COVID-19 and the Australia-China relationship’s zombie economic idea

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Executive Summary

- Zombie economic ideas are those that should have been slain by an accumulation of facts and evidence but continue to walk the land, stalking public policy. The Australia-China relationship has its own zombie economic idea: that Australian entities engaging heavily with the Chinese market are irresponsible in their risk management, and that, at a national level, Australia is ‘too dependent’ on China. The COVID-19 pandemic has seen this zombie economic idea injected with a fresh dose of un-life. News stories of Australian companies in distress as Chinese demand fell in January and February 2020, as well as disrupted supply-chains, have been presented by some commentators as evidence that it is now a ‘necessity’ for government to force greater diversification in trade ties away from China. That is, to force a decoupling of the Australian and Chinese economies.

- The latest data confirm Australia’s significant trade exposure to China. In 2018-19, this reached $235.0 billion, compared with just $88.5 billion with Japan in second place. A comparative analysis shows that by share of total goods exports going to China, Australia is now ranked 16th globally (and 1st amongst the OECD). In terms of exposure to a single export market, whether China or otherwise, Australia ranks a more modest 46th globally. Canada’s reliance on the United States (US) market, for example, is double Australia’s reliance on China. In terms of the share of goods imports from a single market, Australia ranks more modestly still at 70th globally, with Canada’s reliance on the US again double Australia’s reliance on China.

- A significant trade exposure to China is not, in itself, compelling evidence that Australian businesses have been irresponsible in their risk management, nor that the country as a whole is ‘too dependent’. In terms of exports, Australian businesses selling heavily into the Chinese market stand to lose the most if that market is disrupted. This provides a strong incentive to be well-informed about both opportunities and risks, and take steps to mitigate the latter. This is not to say that business risk management is failsafe. Rather, simply that the basic incentives businesses have to get the risk/return equation right are, for the most part, not there to the same extent for the Australian government.

- There are important qualifications, however. Australian businesses with business models geared towards China need to understand that it is not the government’s responsibility to bail them out in the event of a downturn in the Chinese market. Further, the government’s considerations of the national interest extend beyond the benefits of trade to encompass national security and the strategic outlook. Sometimes the government will take decisions it judges to be in the national interest, including steps to preserve Australia’s sovereignty and freedom of action. These decisions may run counter to what China regards as being in its interests. Australian businesses need to recognise and factor into their risk management the possibility that their business model could suffer if China applied coercive economic pressure in retaliation.

- But these qualifications do not imply that it serves the national interest for the Australian government to force a decoupling of the two economies. First, for most Australian businesses with significant international exposures, monitoring and responding to developments in a diverse set of risks, including political risk, is already standard practice. Second, the government can use its convening power, and draw on knowledge garnered from its international diplomatic network and trade and investment promotion agencies such as Austrade, to make sure business are aware of the risks and opportunities that exist, in China and elsewhere. Third, to the extent that the Australian government has access to information sources that businesses do not, a business accounting of the risks they face can be enhanced through regular and frank dialogues with, amongst other arms of government, national security agencies. There are successful sector-level precedents...
such as the collaboration last year between government and universities resulting in the formulation of best practice guidelines to guard against foreign interference.

- That some Australian entities like universities have attracted particular criticism owing to a significant exposure to the Chinese market misses the national interest benefit they have delivered, as well as the broader context. Despite being located in a small domestic market, seizing export and internationalisation opportunities, particularly those with China, has allowed seven Australian universities to earn a place in the worldwide top 100, placing Australia at the global forefront of knowledge creation, and supporting 259,100 full-time local jobs in 2018. And examples of businesses with an even higher exposure to China can be found right across the Australian economy. The Australian wool industry, for example, for example, sells 80 percent of their output value to China.

- At a national level, claims of being ‘too dependent’ on China for exports assume that an alternative country stands ready to buy Australian goods and services. That is, Australia can be ‘less dependent’ on China by being ‘more dependent’ on, for example, India or Indonesia. But the fact is that of the net $180 billion increase in Australia’s annual export value over the past decade, just one country has been responsible for delivering 60 percent of the jump: China. In comparison, other major Indo-Pacific countries like the US, Japan, India and Indonesia have hardly registered. In other words, the only trade diversification strategy that potentially makes sense for Australia is a ‘China-and-’ one. Forcing trade ties away from China – a ‘China-or-’ strategy – guarantees less Australian income and jobs.

- The overall pattern of Australia’s exports can mostly be explained by basic economic drivers like complementarities in production across countries and purchasing power that is growing faster abroad than at home, particularly in China. In terms of the purchasing power outlook, under the weight of COVID-19 the International Monetary Fund (IMF) expects China’s growth to fall to just 1.2 percent in 2020. This is sobering given that one-third of Australia’s total exports now go to China. But Australia’s exposure to China remains preferable to that of many of its peers. Canada, for example, has a much larger single-country exposure to a US market that is forecast to shrink by 5.9 percent. And the United Kingdom (UK) will struggle to sell to its more dominant European Union (EU) market, which is expected to contract by 7.5 percent. In the decade to 2030, the Australian government’s 2017 Foreign Policy White Paper sees China’s economy adding more new purchasing power than the US, Japan, India and Indonesia combined.

- The single-country concentration of Australia’s exports is also not the only factor affecting the risk profile. Another is an increasing concentration of Australian exports in a narrow range of products. However, analysis shows that Chinese demand has alleviated rather than exacerbated this trend. Australia’s exports to China are now more diversified by product than to Japan and vastly more than to India.

- The notion of trying to engineer more diverse export markets is not new. Consistent with its foreign policy strategy, which has focused particularly on the Indo-Pacific region since at least 2012, the Australian government draws on a variety of tools to promote economic links with a diverse mix of partners. These include Free Trade Agreements (FTAs), sponsoring business roadshows and the placement abroad of specialist staff from trade and investment promotion agencies like Austrade. There is limited evidence, however, that using them to actively develop other markets would significantly shift the dial on the pattern of Australia’s exports.

- In the case of imports, Australian businesses have strong incentives to take supply-chain risks seriously for the straightforward reason that if these are disrupted they will not have a product to sell. This is not to say that the profit maximisation objective of businesses is
consistent with ensuring supply-chain stability at all costs. But, as with exports, the basic incentives businesses have to get the risk/return equation right do not, for the most part, exist to the same extent for the Australian government. Businesses need to be aware, however, that particular risks, such as those around economic coercion, apply as much to imports as they do exports.

