

**THE CHINESE ECONOMY  
AND THE DETERIORATING BI-LATERAL POLITICAL AND  
ECONOMIC RELATIONSHIP BETWEEN CHINA AND AUSTRALIA**

WEBINAR PRESENTATION

2<sup>ND</sup> FEBRUARY 2021

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# Agenda

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- ❑ **China's recovery from the Covid-induced recession**
- ❑ **A longer-term perspective on China's economy**
- ❑ **China's relations with the rest of the world**
- ❑ **The deterioration in bilateral relations between China and Australia**
- ❑ **Your questions**

**Note: nothing in what follows constitutes investment advice, nor should it be construed as such!**

# China's economic recovery from the Covid-induced recession

# All major forecasting agencies anticipate strong growth in the Chinese economy over the next two years

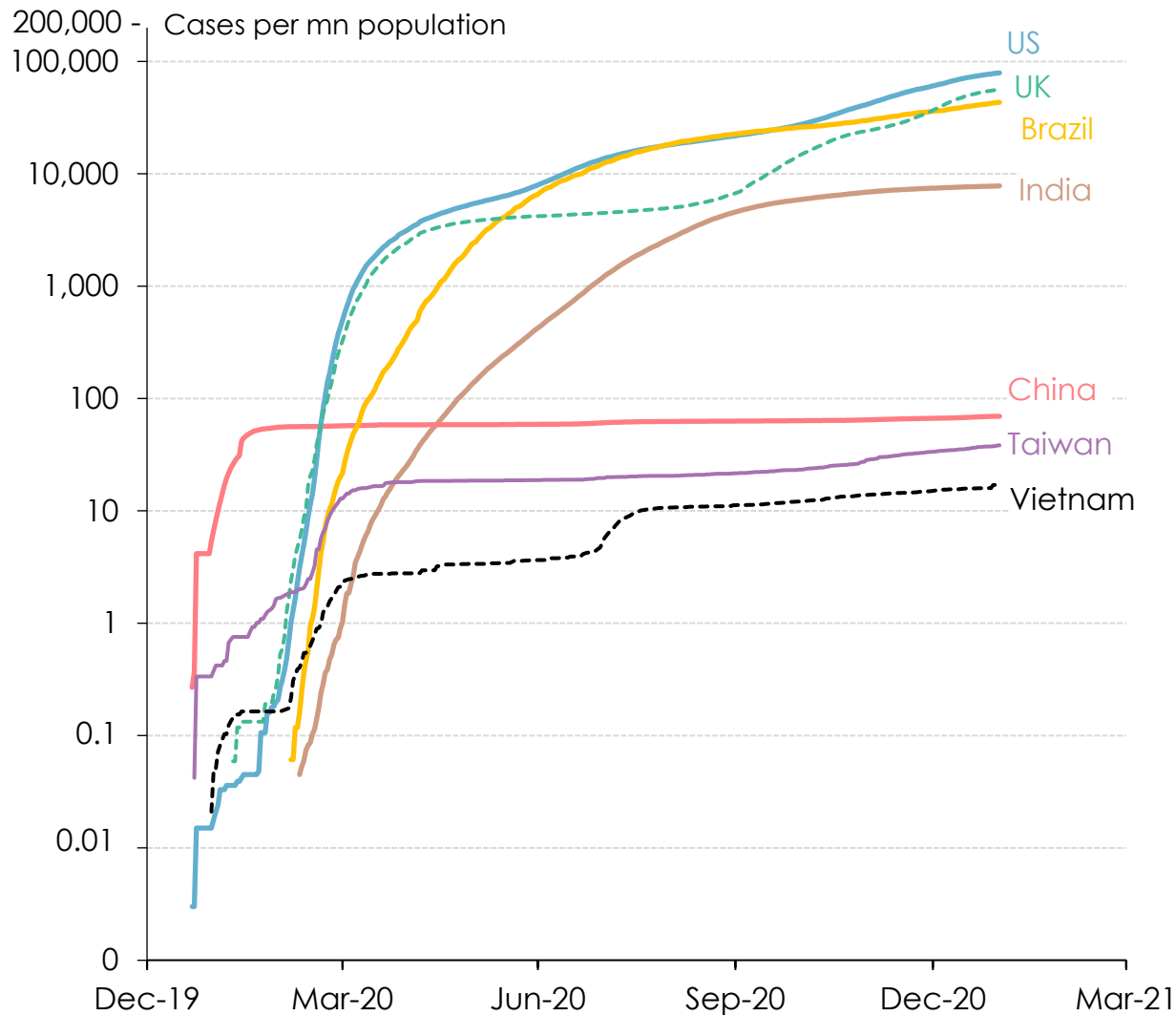
## Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	Actual 2019	IMF			World Bank			OECD			Australian Treasury		
		2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>China</b>	<b>6.0</b>	<b>2.3</b>	<b>8.1</b>	<b>5.6</b>	<b>2.0</b>	<b>7.9</b>	<b>5.2</b>	<b>1.8</b>	<b>8.0</b>	<b>5.0</b>	<b>1.8</b>	<b>8.0</b>	<b>5.3</b>
US	2.2	-3.4	5.1	2.5	-3.6	3.5	3.5	-3.7	3.2	3.5	-3.8	3.3	3.0
Euro area	1.3	-7.2	4.2	3.6	-7.4	4.5	3.3	-7.5	3.6	3.3	-7.5	3.5	3.3
Japan	0.3	-5.1	3.1	2.4	-5.3	2.5	2.3	-5.3	2.3	1.5	-5.3	2.8	1.8
India	4.2	-8.0	11.5	6.8	-9.6	5.4	5.2	-9.9	7.9	4.8	-7.5	9.0	5.5
ASEAN	4.9	-3.7	5.2	6.0	-3.8	4.9	5.2	-4.3	5.4	na	na	na	na
Australia	1.9	-2.9	3.5	2.9	na	na	na	-3.8	3.2	3.1	0.8*	3.5*	2.5*
New Zealand	2.2	-6.1	4.4	na	na	na	na	-4.8	2.7	2.6	1.5 <sup>†</sup>	2.6 <sup>†</sup>	3.7 <sup>†</sup>
World	2.8	-3.5	5.5	4.2	-4.3	4.0	3.8	-4.2	4.2	3.7	-4.0	4.8	3.8

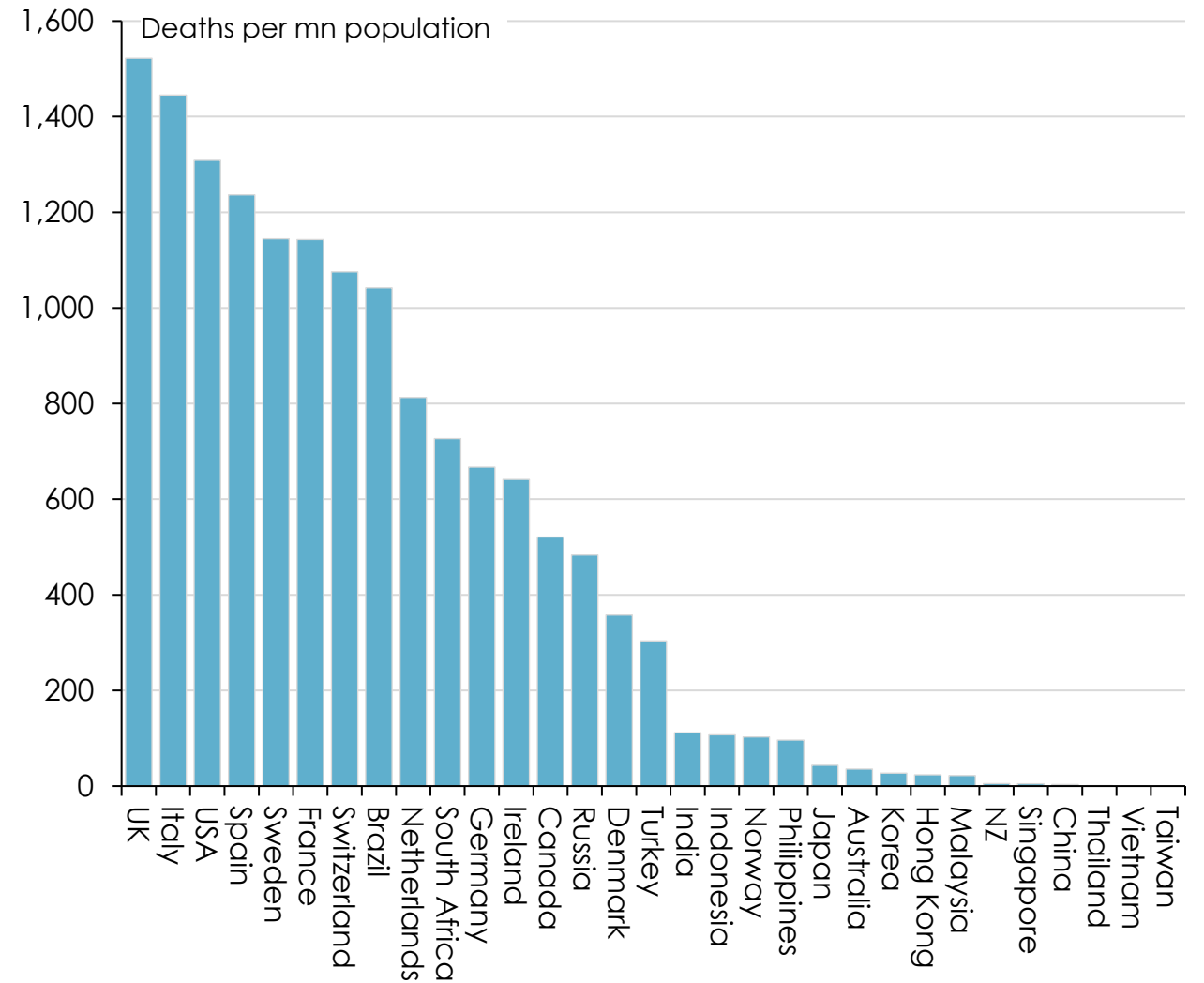
Note: \* Forecasts for fiscal years beginning 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> January 2021; The World Bank, [Global Economic Prospects](#), 6<sup>th</sup> January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook - December 2020](#), 1<sup>st</sup> December 2020 and [Economic Outlook for Southeast Asia, China and India](#), November 2020; Australian Treasury, [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17<sup>th</sup> December 2020; New Zealand Treasury, [Half Year Economic and Fiscal Update](#), 16<sup>th</sup> December 2020.

# China has done very well (by comparison with other large countries) at keeping the virus under control (although some have done even better)

## Apparent infection rate



## Death rate

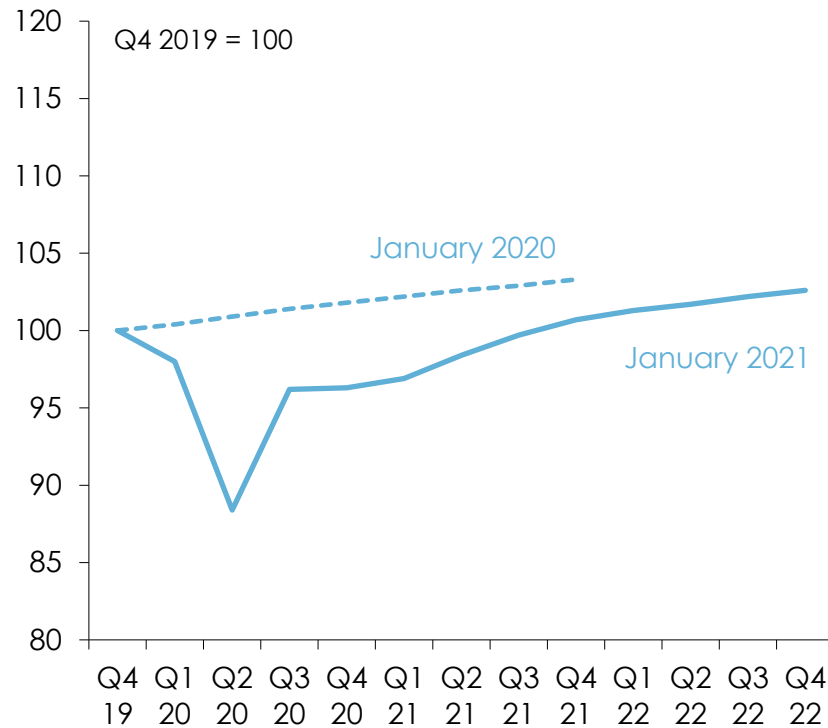


Note: Data up 31<sup>st</sup> January . Source: University of Oxford, [Our World in Data](#); Corinna. .

# Latest IMF forecasts show China has already regained its pre-Covid level of GDP, which other economies won't until the second half of this year

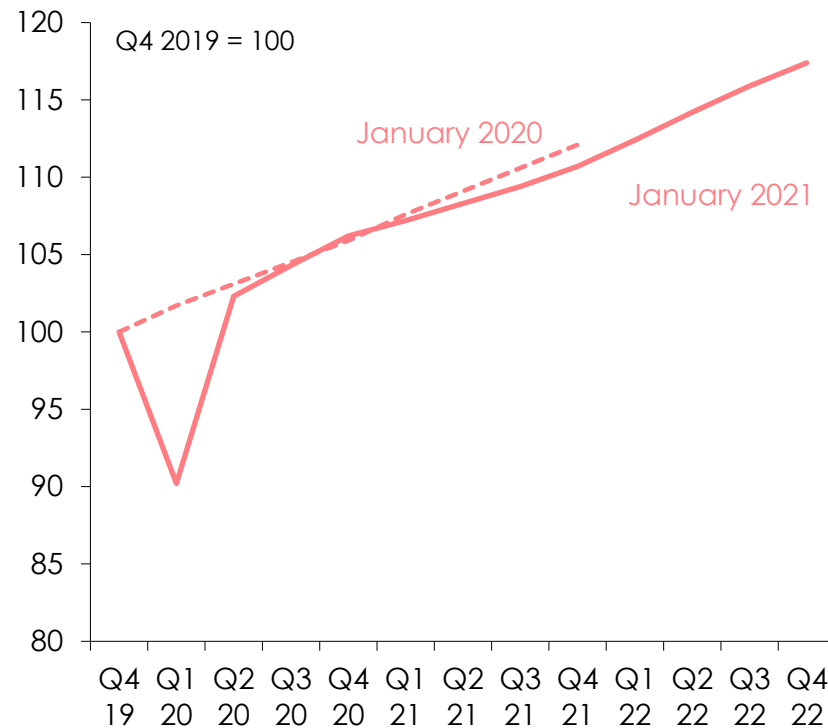
## IMF World Economic Update real GDP forecasts – January 2020 and January 2021

### 'Advanced' economies



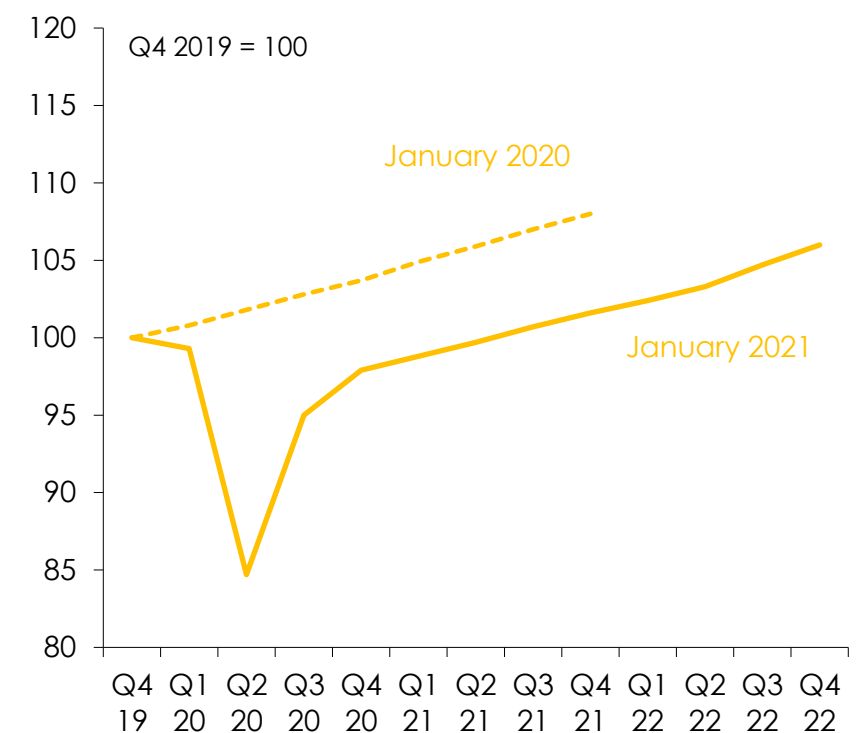
❑ GDP fell 11½% during the recession, won't regain its pre-recession level until Q4 21, and by Q4 22 will still be ¾% below where last January it had been expected to be in Q4 21

### China



❑ GDP fell 9¾% during the recession, regained its pre-recession in Q2 20, and by Q4 22 will still be 4¾% above where last January it had been expected to be in Q4 21

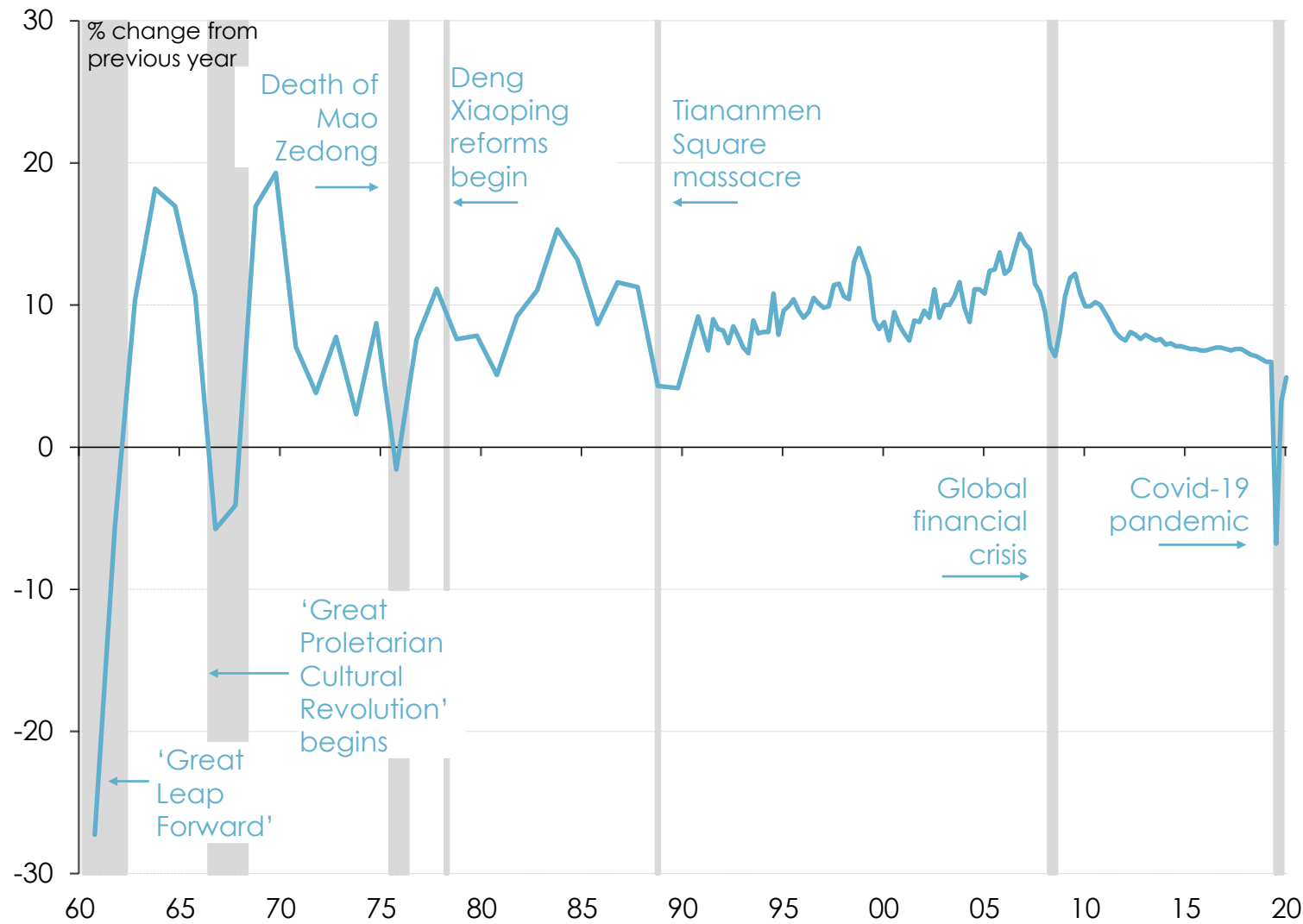
### Other 'developing' economies



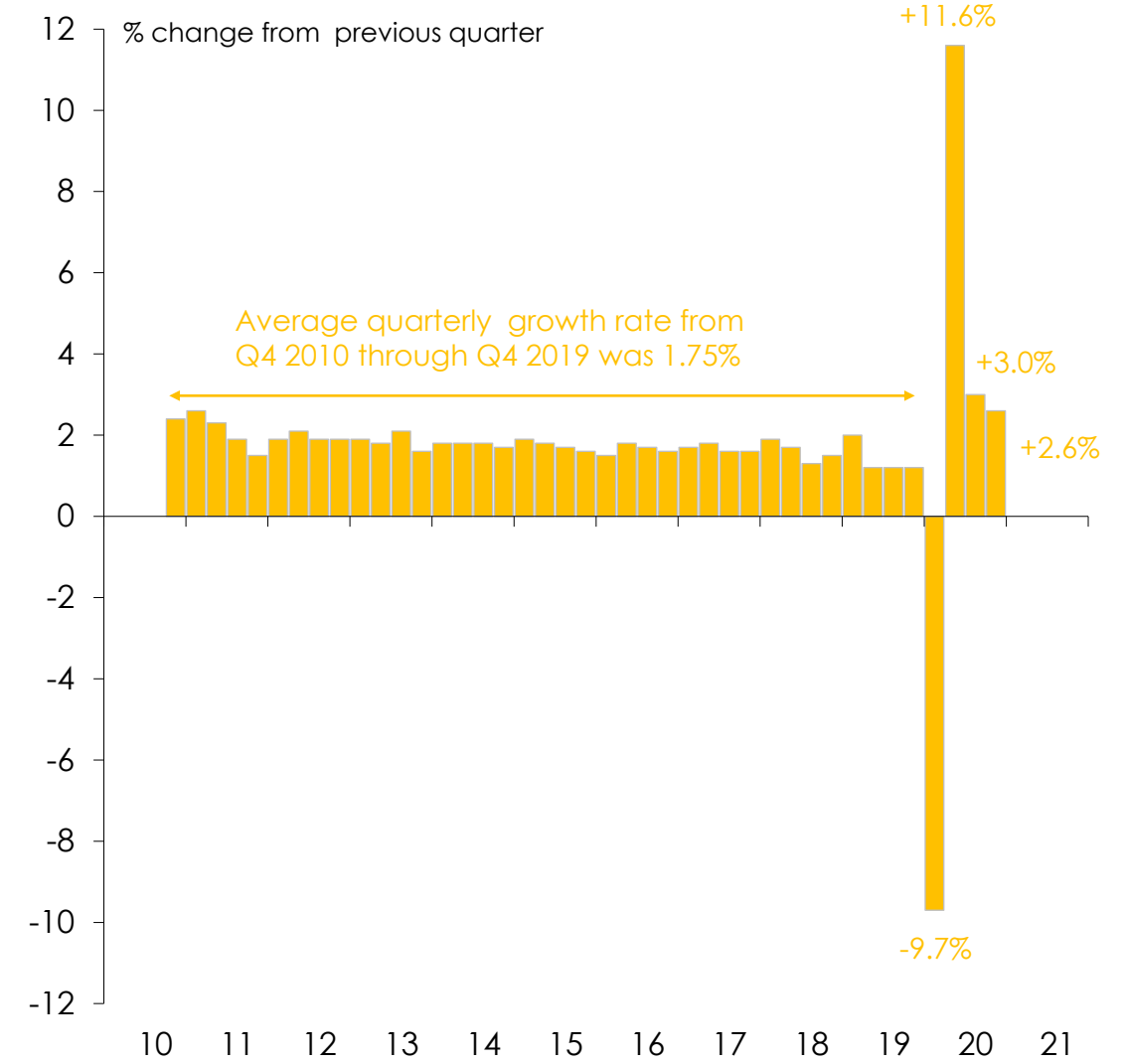
❑ GDP fell 15¼% during the recession, won't regain its pre-recession level until Q3 21, and by Q4 22 will still be 2% below where last January it had been expected to be in Q4 21

# Although the virus initially caused China's worst economic downturn in almost 60 years, it has since had a classic 'V-shaped' recovery

## Real GDP growth, from year earlier, 1961-2020



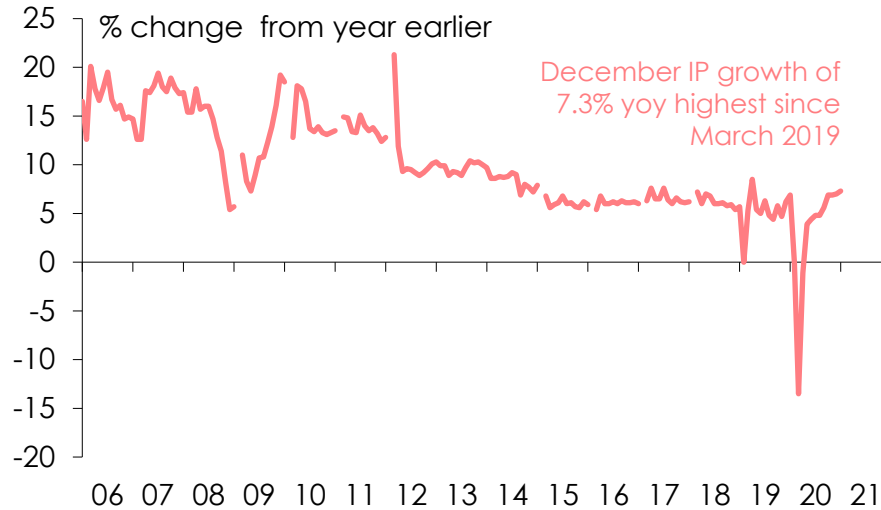
## Quarterly real GDP growth, 2010-2020



Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. .

