

'PERIPHERAL' ASIA

PRESENTATION TO THE INTERNATIONAL
CONFERENCE OF COMMERCIAL BANK ECONOMISTS

9TH JUNE 2020

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY PTY LTD

‘Peripheral Asia’ is Korea, Taiwan, Hong Kong, Singapore, Indonesia, Thailand, the Philippines, Malaysia, Vietnam, Australia, New Zealand and India*

26³/₄% of the world’s population

18% of the world’s GDP (at PPPs)

5¹/₄% of the world’s confirmed Covid-19 cases

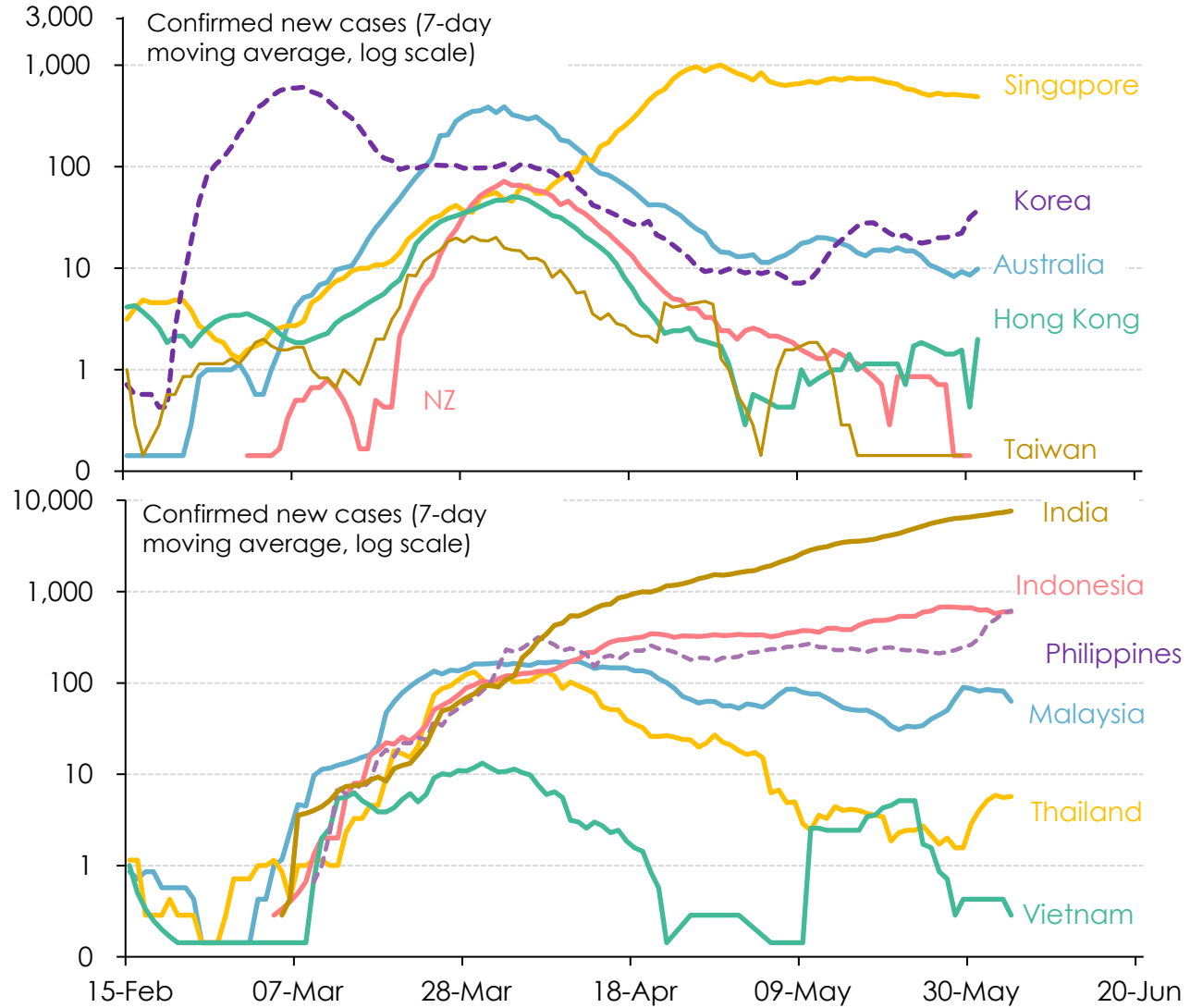
2¹/₂% of the world’s Covid-19 related deaths

(as at 5th June 2020)

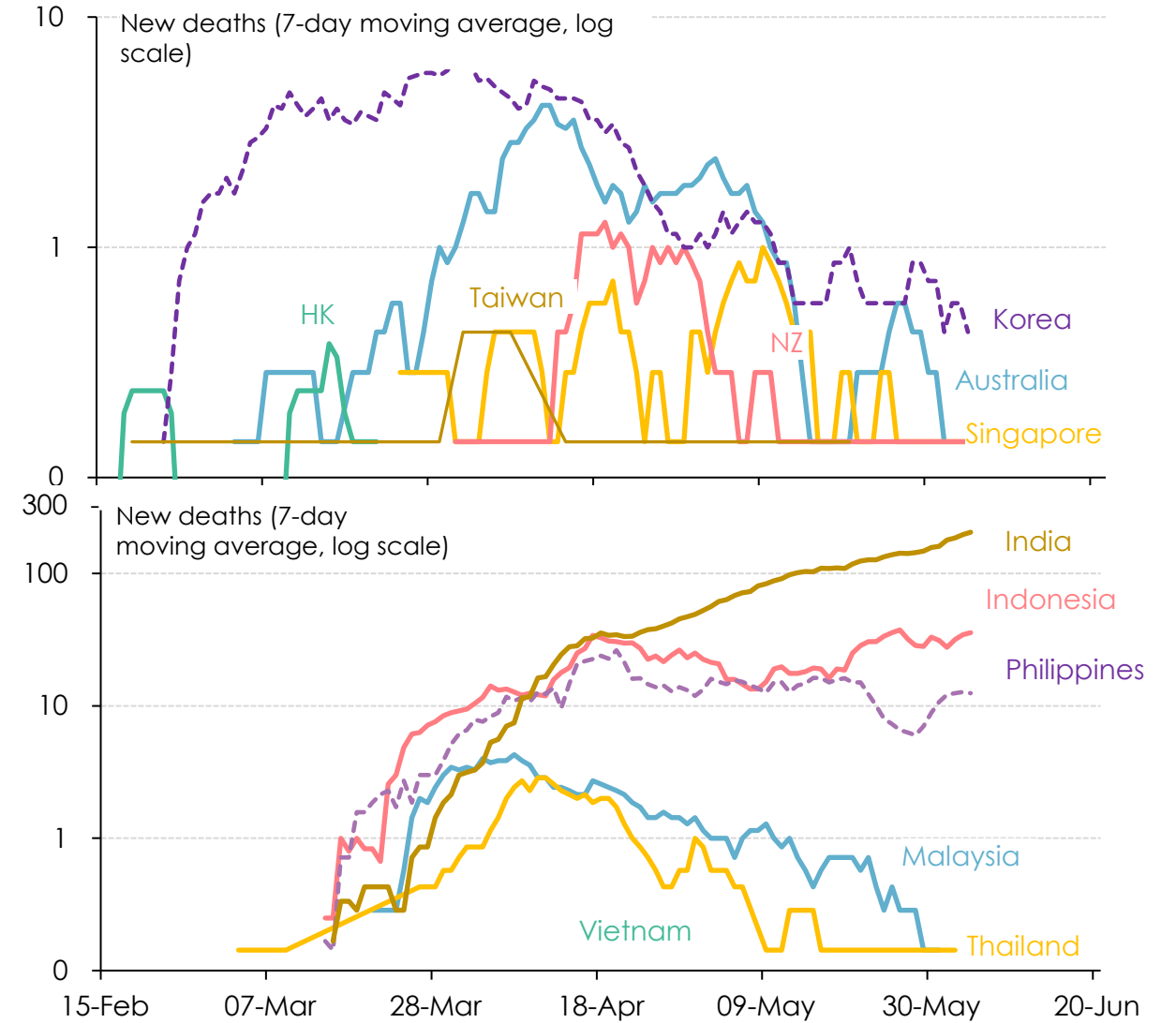
*Apologies to Mongolia, Myanmar, Laos, Cambodia, Bangladesh, Nepal, Bhutan, Brunei Darussalam, Macao & Timor-Leste

The more advanced 'peripheral' Asian economies, and some of the developing ones, have succeeded in 'stopping the spread'