- Importing a lower proportion of final goods from China is a wholly inadequate approach for managing risk when Australia’s supply-chains are fed by global value chains (GVCs) which see inputs and stages of production spread across multiple countries, and with key locational decisions made by multinational companies beyond the direct reach of Australian policy-makers. There are other approaches that the Australian government might utilise to potentially influence supply-chain risk more effectively. For example, the government might incentivise businesses importing goods it regards as critical to hold additional inventories. Or it might elect to directly maintain strategic stockpiles for a broader basket of critical goods. Or industrial policy could be used to increase Australia’s production self-reliance for critical goods. But the benefits and costs of such actions need to be clearly accounted for, and compared with the status quo, to determine if they serve the national interest.

- Some of the claims made about China’s role in Australia’s supply-chains appear to be built on misinformation. For example, contrary to some commentary, Australia does not have a food security problem. Rather, it is one of the most food secure countries in the world with imports only accounting for 11 percent of food consumed, while 70 percent of Australia’s agricultural production is surplus to domestic needs and sold overseas. Another example is medicines. In 2019 only two percent of imported medicines and pharmaceutical products came from China. The European Union (47 percent) and the US (21 percent) were far larger suppliers. Of course, China might be involved in the GVCs for some of the medicines that Australia imports from other countries. But to the extent this is true, these GVCs are mostly managed by giant European and American pharmaceutical companies, and pretending that simply switching to importing a medicine from India or Vietnam will address the issue, or that the Departments of Defence or Health in Australia have the antidote, is disingenuous. Rather than supply-chain disruptions, panic buying can be the culprit behind empty shelves, with US President Donald Trump’s touting of hydroxychloroquine to treat COVID-19 an illustration.

- There are important discussions to be had around managing the risks associated with Australia’s international economic exposure, particularly when confronted by a challenge like COVID-19. Some of these relate to national security and strategic developments and apply more acutely to trade ties with China than other countries. But the argument that Australia’s national interest is best served by forcing a decoupling of the Australian and Chinese economies mostly reflects a zombie economic idea, an economic idea that deserves to be laid to rest once and for all.
1. COVID-19: injecting Australia-China relationship’s zombie economic idea with un-life

In 2012, John Quiggin, a Professor in Economics at the University of Queensland and an Australian Research Council Laureate, wrote a book titled *Zombie Economics*. It described economic ideas that should have been slain by an accumulation of facts and evidence but continue to walk the land, stalking public policy (Quiggin, 2012).

This report dissects the Australia-China relationship’s own zombie economic idea. This zombie claims that Australian entities engaging heavily with the Chinese market are irresponsible in their risk management, and that at a national level, Australia is ‘too dependent’ on China.

The COVID-19 pandemic, emanating from the Chinese city of Wuhan since November 2019, has seen this zombie economic idea injected with a fresh dose of un-life. News stories of Australian companies in distress as Chinese demand fell in the first quarter of 2020, as well as disrupted supply-chains, have been presented by some commentators as evidence that it is now a ‘necessity’ for the government to force greater diversification in trade ties away from China. That is, to force a decoupling of the Australian and Chinese economies.

On February 28, 2020, Michael Shoebridge, head of the defence, strategy and national security program at the Australian Strategic Policy Institute (ASPI), wrote on the institute’s blog that COVID-19 had revealed the risk management practices of businesses to be deficient: ‘It was assumed that companies could manage supply-chain risks. If that was ever true, it’s not now’. And, in his evaluation, given the ‘growing risks from overconcentration of global production in China, a reordering of global supply-chains is necessary. That’s good public and corporate policy’ (Shoebridge, 2020a).

A few days later on March 3, Rory Medcalf, the Director of the National Security College at the Australian National University effectively supported this contention, writing of COVID-19 on ASPI’s blog: ‘Diversification is now a necessity, not just strategic aspiration’ (Medcalf, 2020).

On March 7, Peter Jennings, the Executive Director of ASPI wrote in *The Australian* of COVID-19’s implications (Jennings, 2020a): ‘China locks its factories down and within days Australia faces shortages of medical supplies, building components and consumers products of all types’. The following month, again writing in *The Australian*, he declared that ‘COVID-19 will force Australia to redesign its approach to supply-chain security’ and that ‘[a] stronger national security perspective must be brought to how we manage fuel security, food, medical supplies, information technology and critical infrastructure’ (Jennings, 2020b). In another piece published by *The Australian* two weeks later on May 2, Jennings (2020c) contended that ‘...a view is hardening that economic dependence on China is dangerous and steps must be taken to reduce that dependence, including walking back PRC ownership of critical infrastructure...and cutting university research links that help to enhance China’s capabilities’.

On April 27, Shoebridge appeared again on ASPI’s blog, arguing that ‘[w]ith COVID-19, the Chinese state has created unacceptable risks for the rest of us and it will continue to do so...until we reduce our dependence on activities within its jurisdiction’ (Shoebridge, 2020b). He warned that as Australia emerged from the COVID-19 crisis, ‘While we should expect to hear the voices of rusted-on self-interest advocating that we maintain or even increase our dependence on China, we must discount them as we make decisions’.

Calls from commentators alluding to the desirability of more interventionist trade policies to force a diversification in trade ties away from China were already being made prior to COVID-19. In June 2019 the two senior fellows with the United States Studies Centre, Charles Edel and John Lee, elevated Australia’s thriving trade relationship with China as an alliance issue: ‘The United States would like Australia...to lessen its commercial dependence on China’ (Edel and Lee, 2019). They described the status
quo as a source of American ‘frustration’. The authors themselves argued in favour of ‘active diversification’.

And in November 2018, Peter Jennings had said that Canberra needed to explain to Australian state governments, businesses and universities ‘why there should be limits to building economic dependence on an authoritarian state’ (Jennings, 2018).

Such calls potentially fall on fertile political ground. According to the Lowy Institute Poll 2019, 74 percent of Australians agreed with the statement that ‘Australia is too economically dependent on China’, although respondents were not at the same time asked what costs they would be prepared to incur to reduce that dependence. On February 26, the Australian government’s Joint Standing Committee on Trade and Investment Growth established an inquiry into ‘whether there is a need for Australia to diversify its trade markets and foreign investment profile’. In launching the inquiry, its chairperson, Nationals MP George Christensen, said that ‘obviously there are a lot of eggs being put in the China basket, and we see the impacts on industry and economy already with the impact the havoc of the coronavirus is playing out’ (Joint Standing Committee on Trade and Investment Growth, 2020).

In April, Liberal backbencher Andrew Hastie MP launched an online petition stating (Hastie, 2020a): ‘The coronavirus pandemic has exposed the true cost of relying too heavily on an authoritarian regime like China for our economic security and prosperity’. The same month, appearing on Sky News, he said ‘This pandemic has exposed vulnerabilities in our supply chains, which leaves us vulnerable to supply chain warfare’ (Hastie, 2020b).

