



A TRANS TASMAN RIVALRY?

The Australia China opportunity in FTA

Ko Te Kaunihera o Aotearoa me Haina

New Zealand China Council

新西兰-中国关系促进委员会



1. The Australia-China opportunity in FTA

New Zealand has benefitted tremendously from the FTA with China. While there were other factors at play (growing demand from China and growing production in NZ), NZ did better than peers. If Australia had captured the kind of soft commodity performance as NZ over the past five years, it would have:

- A more diversified and resilient export relationship with China
- Soft commodity exports to China some 80% larger than today
- Total exports would have been around 8% larger (and the potential is larger over longer periods).

2. Australia is already well entrenched in trading with China

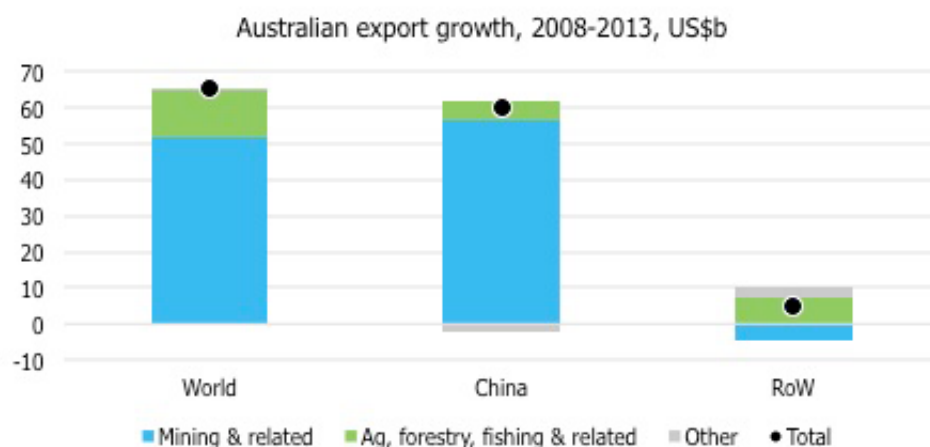
Australia has benefitted from the economic rise of China. Exports to China has grown rapidly – as a result China takes an increasing share of Australia’s exports.

Australian exports have grown at a spectacular pace over recent years. Exports to the world rose sharply, as shown in Figure 1. This growth was driven largely by mining and related products. Soft commodities and related manufactures also played an important part.

The surging export of minerals was driven by China. Its strongly growing economy, particularly investment projects, needed Australia’s mining resources. Exports of minerals and related products rose sharply to China, but fell to the rest of the world.

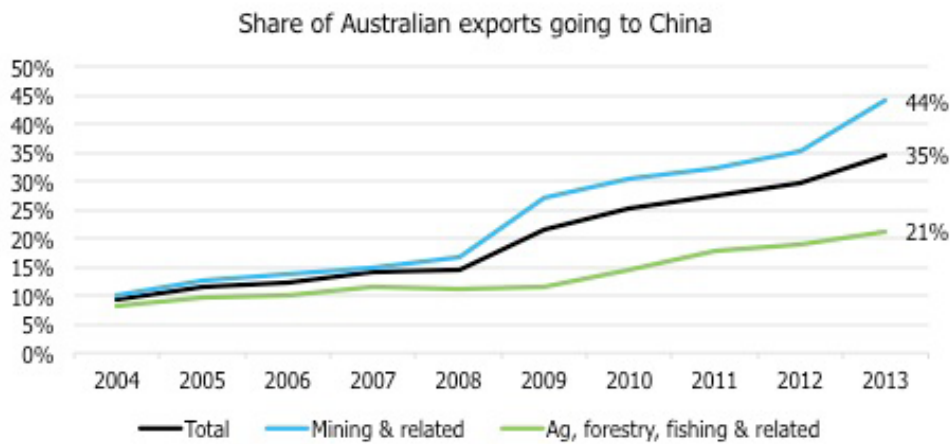
Australia also exported more soft commodities, but China accounted for around half of the growth. Stronger economic ties could see these exports increase further.

