

Chiming in with ‘Chindia’: Australia’s 2020 trade vision

Tim Harcourt

Australia’s recent economic success can almost be summed up in two words – China and India (or ‘Chindia’). The economic expansion of these two emerging economic superpowers in Asia has fuelled demand for Australia’s vast mineral resources and the services we build around our key commodity exports.

Symbols of Chindia’s emergence as a superpower

As a nation of sports-fanatics, Australians have been obsessed with two major international events this year. Earlier in the year all eyes were on the sub-continent as the Indian Premier League (IPL) ‘2020’ series won the hearts and minds of the cricketing public. Not only was the series spectacular and innovative, but also it was based on teams of international stars rather than nation states or regions. As a result, we saw Shane Warne’s team, the Rajasthan Royals, being cheered on by Indians and Australians alike on their way to an unlikely classic underdog victory. And, after the ‘Bollyline’ controversy during the Test series between Australia and India in Sydney last summer, the multinational, multicultural 2020 series in India played a role in healing the (albeit minor) rift between the two sporting nations.

The IPL 2020 cricket series was played just before the Australia 2020 summit in Canberra. This caused some commentators to draw parallels between the 2020 Summit in Canberra led by our new Prime Minister Kevin Rudd and the 2020 IPL cricket series on the subcontinent, which was led by blonde bombshell leg-spinner Shane Warne! Other commentators took this a step further, saying that the only difference between the two events

was that there were Hollywood stars at 2020 in Canberra and Bollywood stars at 2020 in India. However, both 2020 events reminded us of India’s importance to us, as a sporting and an economic power, and why the Australian and Indian trade relationship is becoming more than the 3 ‘C’s — cricket, curry and Commonwealth!

The second major sporting event this year has, of course, been the Beijing Olympics. The whole world watched the fireworks and the amazing opening ceremony at the ‘bird’s nest’. Australia has also been focused on our efforts on the track and in the pool and the test to see whether funding sports produces results in winning medals. This has an international dimension too as Great Britain adapted ‘the Australian model’ of sports investment and recruited Australian coaches with spectacular results.

The Beijing Olympics have also been very important to Australia’s business ties with China. Prime Minister Kevin Rudd’s ability to speak Mandarin has had commercial benefits — with 42 per cent of small businesses saying it had helped them to win business in China — and the Beijing Olympics themselves attracted significant Australian business involvement. For example, the most visible symbol of the Games, next to the bird’s nest, is the magnificent water cube designed by

PTW architects. PTW won the Beijing contract after Austrade entered them in a Beijing Olympics competition. The bid for the design of the main arenas and the Olympic Village came on the back of their award winning design for the Aquatic Centre Homebush at the Sydney Games in 2000. I attended the swimming finals in Beijing with PTW CEO John Bilmon who has become something of a 'rock-star' architect with everyone asking for his photo outside the water cube. Australian designers and architects in general did very well out of the Beijing Olympics, with at least six major Olympic arenas being Australian-designed and many Australians acting as consultants to those designed locally by their Chinese counterparts.

Outside Beijing too, Australian architects such as Bligh Voller Nield, Cox Architects, URS, and Allen Jack + Cottier, Tim Court & Co designed the sailing base in Qiangdao, the stadium in Tianjin and the Hong Kong Equestrian Centre. Australia has also made a major contribution to high-profile symbols of the Games. For example, BHP Billiton provided the ores in the medals, Bluescope Steel provided materials for the Olympic Torch, and the Torch relay was organised by Australian company, Maxxam International, led by their energetic managing director Di Henry. And, behind the scenes, Australian exporters, large and small, helped China put on the greatest show on earth. For example, the lighting control systems in the hotels and the Olympic venues were manufactured by Sydney company Dyalite led by the irrepressible Jimmy Du, the

smoke alarm systems by Xtralis, the artificial turf in the hockey field was engineered by Sports Technology International and Argus provided the mobile phone antennas in the bird's nest stadium. Logistics were organised by Linfox and Smart Trans, and companies like Biograde and Roaring 40s helped Beijing with the environmental aspects of the Games. In addition, companies like Great Big Events

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and Major Event Planning assisted with the Games' event management and sports marketing.