But as this report will explain, concluding that Australia’s national interest is served by forcing a decoupling of the Australian and Chinese economies mostly reflects a zombie economic idea.
2. Australia’s economic exposure to China: an update

In February 2015, the Australian Trade and Investment Commission (Austrade) published a report titled *How dependent are Australian exports on China?* (Thirlwell, 2015). This put the facts of Australia’s export exposure to China into a temporal and international comparative perspective. The report noted, for example, that ‘The last time a single export market was this important to Australia was more than half a century ago, 1952-53, when the UK accounted for almost 40 percent of Australian merchandise exports’. It added that in 2013, Australia was in the global top 20 of countries when ranked by the proportion of total exports going to China.

In absolute dollar terms, the latest numbers are stark. In 2018-19, Australia’s trade with China reached $235.0 billion. This compared with just $88.5 billion with Japan in second place.

Figure 1 shows that the findings of the Austrade report with respect to Australia’s export exposure to China continue to hold true. In 2018, Australia ranked 16th in the world and, perhaps of greater relevance, 1st in the OECD in terms of the proportion of goods exported to China.

Australia’s export exposure to China is less dramatic when countries are ranked according to the share of goods exports going to a single economy, whether China or otherwise, as shown in Figure 2. Globally, Australia ranks 46th (Australian Government Department of Foreign Affairs and Trade [DFAT], 2018). That said, Figure 2 shows many of the countries that are ranked higher would not generally be regarded as peers against which Australia should seek to benchmark itself. There are notable exceptions, however. Canada, for example, sees 75 percent of its goods exports sold to the United States (US). This is double the proportion of Australia’s exports going to China.

There are other relevant denominators against which Australia’s exposure to China can be evaluated. For example, when ranking countries by goods exports to China as a proportion of gross domestic product (GDP), Australia emerges in 23rd place globally, with exports to China making up 7.3 percent of GDP in 2018. This compares with, for instance, 12.6 percent for South Korea and 9.2 percent for Singapore (World Bank, 2018).

![Figure 1. Top 30 economies by share of goods exports to China](source: World Bank (2018))
On the imports side, goods from China accounted for 24.5 percent of Australia’s total imports in 2018. This places Australia 39th worldwide in terms of import exposure to China (World Bank, 2018). In the context of each economy’s reliance on its top goods import partner, Australia ranks more modestly still at 70th globally, and as Figure 3 shows, Australia’s reliance on China is less than half that of Canada’s reliance on imports from the US.

Figure 2. Top 30 economies (and Australia) by share of goods exports to top export market

Source: DFAT (2018)

Figure 3. Top 30 economies (and Australia) by share of goods imports from top import source

Source: DFAT (2018)
3. ‘Too dependent’ on China for exports?

Having re-confirmed Australia’s significant trade exposure to China, the next question to ask is whether this means that Australian entities engaging heavily with the Chinese market are irresponsible in their risk management, and that, at a national level, Australia is ‘too dependent’?

Starting with exports, Australian businesses selling heavily into the Chinese market stand to lose the most if that market is disrupted. This provides a strong incentive for them to be well-informed about both opportunities and risks, and take steps to mitigate the latter.

This is not to say that business risk management is failsafe. Rather, simply that the basic incentives businesses have to get the risk/return equation right are, for the most part, not there to the same extent for the Australian government.

There are important qualifications, however.

Australian businesses with business models geared towards China need to understand that it is not the government’s responsibility to bail them out in the event of a downturn in the Chinese market. To do so would lead to a moral hazard problem where businesses do not need to account fully for the risks they face.

Further, the government’s considerations of the national interest extend beyond the benefits of trade to encompass national security and the strategic outlook. Sometimes the government will take decisions it judges to be in the national interest, including steps to preserve Australia’s sovereignty and freedom of action. One example is the August 2018 decision to ban Chinese technology companies, Huawei and ZTE, from participating in Australia’s 5G telecommunications rollout, following advice from agencies that they represented a security risk that could not be mitigated. Such decisions by the Australian government may run counter to what China regards as being in its interests. Australian businesses need to recognise and factor into their risk management the possibility that their business model could suffer if China were to apply coercive economic pressure in retaliation. The risk of economic coercion from China is covered at length in a May 2019 report by the Australia-China Relations Institute at the University of Technology Sydney (UTS:ACRI) Small grey rhinos: understanding Australia’s economic dependence on China (Laurenceson and Zhou, 2019a). It is also a risk that received renewed attention when on April 26 the Chinese ambassador to Australia, Cheng Jingye, hinted at the possibility of economic retaliation if the Australian government were to continue with its calls for an independent, international inquiry into COVID-19’s global spread (Cheng, 2020).

But these qualifications do not imply that it serves the national interest for the Australian government to force a decoupling of the two economies. First, for most Australian businesses with significant international exposures, monitoring and responding to developments in a diverse set of risks, including political risk, is already standard practice. For example, after the Chinese ambassador made his recent remarks, Mitchell Taylor, the managing director of Taylor Wines noted that in the case of China, ‘The political risk is definitely there’ and accordingly, the business was seeking out other markets in Singapore, Thailand, Malaysia and the US (Tillet, Evans and Bolton, 2020). Second, the government can use its convening power, and draw on knowledge garnered from its international diplomatic network and trade and investment promotion agencies such as Austrade, to make sure business are aware of the risks and opportunities that exist, in China and elsewhere. Third, to the extent that the Australian government has access to information sources that businesses do not, a business accounting of the risks they face can be enhanced through regular and frank dialogues with, amongst other arms of government, national security agencies. There are successful sector-level precedents such as the collaboration last year between government and universities resulting in the formulation of best practice guidelines to guard against foreign interference (Australian Government Department of Education, Skills and Employment, 2019).
Some Australian entities like universities have attracted particular criticism owing to a significant exposure to the Chinese market. Two leading Australian universities, the University of Sydney (USYD) and the University of New South Wales (UNSW) now rely on fee-paying students from China to fund around one quarter of their budget (Goodwin, 2019). On February 1, as part of its public health response to COVID-19, the Australian government implemented a travel ban affecting mainland Chinese international students. Liberal Senator James Paterson said of the predicament that universities then found themselves in (Hartcher, 2020):

With the ongoing China travel ban, I'm very sympathetic about the impact on tourism and farmers, but I'm much less so with the universities. Because they have been warned for years that they are over-reliant on the Chinese market, and for years they've reassured us that it was all fine, and that if anything happened they'd be able to withstand it. They rode the cycle up, now they can ride the cycle down.

