China in transition: The view from Australia

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The bilateral relationship in international perspective
Exports: Dependence on China by country (1)

Share of merchandise exports to China (top 35 in world in 2014)

Per cent of total goods exports, 2014 for all economies

Source: IMF Direction of Trade Statistics
Exports: Dependence on China by country (2)

Share of merchandise exports to China (OECD in 2014)

Per cent of total goods exports, 2014 for all economies

Source: IMF Direction of Trade Statistics
An ‘intense’ trade relationship

Australia's trade intensity index, China, 2002-2014

Index

Source: UN Comtrade, World Bank WITS, Austrade.
Our exports to China in historical perspective

Australia: Selected merchandise export partners 1885 to 2014-15

Per cent of total

Source: DFAT
A qualification: Trade in value added vs Gross flows

Australia: Gross and value added exports to China

Per cent of total

Source: OECD-WTO TIVA database and Austrade. Note VAX ratio is 80 per cent or above in all years
Leading destinations for Chinese outward investment, 2005-15

US$ billions cumulative, excludes bonds and loans

Source: AEI China Global Investment Tracker
China in transition
GDP growth has slowed . . .

China: Annual GDP growth

Per cent of GDP

Source: IMF World Economic Outlook database
The investment model has peaked . . .

China: Investment rate

Per cent of GDP

Source: IMF World Economic Outlook database
and trade is no longer the engine it was

China: Trade volume growth

Per cent change over previous year

Source: IMF World Economic Outlook database
New drivers: Services and consumption?

China: Structure of Gross Value Added

Per cent share

- Services, value added (% of GDP)
- Industry, value added (% of GDP)

Source: World Bank WDI database and Austrade

China: Consumption share of GDP

Per cent share

- General government final consumption expenditure
- Household final consumption expenditure

Source: World Bank WDI database and Austrade
Rethinking China’s growth path

China: IMF forecasts of real GDP growth

*Per cent change over previous year*

Source: IMF World Economic Outlook database, selected years
An alternative perspective on China’s growth

China: Change in US dollar GDP

*US$ billions*

Source: IMF World Economic Outlook database
The first export boom: Investment-led growth and iron ore
The China – Iron ore story

Monthly iron ore price

Source: IMF monthly data to end February 2016

Australia: The role of iron ore in exports

Source: ABS, DFAT and Austrade
Composition of Australian exports to China

Australia: Composition of exports to China, 2000-01 to 2014-15

Source: ABS, DFAT and Austrade
Growth in exports 2000-14: Mostly about resources

Australia: Change in exports by sector, 2000-1 to 2013-14

A$ billion

Other primary products
Manufactures
Other goods
Food
Services
Minerals and fuels
Total

Source: DFAT. Excludes BoP adjustment
The shift in the direction of trade

Direction of Australian exports, 2000-1

Per cent of total

- China: 32.7%
- Japan: 17.4%
- Korea: 13.6%
- United States: 13.6%
- ASEAN: 11.1%
- EU: 6.5%
- Other: 6.6%

Source: ABS, DFAT and Austrade

Direction of Australian exports, 2013-14

Per cent of total

- China: 32.5%
- Japan: 22.4%
- Korea: 11.2%
- United States: 5.2%
- ASEAN: 6.8%
- EU: 15.4%
- Other: 5.1%

Source: ABS, DFAT and Austrade
Growth in exports 2000-14: Mostly about China

Australia: Change in exports by leading markets, 2000-1 to 2013-14

A$ billion

- China
- Japan
- Korea
- India
- Malaysia
- Singapore
- New Zealand
- Taiwan
- US
- UK
- ASEAN
- EU
- Total

Source: ABS, DFAT and Austrade
The shift in the composition of trade

Composition of Australian exports, 2000-1

Per cent of total

- Food: 23.0%
- Minerals and fuels: 25.9%
- Other primary products: 6.1%
- Manufactures: 24.1%
- Other goods: 4.5%
- Services: 15.9%
- BoP adjustment: 0.4%

Source: DFAT.