# The 'supply side' of the Chinese economy has recovered more strongly than the 'demand side'

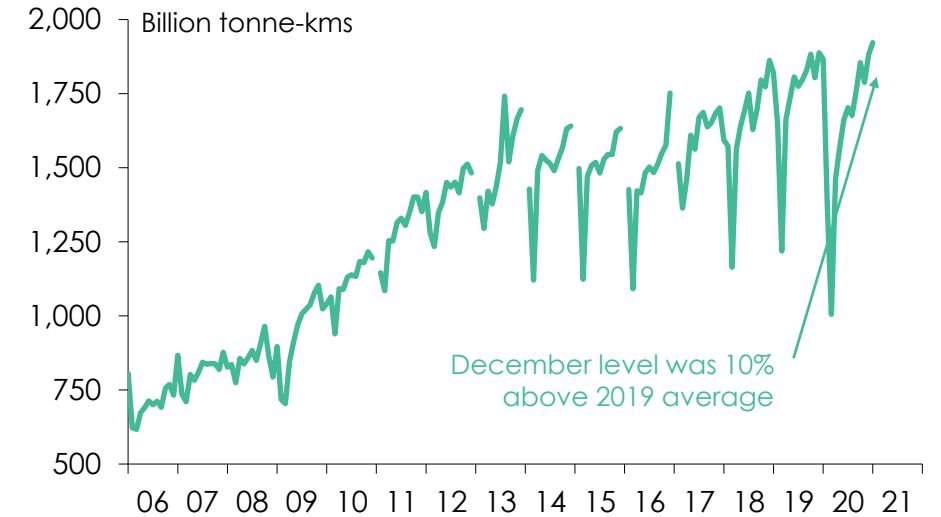
## Industrial production



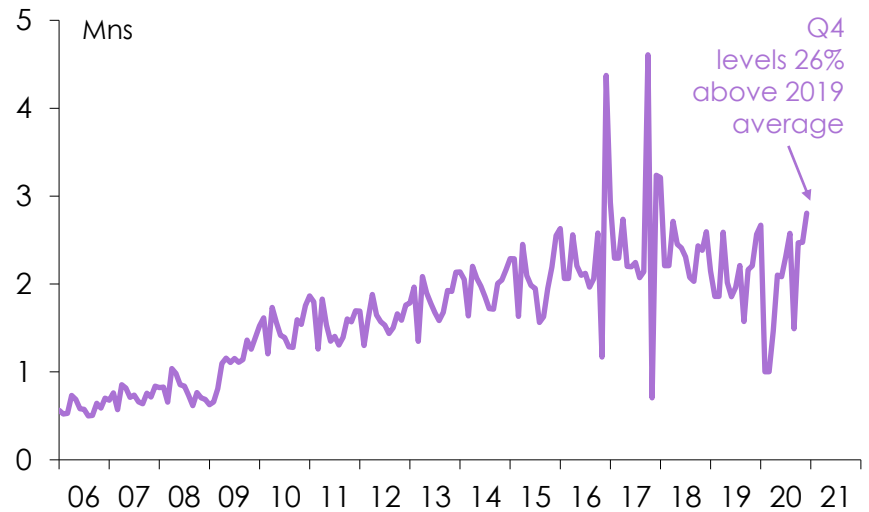
## Consumer sentiment



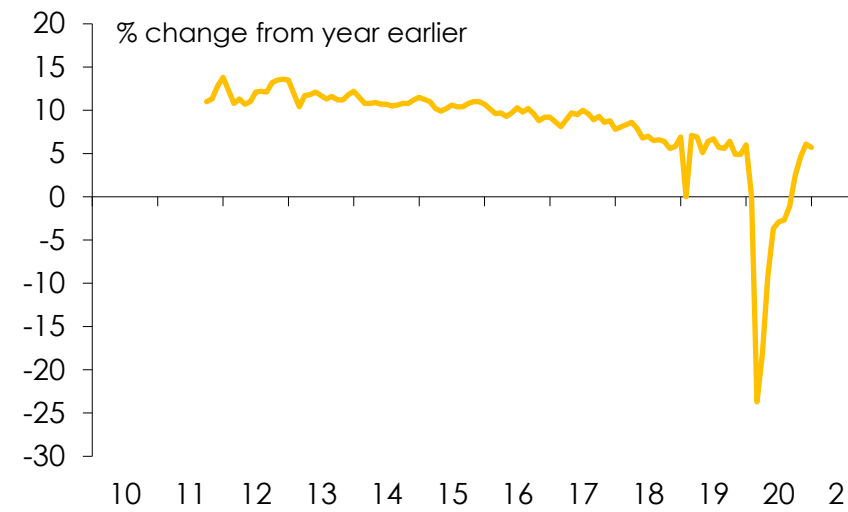
## Freight traffic volumes



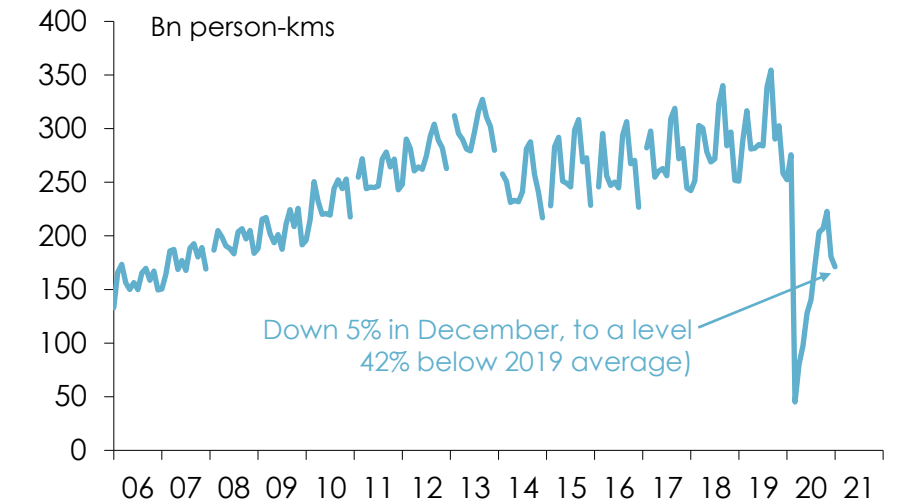
## Motor vehicle production



## Volume of retail sales



## Passenger traffic volumes

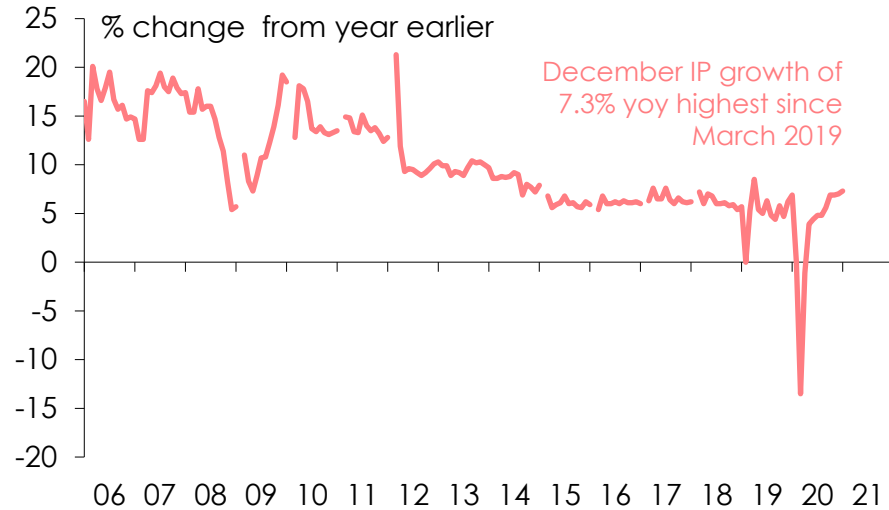


Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers.

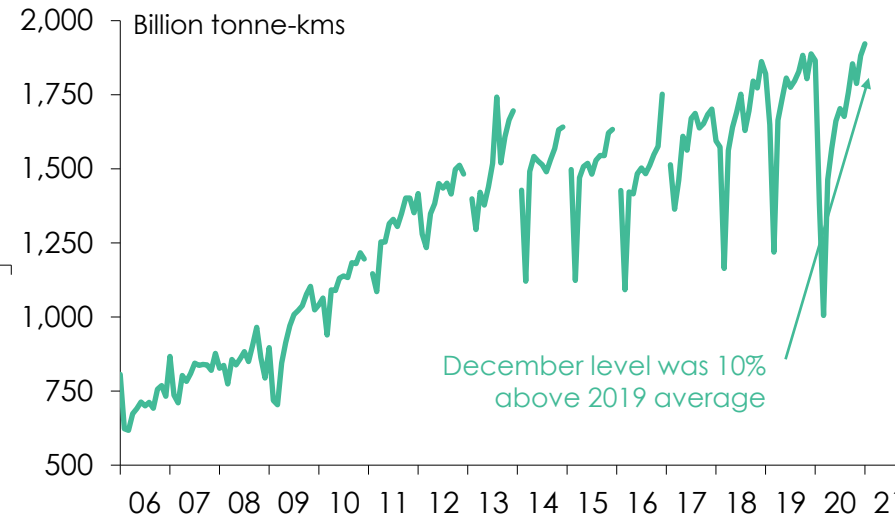


# The 'production side' of the Chinese economy is now largely back to or above pre-pandemic levels, though levelling out in Q4

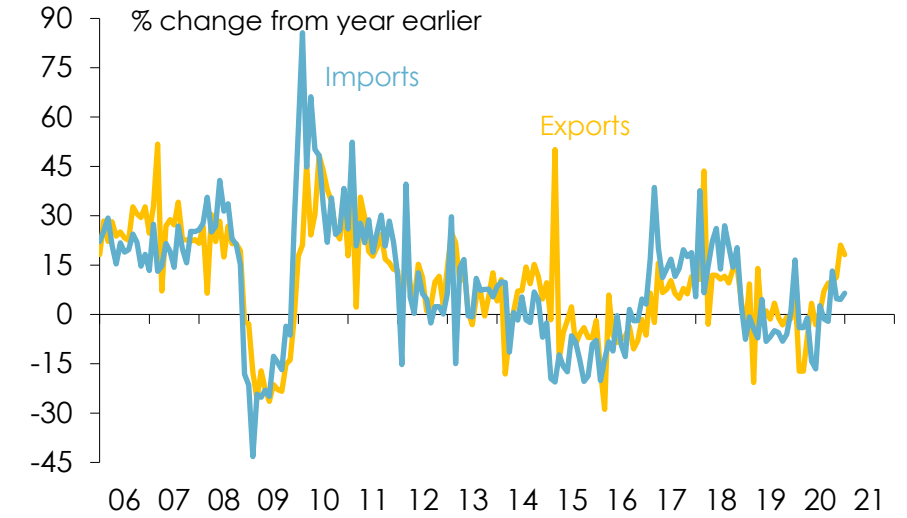
## Industrial production



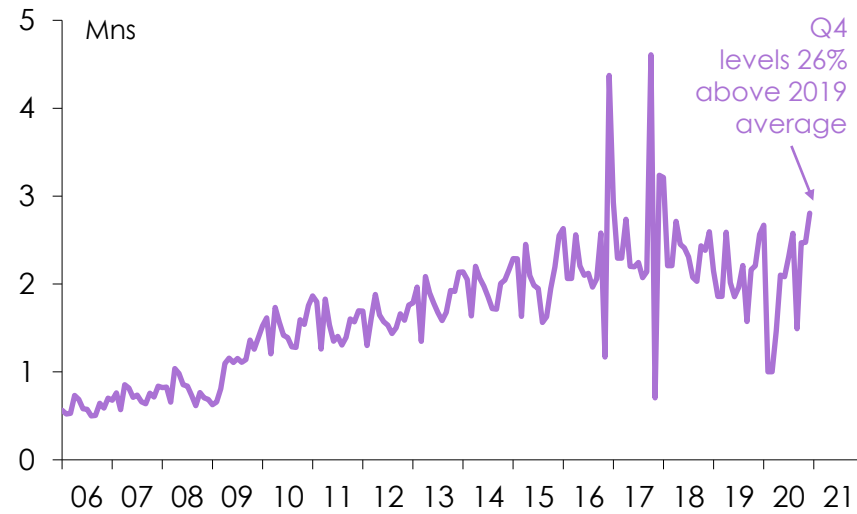
## Freight traffic volumes



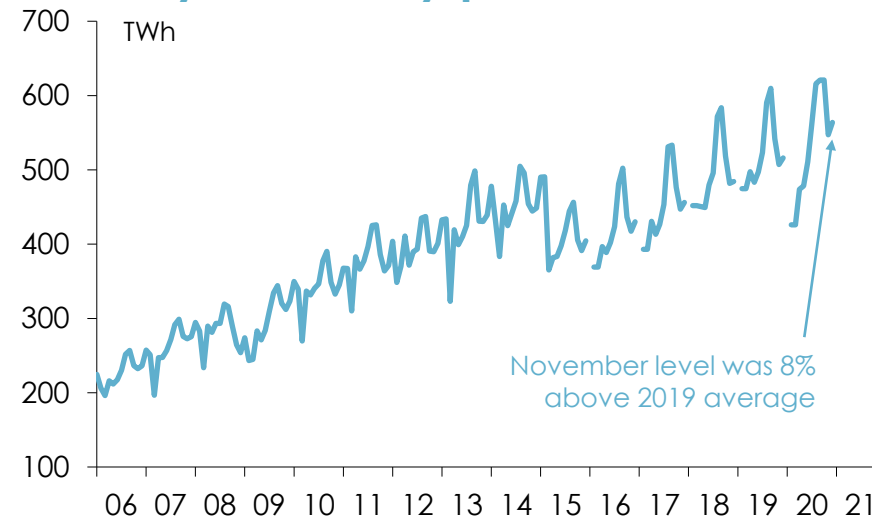
## Merchandise trade



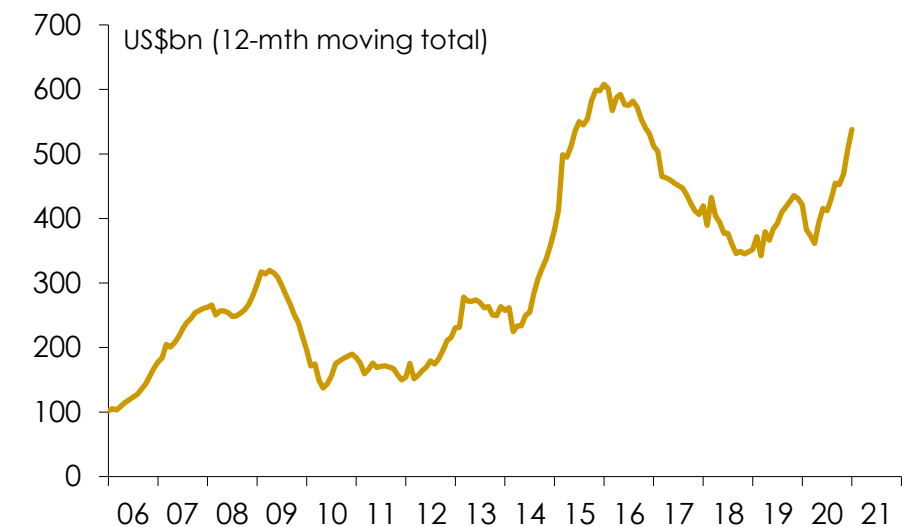
## Motor vehicle production



## Primary electricity production



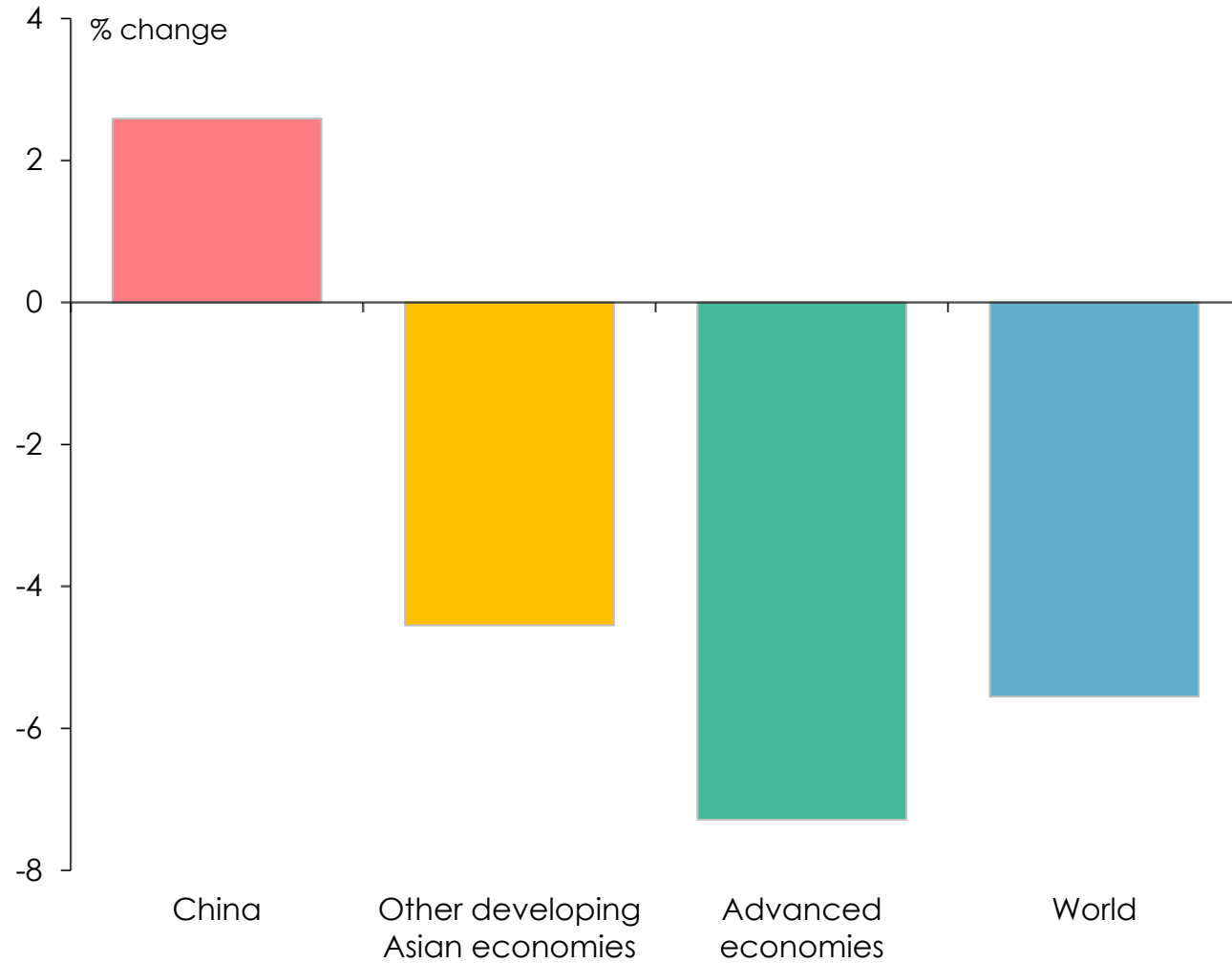
## Merchandise trade balance



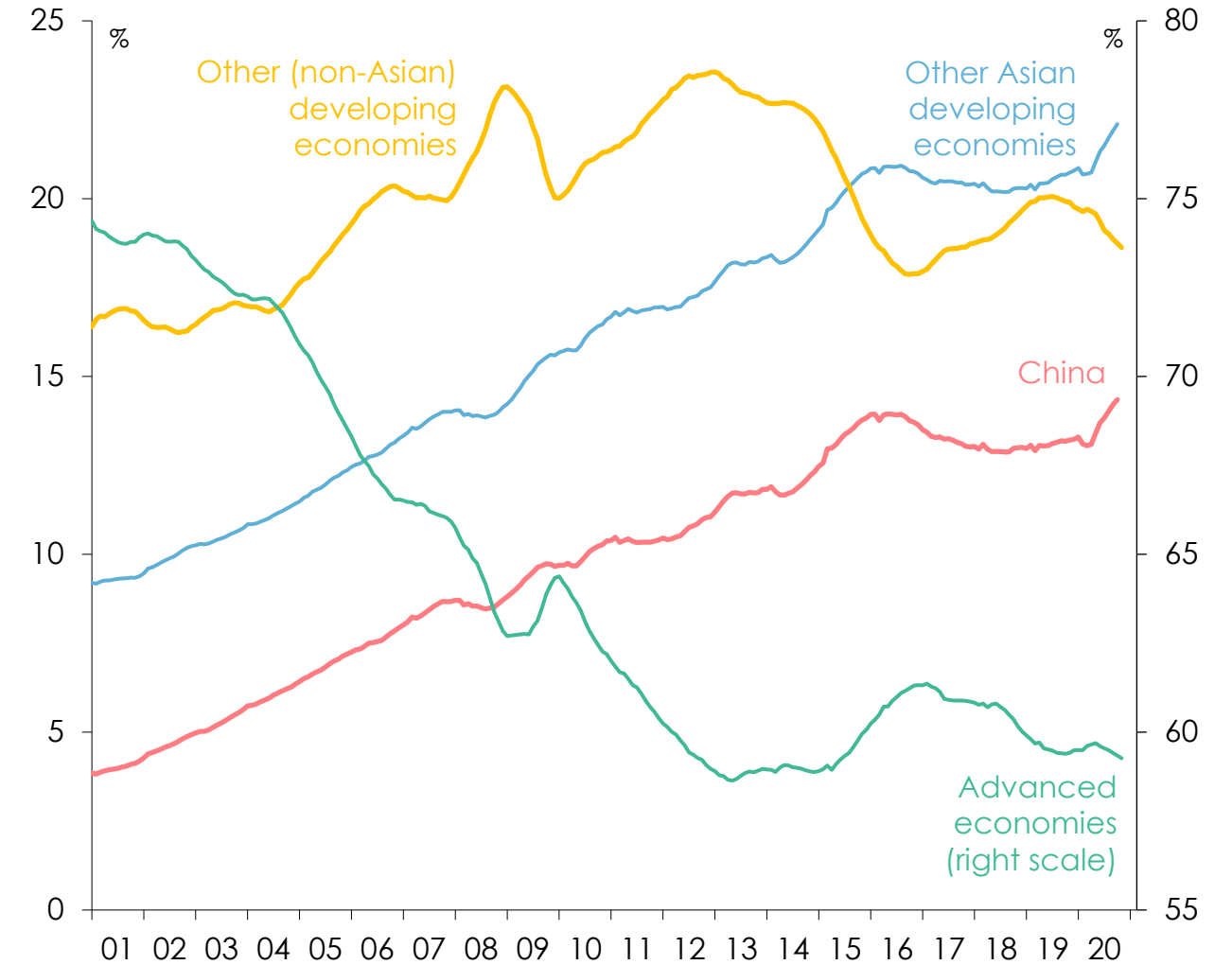
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December; note that most monthly data for January and February are combined and will be released in the third week of March.