What such criticisms miss is the benefit to the national interest universities have delivered from engaging with China, as well as the broader Australian economic context. Despite being located in a small domestic market, seizing export and internationalisation opportunities, particularly with China, has allowed seven Australian universities to earn a place in worldwide top 100 (ShanghaiRanking Consultancy, 2019), placing Australia at the global forefront of knowledge creation, and supporting 259,100 full-time local jobs in 2018 (Doughney, 2020). It is not just the fees collected from Chinese students that have allowed Australian universities to boost their research capabilities. Last year, more Australian scientific articles were written in collaboration with researchers affiliated with Chinese institutions than those from any other country (Golley, Harris and Laurenceson, 2020). In some cutting-edge fields, partnerships with China are critical to Australia’s ability to feature at the knowledge frontier. For example, a December 2019 UTS:ACRI working paper, *Cross-border neural networks: Australia-China collaboration in artificial intelligence*, found that more than half of Australia’s most-cited artificial intelligence publications globally now involve a China-affiliated researcher (Laurenceson and Zhou, 2019b).

And leave aside that most Australian universities are not nearly as reliant on the Chinese market as USYD and UNSW. For example, in the same Sydney location the University of Technology Sydney, Macquarie University and University of Western Sydney rely on Chinese students for less than 20 percent, 15 percent and 5 percent of their income, respectively (Goodwin, 2019). More relevant is that examples of Australian businesses with an even higher exposure to China can be found right across the economy.

Start with agriculture, a sector which Senator Paterson says he is ‘very sympathetic’ towards.

In 2018–19, Australian wine sales totalled $6.4 billion (Wine Australia, 2020). Exports to the Chinese market were worth $1.2 billion (Pittaway, 2019). At around 20 percent of total revenue, this means that the Australian wine industry is considerably more exposed to China than the university sector is.

Now turn to wool (see also: Box 1). In 2018–19, Australia’s wool production was valued at $4.5 billion. Exports to China were $3.2 billion, or 80 percent of total output value (Australian Bureau of Agricultural and Resource Economics and Sciences [ABARES], 2020a).

Then move away from services like education and agricultural goods like wine and wool, and consider natural resources. Production of iron ore for the domestic market is negligible. In 2018–19, exports totalled $78.6 billion. China accounted for 82 percent of that (DFAT, 2020a).

Figure 4 shows 18 different categories of goods exports (at the Standard International Trade Classification [SITC] 3 digit level) that had an exposure to the Chinese market of 40 percent or more.

At a national level, claims of being ‘too dependent’ on China for exports assume that an alternative country stands ready to buy Australian goods and services. That is, Australia can be ‘less dependent’ on China by being ‘more dependent’ on, for example, the
US, Japan, India and/or Indonesia. After all, to put in place policies that curtailed export opportunities to China without an alternative market in sight would mean fewer jobs for Australian households and less revenue for the Australian government to invest or provide services. And the China opportunities that Australian businesses would be forced to leave on the table would quickly be snapped up by international competitors.

But a telling statistic is that over the past decade the total annual value of Australia’s exports has risen by a net $180 billion. Very few would argue this jump has been anything other than in Australia’s national interest. Yet this has only been possible because a single country delivered 60 percent of the increase: China. By comparison, other major Indo-Pacific countries such as the US, Japan, Korea, India and Indonesia have hardly registered (Figure 5). In other words, the only trade diversification strategy that potentially makes sense for Australia is a ‘China-and-’ one. Forcing trade ties away from China – a ‘China-or-’ strategy – guarantees less Australian income and jobs.
There is nothing mysterious about the drivers of the overall pattern of Australia’s exports that has seen China’s importance to Australia grow. At the top of the list are basic economic considerations like complementarities in production across countries (Box 2) and purchasing power that is growing faster abroad than at home, particularly in China (Box 3).

In terms of the purchasing power outlook, the International Monetary Fund (IMF) has forecast that under the weight of COVID-19 China’s GDP growth will fall to just 1.2 percent in 2020 (International Monetary Fund, 2020). This is sobering given that one-third of Australia’s total exports now go to China.

But Australia’s exposure to China remains preferable to that of many of its peers. Consider Canada, which sells 75 percent of its exports to the US (DFAT, 2018), a market the IMF expects will shrink by 5.9 percent in 2020.

Or the United Kingdom, which relies on the European Union (EU) to buy 45 percent of its exports (Ward, 2019), but which is forecast to contract by 7.5 percent.

In the decade out to 2030, the Australian government’s 2017 Foreign Policy White Paper expects that the Chinese economy will add more new purchasing power than the US, Japan, India and Indonesia combined (DFAT, 2017). This is the future material basis from which overseas demand for Australia’s goods and services will stem.

### Box 1. Australia’s wool industry and China

Australia’s wool industry is a case in point in illustrating how businesses and industry can concurrently build both a strong export relationship with China while appropriately managing risks. This has seen Australian wool producers weathering the effects of COVID-19 relatively well, during the shutdown of processing facilities in China and during the return to business as usual, with continued steady trade to date. While the full impact of trade issues associated with COVID-19 remain to be seen, the industry is active in minimising any disruptions to trade.

The importance of Australian wool to China’s manufacturers is illustrated in that China has opted to impose only low tariff rates, even to imports outside its tariff restriction quota. Further, the risk profile of Australian wool exports is non-uniform between different grades of wool. Australia’s domination of global production in finer wool grades makes Australian suppliers difficult to replace for Chinese manufacturers of luxury goods.

Australia’s wool industry is not naïve in capitalising on this economic complementarity. The creation of a Joint China–Australia Wool Working Group allows Australian stakeholders to conduct dialogue directly with buyers, processors and other stakeholders on the Chinese side, and wool producers have been proactive in building strong relationships directly with in-market processors.

The building of such relationships has not been restricted to China: the Australian wool industry also has direct relationships with processors in markets outside China, including in India and Europe. Additionally, Australian wool producers have made active efforts to promote Australian wool in such processing countries. China remains the largest market for unprocessed wool because the wool processing capacities of other markets are not as large and thus have lower demand, but it is clear that as profit-seeking businesses, Australia’s wool industry is alive to the gains from increased trade with different markets.

Source: Wool Producers Australia (2020)
Box 2. Comparative advantage and Australia’s exports to China

Trade patterns stem from complementarities in production across countries. Revealed Comparative Advantage (RCA) is a metric that points to the extent that a country is able to produce a good more efficiently than another. A value less than one points to a comparative disadvantage. The higher the value above one the greater the comparative advantage. The below table lists Australia’s top 20 goods exports to China by value at the three-digit SITC level (SITC-3). Also shown is the RCA of these goods for both Australia and China. The complementarity that drives bilateral trade is plain.