Composition of Australian exports, 2013-14

Per cent of total

- Food: 50.6%
- Minerals and fuels: 17.3%
- Other primary products: 12.7%
- Manufactures: 6.0%
- Other goods: 2.3%
- Services: 10.8%
- BoP adjustment: 0.3%

Source: DFAT.
China goes out . . . to Australia and looks for resource security
Chinese investment surged after 2007

**Stock of Chinese investment in Australia**

*A$ billions*

Source: ABS. Note data influenced by treatment of confidential investments.
And mostly went into metals and energy

Australia: Composition of Chinese investment 2005-2013

Source: AEI China Global Investment Tracker and Austrade
The new export boom: Consumption-led growth, tourism and education services
The changing profile of iron ore exports

Australia: Iron ore exports (values)

Australia: Iron ore exports (volumes)

Source: BREE and Austrade
Growth in exports 2014-15: Times have changed

Australia: Change in exports by sector, 2013-14 to 2014-15

A$ billion

Source: DFAT. Excludes BoP adjustment
But exports of services have kept rising

Australia: Services exports to China

A$ billions

Australia: Goods and services exports to China

Per cent of total exports

Source: ABS, DFAT and Austrade
Chinese visitor numbers are up sharply

Exports of personal travel services to China

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (LHS)</th>
<th>Share (RHS)</th>
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</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>1</td>
<td>0.05</td>
</tr>
<tr>
<td>2002-03</td>
<td>2</td>
<td>0.06</td>
</tr>
<tr>
<td>2004-05</td>
<td>3</td>
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</tr>
<tr>
<td>2006-07</td>
<td>4</td>
<td>0.08</td>
</tr>
<tr>
<td>2008-09</td>
<td>5</td>
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</tr>
<tr>
<td>2010-11</td>
<td>6</td>
<td>0.10</td>
</tr>
<tr>
<td>2012-13</td>
<td>7</td>
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</tr>
<tr>
<td>2014-15</td>
<td>8</td>
<td>0.12</td>
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</tbody>
</table>

Source: ABS and Austrade. Excludes education-related travel services

Short-term visitor arrivals from China

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of visitors (LHS)</th>
<th>Share of total (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>10,000</td>
<td>0.05</td>
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<tr>
<td>2002-03</td>
<td>20,000</td>
<td>0.10</td>
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<tr>
<td>2004-05</td>
<td>30,000</td>
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<td>2006-07</td>
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<td>2008-09</td>
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<td>2010-11</td>
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<td>2012-13</td>
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<tr>
<td>2014-15</td>
<td>80,000</td>
<td>0.40</td>
</tr>
</tbody>
</table>

Source: ABS and Austrade.
Total trip expenditure by international visitors, 2015

$ billions

- China
- United Kingdom
- United States of America
- New Zealand
- Singapore
- Korea
- Japan
- Hong Kong
- Other Asia
- Malaysia
- India
- Germany
- Canada

Source: TRA
And student numbers are climbing again, too

Exports of education travel services to China

Source: ABS and Austrade

Chinese student enrolments and numbers

Source: Department of Education and Austrade
Food and beverage sales have been rising

Australia: Exports of food and beverages to China

A$ billions

- Unprocessed (LHS)
- Processed (LHS)
- China share in total food exports (RHS)

Source: ABS, DFAT and Austrade
China’s consumption story, meet Australian exports

Exports of consumption goods & services to China

A$ billions

Services
Consumption goods

Source: ABS, DFAT and Austrade

China’s share of overall ‘consumer’ exports

Per cent of total exports of consumption goods plus services

Source: ABS, DFAT and Austrade
A question of scale

Australia: Change in exports to China by sector, 2013-14 to 2014-15

A$ billions

Source: DFAT. Excludes BoP adjustment
The new investment pattern: Diversification . . . and property
Chinese investment has diversified

Australia: Composition of Chinese investment 2005-2015

A$ billions

Per cent

Source: AEI China Global Investment Tracker and Austrade
Portfolio diversification, or capital flight?

Australia: FIRB approvals of Chinese investment proposals

A$ billions

Source: Foreign Investment Review Board annual reports and Austrade. ‘Services’ includes finance and insurance, tourism and other services. ‘Other’ includes Agriculture and manufacturing.
Final thoughts
Selected economies: Change in real exchange rate, Jan 2002 - Dec 2012

Per cent change in real exchange rate over selected period

Source: BIS and Austrade
Swings in competitiveness: . . . this is now

Selected economies: Change in real exchange rate, Jan 2013 - Jan 2016

Per cent change in real exchange rate over selected period

Source: BIS and Austrade
Growth in exporter numbers to China

Australian firms exporting to China

Number of exporters

Per cent of total goods exporters

Source: ABS and Austrade, note data only available for goods exporters
Elsewhere, picture on numbers is more mixed

Australia: Change in exporter numbers for key markets, 2006-7 to 2013-14

Source: ABS and Austrade
Exports: Tracking Concentration

Australia: HH market concentration index

Per cent

Source: World Bank WITS database and Austrade

Australia: HH product concentration index

Per cent

Source: World Bank WITS database and Austrade
The next export surge: LNG

Australia: LNG exports

Source: BREE and Austrade

Australia: LNG exports to China

Source: Data from BP Statistical Review of World Energy; forecasts from Table 3.7 in BREE Gas market report 2014
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