Daily new cases



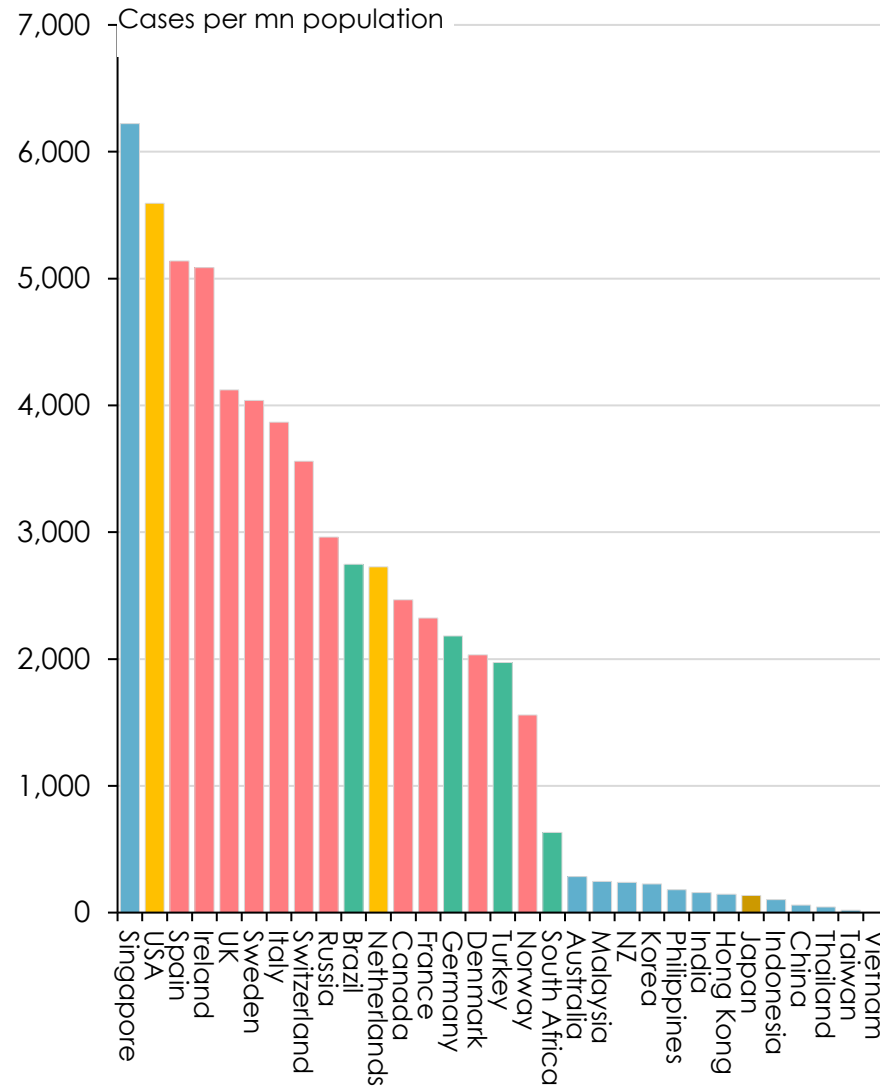
Daily new deaths



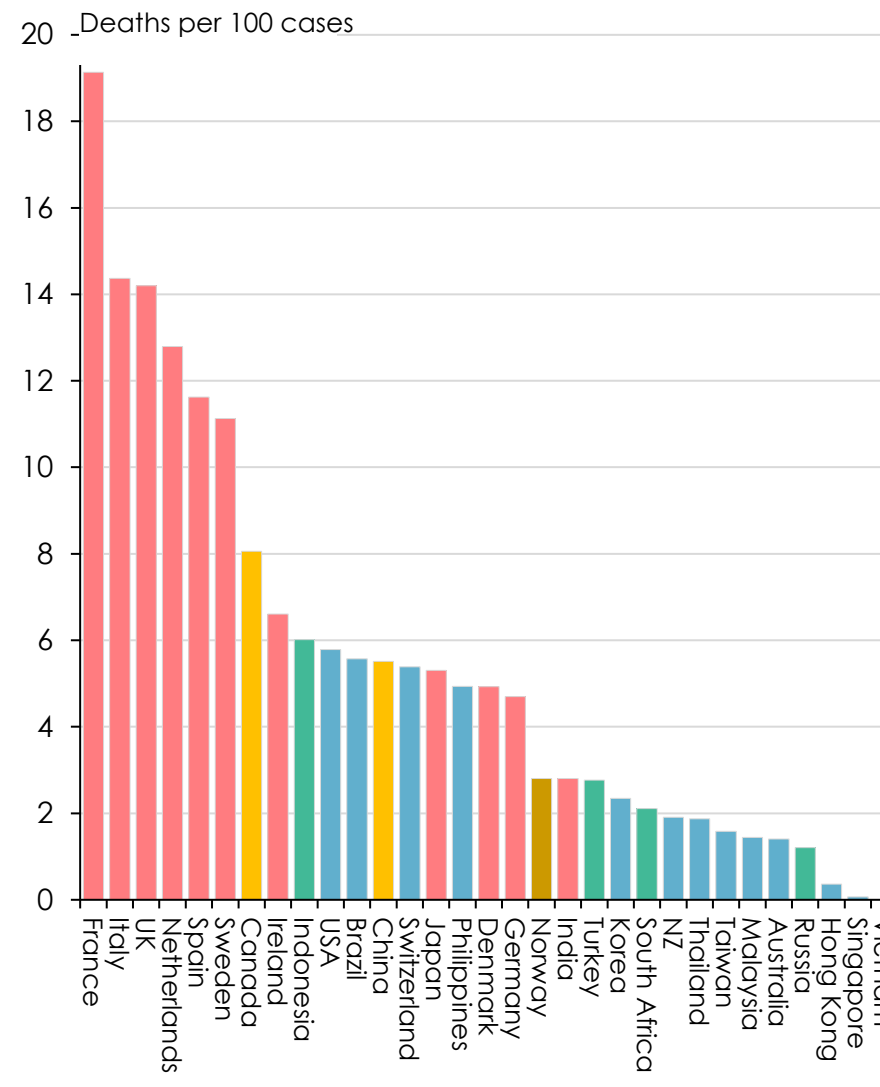
Note: Data up to 4th June. Vietnam has had no reported deaths from Covid-19; Hong Kong none since 13th March; Taiwan none since 12th May.
Source: University of Oxford, Our World in Data.

Death rates from Covid-19 have been uniformly lower in most Asia-Pacific economies than elsewhere in the world