<table>
<thead>
<tr>
<th>SITC-3 item</th>
<th>Total Australian exports ($ thousand)</th>
<th>Australia RCA</th>
<th>China RCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>281 Iron ores &amp; concentrates</td>
<td>63104118</td>
<td>39.7</td>
<td>0.0</td>
</tr>
<tr>
<td>321 Coal</td>
<td>57131573</td>
<td>30.0</td>
<td>0.1</td>
</tr>
<tr>
<td>343 Natural gas</td>
<td>25618363</td>
<td>6.7</td>
<td>0.0</td>
</tr>
<tr>
<td>971 Gold</td>
<td>17619590</td>
<td>3.0</td>
<td>0.0</td>
</tr>
<tr>
<td>285 Aluminium ores &amp; conc (incl alumina)</td>
<td>8425563</td>
<td>29.5</td>
<td>0.0</td>
</tr>
<tr>
<td>011 Beef, f.c.f.</td>
<td>7450650</td>
<td>9.6</td>
<td>0.0</td>
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<td>333 Crude petroleum</td>
<td>5246197</td>
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<td>0.0</td>
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<tr>
<td>283 Copper ores &amp; concentrates</td>
<td>4789855</td>
<td>4.8</td>
<td>0.0</td>
</tr>
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<td>012 Meat (excl beef), f.c.f.</td>
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<td>0.1</td>
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<td>041 Wheat</td>
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<td>9.1</td>
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</tr>
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<td>684 Aluminium</td>
<td>3453174</td>
<td>1.6</td>
<td>0.8</td>
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<tr>
<td>268 Wool &amp; other animal hair (incl tops)</td>
<td>3658818</td>
<td>32.1</td>
<td>0.9</td>
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<tr>
<td>682 Copper</td>
<td>2986983</td>
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<tr>
<td>287 Other ores &amp; concentrates</td>
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<td>112 Alcoholic beverages</td>
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<td>098 Edible products &amp; preparations, nes</td>
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<td>2390777</td>
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<td>0.3</td>
</tr>
<tr>
<td>542 Medicaments (incl veterinary)</td>
<td>2246497</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>541 Pharm products (excl medicaments)</td>
<td>1231314</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>792 Aircraft, spacecraft &amp; parts</td>
<td>1936792</td>
<td>0.6</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Box 3: Purchasing power in Australia and abroad

Trade patterns are also influenced by the distribution and growth of relative purchasing power. Over the past decade, every Australian government budget has shown that Australia’s economic growth rate has been overshadowed by that of its trading partners, and in particular, that of China.

Table 2. GDP growth rates per economy per year

<table>
<thead>
<tr>
<th></th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9.1</td>
<td>10.3</td>
<td>9.2</td>
<td>7.8</td>
<td>7.7</td>
<td>7.4</td>
<td>6.9</td>
<td>6.7</td>
<td>6.9</td>
<td>6.6</td>
<td>7.9</td>
</tr>
<tr>
<td>India</td>
<td>5.7</td>
<td>10.4</td>
<td>7.3</td>
<td>4</td>
<td>4.4</td>
<td>7.2</td>
<td>7.3</td>
<td>7.5</td>
<td>6.4</td>
<td>7.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.2</td>
<td>3.9</td>
<td>-0.7</td>
<td>2</td>
<td>1.5</td>
<td>0</td>
<td>0.5</td>
<td>1</td>
<td>1.7</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>US</td>
<td>-2.6</td>
<td>2.9</td>
<td>1.7</td>
<td>2.2</td>
<td>1.9</td>
<td>2.4</td>
<td>2.4</td>
<td>1.6</td>
<td>2.3</td>
<td>3</td>
<td>1.8</td>
</tr>
<tr>
<td>EU</td>
<td>-4.1</td>
<td>1.8</td>
<td>1.5</td>
<td>-0.6</td>
<td>-0.4</td>
<td>0.9</td>
<td>1.6</td>
<td>1.7</td>
<td>2.4</td>
<td>1.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>-0.3</td>
<td>7.6</td>
<td>4.2</td>
<td>3.8</td>
<td>4</td>
<td>4.1</td>
<td>3.7</td>
<td>3.9</td>
<td>4.5</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Major trading partners</td>
<td>0</td>
<td>6.6</td>
<td>4.2</td>
<td>4.1</td>
<td>4.6</td>
<td>4.2</td>
<td>4</td>
<td>3.1</td>
<td>4.6</td>
<td>4.22</td>
<td>4.0</td>
</tr>
</tbody>
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4. Australia’s export risk profile: country versus product concentration

Australia’s discussion of the risk profile of exports tends to focus on the issue of country concentration. But the United Nations Council on Trade and Development (UNCTAD) also draws attention to a related but distinct risk, one of product concentration.

Over the past decade, UNCTAD’s export product concentration index shows that Australia’s exports have become increasingly concentrated in a narrow range of mining and energy products. Australia’s export product concentration index now sits at the same level as Papua New Guinea and Greece (UNCTAD, 2019b).

The overall trend towards greater export concentration, and hence greater risk from sector-specific shocks such as those affecting commodity prices, can be disaggregated by trading partner. Each year the product concentration of Australia’s exports to different markets can be gauged by constructing a Hirschman-Herfindahl (H-H) index with a range of between 1/N and one:

$$H = \sum_{i=1}^{N} s_i^2$$

where $s_i$ is the share of total Australian exports for SITC-3 good $i$ and $N$ is the number of SITC-3 goods exported ($1/N = 0.004$).

The closer the value is to 0.004, the more diverse is the range of products that Australia exports to that market. A value of one would imply the total value of exports to a given market is comprised of a single product. The H-H index values calculated are presented in Figure 6. What this shows is that a decade ago Australia’s exports to China were characterised by a high degree of concentration relative to other major customers. Over the past five years, however, China’s demand for Australian goods and services has broadened beyond the mining and energy sectors, reducing overall export product concentration and therefore overall risk from sector-specific shocks. The China trade relationship now supports greater export diversification than that offered by Japan, and significantly more than that offered by India. A cautionary rejoinder on this point though is that the newer export growth sectors to China, such as high value-added food and beverages, tourism and education, are also those potentially more vulnerable to market access being disrupted as a coercive economic measure.

**Figure 6. Export product concentration indexes, by Australian trading partner**

Source: DFAT (2019); author calculations
5. Can Australia shift the dial on export diversification?

The notion of trying to engineer a more diversified export profile is not new. Consistent with its foreign policy strategy, which has focused particularly on the Indo-Pacific region since at least 2012,1 various government policies aim at promoting economic links between Australia and a diverse mix of partners. These include free trade agreements (FTAs), sponsoring business roadshows and the placement abroad of specialist staff from economic promotion agencies like Austrade.