# China's economic recovery has also been aided by surprisingly strong growth in exports

Export volume growth, 11 months to November 2020 compared with 2019



Shares of total world merchandise exports



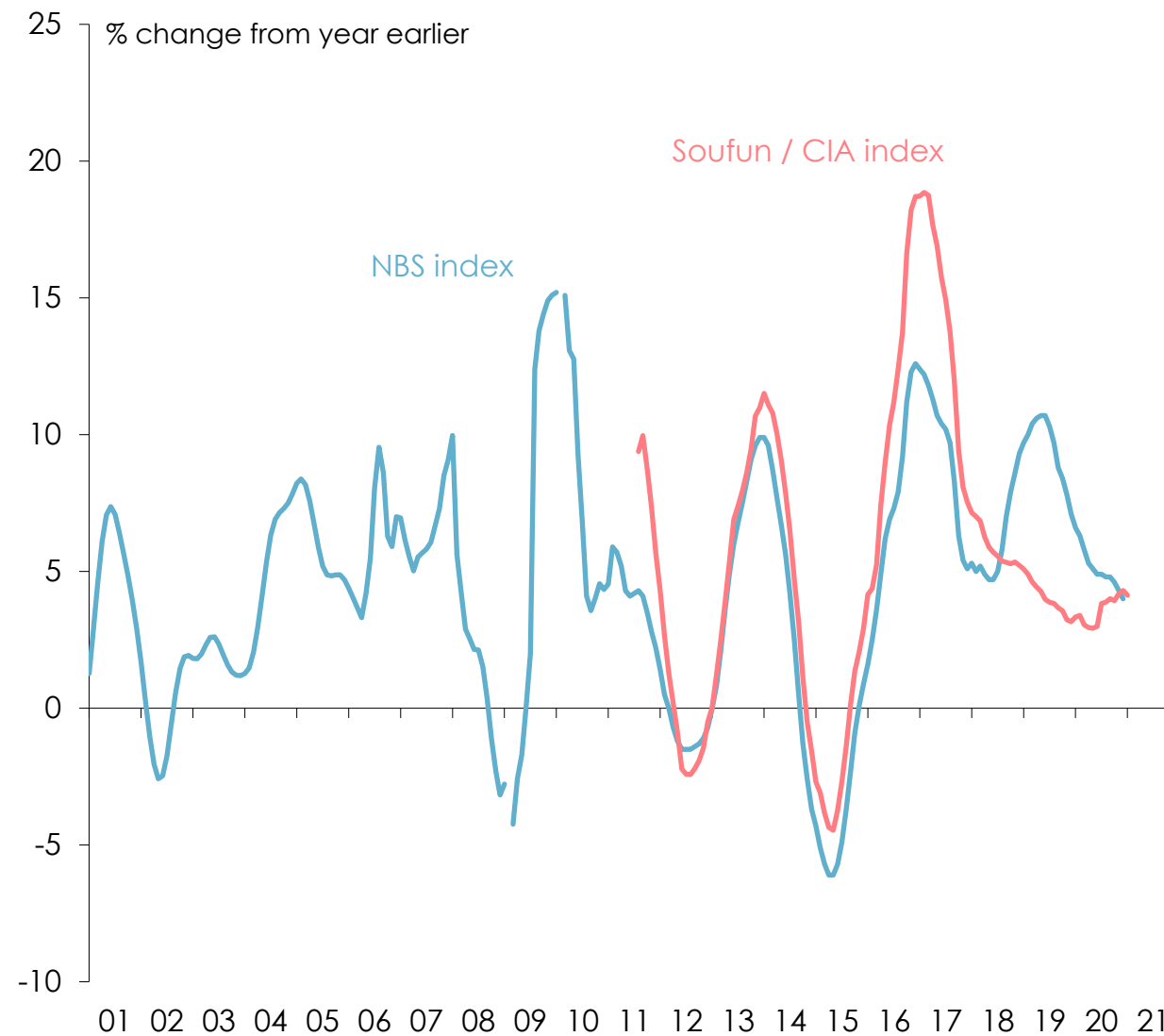
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#); IMF, [Direction of Trade Statistics](#).

# Residential real estate hasn't played as significant a role in China's most recent economic recovery as it has done in previous cycles

## Real estate investment



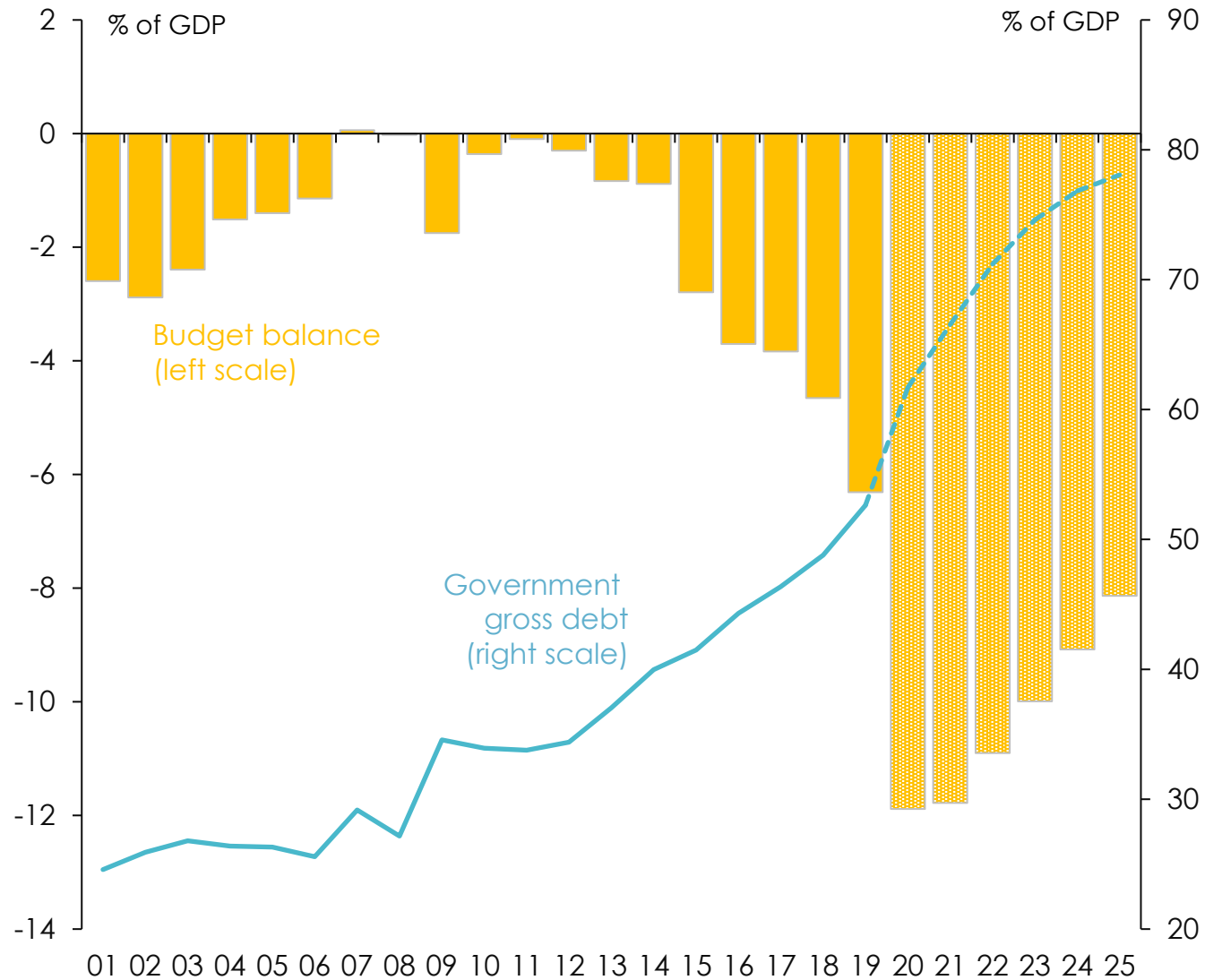
## Residential real estate prices



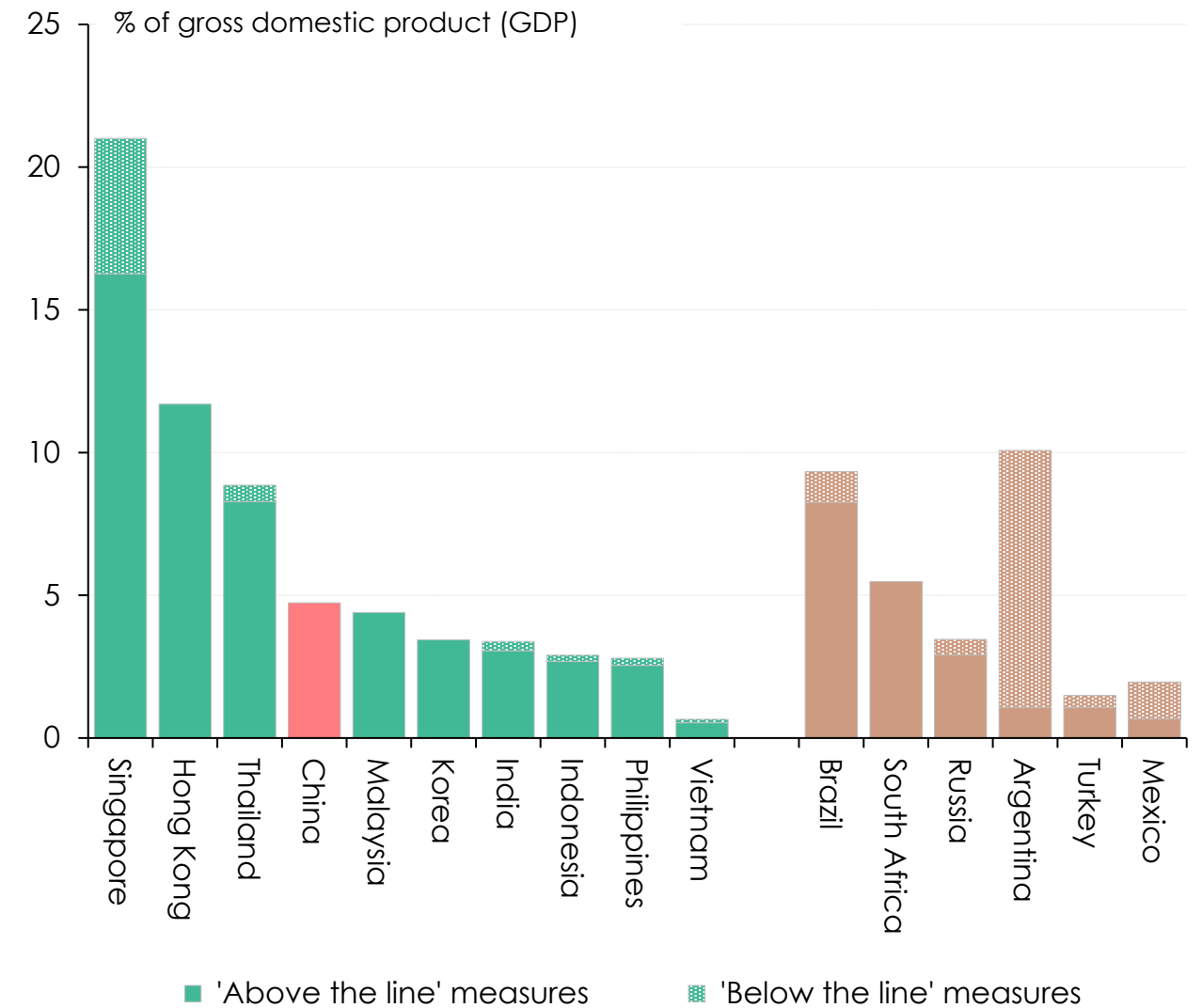
Sources: China National Bureau of Statistics; China Index Academy (CIA).

# China is doing more fiscal stimulus than it did in response to the financial crisis – but less than many other countries

## Chinese government fiscal policy indicators



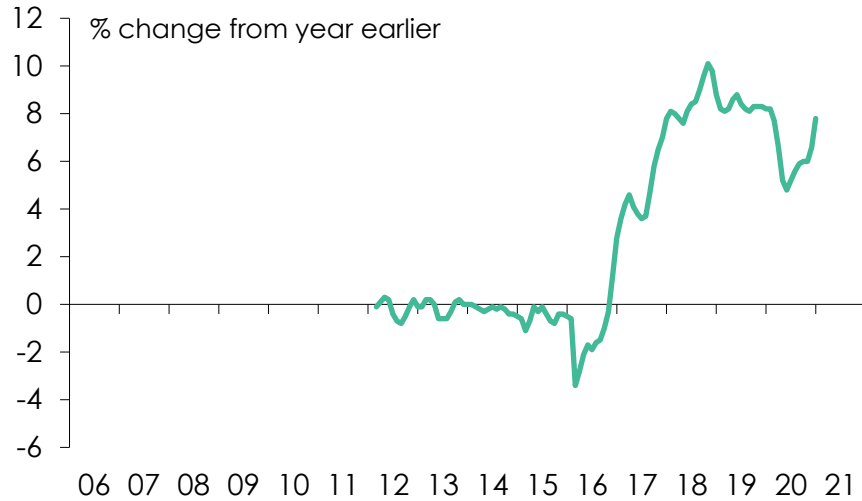
## Developing economy fiscal responses to Covid-19



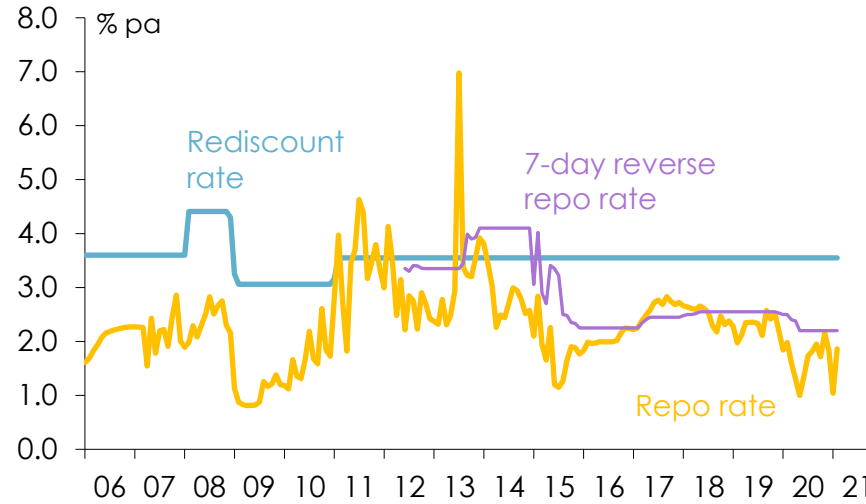
Sources: IMF, [Fiscal Monitor Update](#), 28<sup>th</sup> January 2021; [Fiscal Monitor](#), October 2020.

# Although 'core' inflation has fallen to its lowest level in over a decade the PBoC has been very cautious about monetary policy stimulus

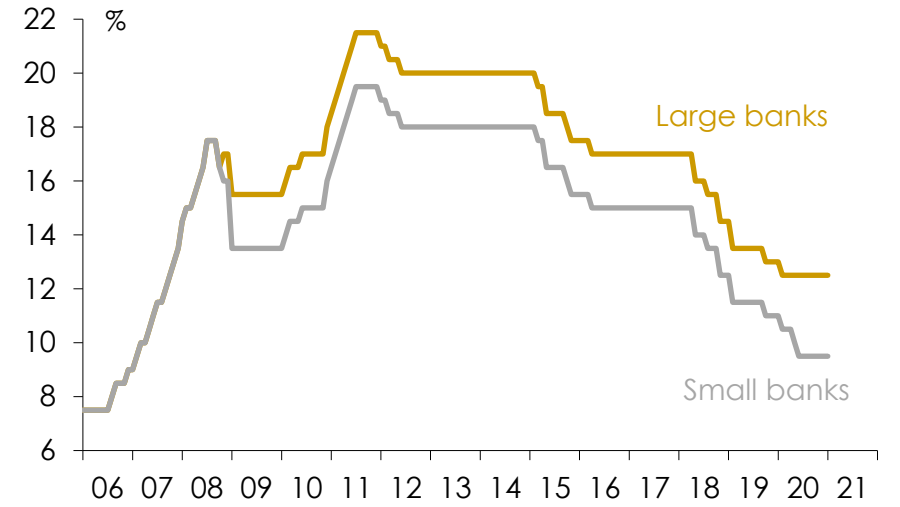
## Producer prices



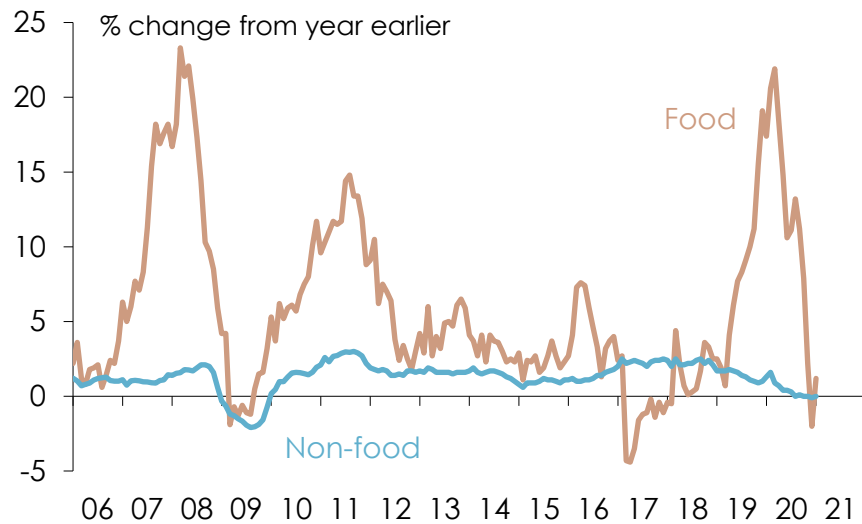
## PBoC policy interest rates



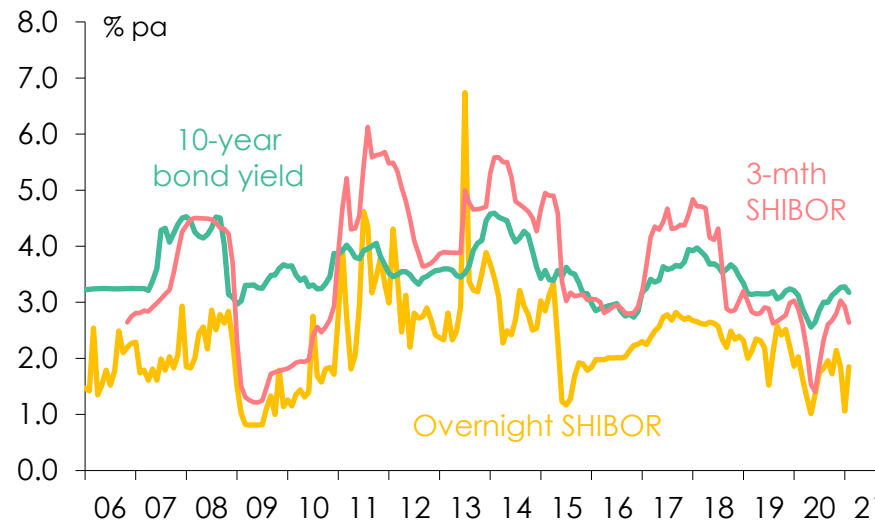
## Bank reserve requirement ratios



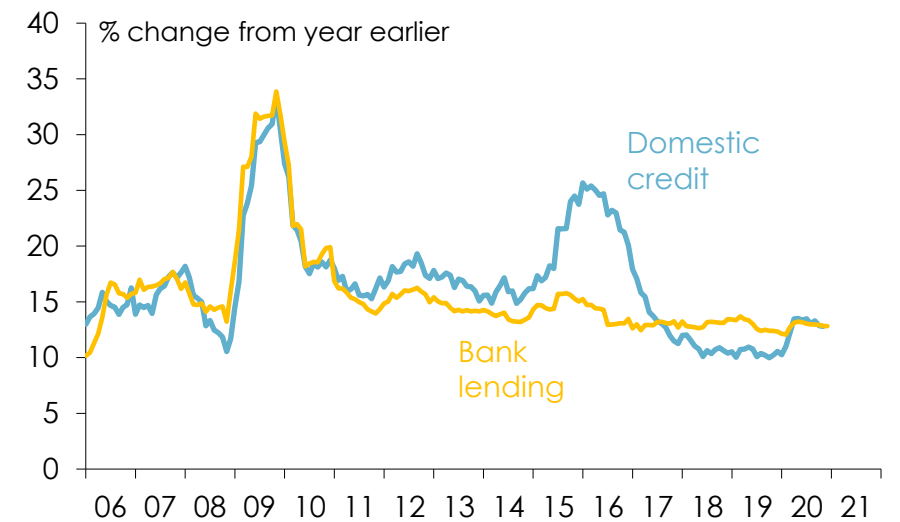
## Consumer prices



## Market interest rates



## Credit growth

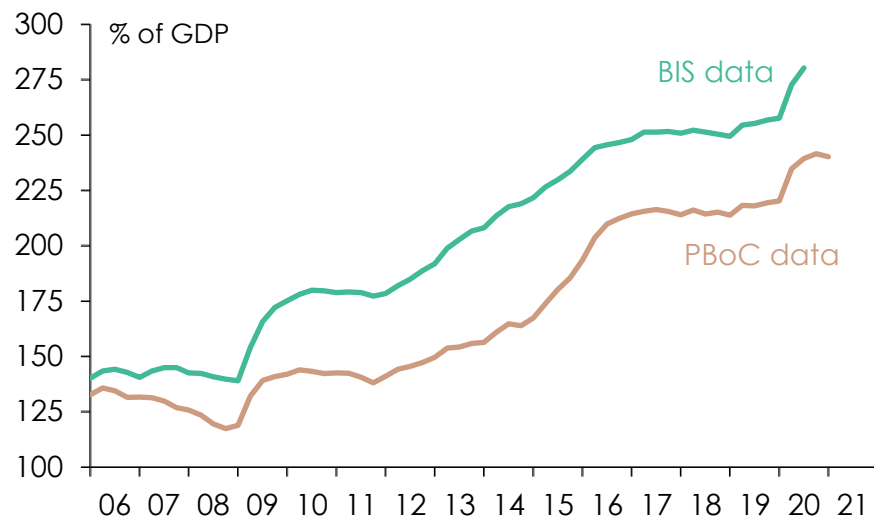


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.

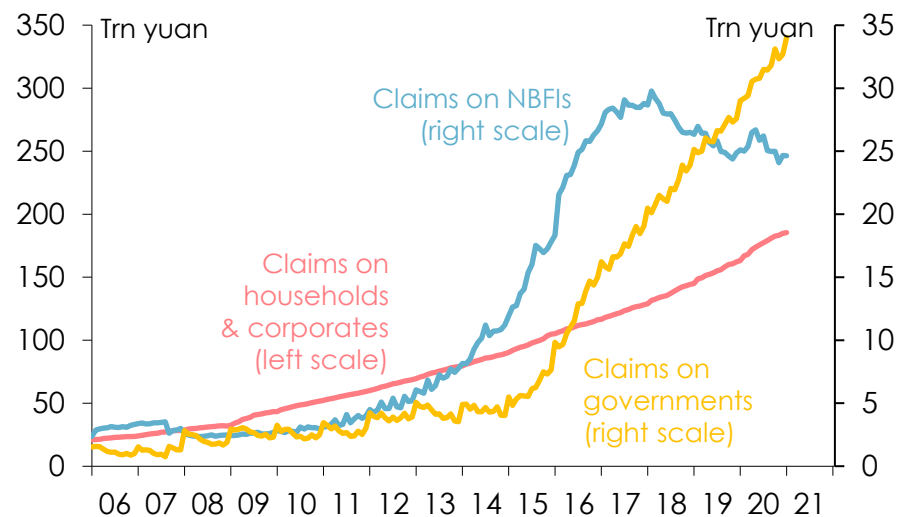
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China.