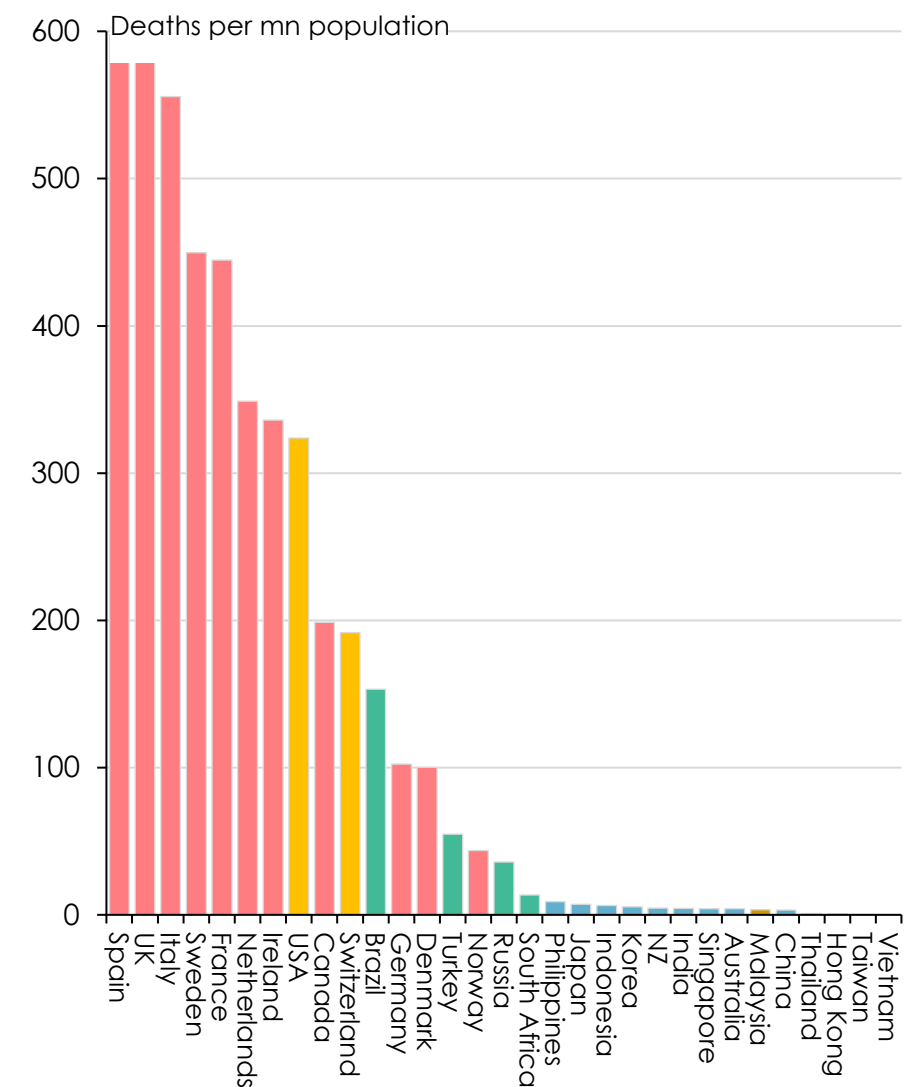
Apparent infection rate



Apparent death rate



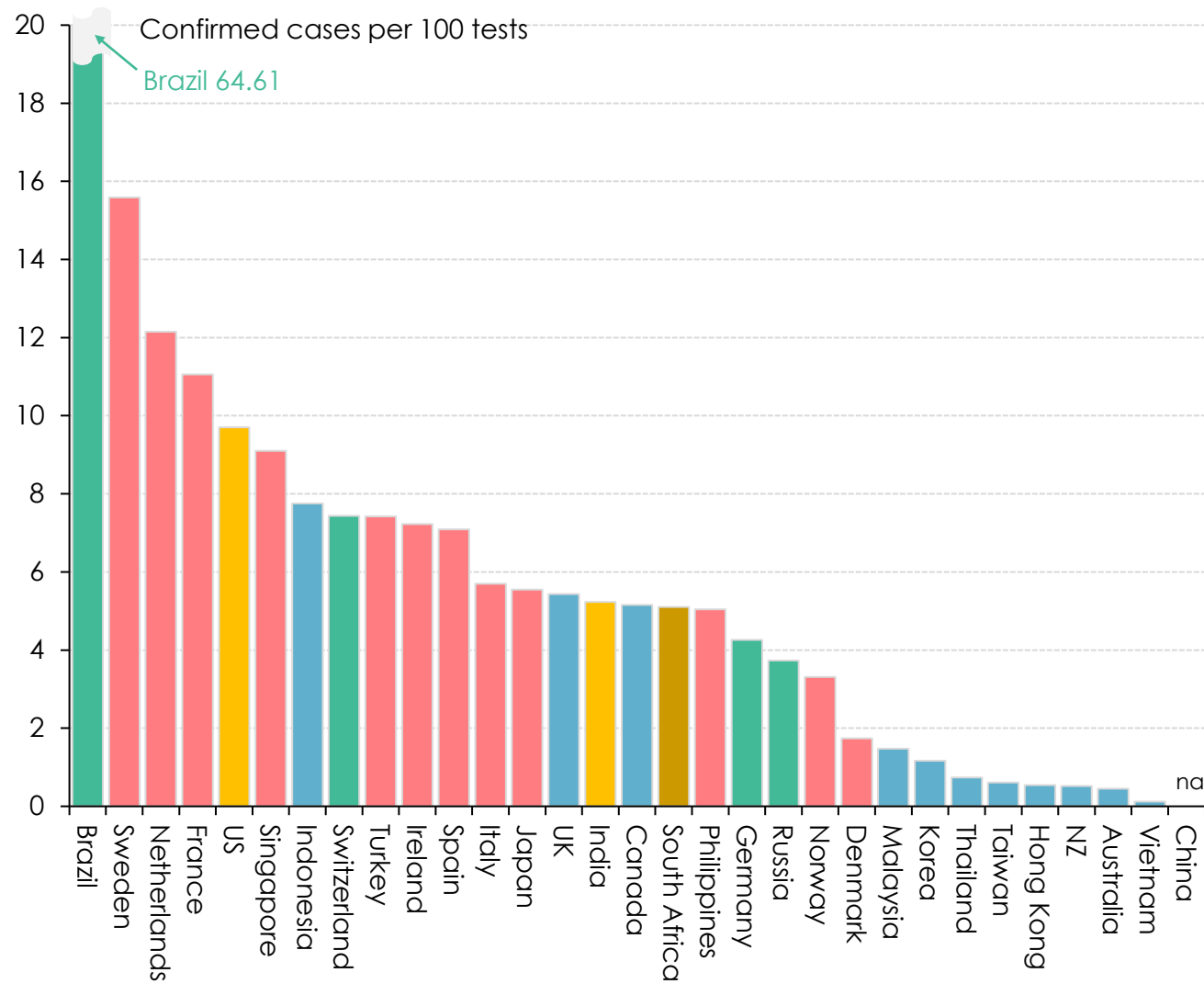
Deaths per mn population



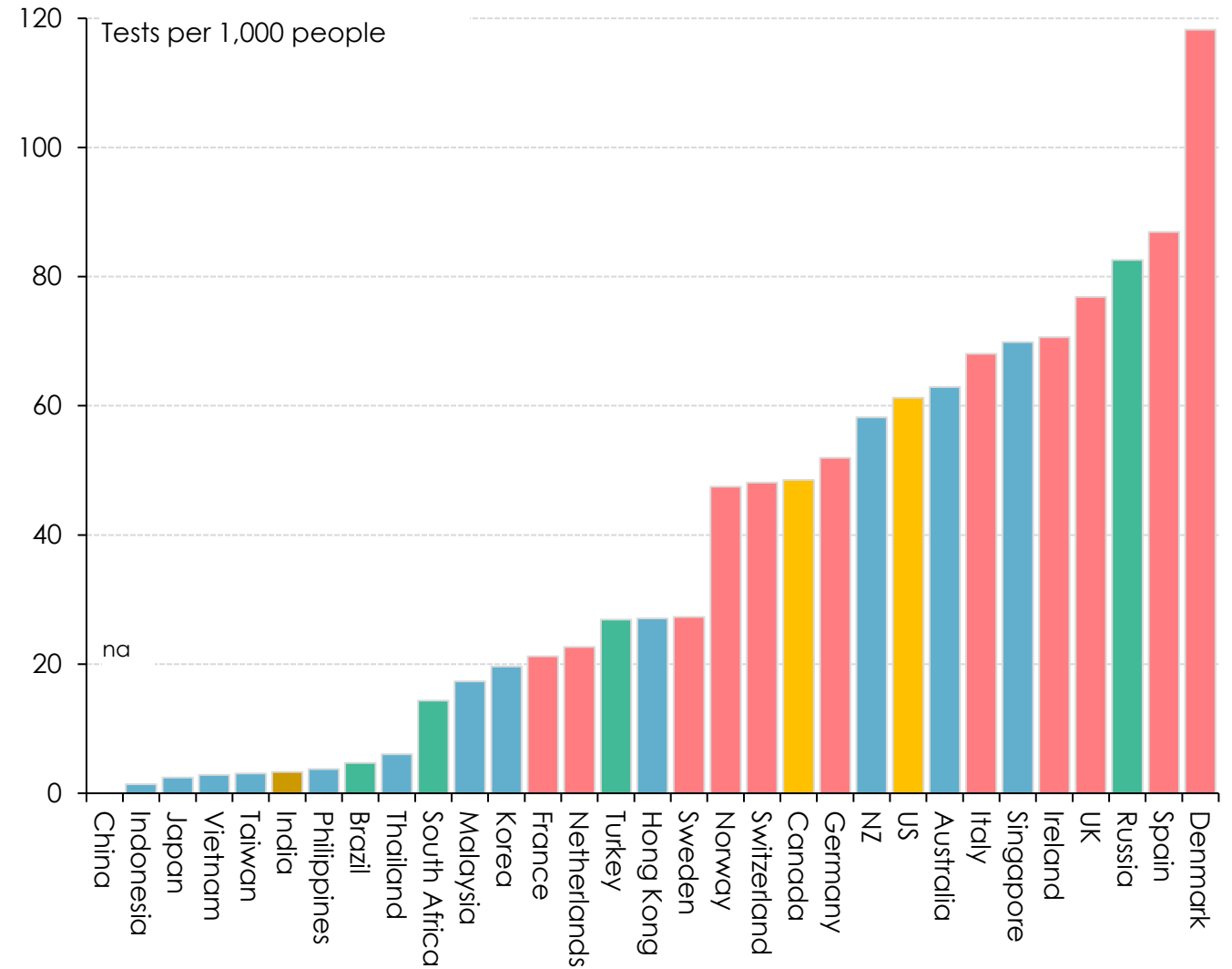
Note: Data up to 4th June (except for Spain, 3rd June. Source: Oxford University, Our World in Data.