Export links with China have been a beneficiary. At the end of 2015 the Australian government concluded an FTA with China that now sees 93 percent of Australian goods (by tariff line) entering China tariff-free (DFAT, 2020c). This provides Australian businesses with significant advantages at the Chinese border over their competitors. Australian wine, for example, enters China tariff-free while the standard rate applied to that from other countries is 14 percent (Wine Australia, 2019).

But pursuing trade opportunities with China hasn't been done in isolation. Australia first concluded an FTA with the United States in 2004, adding ones with Japan and Korea in 2014 (DFAT, 2020d). Amongst Australia's top five overseas customers, only the relationship with India stands without an FTA, and this has not been for a lack of trying on Canberra's part. Rather, it reflects India's domestic political challenges – particularly in reducing protections for sensitive sectors – which have constrained successive Indian governments' willingness to close a deal (Wyeth, 2019). And even without an FTA with India, in 2018 the government sponsored an India Economic Engagement Strategy authored by Australia’s former chief diplomat, Peter Varghese.

What is true is that the quality of Australia’s bilateral FTAs differ. Of Australia’s goods exports, agricultural products tend to face higher tariffs abroad than manufactured and industrial goods. A UTS:ACRI report in 2017, Grading the China-Australia Free Trade Agreement, found that the tariff reduction schedules associated with Australia’s bilateral FTAs implied that by 2019 the simple average tariff on Australia’s agricultural exports to China would be lower than to the US, Japan and Korea (Ou and Laurenceson, 2017). But it would be nonsensical to suggest that the Australian government should have aimed for a lower quality agreement with China in a bid to slow the rate of export growth to China vis-à-vis these other customers.

And more important than bilateral trade deals is that the Australian government has also actively pursued multilateral arrangements like the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and joined with 15 other countries in concluding negotiations for the Regional Comprehensive Economic Partnership (RCEP) (DFAT, 2020d). Unfortunately, Australia’s willingness to broaden trade links in the Indo-Pacific has not been reciprocated by the US, which withdrew from the CPTPP, and India, which has declined to sign up to the RCEP.

The Australian government has also supported business roadshows in China. For example, in 2014 the Australian government held the first ever ‘Australia Week in China’ (Australian Trade and Investment Commission, 2014). The record of running such events in China, however, is patchy. Diplomatic tensions saw the Australia Week in China cancelled in 2018 (Hewett, Smith and Coorey, 2018). In 2019, a variant was held, described as a Festival of Australia in China (Australian Embassy China, 2019). This year the Festival of Australia in China has been cancelled owing to COVID-19 (Ludlow and Redrup, 2020).

But again, such activities are not unique to China. ‘G’day USA’ – jointly run by DFAT, Tourism Australia, Austrade and Qantas – is now a full year-long program of more than 20 ‘major’ events spanning the gamut of Australia’s public, economic and cultural interests in the US (G’Day USA, 2019). In contrast to the ‘Australian Week in China’, G’day USA has been successfully run every year since 2004. This has nevertheless been unable to arrest

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successive declines in the share of Australian goods and services sold to the US market, which halved from 10 percent of total exports in 2002-03 to five percent in 2018-19 (DFAT, 2020b).

In 2015, the Australian government also launched an Australia Business Week in India, with a second iteration held in 2017 (Australian Trade and Investment Commission, 2017). Despite the lack of a partnership with the Indian government in the form of an FTA or via the RCEP, Australian business promotion activities have been further supported through initiatives such as the Australia India Business Exchange, a ‘multi-month program’ of ministerial visits, business missions, trade shows and commercial conferences in the vein of ‘G’day USA’ (Australian Trade and Investment Commission, 2019a).

It is also the case that specialist staff from the Australian government’s trade and investment promotion agency, Austrade, are well represented in Greater China (mainland China, Hong Kong, Macau and Taiwan), consisting of 113 staff in 12 different cities. Table 3 shows that Greater China hosts 20.7 percent of Austrade’s total overseas-based network. An argument might be made that with one-third of Australia’s exports already going to China these staff ought to be deployed elsewhere, attempting to drive greater diversification. Other considerations, however, point in a different direction.

First, relative to exports, Austrade’s network is already disproportionately allocated away from China. For example, Table 3 shows that while the Americas only accounts for 7.3 percent of Australia’s exports, it hosts 16.7 percent of the overseas Austrade network. Meanwhile, Greater China buys 37.9 percent of exports, while hosting 20.7 percent of Austrade staff. It could be suggested that much of what Australia exports to Greater China are bulk minerals and fuels and this demands little Austrade expertise. But even if bulk minerals and fuels are excluded, Greater China’s share of the remaining export total is 26.3 percent.

Second, Austrade staff are not solely concerned with trade promotion but also investment. And here a drive to promote greater diversification points to Austrade’s network in Greater China being under-represented. While Australia has a large investment exposure to the Americas, with such sources accounting for 32.8 percent of the total foreign investment

<table>
<thead>
<tr>
<th>Table 3. Distribution of Austrade staff, share of Australian exports and inbound foreign direct investment (FDI) per market, 2018-19</th>
<th>Americas</th>
<th>ASEAN and Pacific</th>
<th>Europe</th>
<th>Greater China</th>
<th>Middle East and Africa</th>
<th>North East Asia</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of offshore Austrade staff in market</td>
<td>91</td>
<td>112</td>
<td>65</td>
<td>113</td>
<td>53</td>
<td>58</td>
<td>54</td>
</tr>
<tr>
<td>Share of offshore Austrade staff in market (percent)</td>
<td>16.7</td>
<td>20.5</td>
<td>11.9</td>
<td>20.7</td>
<td>9.7</td>
<td>10.6</td>
<td>9.9</td>
</tr>
<tr>
<td>Share of total Australian exports to market (percent)</td>
<td>7.3</td>
<td>16.2</td>
<td>8.2</td>
<td>37.9</td>
<td>3.5</td>
<td>19.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Share of total Australian exports to market, excluding minerals and fuels (percent)</td>
<td>13.5</td>
<td>23.7</td>
<td>13.4</td>
<td>26.3</td>
<td>5.7</td>
<td>8.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Share of total inbound FDI (percent)</td>
<td>32.8</td>
<td>5.6</td>
<td>24</td>
<td>5.9</td>
<td>0.6</td>
<td>11.5</td>
<td>0.1</td>
</tr>
</tbody>
</table>

And finally, there is little evidence to suggest that reallocating Austrade staff would significantly alter the geographical pattern of trade. As Table 4 shows, between 2009-10 and 2018-19, the geographic distribution of Austrade staff has remained roughly constant between its Americas market and North East Asia market (which contains Greater China). However, export shares have shifted far more significantly in the North East Asia market, driven chiefly by growth in exports to China. This is not to say that Austrade staff are ineffective. Rather, despite their best efforts, market forces – driven by economic fundamentals like production complementarities across countries and other changes exogenous to Australia such as developments in purchasing power abroad – are the chief determinants of the pattern of Australia’s trade.