# The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

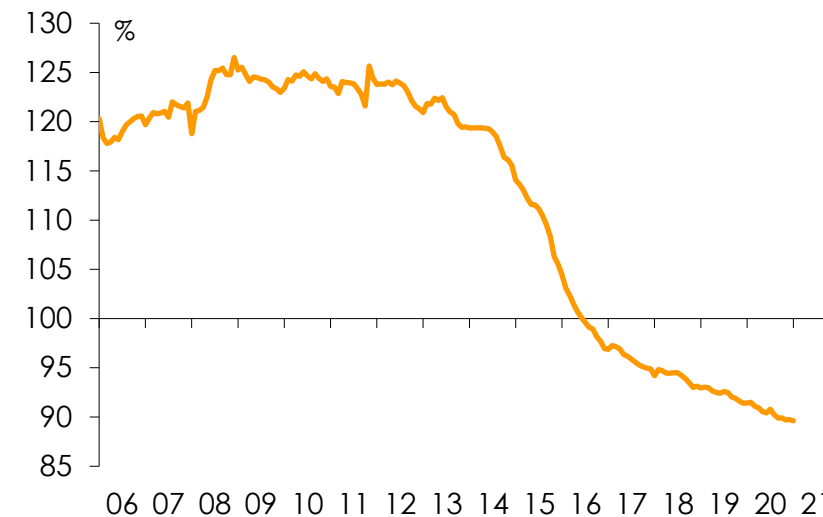
## Credit outstanding as a pc of GDP



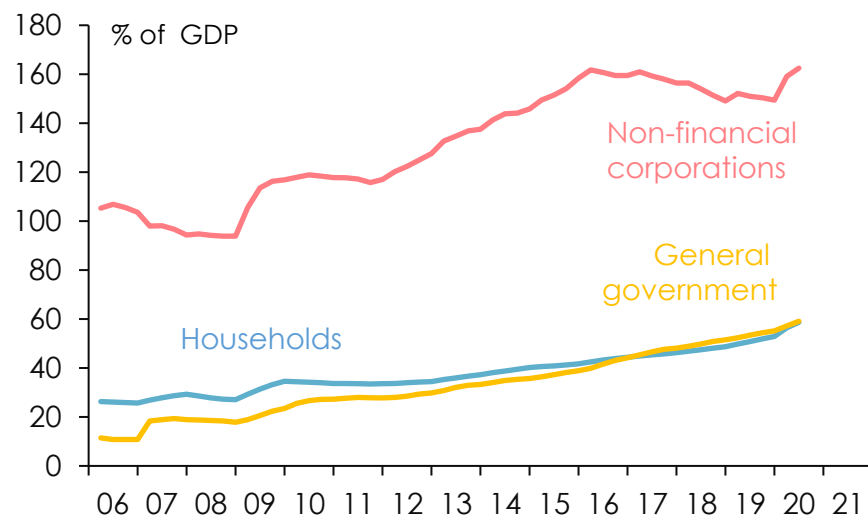
## Banks' assets



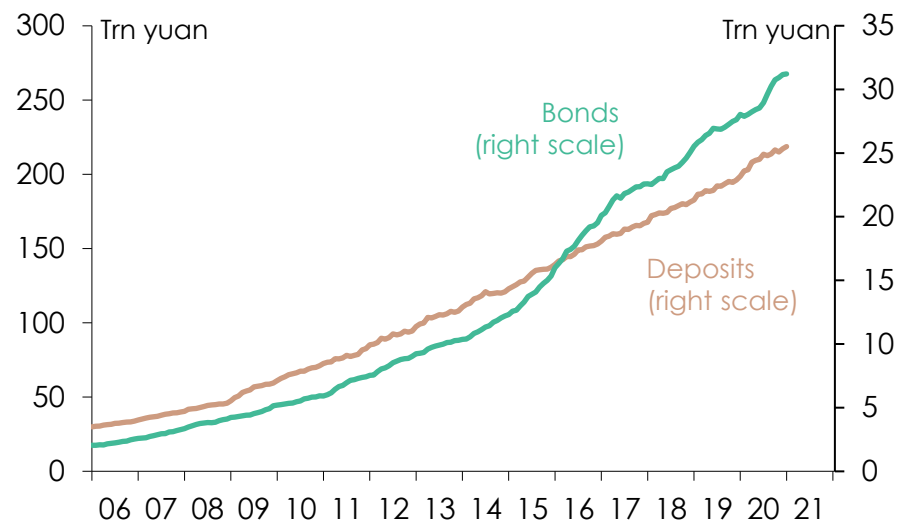
## Banks' deposits-to-loans ratio



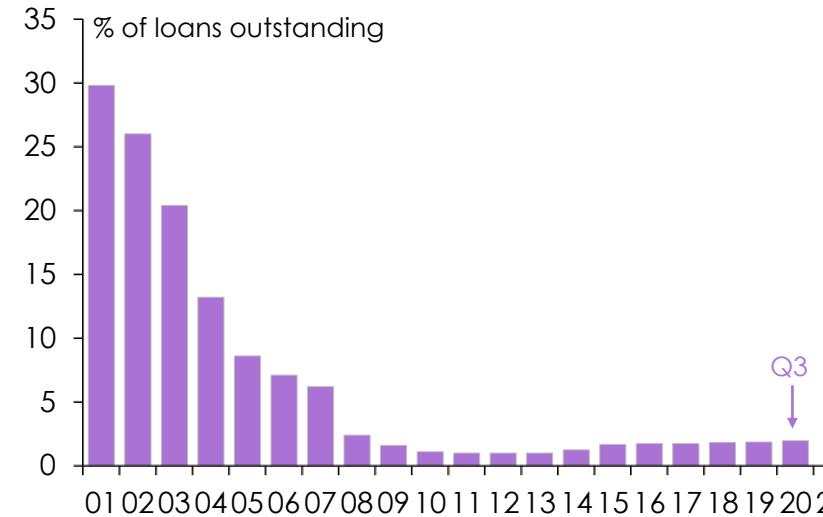
## Credit outstanding by sector



## Banks' liabilities



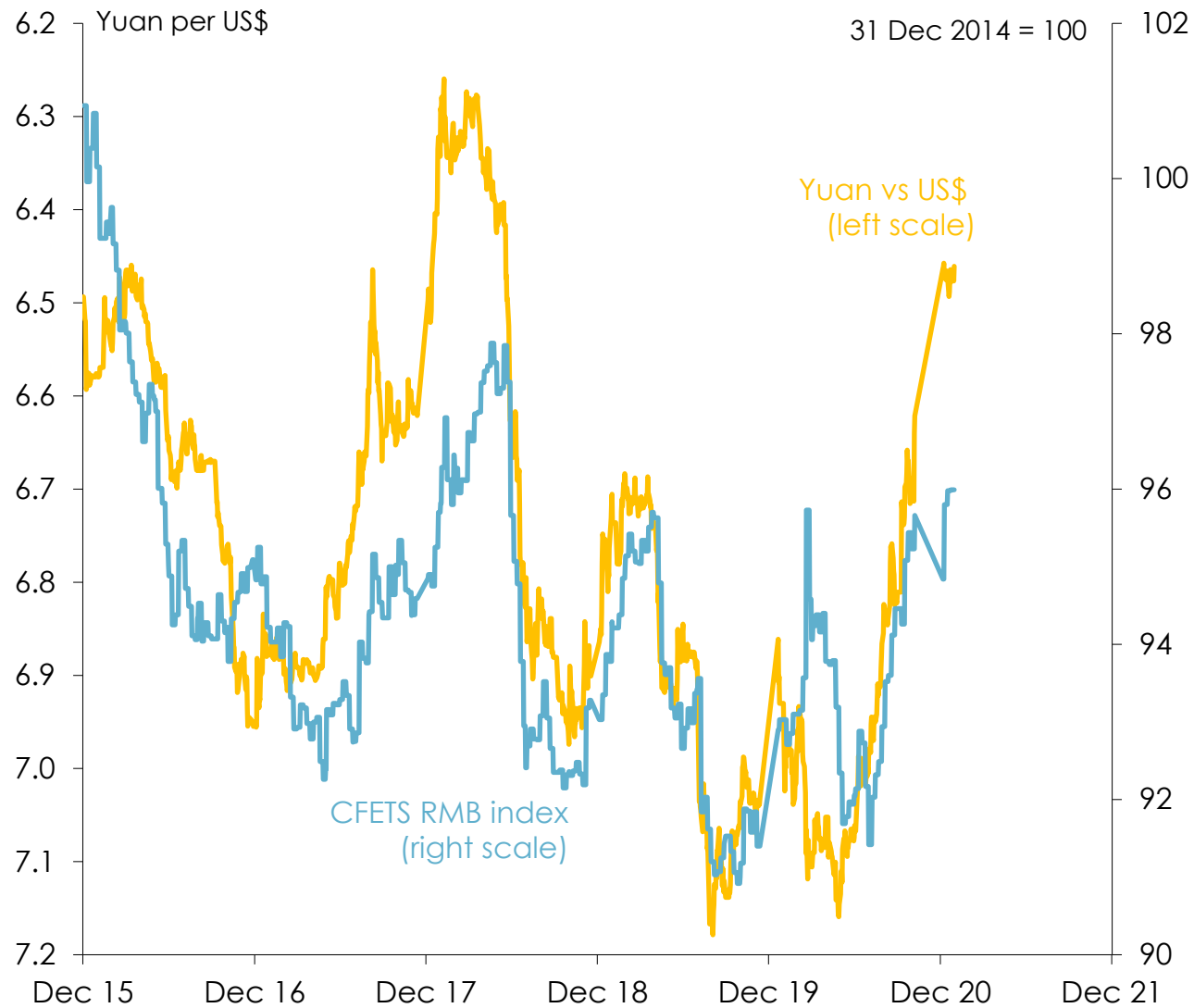
## Banks NPLs – official estimates



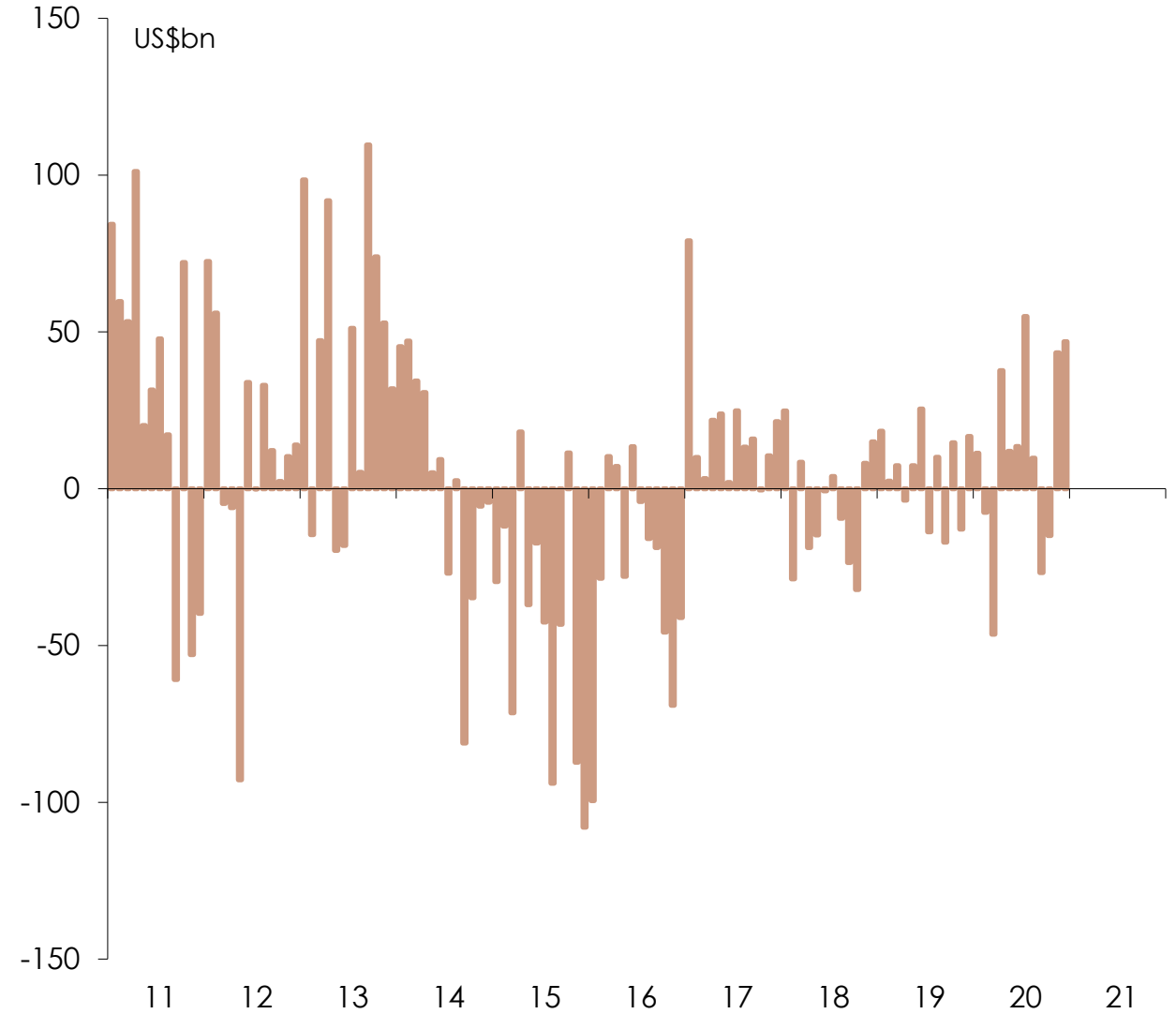
Sources: People's Bank of China; Bank for International Settlements; China Banking and Insurance Regulatory Commission.

# The PBoC has allowed the yuan to appreciate, both against the US dollar and in trade-weighted terms

## Chinese renminbi vs US\$ and trade-weighted index



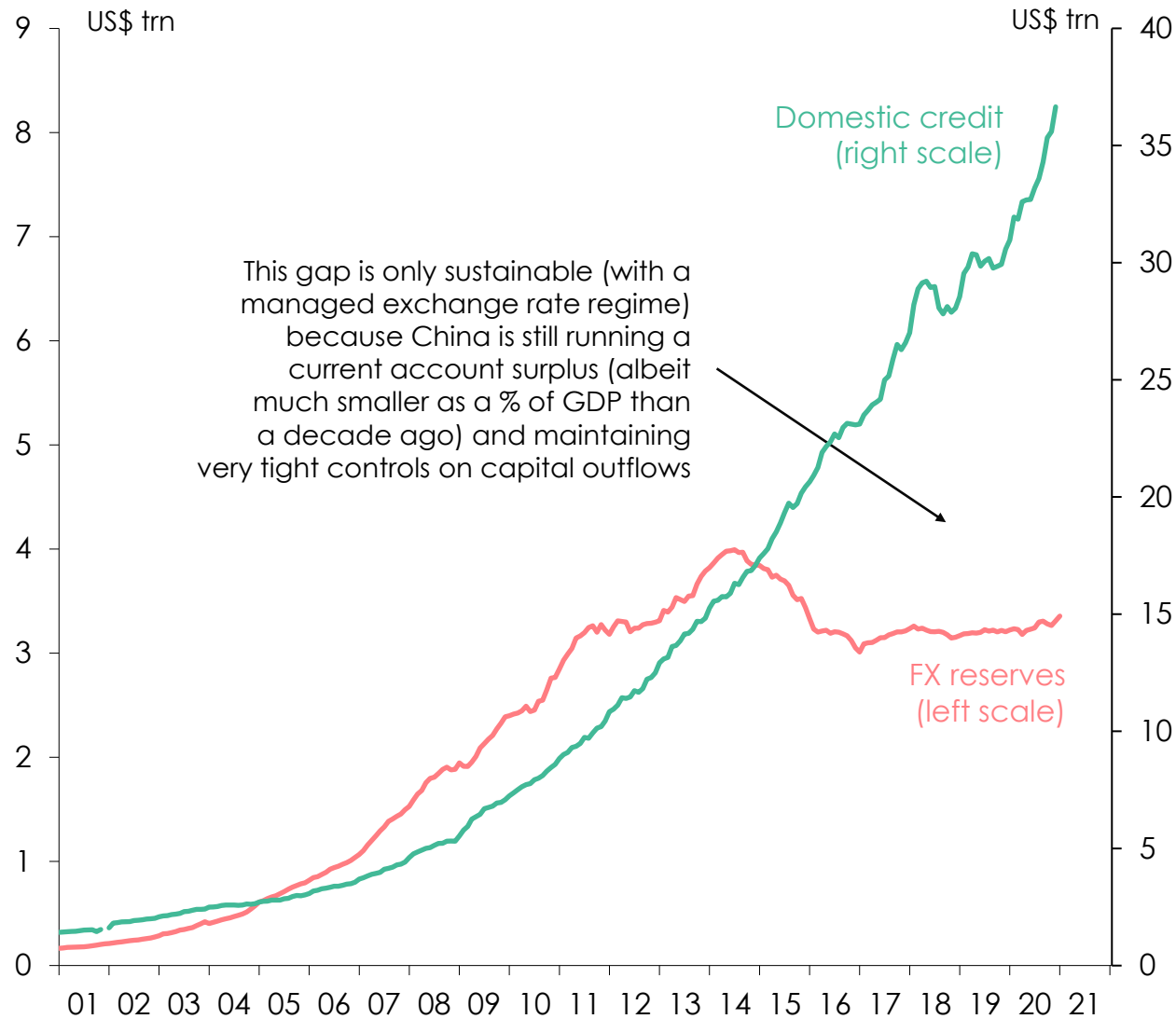
## Monthly change in PBoC FX reserves



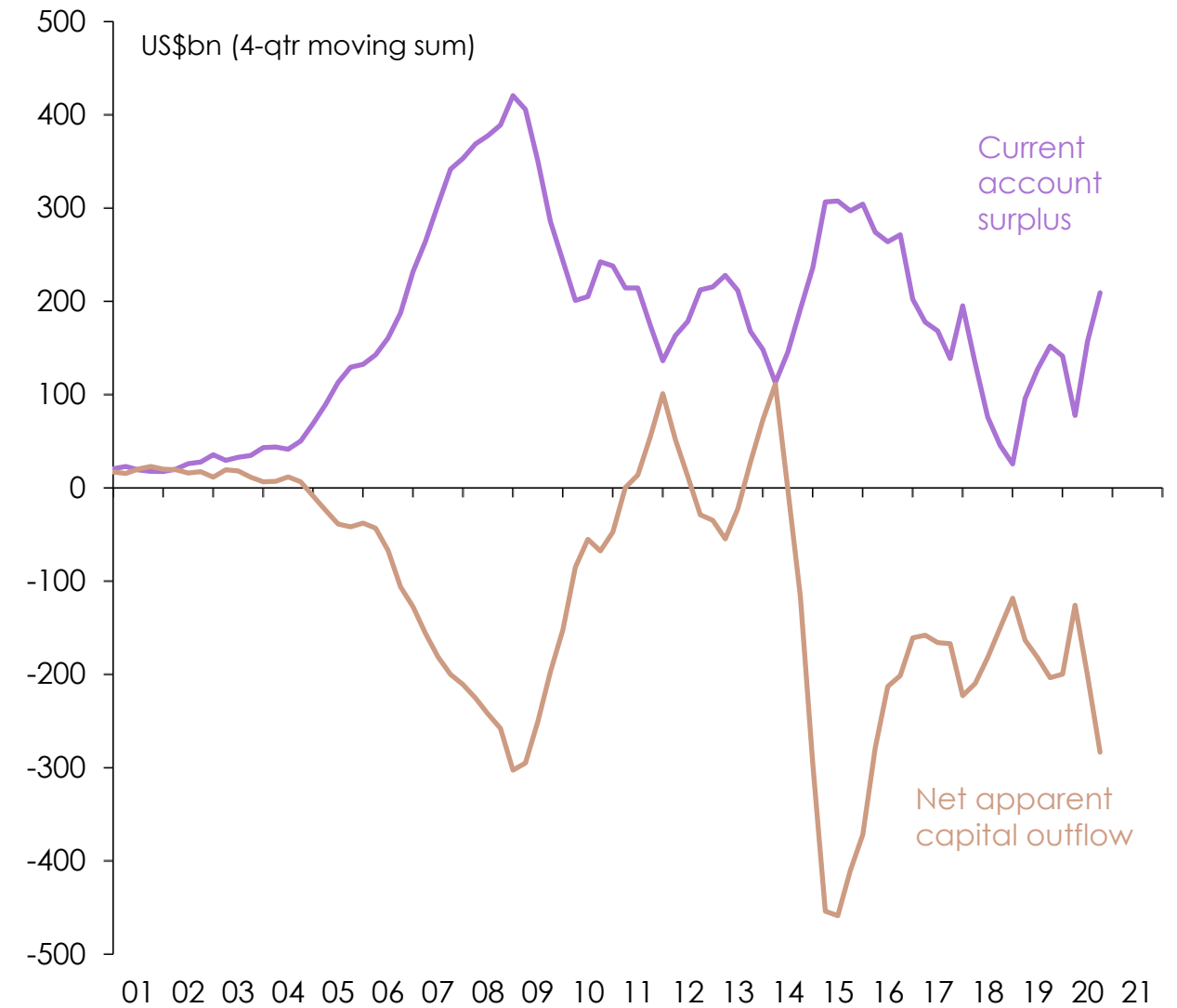
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 29th January; credit and FX reserves data up to December

# China's FX regime is sustainable only as long as China continues to run current account surpluses and/or maintains very tight capital controls

## FX reserves and domestic credit



## China's balance of payments



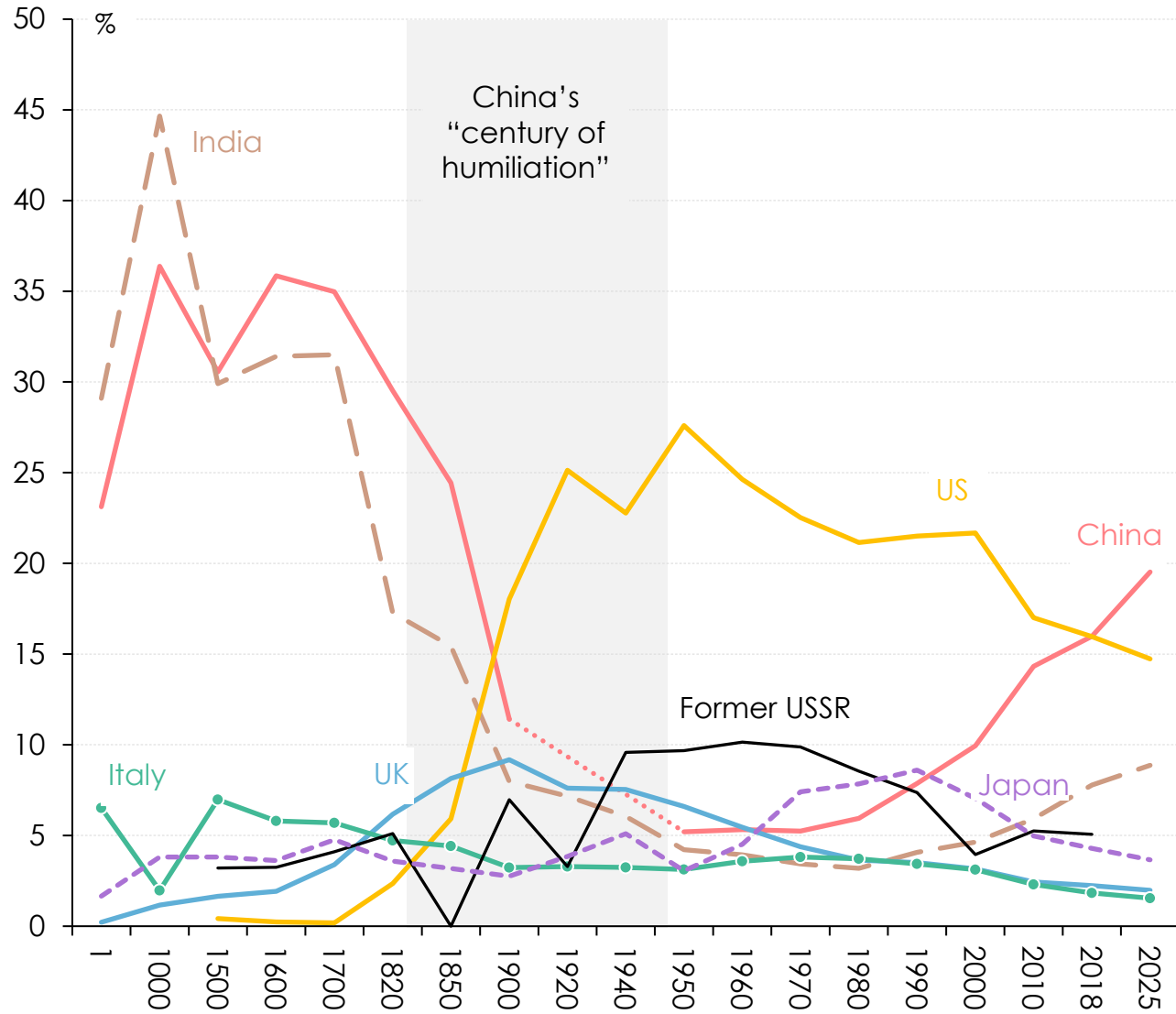
Note: 'net apparent capital outflow' is conceptually equal to the sum of net foreign direct investment (FDI), net portfolio investment, net transactions in financial derivatives and other net flows such as trade credit: but in practice is calculated as the change in FX reserves minus the current account balance.  
Sources: People's Bank of China; China National Bureau of Statistics.