Less-developed Asian economies haven't tested as widely as most others

Confirmed cases per 100 tests



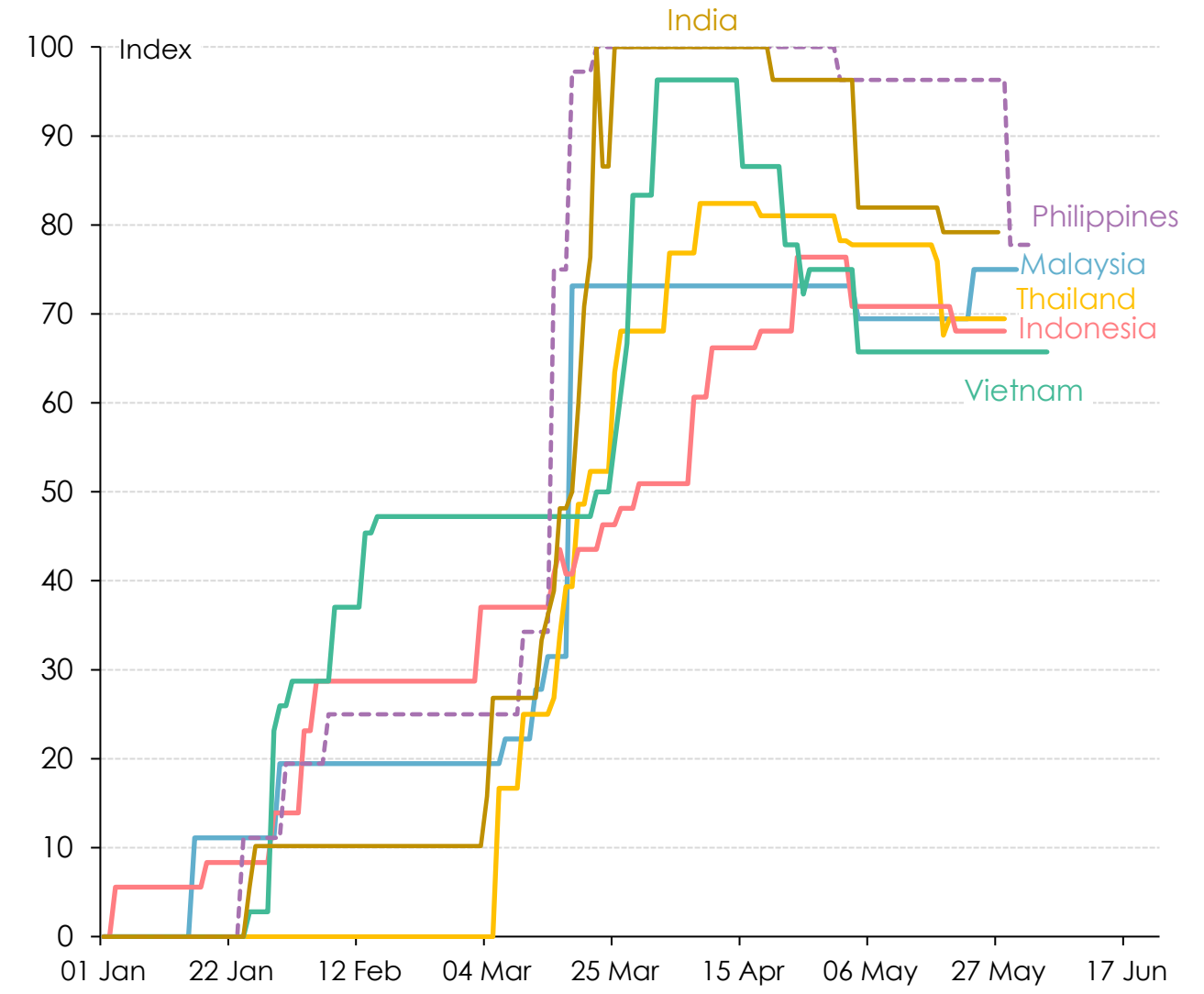
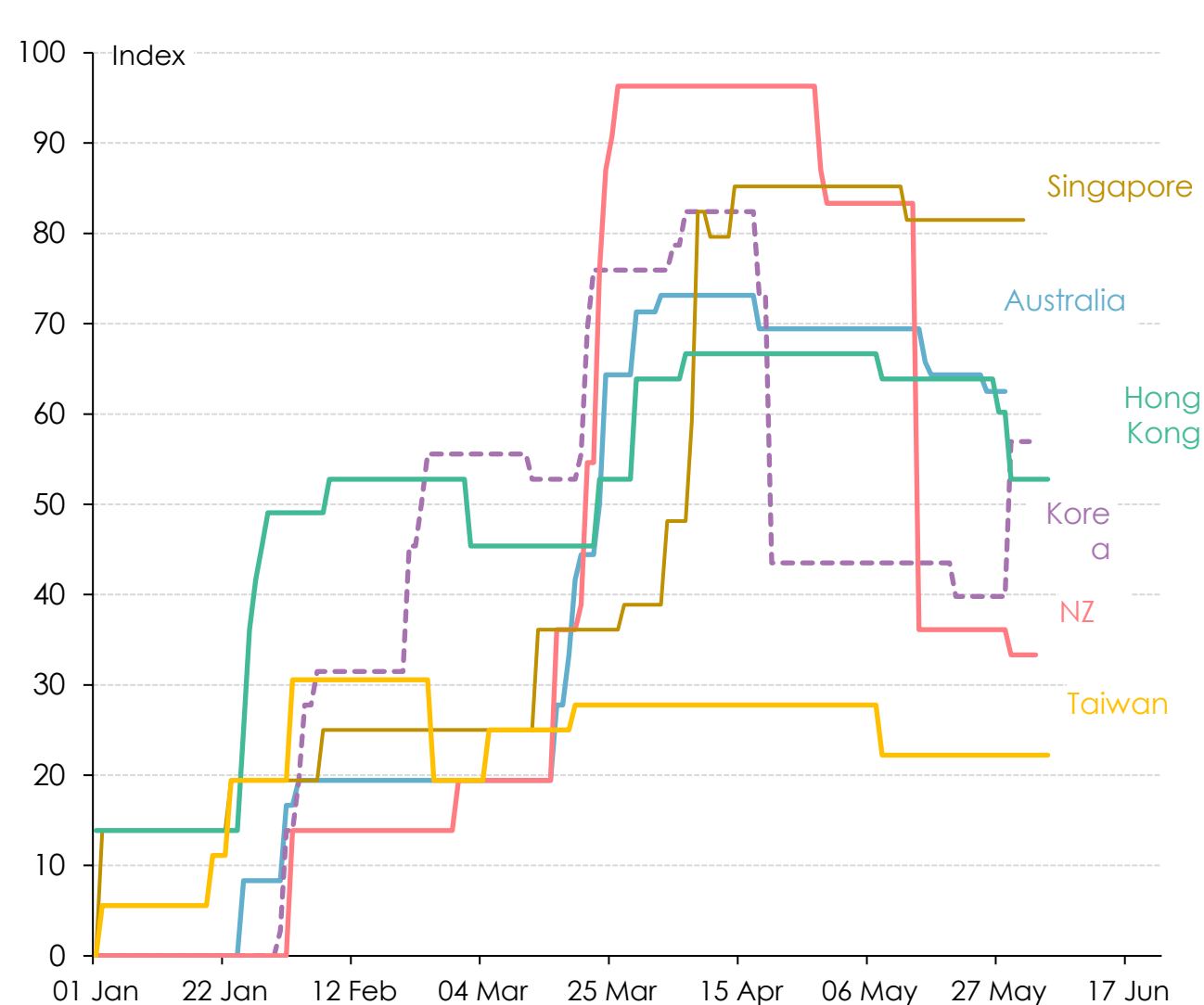
Tests per thousand of population



Note: Data up to 5th June. Source: Worldometers. Data on testing in China is not available

Most East Asian economies started imposing restrictions early, while some (India, NZ, Philippines & Vietnam) were especially strict

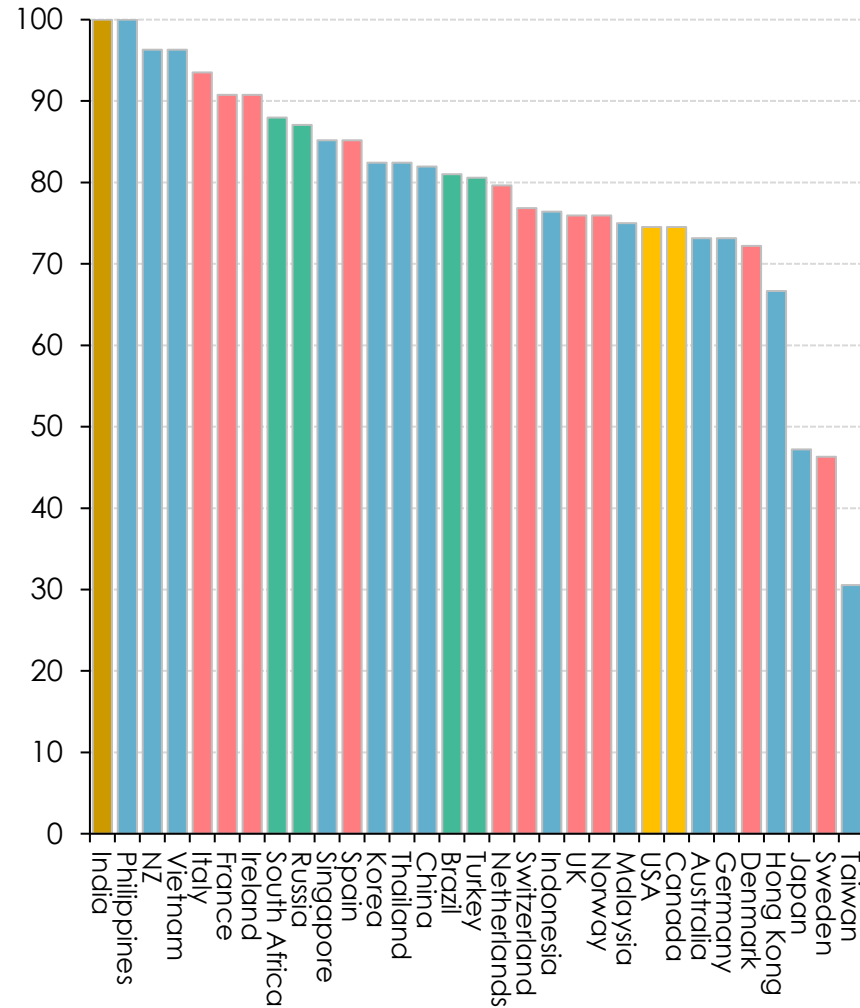
Timing and severity of government restrictions on movement and gathering of people



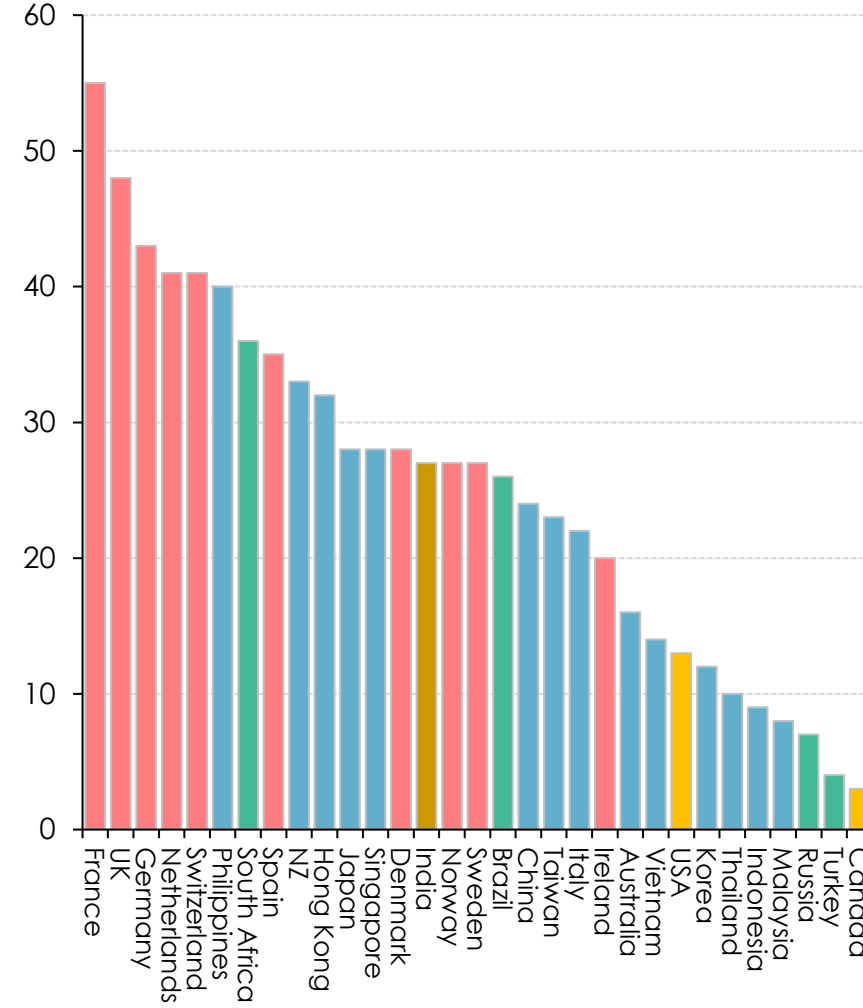
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: Blavatnik School of Government, Oxford University. Data up to 31st May – 4th June