### Table 4. Austrade staff distribution, export and inbound FDI outcomes in 2009-10 vs 2018-19

<table>
<thead>
<tr>
<th></th>
<th>Americas</th>
<th>North East Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009-10</td>
<td>2018-19</td>
</tr>
<tr>
<td>Number of offshore Austrade staff in market</td>
<td>89</td>
<td>91</td>
</tr>
<tr>
<td>Share of total offshore Austrade staff (percent)</td>
<td>17.1</td>
<td>16.7</td>
</tr>
<tr>
<td>Share of total Australian exports</td>
<td>8.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Share of total inbound FDI (percent)</td>
<td>24.5</td>
<td>32.8</td>
</tr>
</tbody>
</table>

Source: Austrade (2010; 2019b); ABS (2019); DFAT (2020b)
6. China and Australia’s import supply-chains

Turning to imports, citing instances of supply-chains being disrupted in the wake of COVID-19 is not, in fact, convincing evidence that Australian businesses have been irresponsible in their risk management around sourcing goods from China and that a decoupling forced by government is desirable.

If an Australian business is not able to source an input or final good it needs to make a profit, then the business itself loses most directly. This provides a strong incentive for businesses to take supply-chain risks seriously.

This is not to say that the business objective of profit maximisation is consistent with ensuring supply-chain stability at all costs, particularly in the face of a low frequency, high impact event like COVID-19. But, as with exports, the basic incentives that businesses have to get the risk/return equation right, for the most part, do not exist to the same extent for the Australian government.

Businesses need to be aware, however, that particular risks, such as those around economic coercion, apply as much to imports as they do exports. For example, in 2010 the Chinese government exploited China’s dominance in the production of rare earth minerals – essential for manufacturing in sectors such as electronics, energy and defence – by restricting exports to Japan during a bilateral diplomatic dispute over maritime boundaries (Wilson, 2017).

Still, Australia’s national interest is not advanced by vague objections to China as an import source and without reference to specific stakeholders, specific goods and specific policies. Consider a commentary piece written on March 31 by Nine political editor, Chris Uhlmann. In the wake of COVID-19, he contended:

We should deliberately diversify our suppliers away from China. Every dollar spent building capacity in countries like Indonesia, Malaysia, Vietnam, Bangladesh and India is a dollar well spent.

But who does ‘we’ refer to? Media political commentators or Australian businesses and taxpayers?

And what does ‘deliberately’ mean? Is Uhlmann advocating that the Australian government should put in place quotas that limit the ability of Australian businesses to import from China, forcing them to try to find higher cost and/or lower quality sources elsewhere? Or China-specific tariffs, with the Australian government abandoning its commitment to World Trade Organization rules in the process? Alternatively, government subsidies – funded by taxpayers – for imports from other countries?

Next, suppliers of what? Certain critical goods or goods in general?

Then, why is ‘every dollar spent’ in these other countries ‘a dollar well spent’? For Australia’s supply-chain stability how relevant is it that a producer might be located in a country with a political system more similar to Australia’s if at the same time its logistics network is less reliable? World Bank data shows that China ranks 26th out of 160 countries globally for the strength of its logistics environment. In comparison, India and Indonesia rank 44th and 46th, respectively. And in what other countries are found the confluence of factors that afford China its production comparative advantage – infrastructure and scale, as well as clustering and network economies – which gives international buyers access to an unrivalled combination of speed, cost and quality? Or why wouldn’t a dollar be better spent on investment in Australia, or on local health, education or defence?

Finally, the COVID-19 shock to Australia’s supply-chains is clearly global, not China-specific. Following initial cover-ups and delays (Collinson and Laurenceson, 2020), China took decisive action to control the virus spread and production facilities there are now recovering, albeit at a gradual pace. Meanwhile, those in other countries, including in the often-touted alternatives such as Indonesia and India – and even in the US and the EU – are likely to be vulnerable for much longer.

In avoiding these basic questions, which Australian businesses and government policy-
makers cannot, such commentary moots an idea that appeals at first glance but actually offers little that is constructive for advancing the national interest.

In contending that Australia ‘should deliberately diversify our suppliers away from China’, what most commentators have in mind is the import of a final good. But Australia’s supply-chains are fed by global value chains (GVCs) which see inputs and stages of production spread across multiple countries (Collinson, Laurenceson and Wilson, 2020). The Apple iPhone is the classic example. As a final good, the iPhone is recorded in Australia’s trade statistics entirely as an import from China but research shows that what China is responsible for is mostly only the final stage of production, consisting of assembly and packaging. The value added in China accounts for less than four percent of an iPhone’s production cost (Dedrick, Linden and Kraemer, 2018). Far more of its value is supplied by the US (29 percent), Japan (29 percent), Taiwan (20 percent) and Korea (7 percent). This means that when Australia imports an iPhone from China it is, in fact, importing goods from all of these other countries too, and is exposed to supply disruption across the entire GVC. Similarly, Australia may import a final good from India but if that good relies on inputs and stages of production from China and these are disrupted, then Australia’s supply-chain stability will also be negatively impacted. The key point is that reducing the proportion of final goods imported from China is a wholly inadequate approach to managing Australia’s supply-chain risks. And that’s before even considering the effectiveness and costs of how such a reduction might be achieved, such as imposing China-specific tariffs.

Further complicating matters is that locational decisions in GVCs are made by multinational companies, most of which are headquartered overseas and beyond the direct reach of Australian policy-makers.

There are other approaches that the Australian government might utilise to better influence supply-chain risk.

For example, the government could incentivise Australian businesses importing goods it regards as critical to hold additional inventories.

There is also already direct government involvement in maintaining strategic stockpiles of goods such as fuel and facemasks because, despite the storage and maintenance costs, these are regarded as vital for national security and resilience. A reasonable discussion can be had around whether this basket ought to be broadened.

A reasonable discussion can also be had around whether industrial policy (tax breaks, low interest loans, and so on) might be used to enhance Australia’s manufacturing capabilities generally, and production self-reliance for certain goods specifically. This could stem from national security considerations but also from a recognition that producing according to comparative advantage is not the only factor underpinning modern manufacturing success (Green, 2020).

But important in all of these considerations is that their benefits and costs are clearly accounted for and compared with the status quo to determine if they serve the national interest. The Australian government’s Productivity Commission could assist in subjecting proposals to the cost/benefit test.