These two major international sporting events — the 2020 Indian Premier League (IPL) series and the Beijing Olympics — symbolise the confidence of India and China on the world stage and how important both nations have become in the Australian consciousness. But do they reflect China and India's engagement with Australia in terms of trade and investment? On first glance they do. In fact, Australia's recent economic success can almost be summed up in two words — China and India (sometimes referred to as one word — 'Chindia'). The economic expansion of these two emerging economic superpowers in Asia has fuelled demand for Australia's vast mineral resources and the services we build around our key commodity exports.

Growing trade with China and India

According to new research just released by the Reserve Bank of Australia (RBA), in 1999 China and India accounted for just under 6 per cent of Australian exports while in 2007 'Chindia' accounted for 18 per cent (with Japan on 16 per cent and 'other East Asia' on 16.7 per cent). China is now our 2nd most important export destination (up from 7th

place in 1999) and India is now the new number 7 (up from 13th spot eight years ago). Over this period, the average annual growth rate of Australian exports was 24.8 per cent for China and 24.7 per cent for India.

Chindia's dash up the charts has, of course, been partly due to high commodity prices — particularly in key sectors like coal and iron ore. In fact, according to the RBA, the growth in Australia's export volumes (taking out price effects) has been relatively subdued in the 2000s growing at an average annual rate of 2.4 per cent compared to 8 per cent for the 1990s. Much of the growth in exports is price-driven, and supply-side or 'capacity' constraints — such as infrastructure 'bottlenecks' and labour shortages — have been holding volumes down. However, Australia is not Robinson Crusoe in this regard as infrastructure and logistics difficulties and skilled labour

shortages are considered to be a global phenomenon as the strength and duration of the world commodity boom has taken many pundits and participants by surprise.

How do Australian exporters see global markets?

So what's the macroeconomic 'big picture'? And, what's happening at the microeconomic level on the ground for Australian export businesses? According to the new DHL Export Barometer, Australian exporters are also looking to China and India for their future success. China and South Asia (mainly India) were in first and second place when exporters were asked where their export orders would come from over the next year. While China has been consistently 'top of the pops', India's ascendancy in terms of Australian exporter sentiment is a new phenomenon. Other high place-getters include our Trans-Tasman neighbour New Zealand, South-East Asia, the Middle East (particularly the UAE) and North America. Despite the sub-prime mortgage crisis in the United States, Australian exporters believe the North American market is a good medium-term prospect. Also, Australian exporters' engagement in China, India, the rest of East Asia and the emerging economies has left Australia with minimal 'northern exposure' from the US credit crunch.

What about the exchange rate?

Earlier this year, exporters were feeling the pinch from the rampaging Australian dollar with two-thirds of all exporters worried about the appreciation of the currency. The high

Aussie dollar — which was hovering around 90 cents for some time — had adversely affected manufacturing, agribusiness and tourism exporters. However, this situation has been reversed spectacularly, more recently, following the turmoil in global financial markets.

Just a case of 'rocks and crops' benefiting?

It's wrong to say that Australia's booming trade relationship with Chindia is all about the resources boom. In a companion piece by the RBA on education exports, the Bank notes that Australia is experiencing a major boom in the export of education services to both China and India. According to the RBA, China and India's combined share of Australia's education exports is now one-third (on 2006–07) compared to just under 9 per cent a decade or so ago (in 1995–96). According to

of the Doha talks at the World Trade Organisation (WTO) in Geneva, when the US and the European Union were said to be close to an agreement, was blamed by some on the emerging economies particularly China and India, who were concerned about an agreement on farm subsidies adversely affecting subsistence agriculture in their respective countries. While the multilateral talks seem to always be a marathon rather than a sprint, the trade focus has now turned to the bilateral arena as nations sign bilateral free trade agreement (FTAs) on the assumption that the chance of a multilateral trade agreement is as dead as a Doha.