Figure 1: Australia is exporting more, but mainly commodities to China



Source: COMTRADE data, NZIER analysis

Figure 2: Australia is already heavily connected to China



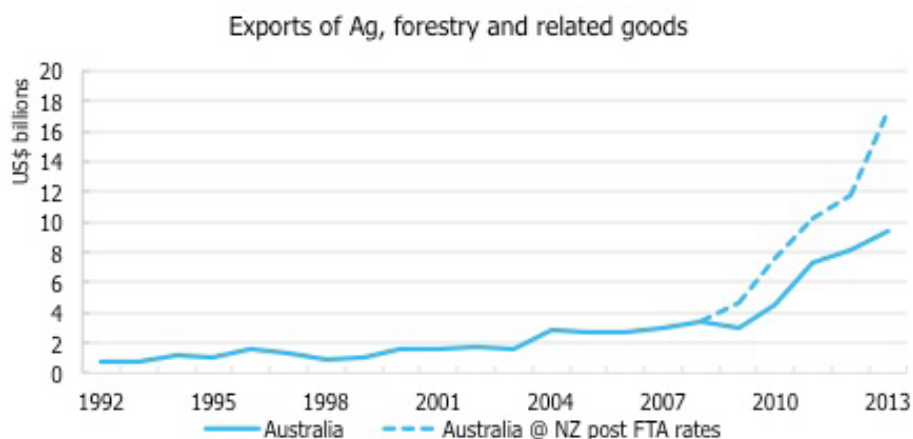
Source: COMTRADE data, NZIER analysis

3. Australia can do much better

While Australia has already notched up significant successes in China, particularly in minerals, New Zealand performed better following the FTA for soft commodities and their related manufactures. We need to apply some caution in this analysis, as New Zealand's exports were made possible by accompanying strong growth in rural production.

Nevertheless, New Zealand's exports of soft commodities grew at a much faster pace than Australia's since the FTA in 2008. Between 2008 and 2013, New Zealand's soft commodity exports increased 4-fold, while Australia's increased 1.8 fold. If Australia had been able to mimic New Zealand's performance, its soft commodity exports to China would be some 80% larger in 2013, and total exports 8% larger.

Figure 3: Australia can do much better



Source: COMTRADE data, NZIER analysis

3. Reducing concentration risk through soft commodities

While China imports a wide variety of products from the world, Australia and New Zealand exports have become more concentrated in recent years. One summary measure is the Herfindahl index, which shows how concentrated product mix is.

The chart below shows the Herfindahl index of concentration of Chinese imports from the world, Australia and New Zealand. A reading greater than 0.15 is concentrated, the higher the more concentrated.

China's imports from the world remain diversified, but imports from New Zealand have increased in concentration in recent years and Australia more substantially because of the prominence of resources.

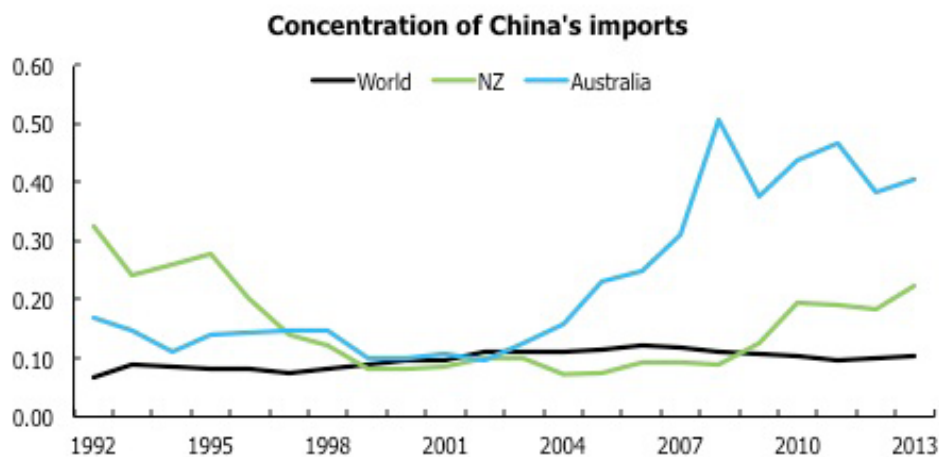
Concentration in the basket of commodities means that a few commodities have grown very fast in recent years. For New Zealand, dairy, meat and forestry drove nearly 80% of the doubling in exports. For Australia, it has been mineral ores.

In a diversified basket the risk from one off events that may impact one of two commodities does not feature as largely. While New Zealand is concentrated in primary products, Australia may find some diversification in boosting its soft commodity exports.

While the demand for minerals is highest during early phases of industrialisation, soft commodity demand can last much longer through the development of a country's economy – as the middle classes demand more protein and safe food.

The Australia-China FTA is an opportunity for Australia to build on its already very strong ties with China. New Zealand's experience shows that soft commodity exports can be larger, add diversity to Australia's export exposure to China and boost total exports by around 8%.

Figure 4: Australia's exposure to China is very concentrated and prone to sudden shifts in demand



Source: COMTRADE data, NZIER analysis