Asia-Pacific economies' success in 'stopping the spread' not necessarily the result of more stringent social distancing measures

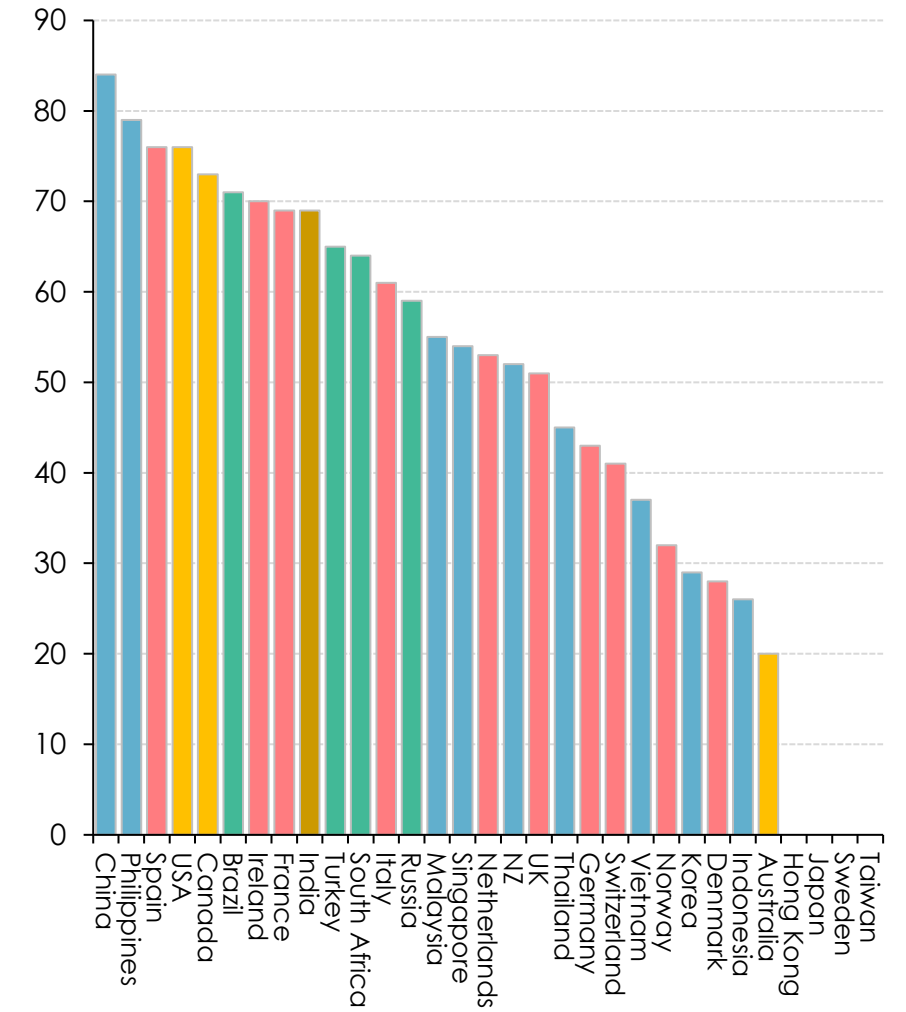
Highest level of restrictions imposed



Number of days restrictions at highest level



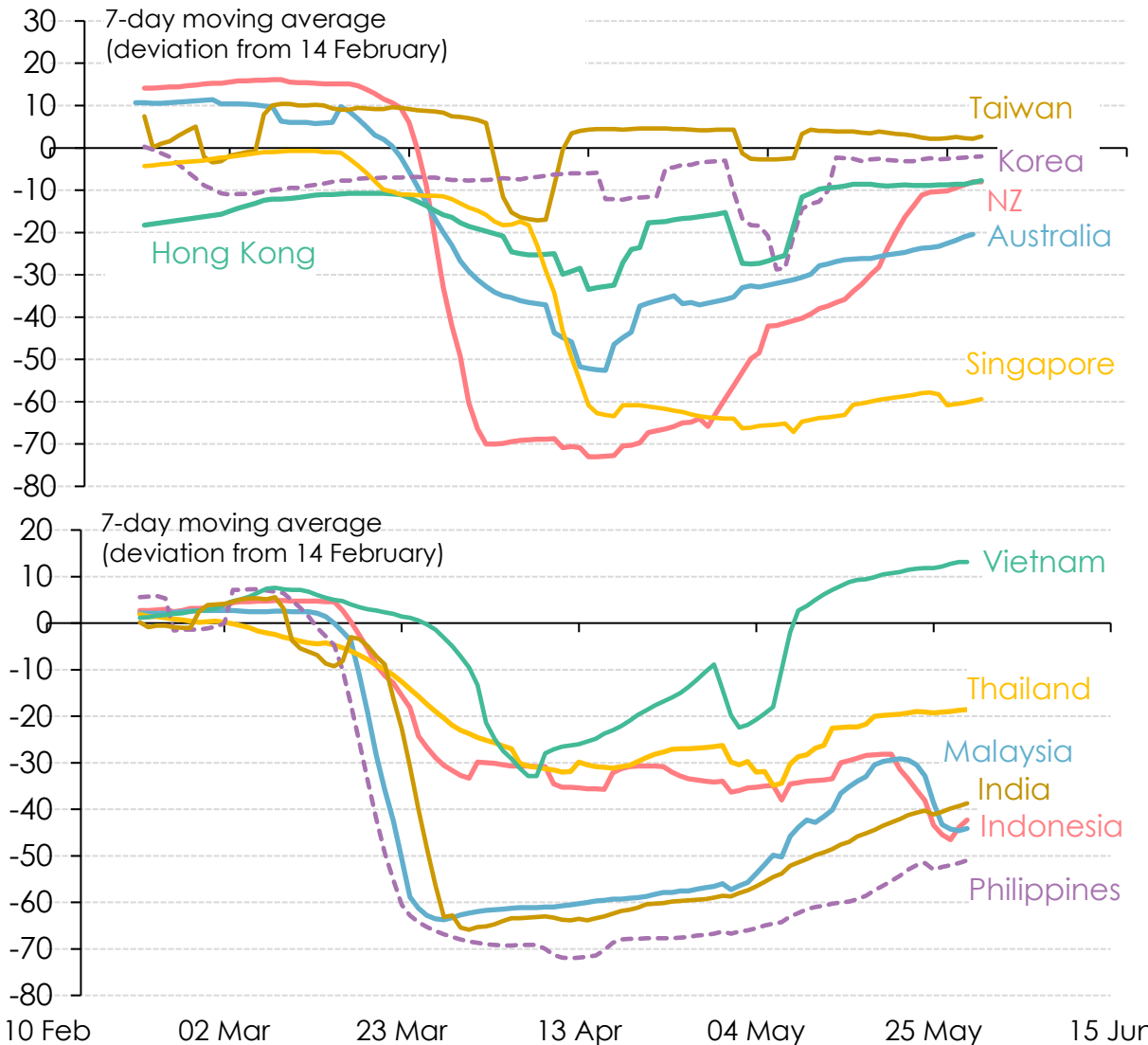
Number of days restrictions above 70 on Oxford index



