 <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3401.0Apr%202019?OpenDocument>>.

15 Kirsty Needham and Latimer Cole, 'A big Chinese port bans Australian coal and the dollar falls', *The Sydney Morning Herald*, February 21 2019 <<https://www.smh.com.au/world/asia/a-big-chinese-port-bans-australian-coal-and-the-dollar-falls-20190221-p50zfu.html>>.

16 CEIC Data, 'China premium database', 2019 <<https://www.ceicdata.com/en>>.