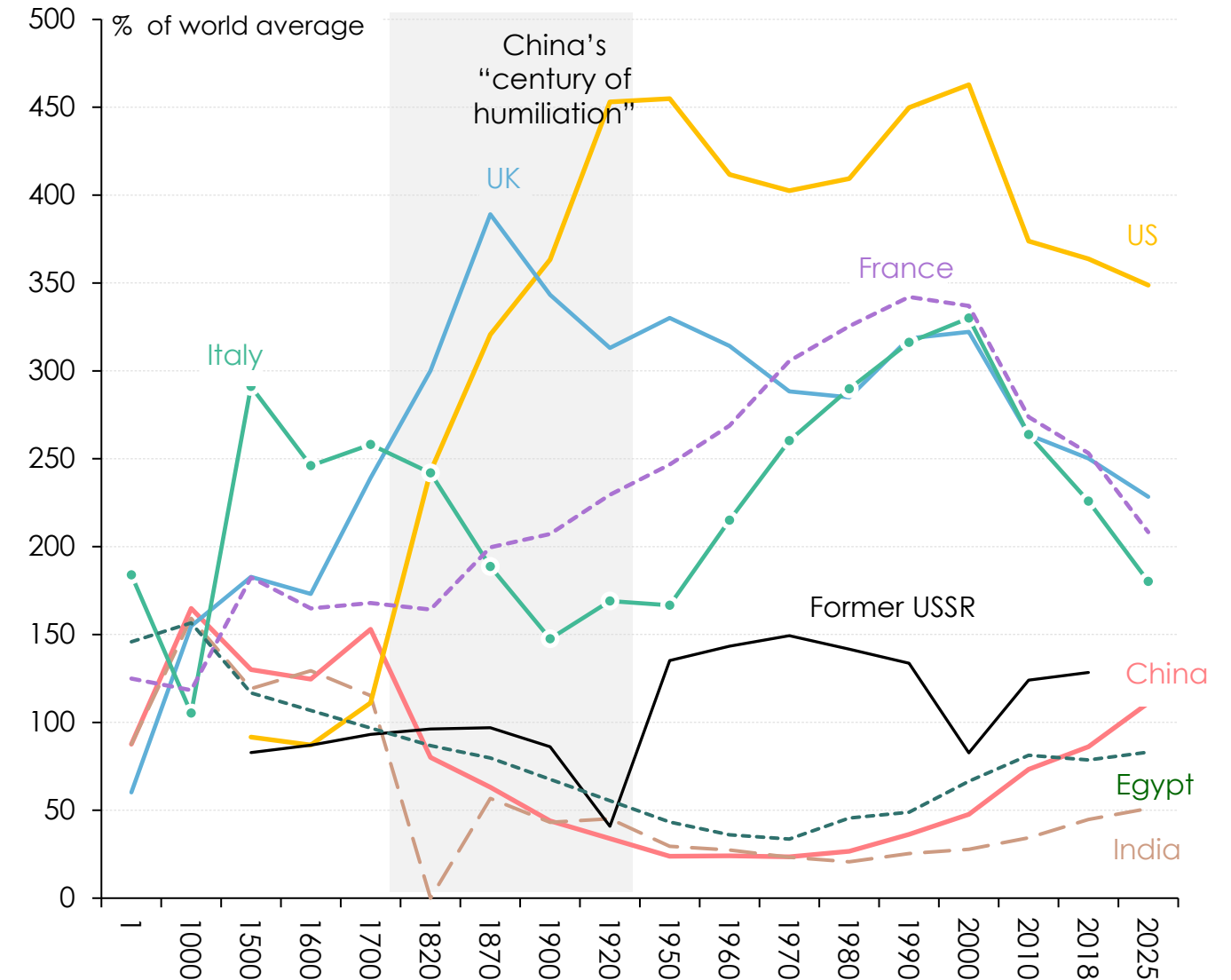
# A longer-term perspective on China's economy

# Xi Jinping's "Chinese dream" is about returning China to the pre-eminent position it has had in the world for most of human history

## Shares of world GDP since 1AD



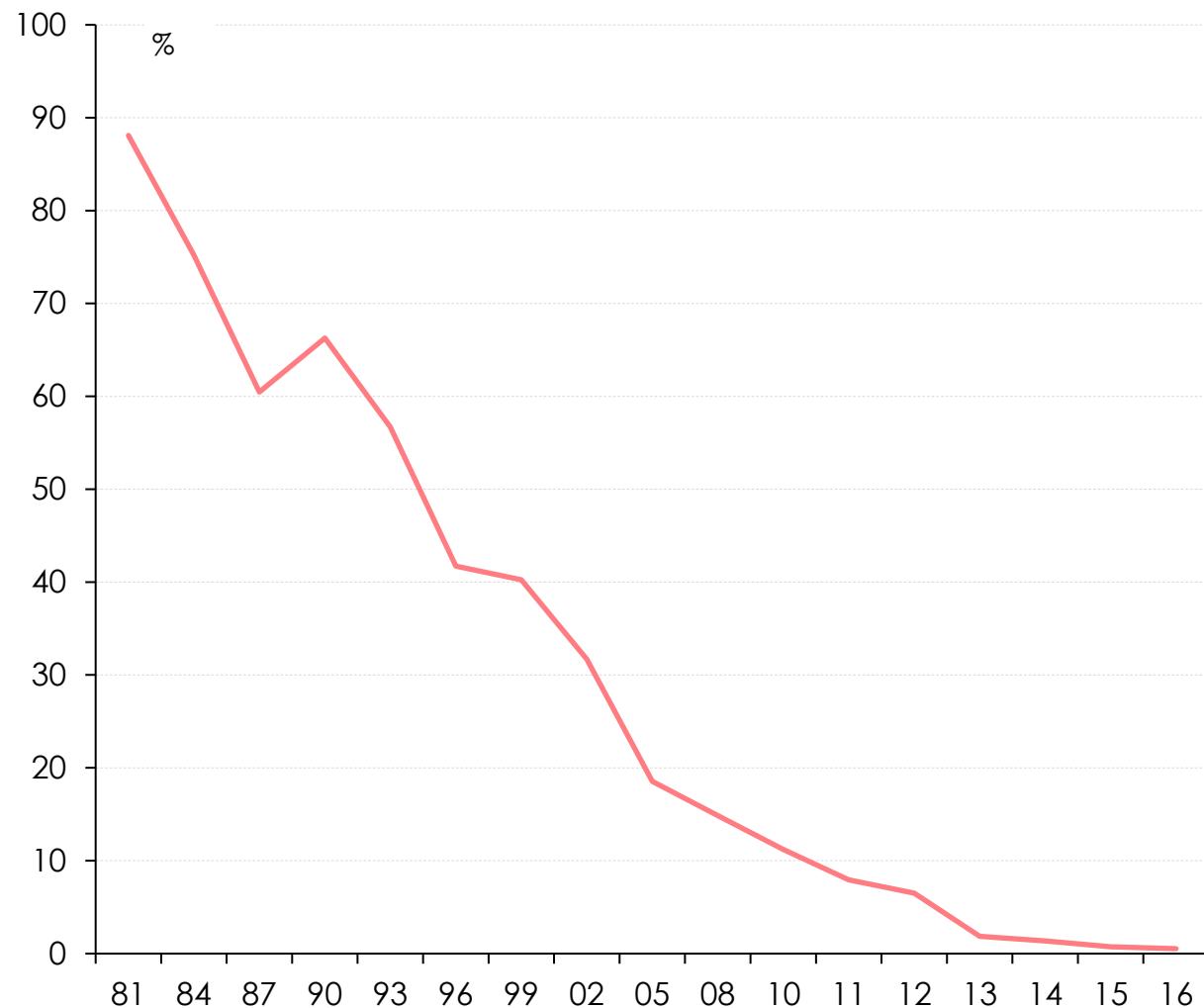
## Per capita GDP relative to world average



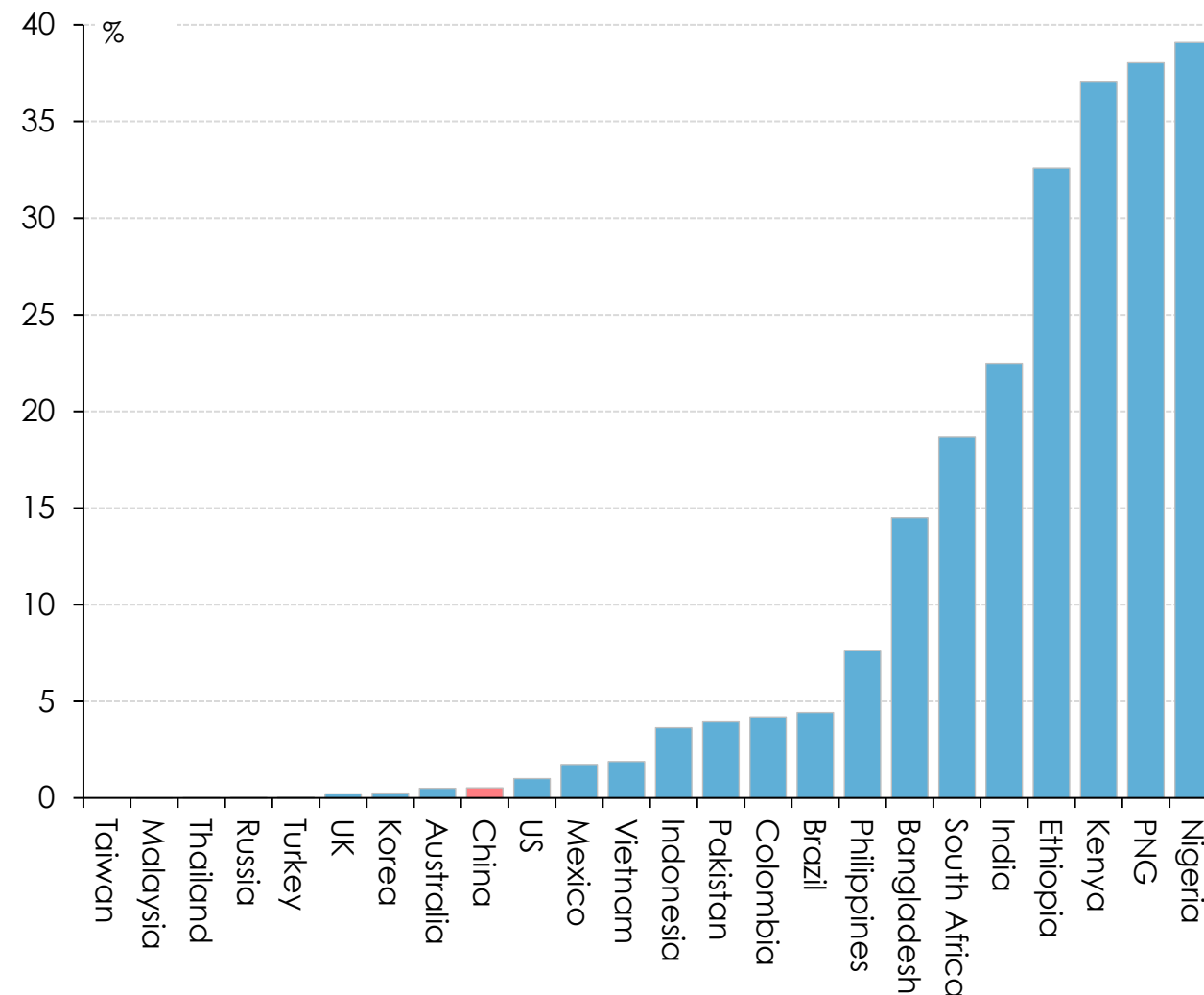
Sources: University of Groningen Growth and Development Centre, [Maddison Historical Statistics](#), 2020 Project Database (in some cases especially before 1820 spliced on the [original database](#) compiled by Angus Maddison. 2025 forecasts are from IMF, [World Economic Outlook database](#), October 2020, and spliced onto the Maddison Project series.

# China's achievement in almost completely eliminating 'extreme poverty' (as defined by the World Bank) has been widely recognized

Proportion of China's population living on less than US\$1.90 (in 2011 prices) a day



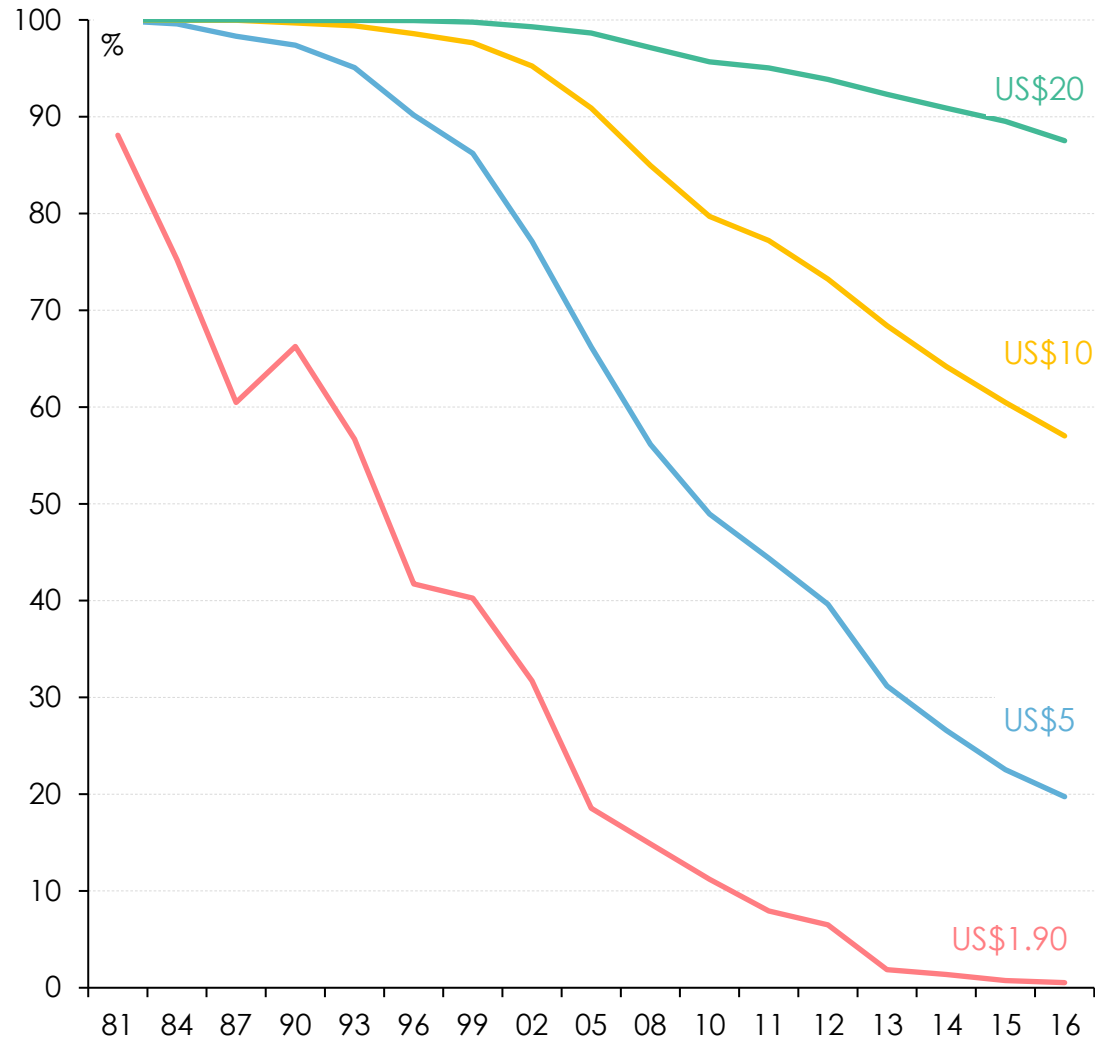
Proportion of selected economies' populations living on less than US\$1.90 a day, latest available



Source: The World Bank, [PovCal.net](http://PovCal.net). US\$1.90 in 2011 purchasing power parities (PPP) is equivalent to about A\$2.30 a day (or about \$16.20 a week) in 2020 prices. Data for countries shown in the right-hand chart are most commonly for 2016 or 2018, except for Australia (2014), India (2012), and Papua New Guinea (2011).

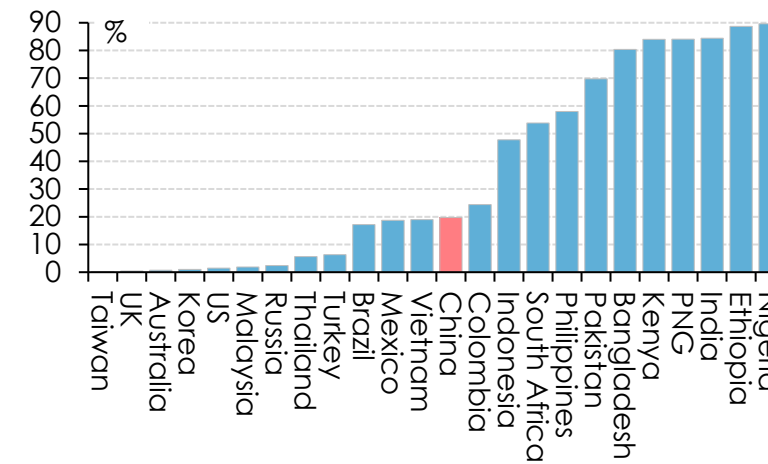
# It's far less widely known that China hasn't done nearly so well at eliminating 'severe' or even 'moderate' poverty

Proportion of China's population living on less than selected daily amounts in 2011 US\$

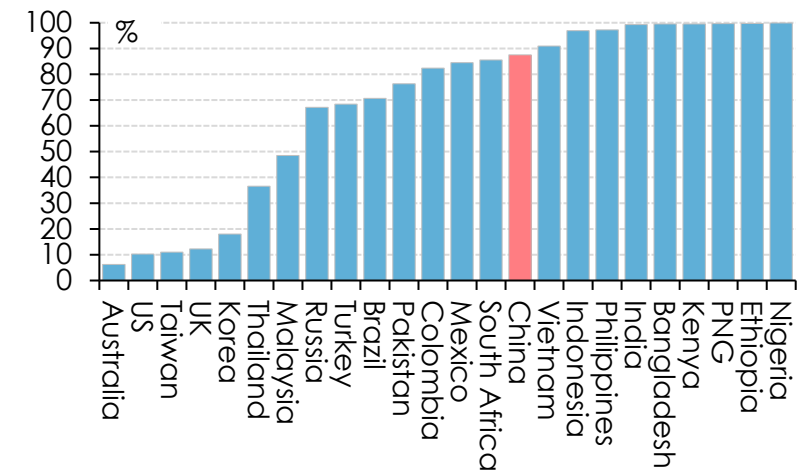


Proportion of population of selected countries living on less than nominated daily amounts (in 2011 prices)