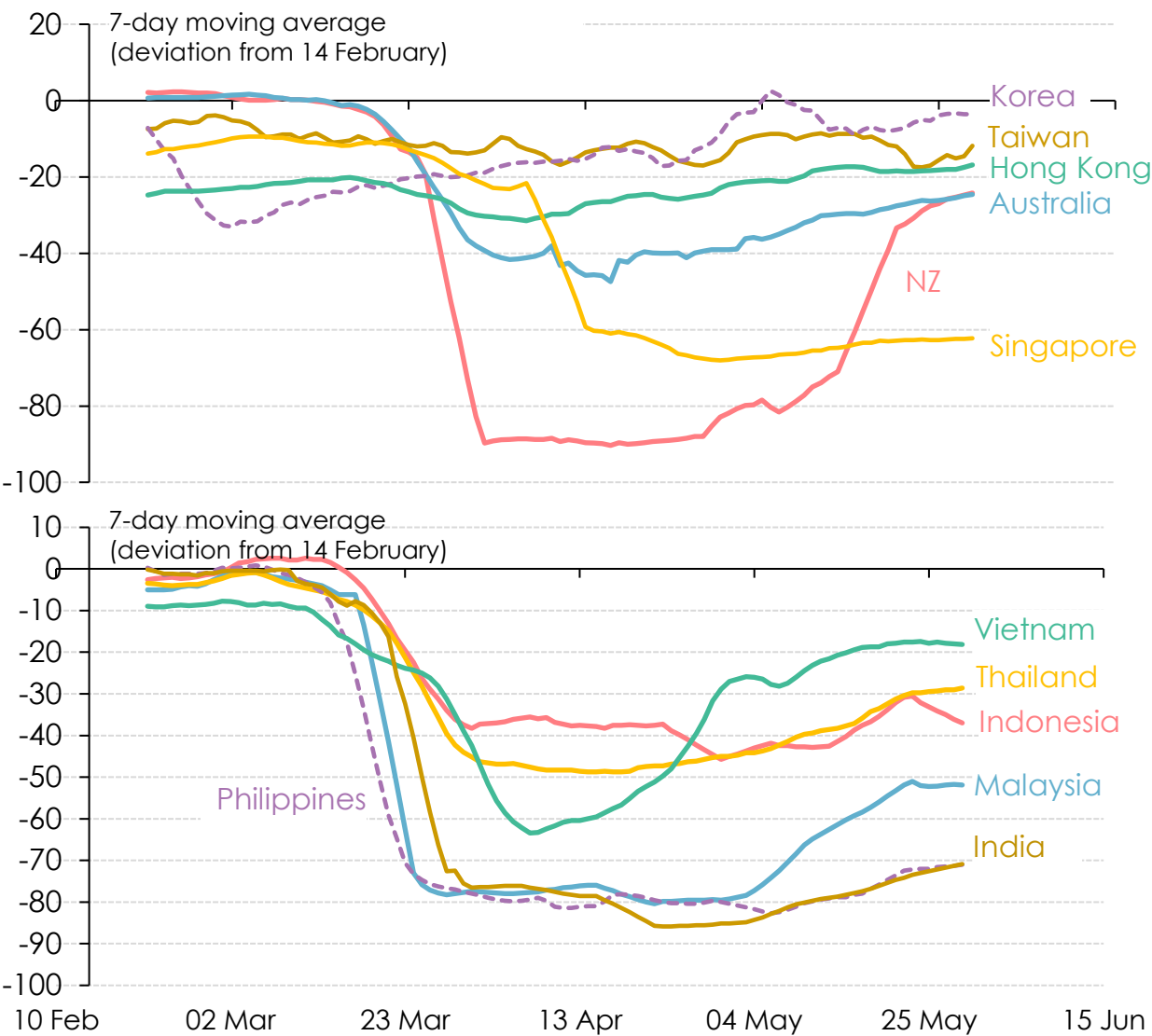
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: Blavatnik School of Government, Oxford University. Data up to 31st May – 4th June.

Mobility data also highlight differences in the severity of (or compliance with) restrictions and the more recent pace of relaxation of restrictions

Time spent at work



Time spent on retail and recreation



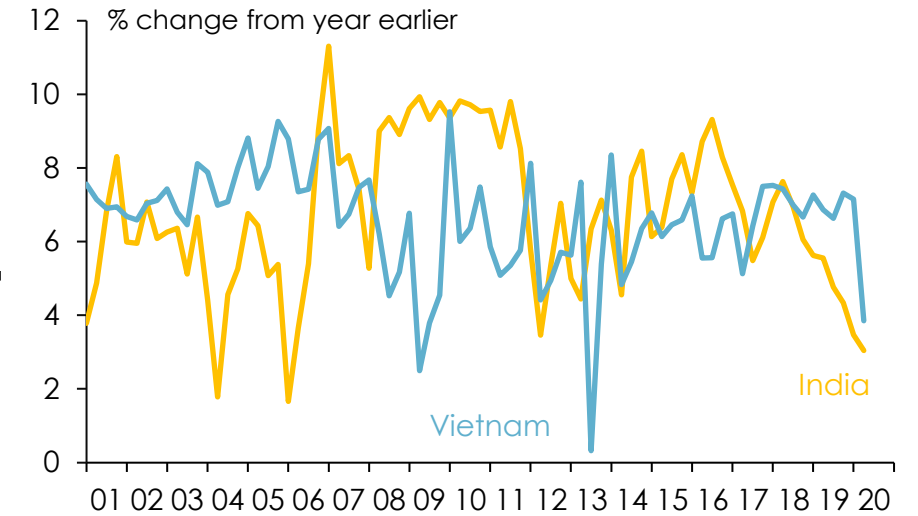
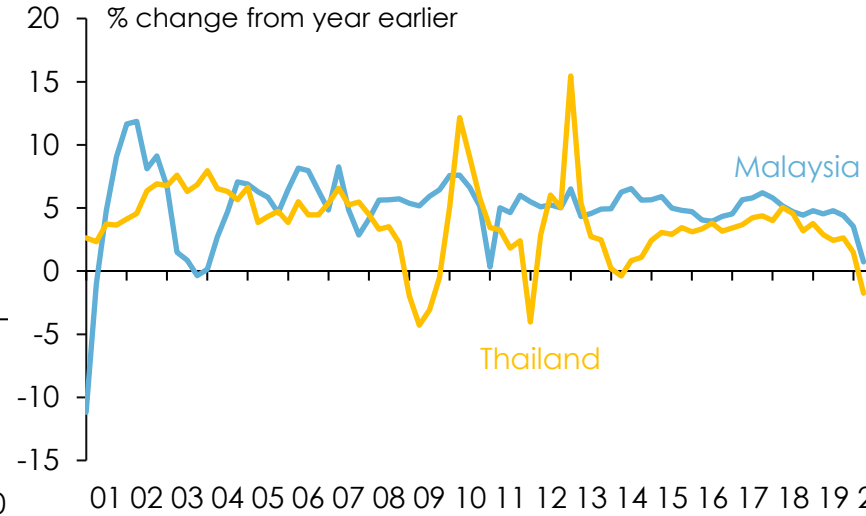
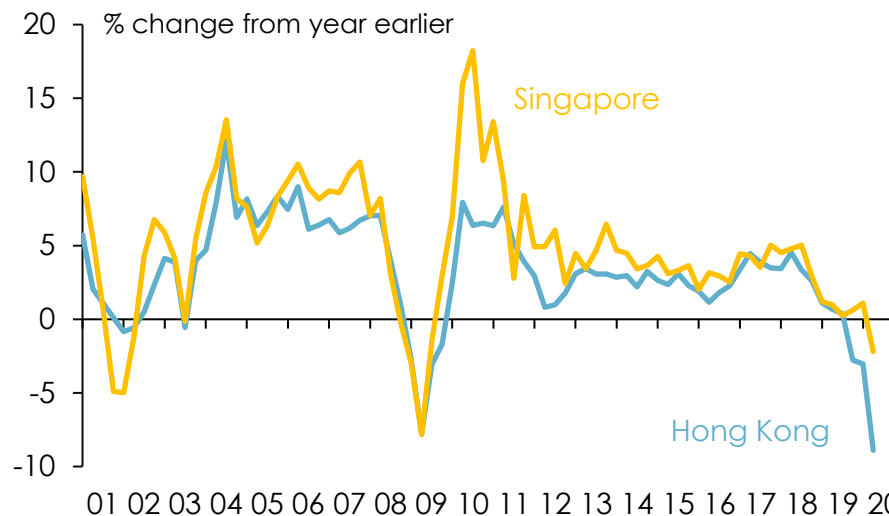
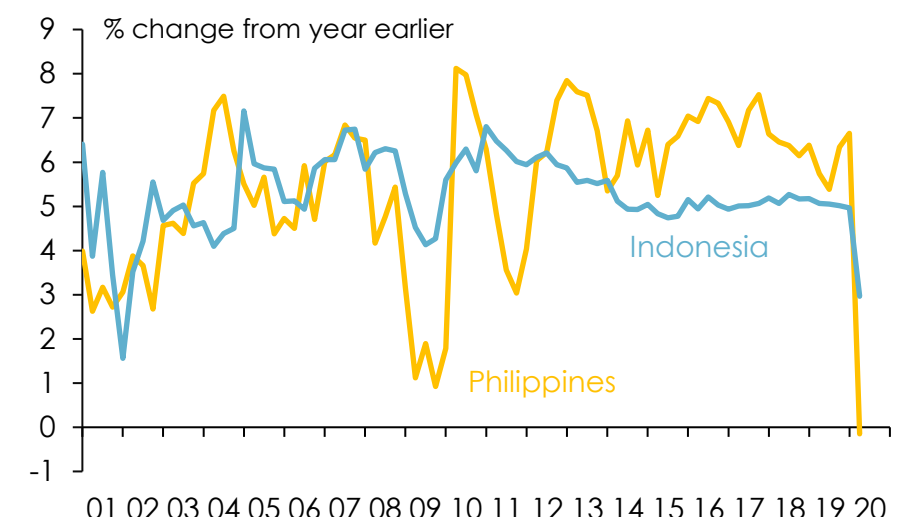
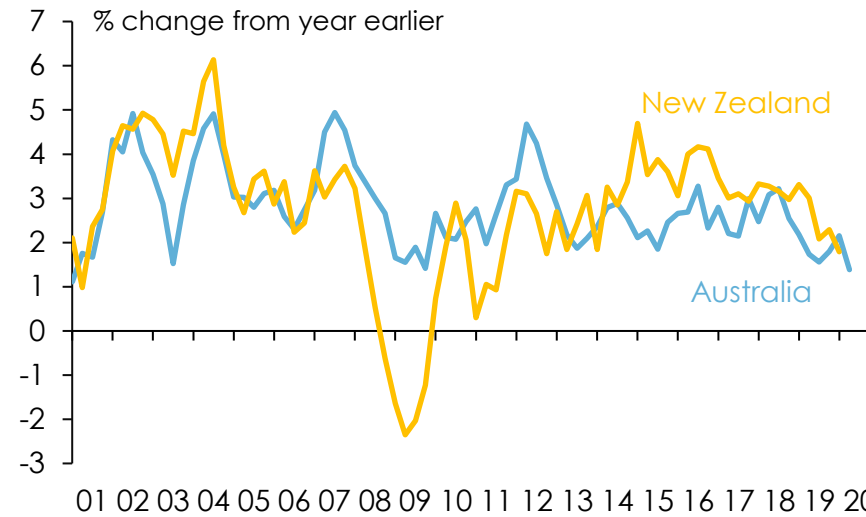
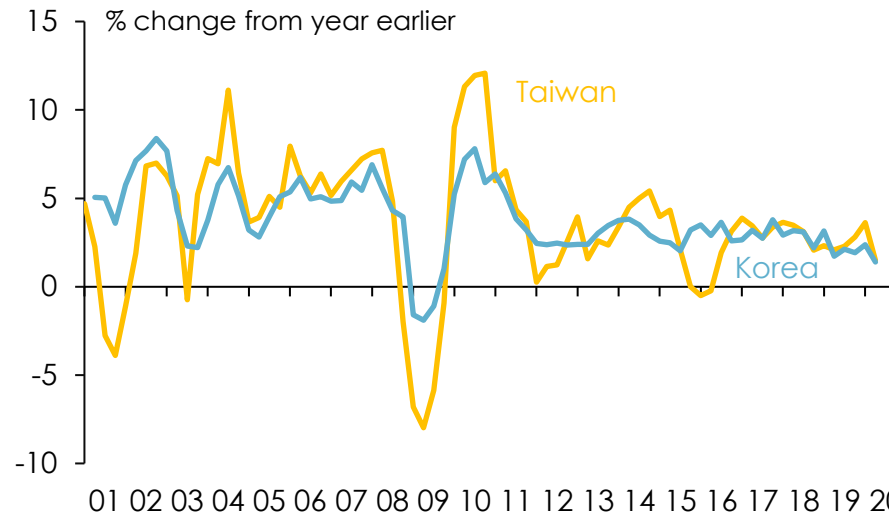
Source: Google Covid-19 Community Mobility Reports (data up to 29th May).