Some of the claims around China’s role in Australia’s supply-chains also appear to be built on misinformation. As noted in the introduction, ASPI head Peter Jennings has said that a ‘stronger national security perspective’ must be brought to bear on the supply-chains for various goods, including food. But a new study by the Australian Bureau of Agricultural and Resource Economics and Sciences emphatically concluded that ‘Australia does not have a food security problem’. In fact, it said that, ‘Australia is one of the most food secure nations in the world’ (ABARES, 2020b). Imports only account for 11 percent of food consumed in Australia, while 70 percent of agricultural production is surplus to domestic needs and sold overseas.

Australia’s supply-chain for medicines is another example that Jennings has highlighted. It is true that more than 90 percent of the medicines consumed in Australia are imported,
according to Therapeutic Goods Administration (TGA) data (Therapeutic Goods Association [TGA], 2019). On February 18, The Australian Financial Review drew attention to a new report by the Institute for Integrated Economic Research Australia arguing that ‘Australia is dangerously dependent on imported medicine’. The report contended, ‘The coronavirus is an example of a situation that could arise with little warning, and one that could significantly impact the global medicine supply-chain given the global dependencies on China’s pharmaceutical industry’ (Borzycki, Quilty, and Blackburn, 2020). On April 2 a news piece in The Australian Financial Review cited the same report, stating, ‘It warns that the China-dominated supply-chain for drugs and active pharmaceutical ingredients leave Australia’s medical supplies vulnerable to disruption’. On April 19 former foreign minister, Alexander Downer, writing in The Australian Financial Review, made the case that Australia should ‘look at how we can reduce our dependence on China for the supply of…pharmaceuticals’ (Downer, 2020).

But turn to trade data from DFAT. These show that last year only two percent of medicinal and pharmaceutical imports actually came from China (DFAT, 2020a) (Figure 7). This compared with 47 percent and 21 percent from the EU and US, respectively. Of course, there may be particular medicines that Australia sources heavily from China but the fact remains that at a general level China lags well behind the incumbent players. If managing supply-chain risks through a greater diversity of suppliers of final goods is the intention, focusing on China makes little sense.

China might also be involved in the GVCs for some of the medicines that Australia imports from other countries through producing active pharmaceutical ingredients (APIs). But to the extent this is true, these GVCs are mostly managed by giant European and American pharmaceutical companies. Pretending that simply switching to importing a medicine from India or Vietnam will address the issue, or that the Departments of Defence or Health in Australia have the antidote, is disingenuous.

In the COVID-19 context, when quizzed recently about American exposure to China via GVCs for pharmaceuticals, the US government’s Food and Drug Administration (FDA) Commissioner, Stephen Hahn, remarked ‘We don’t have any evidence that there’s a drug in short supply because of anyone blocking the active pharmaceutical ingredients coming to us (from China)’ (Blankenship, 2020). In a less

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2 This data refers to SITC codes 541 and 542.
positive development, in March, India, another significant US supplier, moved to restrict its pharmaceutical companies from exporting 26 medicines and APIs (Swanson, 2020).

In Australia there are already alternative risk mitigation strategies in place around pharmaceuticals. For example, on March 11 the CEO of Medicines Australia, Elizabeth de Somer, noted that ‘[m]edicines manufacturers keep at least three to six months of medicine supplies available in country’ (Andrews, 2020). The Australian government also supports medicine supply-chains not just through strategic stockpiles but also through a Community Service Obligation that makes payments to pharmaceutical wholesalers on the condition that shelves for essential medicines in community pharmacies are restocked within 24 hours (Australian Government Department of Health, 2019).

At the end of January, when the COVID-19 outbreak overwhelmingly centred on China, the report cited by The Australian Financial Review and The Australian stated that ‘the TGA reported 63 drugs as ‘critical shortages’ and 13 anticipated to go into short supply’. As at April 24, the number of drugs subject to ‘critical shortages’ had grown to 75, while those anticipated to go into short supply had fallen to seven (TGA, 2020a). Had supply-chains disrupted by COVID-19, and specifically, those in China, emerged as a problem? The TGA was clear in its assessment: ‘Widespread national-level medicine shortages due to COVID-19 are not currently anticipated, but could occur if excessive purchasing continues’ (TGA, 2020b). In other words, supply-chain stability isn’t the main problem; panic buying is. One might also add misinformation. In one example, early on in COVID-19’s spread, the drug hydroxychloroquine was touted, including by US President Donald Trump, as a possible treatment (Evelyn, 2020). According to a statement by the Pharmaceutical Society of Australia on March 21, this had contributed to ‘unprecedented demand for the drug’ (Pharmaceutical Society of Australia, 2020). More recent medical trials of hydroxychloroquine have, however, proven less positive (Rowland, 2020).

All of this is not to dismiss concerns around Australia’s exposure to China for all goods relevant to managing the COVID-19 crisis. For example, when it comes to personal protective equipment (PPE), 54 percent of Australia’s imports come from China, according to research by the Peterson Institute for International Economics. This exposure is, however, in line with the proportions for the US, EU and Japan (Brown, 2020). And as the global virus outbreak has unfolded, such a significant exposure to China is not necessarily detrimental with its vast production capabilities now returning to capacity well before those of other major global suppliers.
7. Conclusion

COVID-19 has renewed and made stronger criticisms of Australian entities heavily engaged with the Chinese market as being irresponsible in their risk management, as well as calls for the Australian government to take action and reduce Australia’s economic exposure to China overall.

A prevalent feature of this commentary, however, is that it declines to recognise and engage with what has driven Australia’s current level of engagement with China and how this serves the national interest. It also avoids laying out the policies that should be deployed to force a step-change in the pattern of Australia’s trade, which would allow an evaluation of the effectiveness and costs associated with such measures to be compared with the status quo. For example, if Australian businesses were to be forced in one form or another to sell less to China than they otherwise could, then the Australian public deserve to be presented with a clear accounting of how many jobs this will cost and by how much household sector taxes will need to increase to compensate for lower government revenues from the corporate sector.

There are important discussions to be had around better managing the risks associated with Australia’s international economic exposure. Some of these relate to national security and strategic developments and come into sharper focus in the case of trade with China than other countries. But the argument that Australia’s national interest is best served by the government forcing a decoupling of the Australian and Chinese economies mostly reflects a zombie economic idea, an economic idea that deserves to be laid to rest once and for all.
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COVID-19 and the Australia-China relationship’s zombie economic idea

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Evelyn, K. 2020. ‘Trump stops hyping hydroxychloroquine after study shows no benefit’, Pharmaceutical Society of Australia, March 21

The Conversation


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