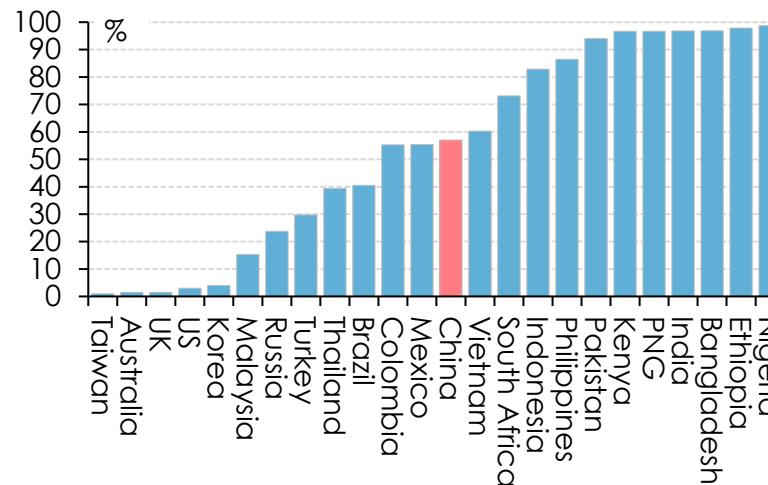
US\$5 per day



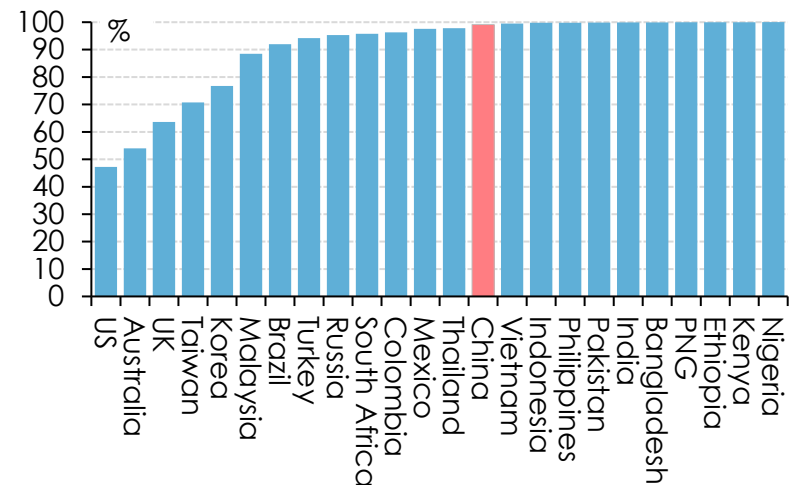
US\$20 per day



US\$10 per day



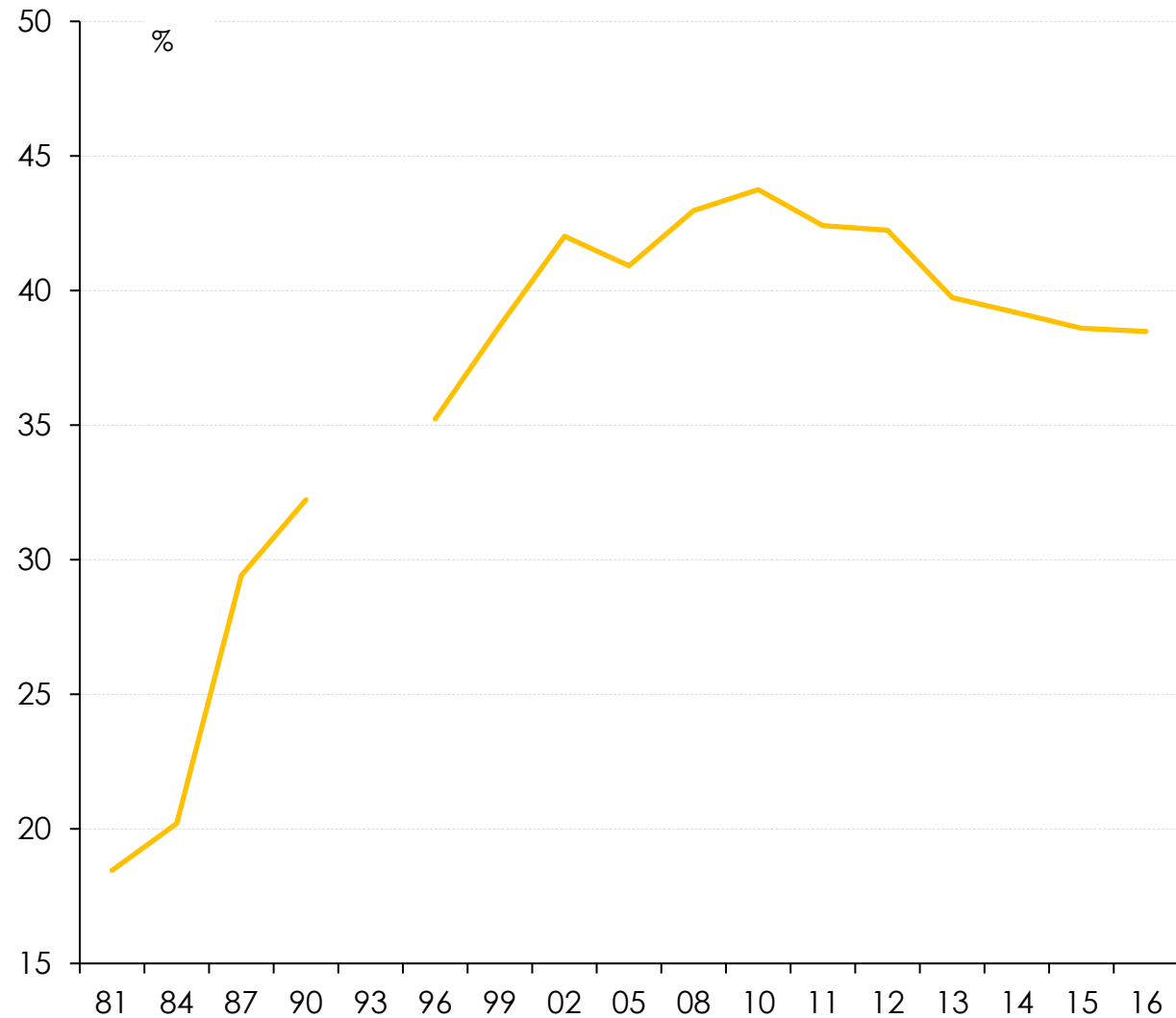
US\$50 per day



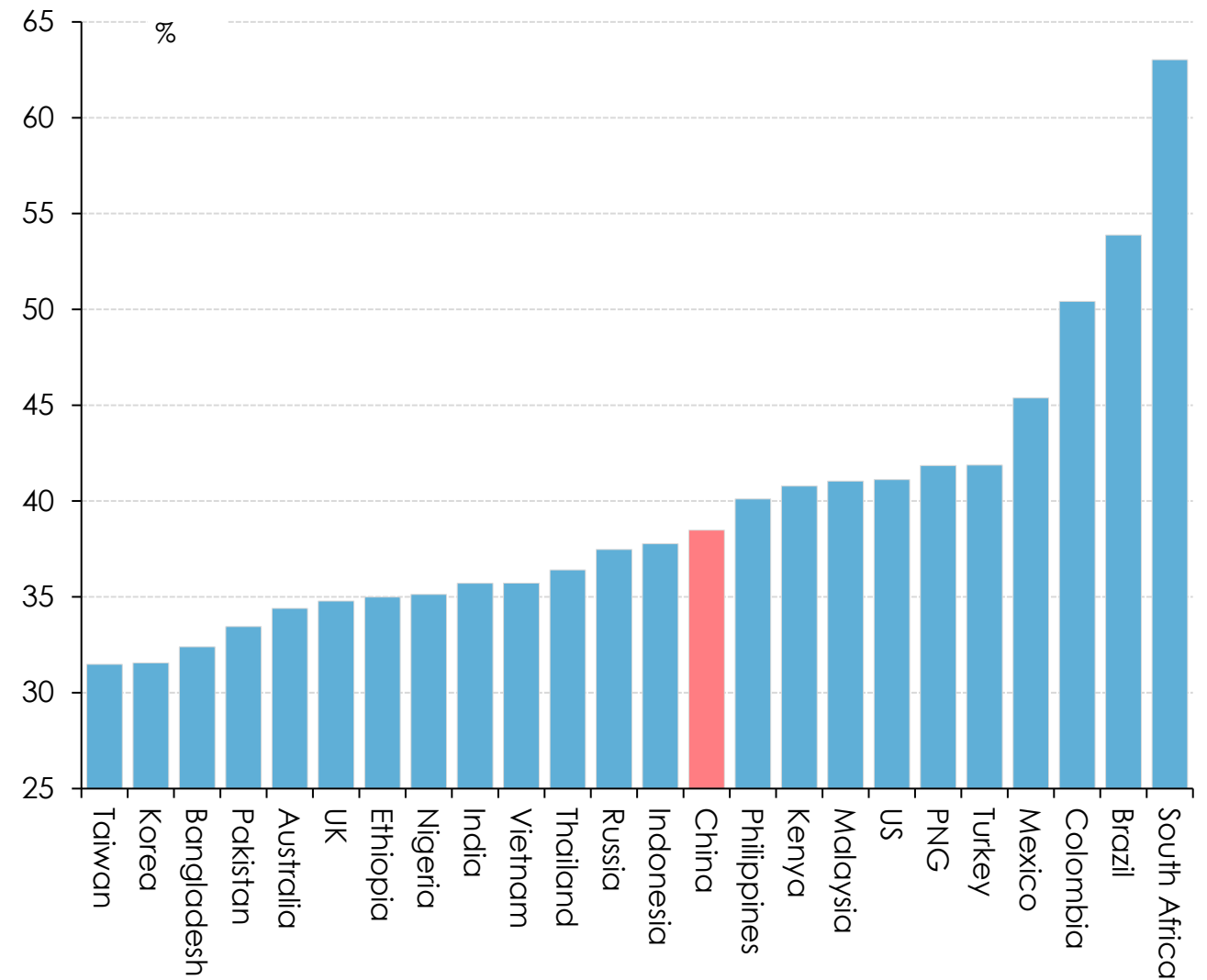
Source: The World Bank, [PovCal.net](http://PovCal.net). Data for countries shown in the right-hand charts are most commonly for 2016 or 2018, except for Australia (2014), India (2012), and Papua New Guinea (2011).

# It's also less widely known that inequality has risen sharply in China since the early 1980s – although it has declined a little over the past decade

Gini coefficients for China, 1981-2016



Gini coefficients, selected countries, latest available

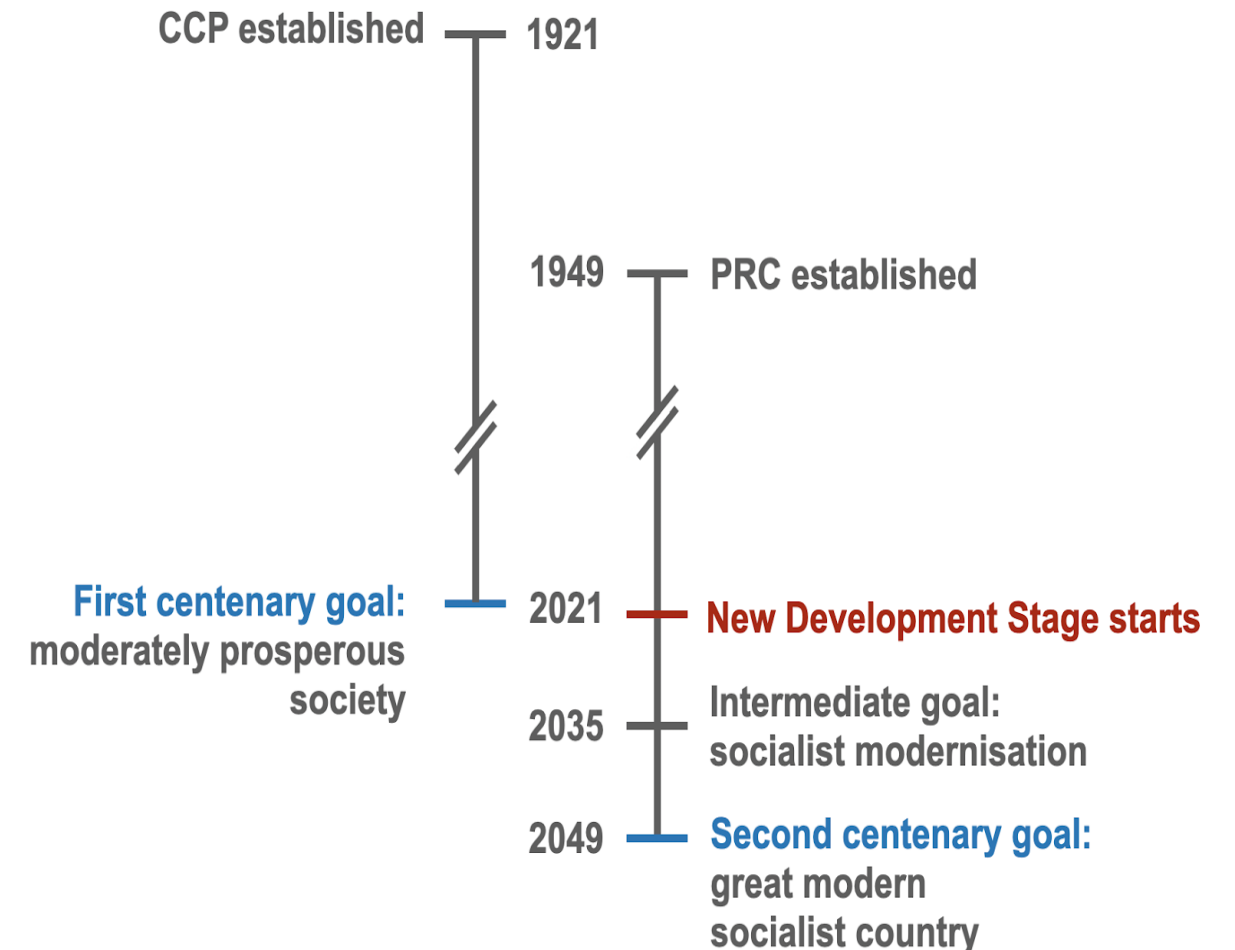


Source: The World Bank, [PovCal.net](http://PovCal.net). The Gini coefficient is a measure of inequality of income distribution based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive: it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. Data for countries shown in the right-hand chart are most commonly for 2016 or 2018, except for Australia (2014), India (2012), and Papua New Guinea (2011).

# China has 'officially' entered a 'New Development Phase' this year

- ❑ In 2017, Xi Jinping laid out “Two Centenary Goals”
- ❑ The first, to be achieved by the centenary of the establishment of the CCP (ie this year, 2021) is “the building of a moderately prosperous socialist society in all respects”
- ❑ The second, to be achieved by the centenary of the foundation of the People’s Republic of China (ie in 2049) is for China to have become “a great modern socialist country”
- ❑ Achievement of this second “Centenary Goal” is to be accomplished in two phases:
  - in the first, “new development” phase (to be completed by 2035) China will seek to become “a global leader in innovation”, “grow much stronger in cultural soft power”, “significantly enhance the social etiquette and civility of its people”, “grown considerably the size of the middle-income group” and “fundamentally improved the environment”
  - by the end of the second phase, China will have “become a global leader in total national strength and international influence” and “reached new heights in every dimension of material, political, cultural, and ethical, social and ecological advancement”
- ❑ In a speech on 11<sup>th</sup> January, Xi Jinping officially proclaimed that China had entered this “new development phase”
  - in which, he said, the CCP “leads the people to usher in a historic leap from ‘standing up’, ‘getting rich’ to ‘becoming strong’”

## Two Centenary Goals



Source: Yun Jiang and Adam Ni, [China Neican \(内参\)](#), 19th January 2021.



# China's new economic development strategy is called 'Dual Circulation'

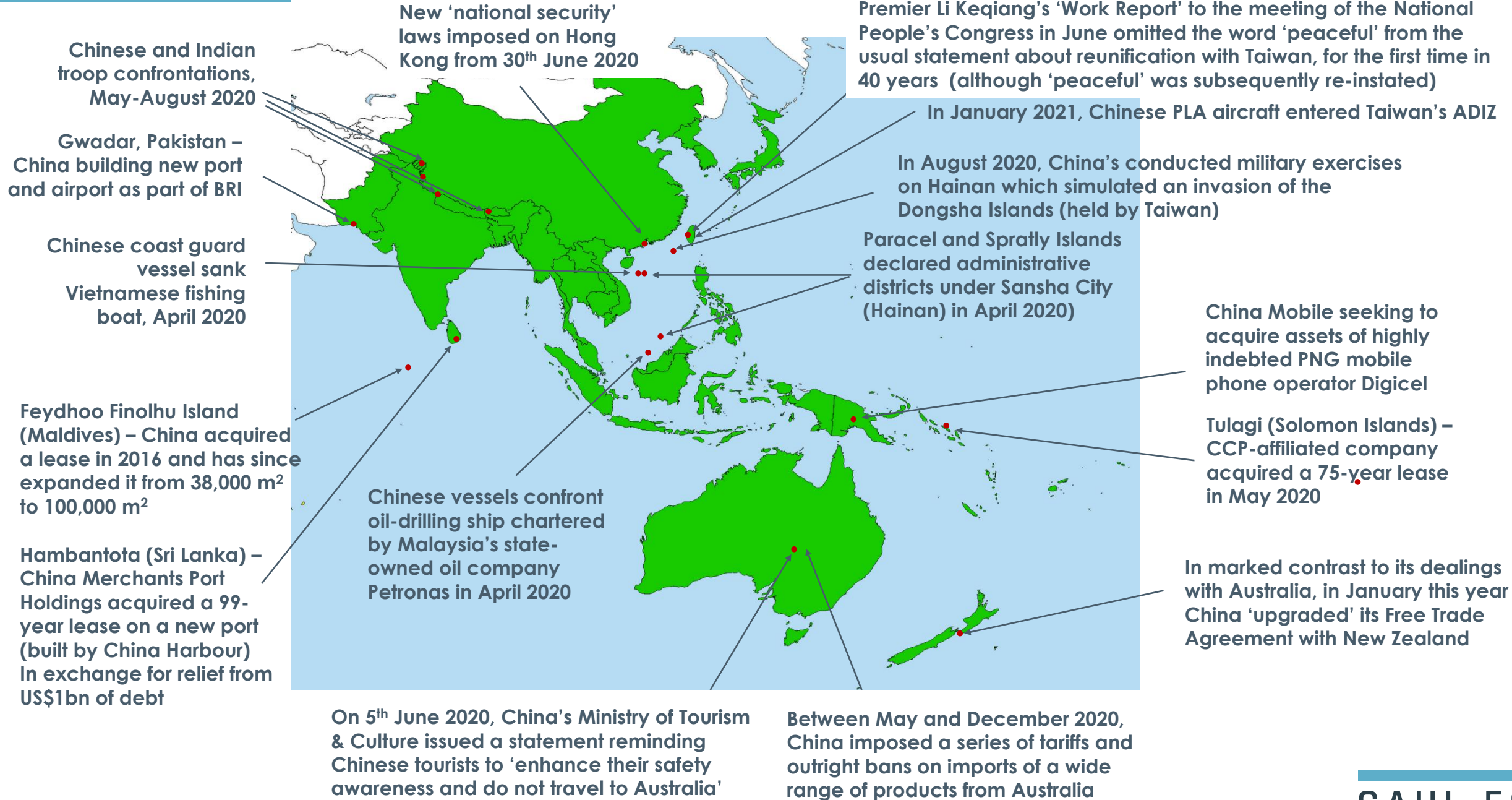


- ❑ Xi Jinping formally introduced the 'Dual Circulation' Strategy at a CCP Politburo meeting in May last year, and it was fleshed out in a communique issued at the end of the 5<sup>th</sup> Plenum at the end of October
- ❑ Officially, the two key elements of 'Dual Circulation' are
  - 'international circulation' – China will “not shut the door” on the outside world, but rather will “further open up” (including by pursuing trade agreements with other countries and reducing barriers to foreign investment)
  - 'domestic' or 'internal circulation' – China will “unleash the full potential of its domestic demand, improve connectivity between the domestic and international markets, and better use resources and the two markets to propel stronger and sustainable development”
- ❑ In practice, 'Dual Circulation' seems to be about
  - reducing reliance on imports of high-tech products (in particular), energy and food, and encouraging domestic production of these items
  - reducing reliance on exports and Chinese investment overseas
  - redirecting the flow of both equity and debt finance away from property development towards (in particular) advanced manufacturing
- ❑ 'Dual Circulation' is a response to the deterioration (as China's leaders see it) in the global environment
  - in particular, to the seemingly bi-partisan push in the United States to 'decouple' from China
  - and 'second thoughts' about the 'Belt and Road', both within China and in 'recipient' countries

# China's relations with the rest of the world

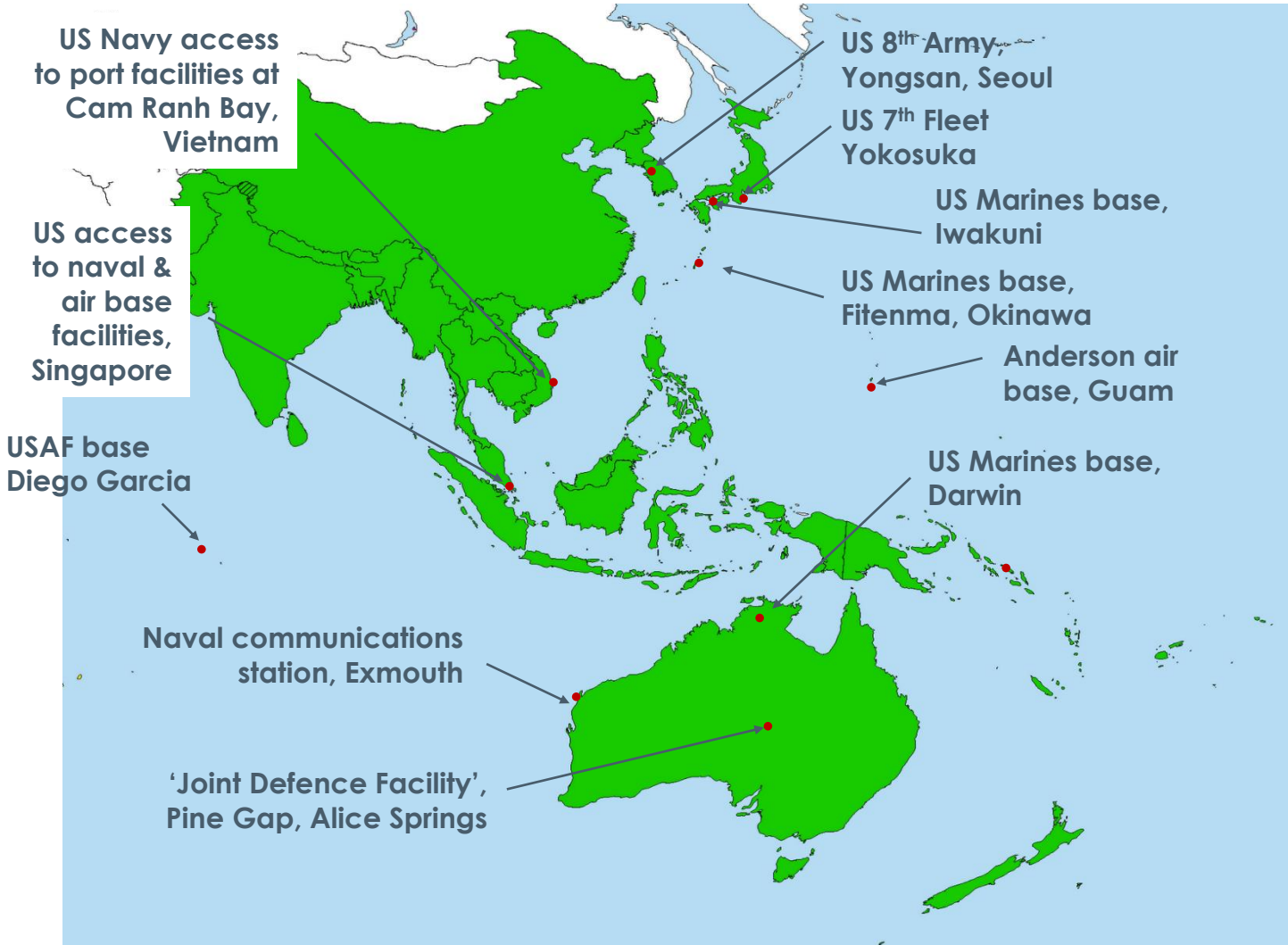


# China has become increasingly assertive (or aggressive) in its dealings with its neighbours and other countries in the Asia-Pacific region

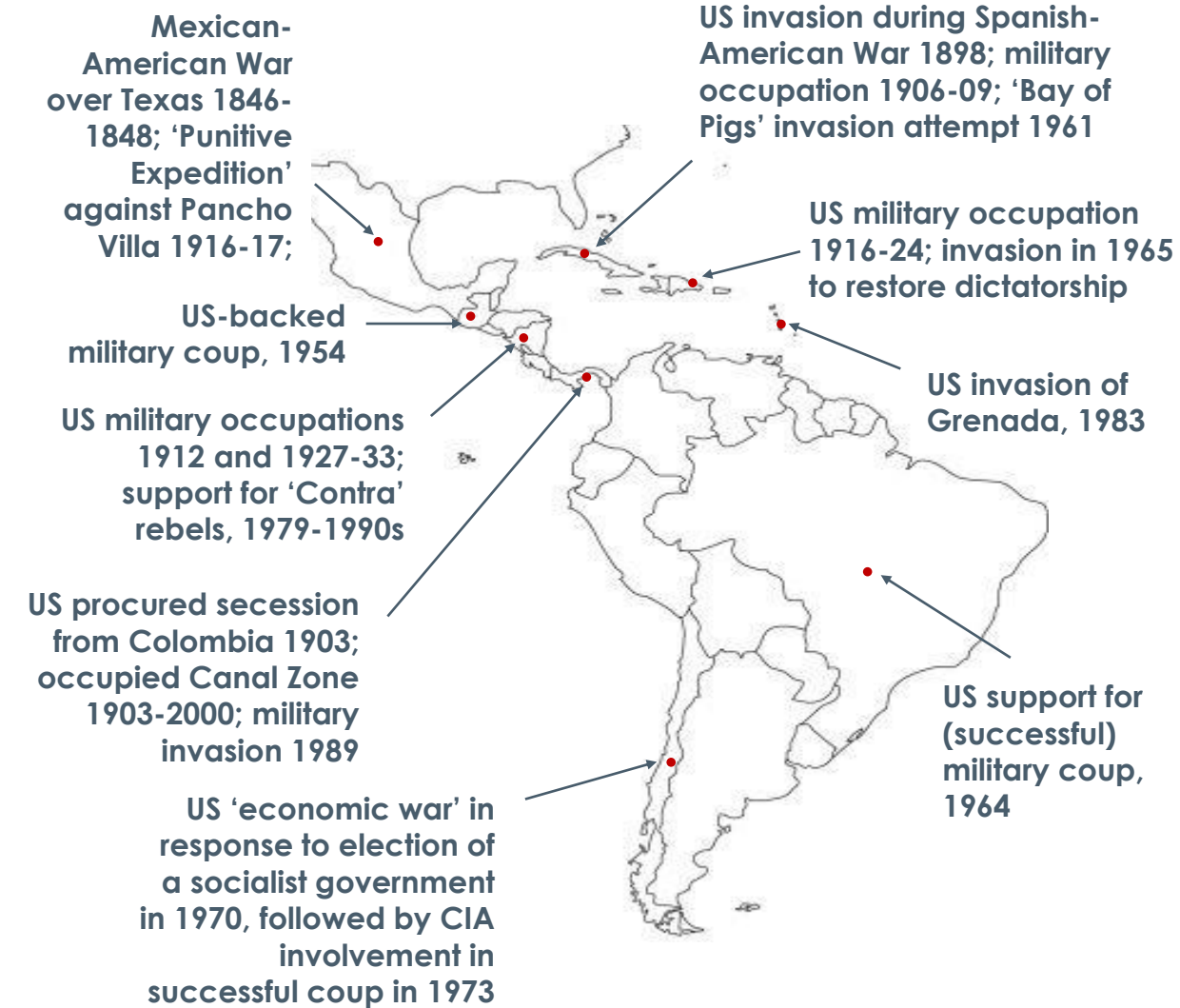


# Of course the Chinese would say they're not doing anything the US hasn't, either in the Indo-Pacific or in the Americas