So what worked in Asia-Pacific economies?

- ❑ Countries with prior experience of dealing with SARS (2004) and MERS (2009) applied the lessons from those episodes
- ❑ Most Asian governments acted quickly, once a small number of cases were confirmed, and followed the advice of public health experts and epidemiologists (cf. US and UK in particular)
 - Taiwan and HK in particular were very quick to close borders to arrivals from China
 - Taiwan's vice-president at the time of the outbreak was a trained epidemiologist and had been Health Minister during the SARS outbreak
- ❑ Wearing masks has long been common in most Asian countries
- ❑ There was a high level of compliance with government restrictions on the movement and gathering of people
- ❑ South Korea, Taiwan and Singapore used extensive 'contact tracing' to quickly identify and quarantine people who had been in contact with those who displayed symptoms or tested positive
 - All three integrated national health insurance, immigration and customs databases to assist in containing imported transmissions
- ❑ Vietnam closed borders quickly, imposed mandatory quarantines, and made extensive use of mass surveillance and informants
- ❑ Australia and New Zealand were probably aided by their relative isolation, more dispersed populations (although both are highly urbanized), relatively younger age profile, and reverse seasonality (ie the early stages of the outbreak occurred during their summers)
 - but both also benefited from acting promptly in response to expert advice, and from high levels of compliance with restrictions
 - Australia achieved similar epidemiological outcomes with less severe restrictions than New Zealand
- ❑ Poorer economies (India, Indonesia, Philippines) can't afford widespread testing, don't employ mass surveillance, have poorly developed health care systems) have had more difficulty containing the spread of the virus

Economic growth slowed, in some cases sharply, across 'peripheral Asia' during the first quarter of 2020, with worse to come in the second quarter

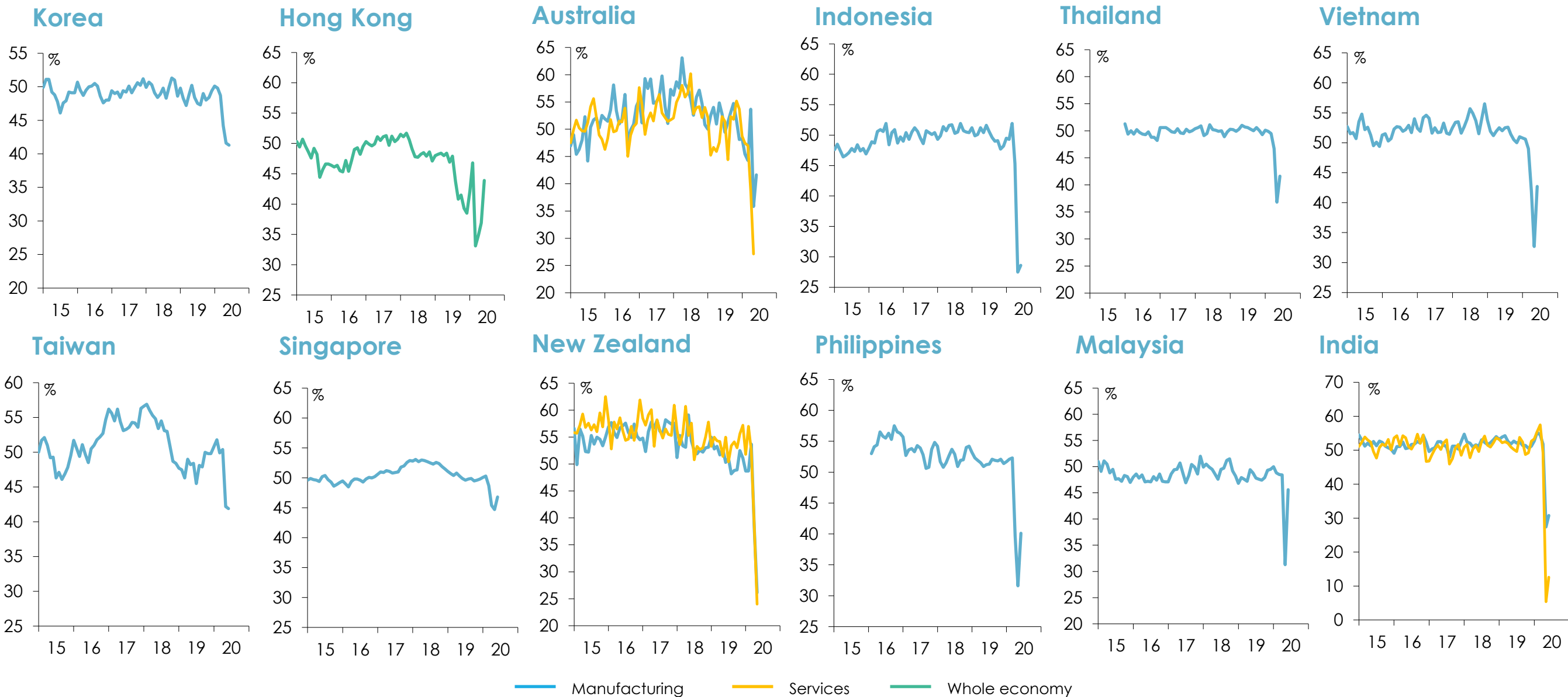
Real GDP growth



Note: New Zealand is the slowest 'advanced' economy in the world to produce national accounts estimates: its Q1 GDP data won't be released until 18th June.

Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Department of Statistics; Australian Bureau of Statistics; Statistics New Zealand; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation.

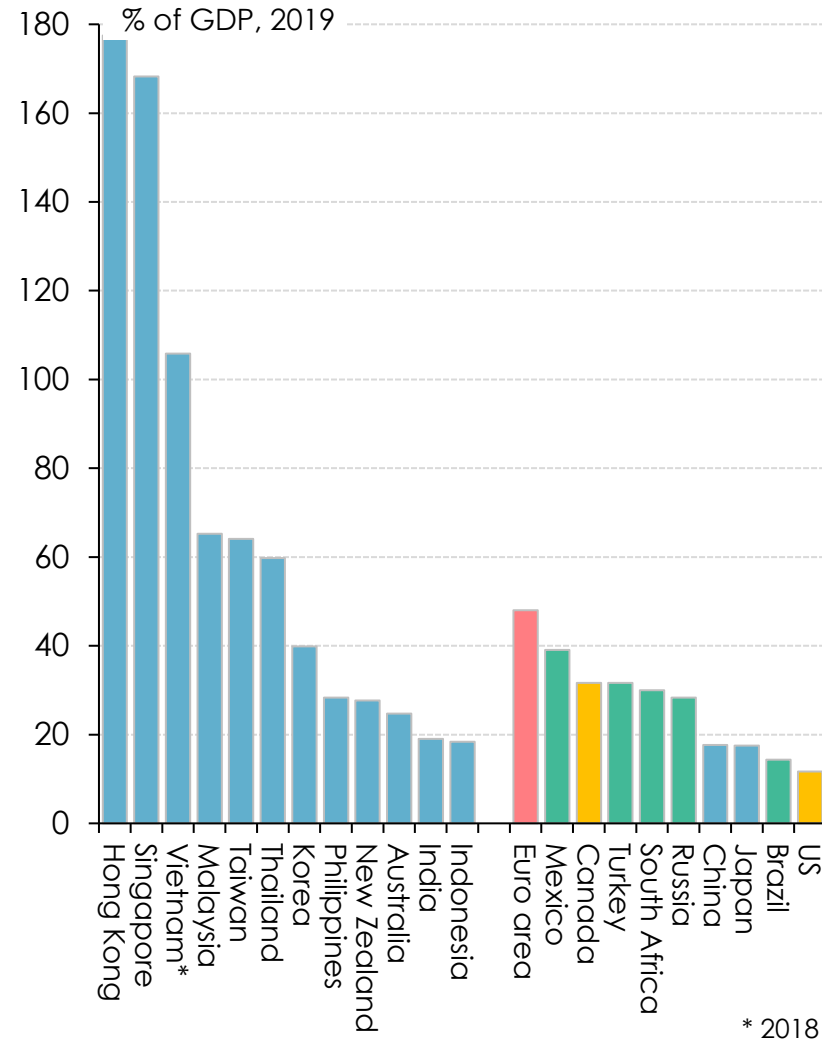
Purchasing managers' indices indicate activity bottomed in April, after sharper declines in SE Asia, India, Australia & NZ than Korea or Taiwan



