



China trade to go beyond the boom

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Japan has a population of 128 million, China 1.4 billion. Japan's economy is already mature. China only entered the ranks of upper middle-income countries in 2011, and the World Bank expects that the transition to a mature, high-income economy will take at least another 15 to 20 years.

Comparative growth forecasts by the eminent economist Angus Maddison show Japan's economy is growing at an average annual rate of around 1 per cent over the period 2003-to-2030, compared with 5 per cent for China. The result will be that in 2030 China's economy will be 2.3 times larger than now, while Japan's will only be 1.2 times larger. More recent estimates by the World Bank suggest that these growth forecasts for China are conservative: a near tripling in size is more likely.

Liquefied natural gas (LNG) provides scope for Japan to grow in prominence once again. John Edwards in his recent book *Beyond the Boom* took a big leap to speculate that Japan's demand for safe and clean energy may once again see it become Australia's largest goods-market destination by 2017.

The more probable scenario is that LNG exports will make only a small dent in the current chasm that sees exports to China exceed those to Japan by \$52 billion. Over the period 2013 to 2019, Bureau of Resources and Energy Economics (BREE) forecasts show exports of LNG to Japan outpacing those to China by 5 million tonnes, worth around \$4 billion. BREE also warns that Japan can always opt to restart nuclear.

China's transition to economic maturity means continuing high demand for raw materials. BREE expects that China's imports of iron ore by 2019 will rise by 300 million tonnes, mostly from Australia.

But forget resources. Look at services. China's middle class will grow from around 150 million in 2010 to 670 million by 2021. That, by the way, is more than four times the population of Japan.

By last year China was already the number one destination for Australia's services exports, with a value of \$6.7 billion, compared with \$2.1 billion to Japan.

The annual trend growth rate of services exports to China over the past five years stands at over 9 per cent, while to Japan it is minus 4 per cent.



In 2013 there were 150,166 students from China studying in Australia; there were 11,595 from Japan. In 2012-2013 the income earned from exports of education-related services to China was \$4 billion, nearly 20 times that to Japan.

Tourism Australia expects that by 2022-23 international visitor arrivals from China will double to reach 1.4 million. Those from Japan will only grow by 18 per cent to reach 0.4 million.

Each visitor from China is expected to spend 1.6 times that of each visitor from Japan.

At the very least then, China should not be afforded more restrictive treatment in its economic dealings.

Recent policy developments result in exactly that. The Japan-Australia Economic Partnership Agreement (JAEPA) will see Australia drop tariffs on Japanese cars.

They remain at 5 per cent for China. The threshold for investment proposals from private Japanese companies for Foreign Investment Review Board (FIRB) review will increase to \$1.08 billion. It is still \$248 million for China, but for state-owned enterprises, which account for 90 per cent of total Chinese investment in Australia, all must head to the FIRB.

Some of the most prominent concessions in the JAEPA merely bring Japan into line with what China already offers.

In the first year of the JAEPA the tariff on frozen beef will fall by 8 percentage points from 38.5 per cent today, and to 19.5 per cent after 18 years. The tariff levied by China on imported beef products is already less than this amount.

It's likely that some of these inconsistencies will soon be resolved by the signing of the Australia-China FTA. If so, the benefits that flow will dwarf even more those in our trade and investment links with Japan.

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