## US military presence in the 'Indo-Pacific' region

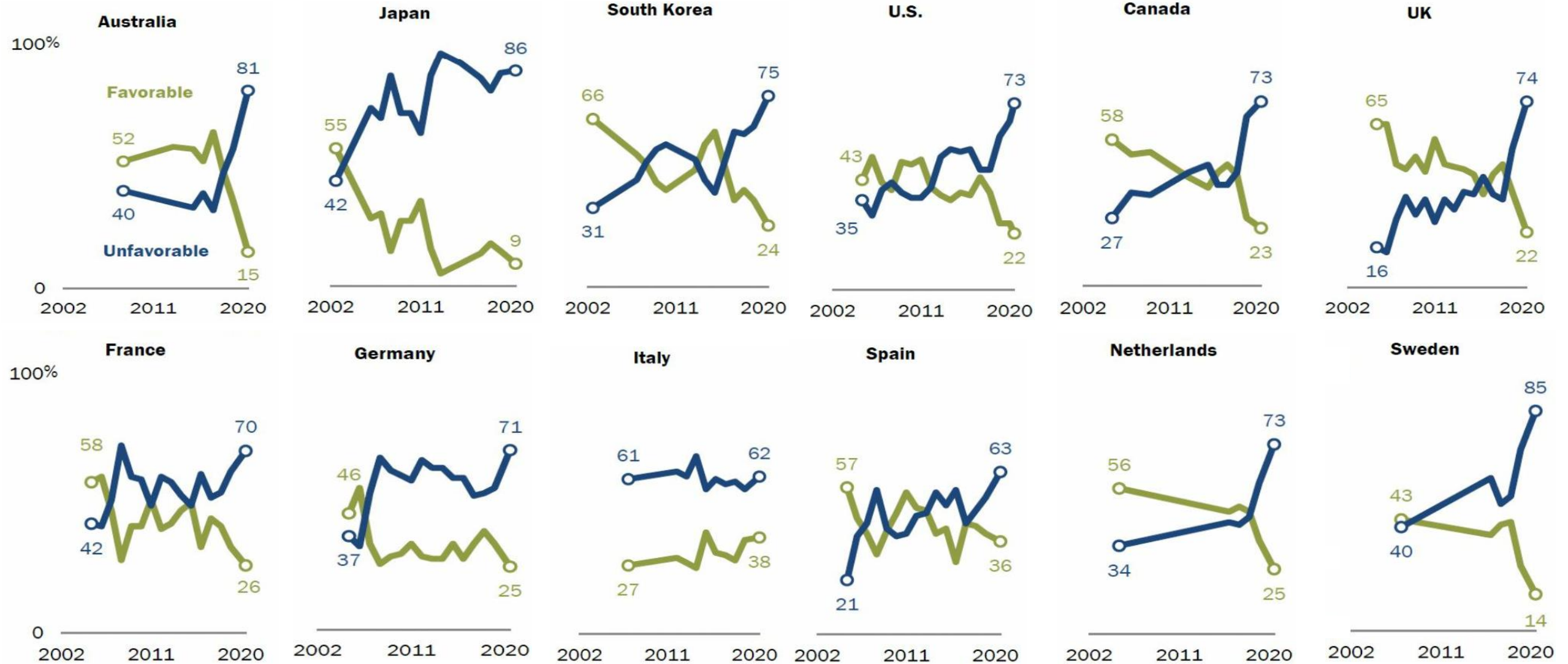


## US involvement in Latin America and Caribbean



# China has an 'image problem' – particularly in other Asia-Pacific countries, but also increasingly in Europe

## Positive or negative views about China as a percentage of population

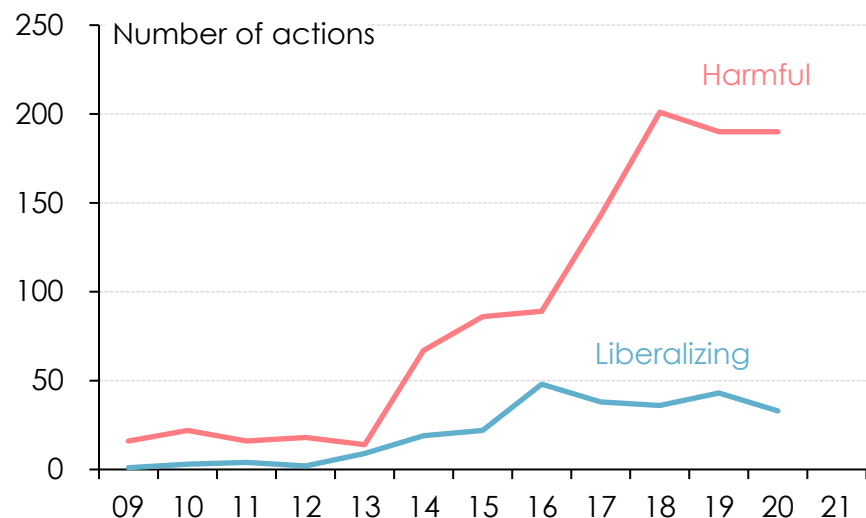


Source: Pew Research, [Unfavorable Views of China Reach Historic Highs in Many Countries](#), 6th October 2020.

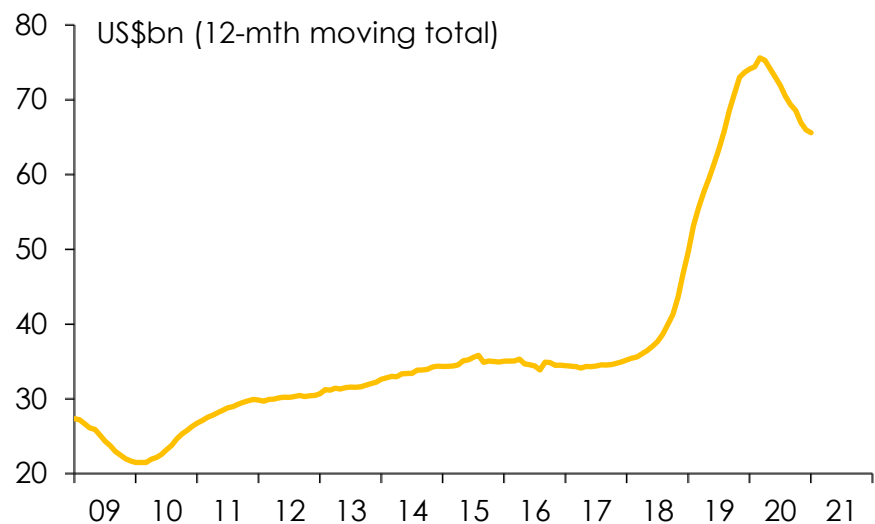


# The new Biden Administration is unlikely to ‘water down’ its predecessor’s tariffs on Chinese imports, even though they didn’t work

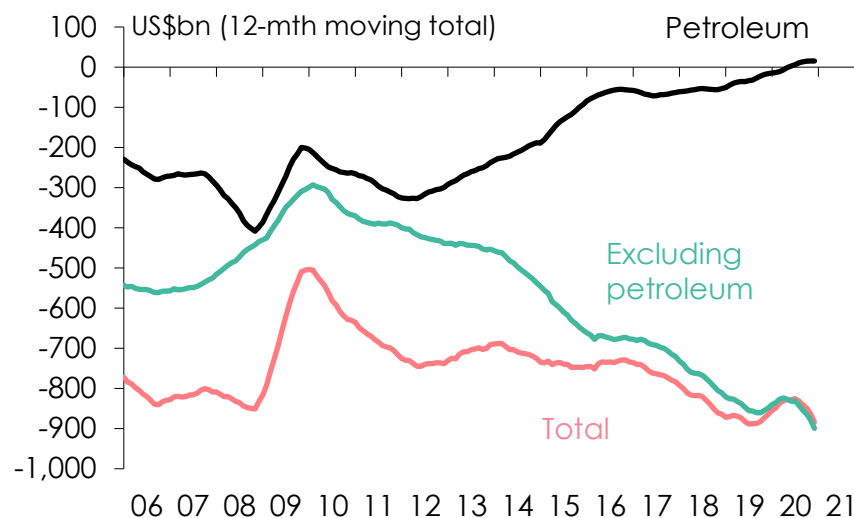
## US trade policy actions



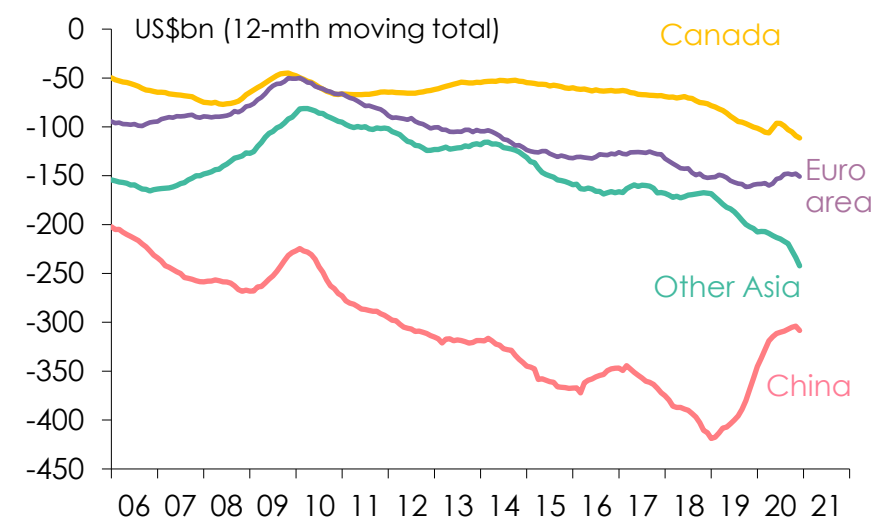
## US customs duty revenue



## US merchandise trade balance



## US bilateral trade balances

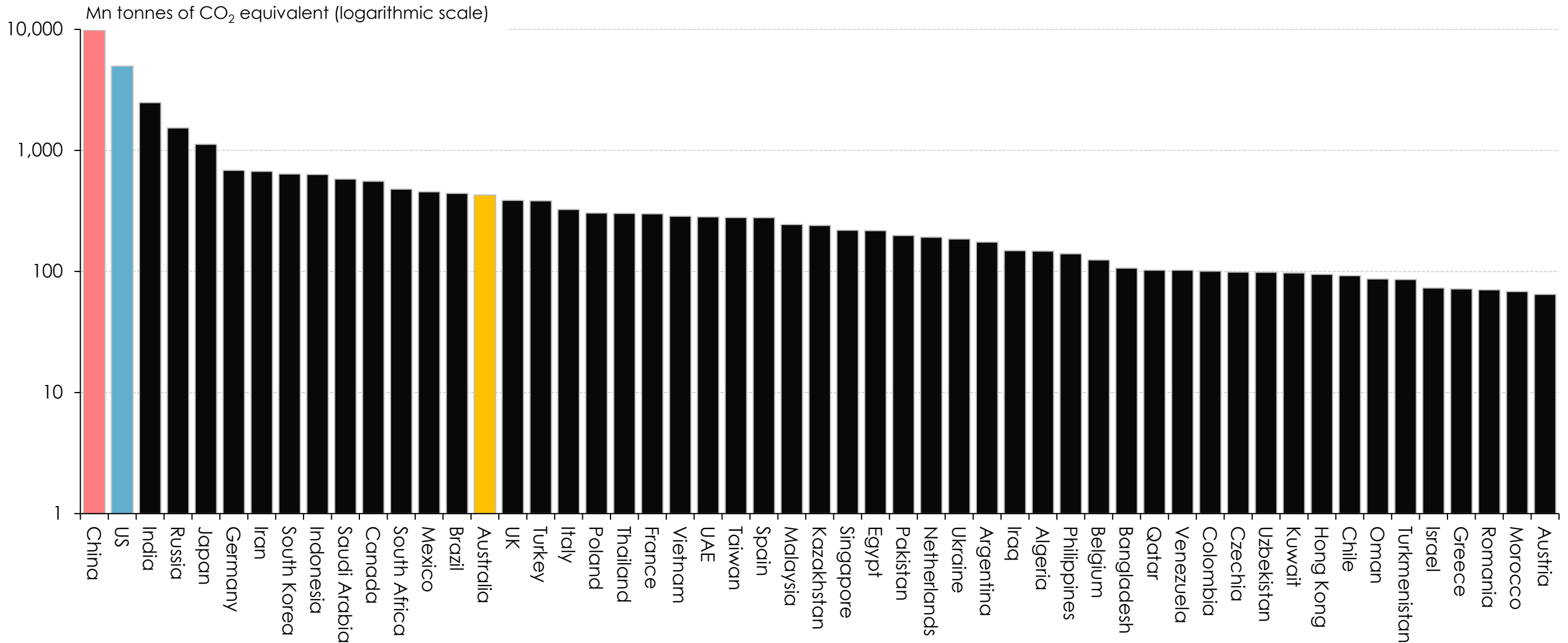


- ❑ A [Brookings Institution analysis](#) of the impact of the Trump Administration’s trade policies suggests that the average American household paid anywhere between “several hundred” and “a thousand dollars or more” per annum in higher prices due to tariffs
  - consistent with what is widely understood by economists, but (sadly) by few others, that tariffs are *not* something governments make foreigners pay to their goods into a country, but rather something they make *their own consumers or businesses* pay to keep foreign goods out
- ❑ The overall US trade deficit continued to widen under the Trump Administration – despite the balance on petroleum products trade moving into surplus
- ❑ A US\$110bn decline in the bilateral deficit with China was more than offset by wider deficits with the rest of Asia, Canada and Europe

Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert](#) Global Dynamics (data up to 29th January); [US Treasury Department](#); US Commerce Department.

# But the Biden Administration could 'reach out' to China in its quest for more effective action on climate change

## Carbon emissions, 2019

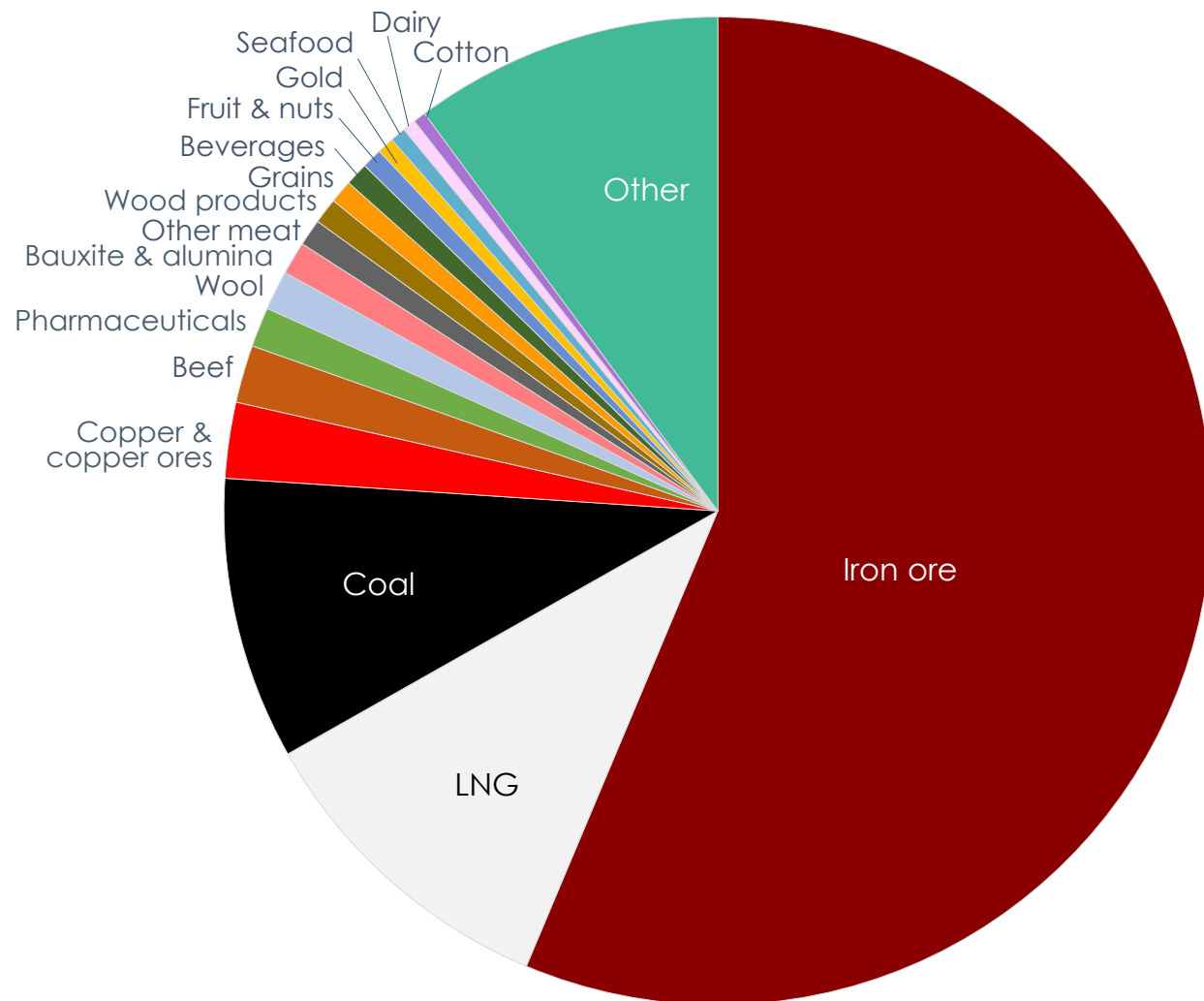


Source: BP, [Statistical Review of World Energy](#), 2020.

# The deterioration in bilateral relations between Australia and China

# Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there are likely to be material economic effects

## Australia's merchandise exports to China, 2019-20



- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%
- ❑ China has no real alternatives to Australian iron ore
- ❑ But China has been progressively expanding the range of other Australian products subject to discriminatory tariffs, "customs inspections", quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
- ❑ In November 2020, officials from China's embassy in Canberra handed to journalists a list of '14 grievances' China claims to have against Australia – of which perhaps only three have any real merit
- ❑ China has imposed tariffs of between 107% and over 200% tariffs on imports of Australian wine ...
- ❑ ... and in December officially directed Chinese electricity generators and steel mills not to use Australian coal
- ❑ China appears to be seeking to 'make an example' of Australia as a warning to other countries in the region

Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.  
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.

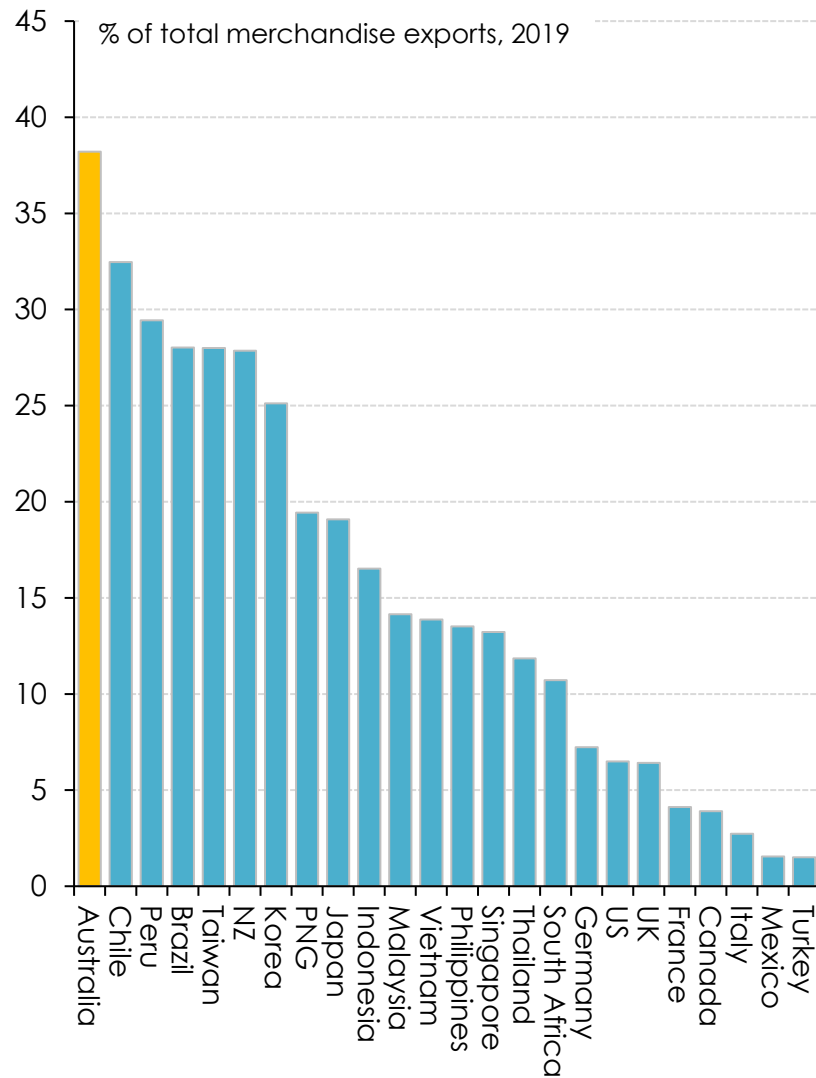
# Of China's '14 grievances' against Australia at most three have any real merit

1. Foreign investment decisions – the blocking of more than ten acquisitions by Chinese companies “on opaque security grounds” since 2018
  - the only reason China doesn't do the same is because Australian and other foreign companies know not to ask
2. Banning Huawei and ZTE from Australia's 5G network
3. Australia's 'foreign interference legislation' “viewed as targeting China ... in the absence of any evidence”
  - and China doesn't have any laws targeting 'foreign interference'?
4. “Politicization and stigmatization” of “normal exchanges and co-operation between China and Australia”
  - maybe some merit in this, although in China contacts between citizens and foreigners often attract police attention
5. Calls for an international independent inquiry into the Covid-19 crisis “echoing the US attack on China”
  - fair to say Australia didn't need to be the *first* to make this call
6. “Incessant wanton interference in China's Xinjiang, Hong Kong and Taiwan affairs”
  - and China never 'interferes' in Australia's “internal affairs”?
7. Australia being the “first non-littoral country to make a statement on the South China Sea to the UN”
  - would being a 'non-littoral country' have been a problem if we had supported what China is doing in the SCS?
8. “Siding with the US anti-China campaign” and “spreading disinformation imported from the US” about China's efforts to contain Covid-19
  - in which case why has China entered into formal agreements to buy *more* products from the US?
9. Legislation allowing Federal scrutiny of agreements between states or universities and foreign governments “aiming to torpedo” Victoria's participation in Belt & Road
  - would China allow one of its provinces to 'freelance' on foreign policy?
10. Providing funding to an “anti-China think tank” [presumed to be the Australia Strategic Policy Institute] for “spreading untrue reports”, “peddling lies around Xinjiang” etc
11. The “early dawn search and reckless seizure of Chinese journalists' homes and properties without any charges”
  - such a thing would *never* happen in China, right?
12. “Thinly veiled allegations” about Chinese cyber-attacks “without any evidence”
13. “Outrageous condemnation” of the CCP by MPs and racist attacks against Chinese or Asian people
  - a legitimate complaint
14. An “unfriendly or antagonistic report” on China by media, “poisoning ... bilateral relations”
  - you'd never find anything like that in *The Global Times*?

