Australia’s China obsession: get over it

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The Chinese economy is slowing, and everyone except the Chinese Communist Party knows it. An extensive ‘forensic examination’ by economists associated with the US Brookings Institution suggests that China has been over-reporting GDP growth for at least the last ten years (and probably longer). Western investors are pulling out of China in droves, and Chinese graduates from Australian universities are finding it hard to get jobs when (if) they go home at the end of their degrees.

Australian exporters have been some of the biggest beneficiaries of the China boom, so any concerns about China tend to have a ripple effect down under. That said, even if China’s economy isn’t growing at the officially reported rate of 6.5 per cent, the Reserve Bank is happy as long as Australian coal exports continue to rise. China can fake its economic accounts all it wants, but it can’t fake shipfuls of the black stuff leaving Newcastle, Hay Point and Gladstone bound for China.

That’s why Australian economic commentators went into panic mode last month when the northeastern Chinese port of Dalian announced that it would no longer accept shipments of Australian coal. Perhaps this was the beginning of the end of Australia’s coal export boom, or even worse, it might be a Chinese government punishment for Australia’s decision not to use Huawei 5G routers in the NBN. Or it might be a reprisal for revoking the permanent residence permit of a Chinese real estate developer, or for hosting US Marines in Darwin, or for being just plain unfriendly?

As it turned out, Dalian was probably just trying to prop up local coal suppliers, who can’t compete with Australian coal on price or quality. But who knows? Chins is not a country known for regulatory transparency. Anyway, the rest of China still seems happy to buy Australian coal, so there doesn’t seem to be much to worry about – yet.

As in the Dalian coal controversy, Australian pundits routinely play on China fears because roughly one-third of Australia’s exports go to China. That sounds ominous, until you think about it. For example, back in the 1970s, more than one-third of Saudi Arabia’s exports went to Western Europe. In theory, the European Economic Community (as the EU was then known) could have crippled Opec by refusing to buy its oil. In reality, things turned out very differently.

Like Saudi Arabia, Australia is a commodities exporter. It’s top merchandise exports are iron ore, coal, gold and natural gas. It’s fourth, fifth, tenth and twentieth most important exports are also animal, vegetable or mineral commodities. You have to go all the way down the list to number 29 (artificial respiration machinery) to find anything smarter than a rock. Australia exports more chopped wood for burning in fireplaces than it does any manufactured product.

That record makes Australia the Saudi Arabia of coal. And just like Saudi oil, Australian coal is bound to go somewhere. If China switches to Indonesian coal, Australian coal will go to Japan or India to compensate. Wherever that Indonesia coal used to go, Australian coal will go instead. For individual coal exporters, it’s not quite that simple, and there’s always a risk that something will be lost in the shuffle. But in the big picture of the Australian economy, commodities are fungible. Squeeze the balloon here and it pops out there.

Of course, in the big picture of the Australian economy, coal exports really aren't that important. In most years, coal exports account for about 3-4 per cent of GDP, roughly on a par with the hospitality industry. Hospitality employs far more people, is much less volatile and is dominated by small, local firms. But you don't hear pundits going crazy over avocado toast, unless it's to make fun of millennials for eating it.

Coal notwithstanding, Australia doesn't really depend much on exports at all. In terms of exports as a percentage of GDP, it ranks 134th out of 169 countries for which data are available. Export powerhouses like Albania and Madagascar are much more export-oriented than Australia. In fact, the only members of the OECD – the world's rich country club – that are less dependent on exports than Australia are the United States and (believe it or not) Japan.

The United States and Japan don't export very much as a percentage of GDP because they have enormous domestic economies. Australia doesn't export much because (like fellow non-exporter New Zealand) it's just so far from everywhere else. Don't let anyone tell you that Australia is part of Asia. Australia is almost entirely divorced from Asia's massive cross-border production networks for manufactured goods like clothing, toys, bicycles, and mobile phones. Asia makes consumer electronics. Australia makes coal – and avocado toast.

Australia's long-term economic success depends on the effective management of Australia's domestic economy, not on exports to China. That means reducing dead-hand regulations, increasing competition, improving pay and working conditions, depoliticising electricity generation and perhaps most importantly, reforming the rapaciously inefficient banking sector. Too much of the Australian economy is run by clubby big firms in cahoots with the state and federal governments. It all needs a good, strong shake-up (and shake-out).

As long as Australia sits on some of the world's biggest deposits of coal and iron, mining is going to play a big part in Australia's export economy. But Australia is not really an export economy. Right now, Australia's commodity exports (both minerals and foodstuffs) depend heavily on the Chinese market, but if China doesn't burn Australian coal and eat Australian beef, someone else will. The real challenge for Australia is reforming the domestic economy, and that will take a lot more political courage. Talk on China is cheap. Action at home is more important, and a lot tougher.