

# Australia, China and the Global Financial Crisis

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### Manufacturing

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The Australian and Chinese manufacturing sectors were impacted by the Global Financial Crisis (GFC) in contrasting ways. In summary, manufacturing has been in relative decline within the Australian economy: its share in the economy has been falling and today stands at 8.5 per cent compared to 12.1 per cent in 2000. By contrast, China's manufacturing base is export oriented and has been growing rapidly on the back of economic growth rates of 10 per cent annually. Its rapid growth has been driven by large investments in manufacturing facilities and technological advances achieved by the country.

Manufacturing accounts for 34 per cent of China's economy and was exposed to the real and immediate economic fallout from the GFC and global recession. The decline in US and European economies impacted Chinese manufacturing dramatically. Manufacturing exports fell (around 40 per cent of exports are electronic products), production was reduced, as was the demand for raw materials and labour. The economic stimulus package implemented by the Central Government resulted in a quick turnaround of its manufacturing economy and contributed to an annual economic growth rate of close to 9 per cent.

The GFC impact on Australian manufacturing was much less severe than first feared as the impact of the global recession was delayed and the sector's long-term decline continued. A major factor for this decline is the high value of the Australian dollar commencing in 2002 which has led to a long-term deterioration in the competitiveness of Australian manufacturing. The GFC impact was greatest on the automotive industry and particularly in regional areas which recorded the highest rate of job losses. The industry experienced a sharp decline in exports and fall in local demand for vehicles as businesses and households limited spending. In response the Government introduced a business tax break, as well as other stimulus measures to stabilise the local car market.

### Australia-China trade

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Affected by the GFC, Australia's total merchandise trade decreased by 11.6 per cent in 2009, and experienced the first fall in exports since 1964–65. Exports fell by \$27.4 billion or 12.2 per cent to \$196.9 billion from their record peak in 2008 of \$224.3 billion. Imports fell by \$25.5 billion or 11.1 per cent to \$203.2 billion. The fall in the value of total merchandise trade cut 0.04 percent off GDP the growth rate of 2.3 percent.

While trade between Australia and its major trading partners fell considerably, trade between Australia and China, increased by 15.6 per cent reaching a record of \$78.1 billion. Two-way trade grew from \$67.6 billion in 2008 to \$78.1 billion in 2009. China was Australia's largest export market surpassing Japan. Exports to China accounted for 21.6 per cent of total exports (\$42.4

billion) while Australia was the eighth largest exporter to China. China was also Australia's largest import source in 2009, accounting for 17.8 per cent (\$35.8 billion) of total imports. Driven by demand for resources and energy, the growth of exports far outstripped the growth in imports into Australia. The balance of trade swung in favour of Australia which recorded a trade surplus with China (\$6.6 billion) for the first time.

## Energy and mining

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China is in the course of urbanisation and rapid infrastructure reconstruction and its demand for energy and minerals, especially for these products from Australia, expanded in 2009. The value of energy and mineral exports to China accounted for the bulk of Australia's merchandise exports (80 per cent) in 2009. In 2007, the value of these exports was only 57 per cent of exports. While China's manufacturing production fell the most on record during the global recession, its energy and mineral needs from Australia increased more rapidly than its economy.

## Australian and Chinese investment

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Australia and China are important investment partners and are engaged in significant joint ventures in the mining, resources and energy sectors. The table below shows the growth in investment which was sustained despite the global financial market instability. In 2009, total Chinese investment in Australia was \$16.6 billion, making China the 12th largest investor country in Australia. Australian investment in China was \$6.3 billion in 2009, making Australia the 17th largest investor in China. China is also a major foreign purchaser of Australian debt including government securities, although precise levels are not available.

## Australia-China free trade agreement

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The expansion of two-way trade between Australia and China has brought real benefits to Australian households and manufacturing sectors reliant on cheaper imports. Further benefits are expected with the proposed conclusion of a comprehensive free trade agreement (FTA) by the end of 2010.

Negotiations for an FTA commenced in 2005 and a precondition to the trade talks was Australia's recognition of China as a full market economy. Despite a hiatus in negotiations during the global recession, both countries remain firmly committed to consolidating their relationship by concluding an FTA. Australia's approach to the negotiations has been the elimination of tariffs and reduced quotas on selected agricultural products. Australia has also sought greater services market access and a more level playing field with Chinese competitors.

## Conclusions

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Australia's strong economic performance during the GFC can be attributed to the Government's stimulus measures, a sound and liquid banking system and not least China's robust demand for energy and minerals imported from Australia. Bilateral trade and investment relations have also strengthened and are now highly complementary to each other in the areas of mining and energy. In addition to the expanding trade in energy and minerals, a future FTA will bring further benefits particularly in services trade (which has doubled over the past four years) and agricultural trade.

## Two Way Investment Relationship—China and Australia, A\$ million

| Year               | From China to Australia Total Inward Investment Stock | From Australia to China Total Outward Investment Stock |
|--------------------|---|--|
| 2001               | 3 132   | 1 885  |
| 2002               | 2 843   | 1 223  |
| 2003               | 2 989   | 1 350  |
| 2004               | 2 285   | 1 262  |
| 2005               | 2 274   | 2 034  |
| 2006               | 3 508   | 3 043  |
| 2007               | 6 241   | 5 789  |
| 2008               | 8 517   | 6 993  |
| 2009               | 16 637  | 6 327  |
| Change in 2009 (%) | 95.3  | -9.5   |
| Share in 2009 (%)  | 0.9   | 0.6  |
| Rank in 2009       | 12  | 17   |

### Library publications and key documents

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