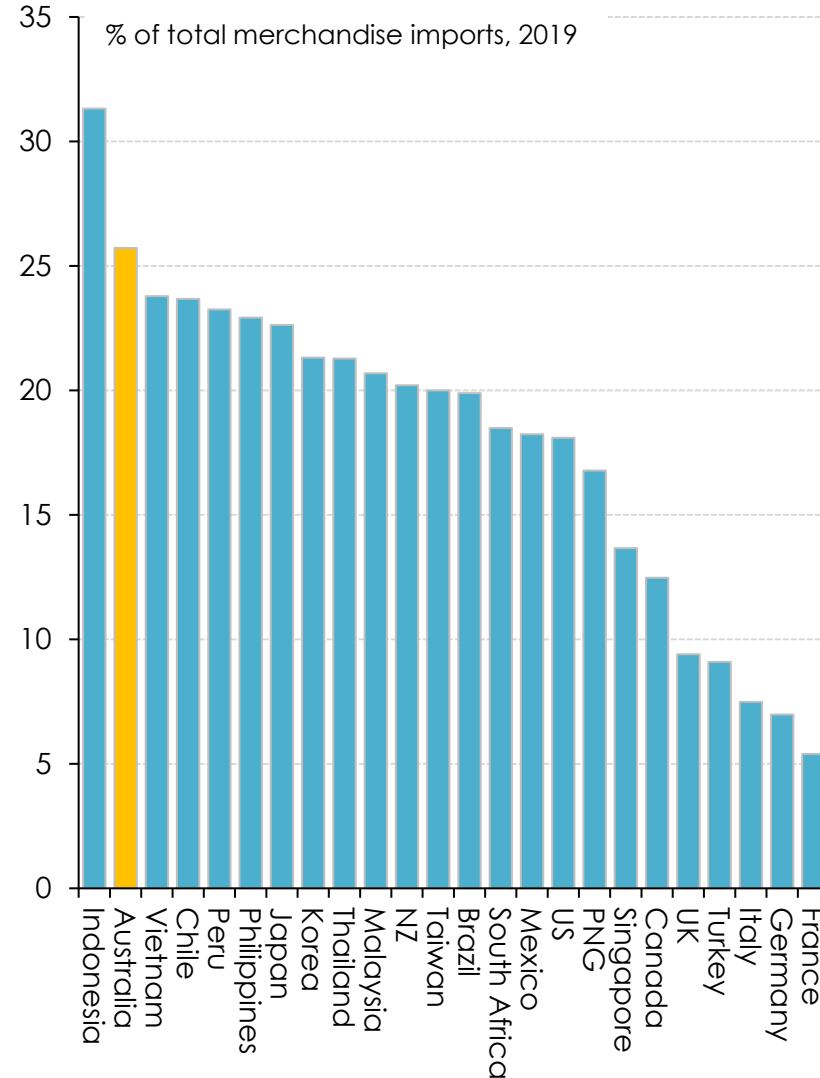


# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

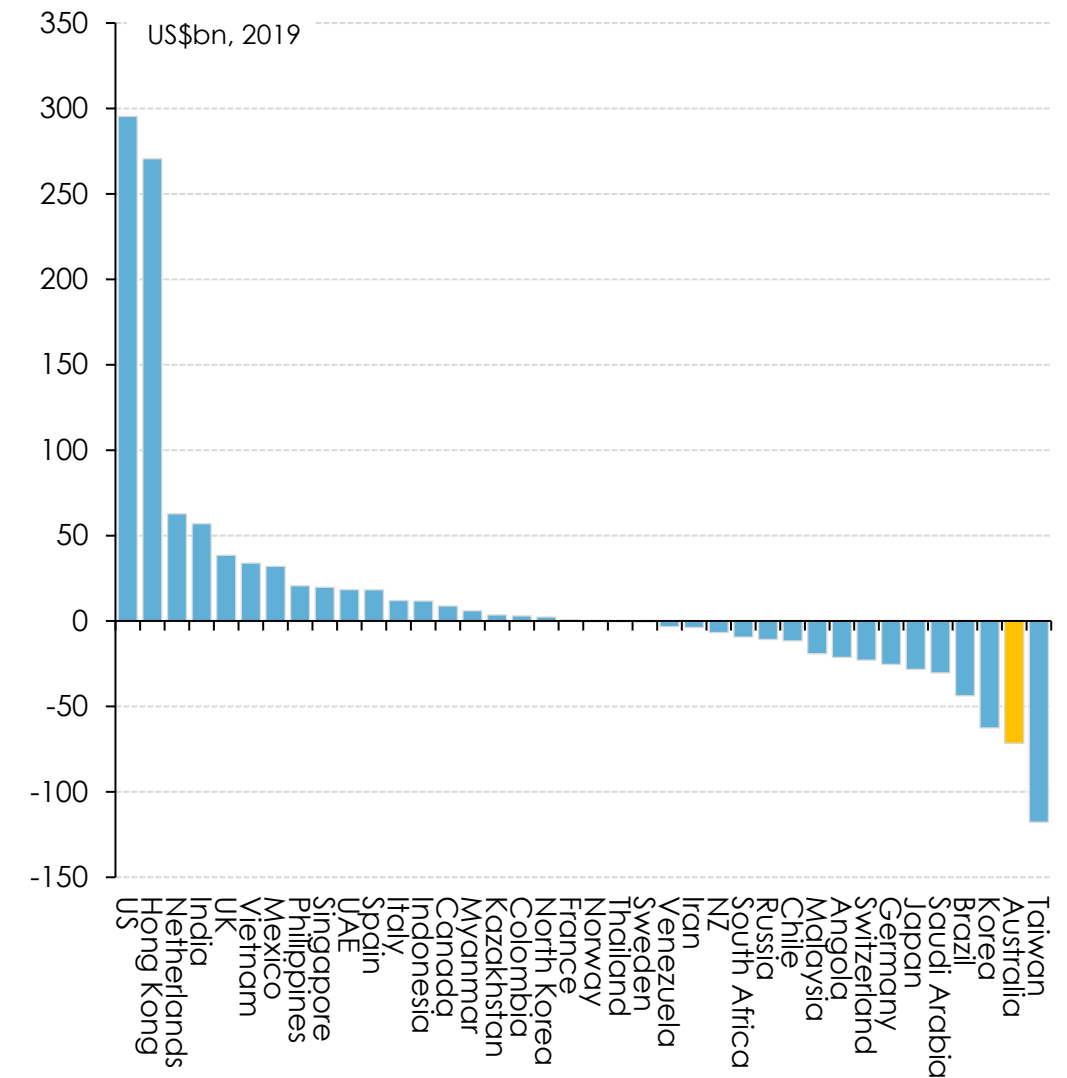
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



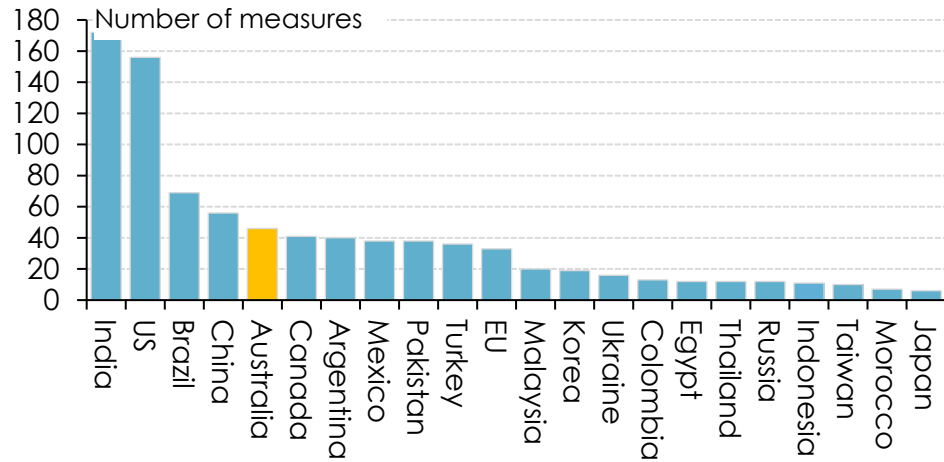
## China's bilateral merchandise trade balances



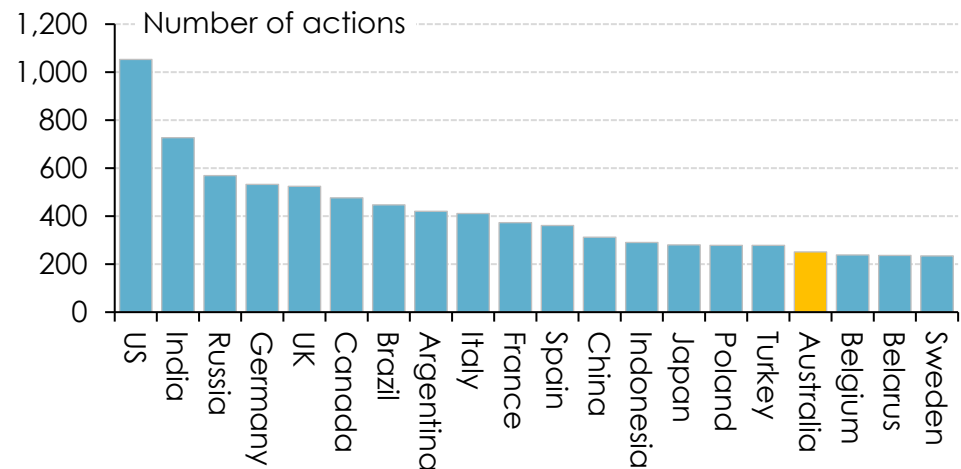
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade.

# China's 'trade war' on Australia seems to be prompted more by politics than by more legitimate concerns about Australian trade policy actions

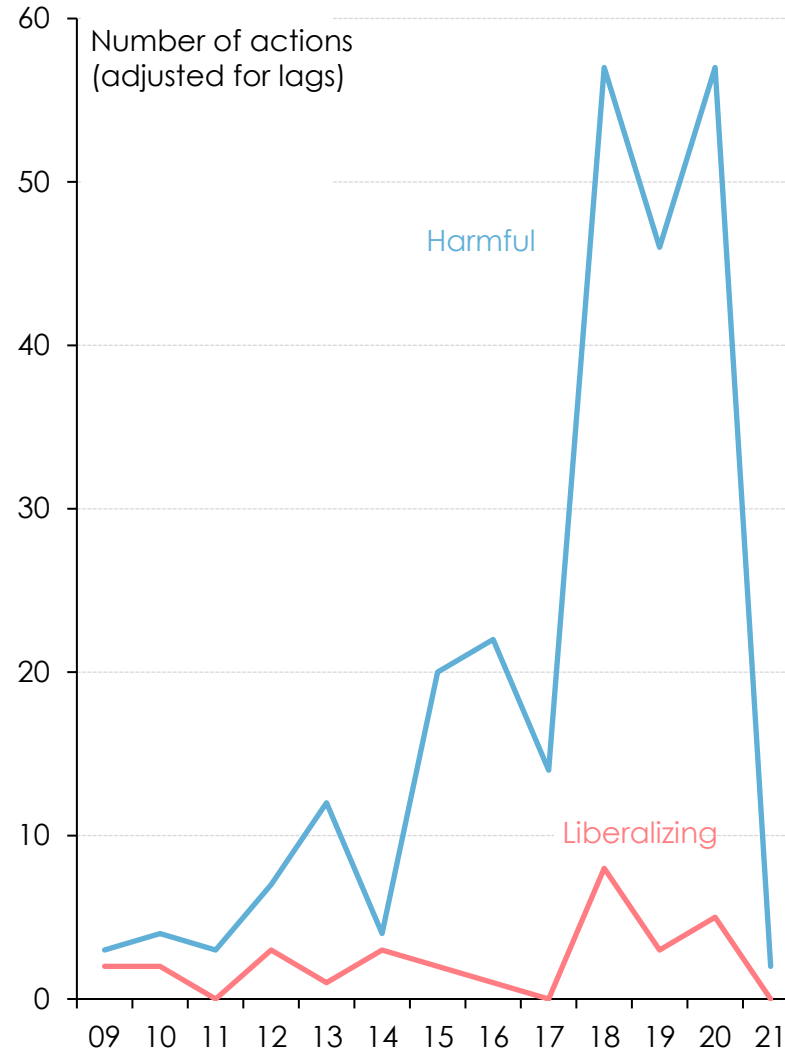
## Number of anti-dumping measures imposed, 2015-19



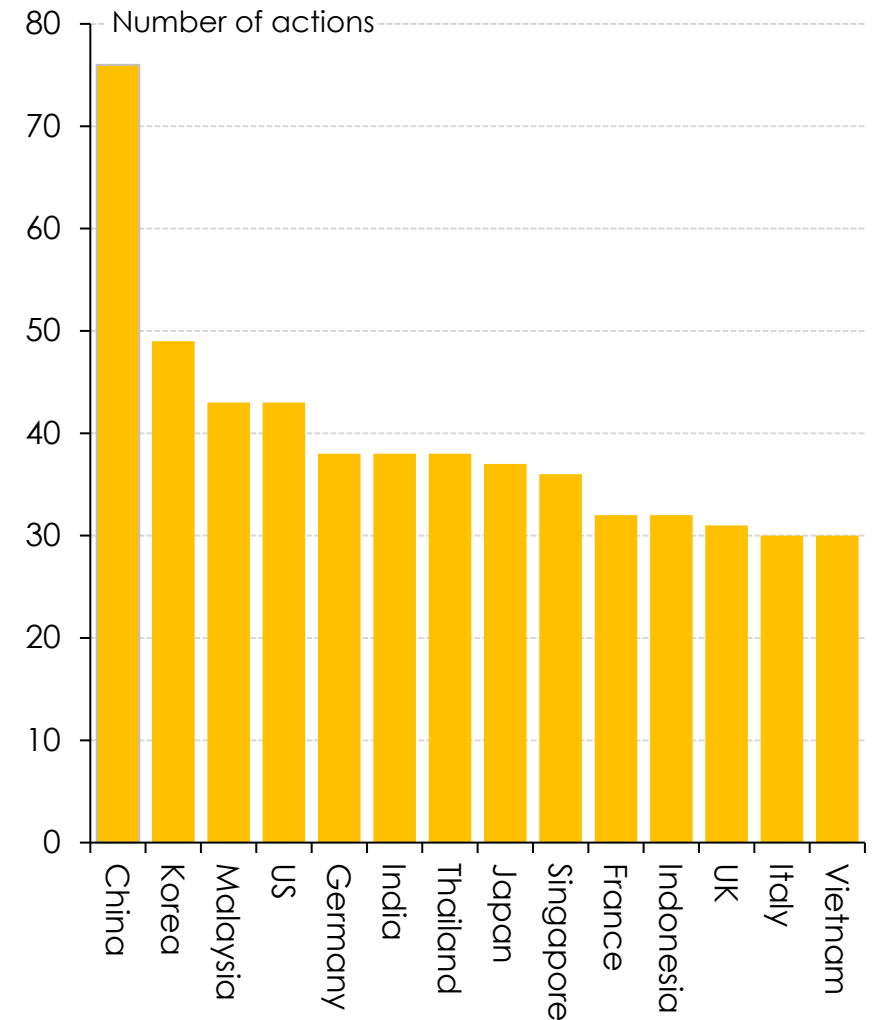
## Number of harmful trade policy interventions, 2009-2021



## Australian trade policy measures since 2009



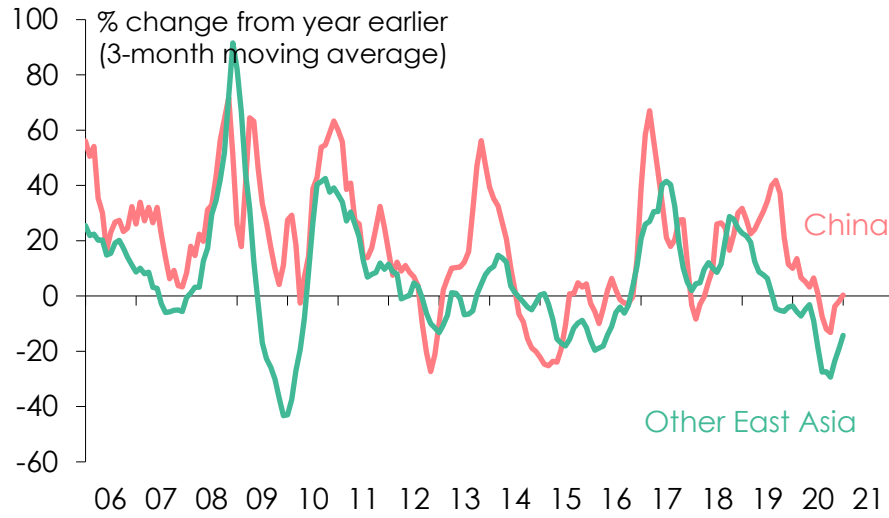
## Countries adversely affected by 'harmful' Australian trade actions



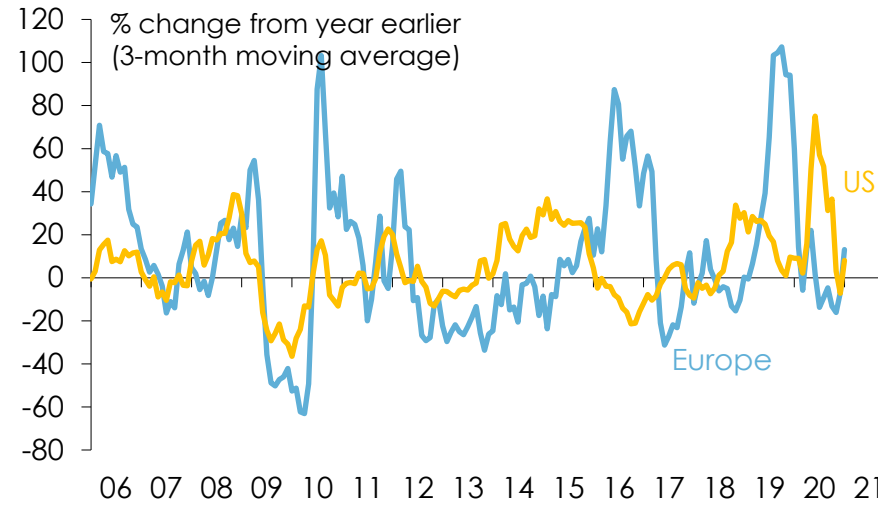
Sources: [World Trade Organization](#); Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 29th January).

# Australia is still running a large trade surplus with China despite China's sanctions against a range of Australian exports

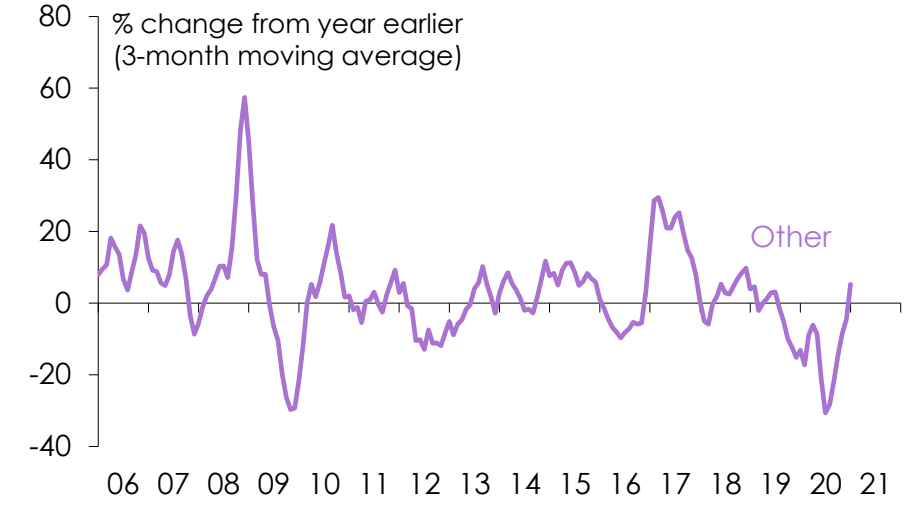
## Merchandise exports – East Asia



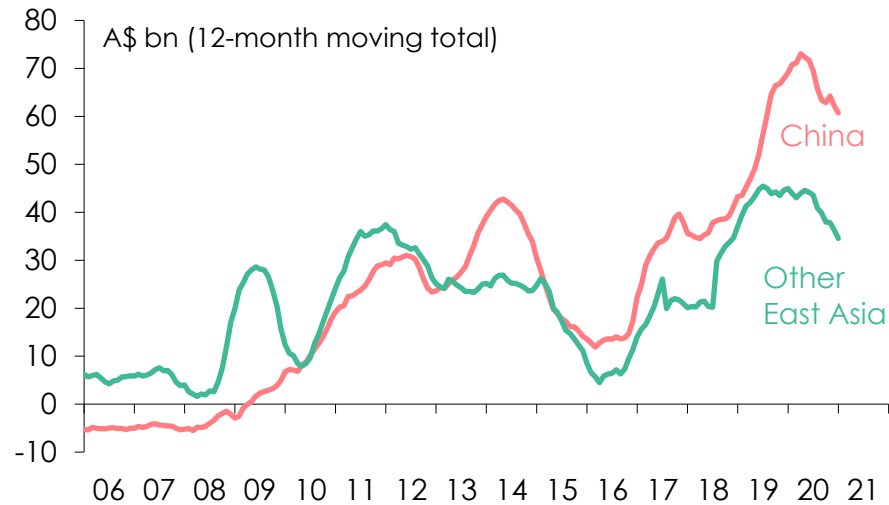
## Merchandise exports – US & Europe



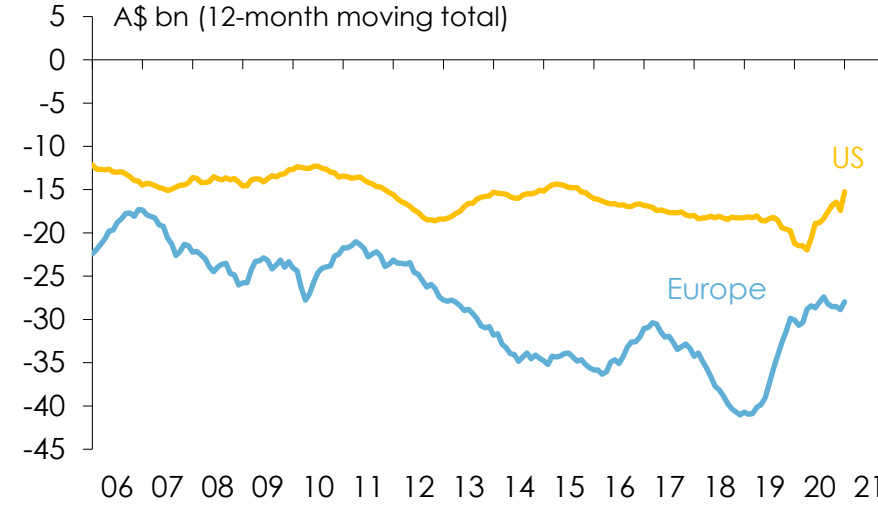
## Merchandise exports – other



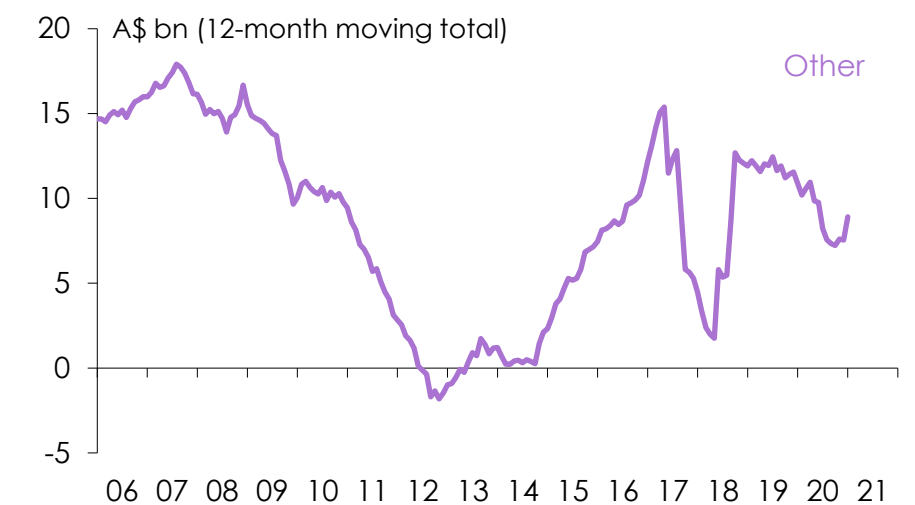
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Merchandise Trade, Preliminary](#); final December data will be released on 4<sup>th</sup> February. .

Q & A

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