FTAs are sometimes controversial as some economists believe that through discriminatory provisions such as 'rules of origin' they create a

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the RBA data, Chindia is making a difference to Australia at the chalk face as well as at the coal face and will do so for a long time yet. This would come as no surprise to anyone who has noticed the strong Chinese and Indian contribution to student numbers on Australia's university campuses.

Of course, on the trade negotiations front, China and India have had a big role to play. The recent collapse

criss-cross 'spaghetti bowl' effect and make trade arrangements worse rather than better in terms of trade 'distortions'. Other economists — notably Melbourne University's Professor Peter Lloyd, one of the world's most eminent trade theorists — argue that in a 'world of second-best', countries have no choice but to sign bilateral trade pacts. In his 'neighbourhood bully' theory, Professor Lloyd says that just as in

the school playground, if you are a smaller or weaker entity you're better off teaming up with a bigger or stronger entity to survive. That's why small economies tend to seek out FTAs with larger economies — with the US playing the classic game of offering FTAs to smaller (usually developing countries) for geo-political advantage.

How do Australian exporters feel about FTAs in their own neighbourhood?

For the most part, according to the DHL Export Barometer, Australian exporters are positive about FTAs, particularly with China and ASEAN. A potential FTA with India has not yet received the same awareness as FTAs with East Asia and the Americas (mainly the USA and Chile), which perhaps is not surprising, as a third of all Australian exporters, sell goods into ASEAN and 4250 businesses sell to China compared to 1994 for India. The number of Australian businesses that export goods to India is around the same as the number that export to UAE. So India is behind the race with China, ASEAN, North-East Asia and the Americans in terms of Australia's exporter destination numbers and interest in FTAs.

In addition, the survey data show that formal trade negotiations perhaps get too much attention in the media relative to how important they are commercially to companies. For example, the DHL Export Barometer shows that nearly two-thirds of exporters say they face no formal barriers at all and that getting assistance in-market in terms of regulation, business culture and business principles, and other

'behind the border' obstacles are more important. This is particularly important in India, where exporters are concerned about regulation full of red tape (a hangover from the 'licence raj' days), and federal–state overlap and, in China where intellectual property and environmental issues are commonplace. Progress will need to be made in-market on all of these issues for Australia's trade and investment relationships with both China and India to widen and deepen.

Back to sport

India may have played a big role in Doha, but at the Beijing Olympics they were nowhere to be seen.

By contrast, China is flexing its muscles in the trading arena and on the track as well. China won a swag of medals across the board in areas where China has traditionally been strong as well as areas where it is a relatively new player. As was demonstrated at the Beijing Olympics, sport is a good way to build trade links, and beyond Beijing 2008 there are two big sporting events for us Australian sports fanatics to focus our minds on.

First is the FIFA football World Cup in South Africa for which the Socceroos are on target to qualify after their successful showing in Germany in 2006. Second is the Commonwealth Games in New Delhi in 2010. New Delhi is building on the expertise gained in Melbourne in 2006, which saw a large number of Indian business visitors in attendance.

Although India didn't win many gold medals in Beijing, let's hope New Delhi is different for Indians on their home turf and that Australian

exporters get their own gold rush in India in years to come. And, if all else fails on the Commonwealth Games front, there's always cricket and the AFL's new launch into India spearheaded by Austrade's own 'centre-half forward', New Delhi Senior Trade Commissioner, Peter Linford. With all this talk of re-location, it's not the Gold Coast or Western Sydney we should focus on; we may see Richmond play pre-season games in India as the Bengal Tigers! Greater engagement with India and China in trade and sport — I'd like to see that! ■

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