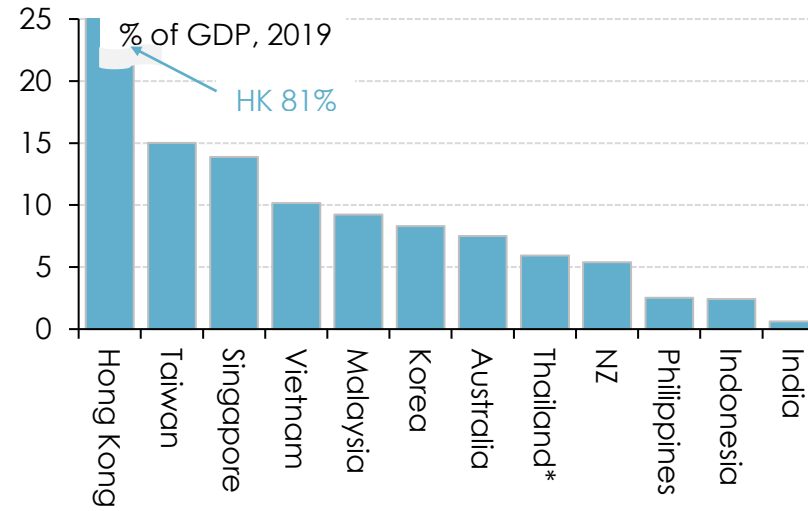
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for May, except for New Zealand which is April. Sources: IHS Markit; Singapore Institute of Purchasing & Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream.

Success in quelling Covid-19 doesn't guarantee a fast economic recovery: most Asian economies are very exposed to the global economy ...

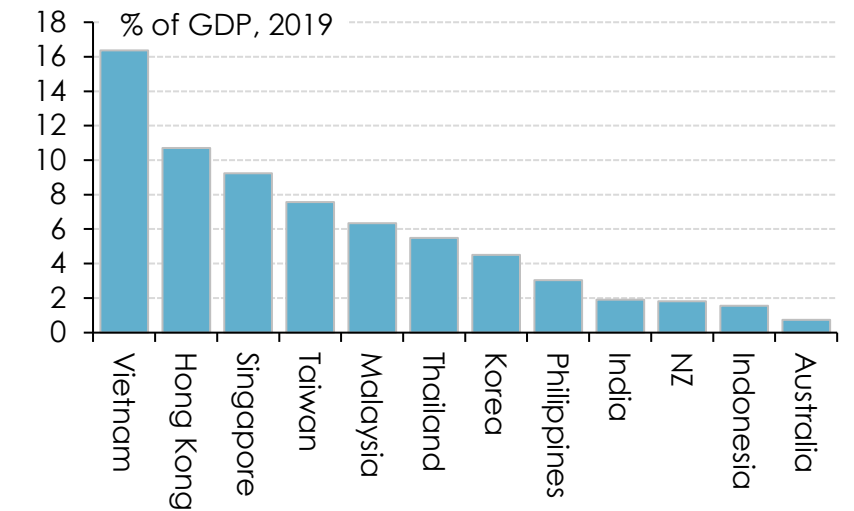
Exports of goods & services as a pc of GDP



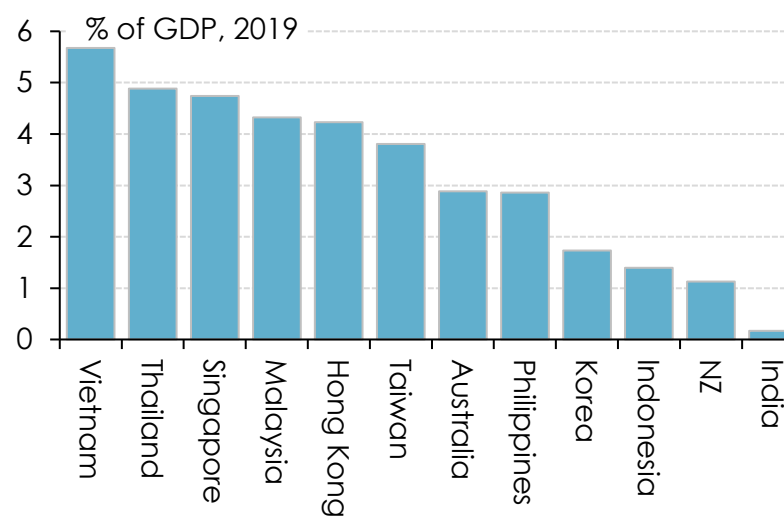
Merchandise exports to China



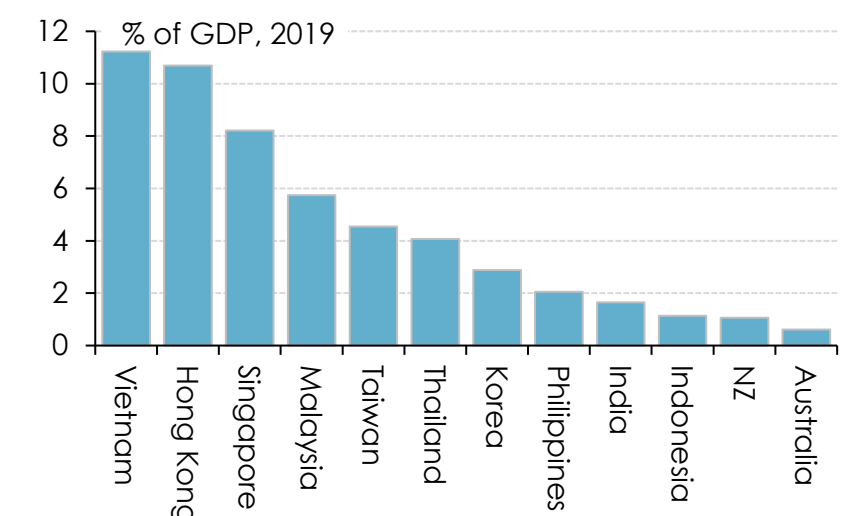
Merchandise exports to the US



Merchandise exports to Japan



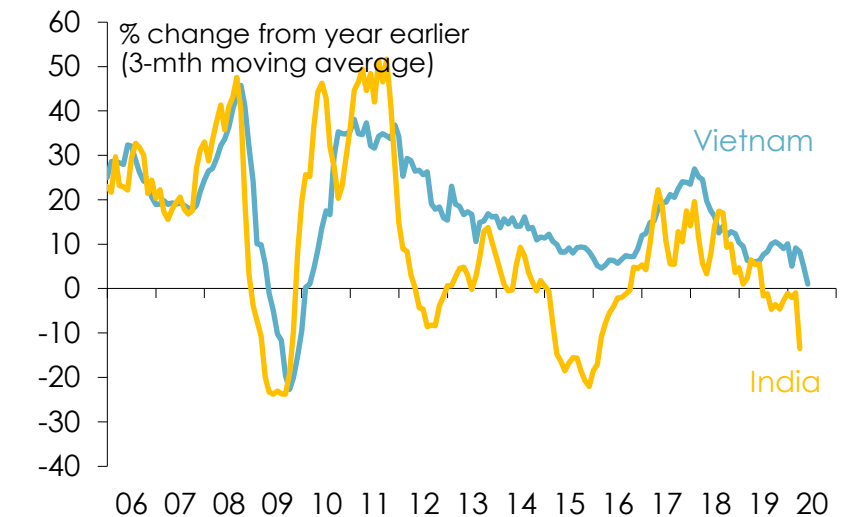
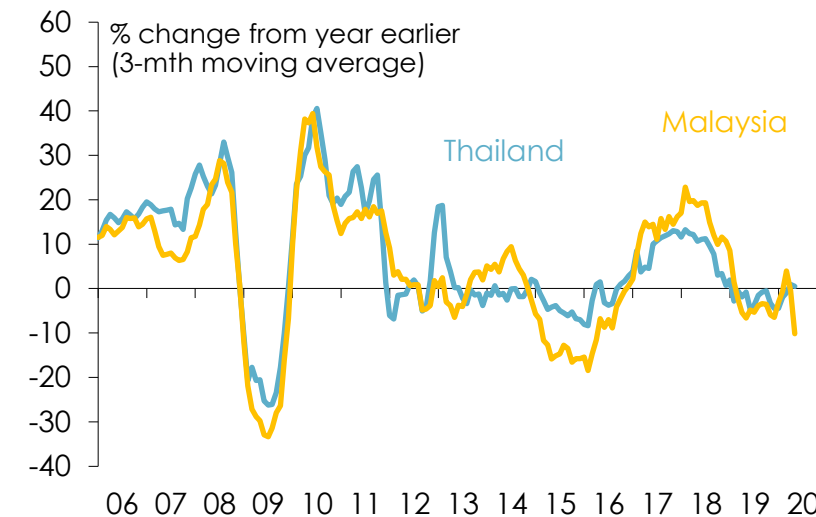
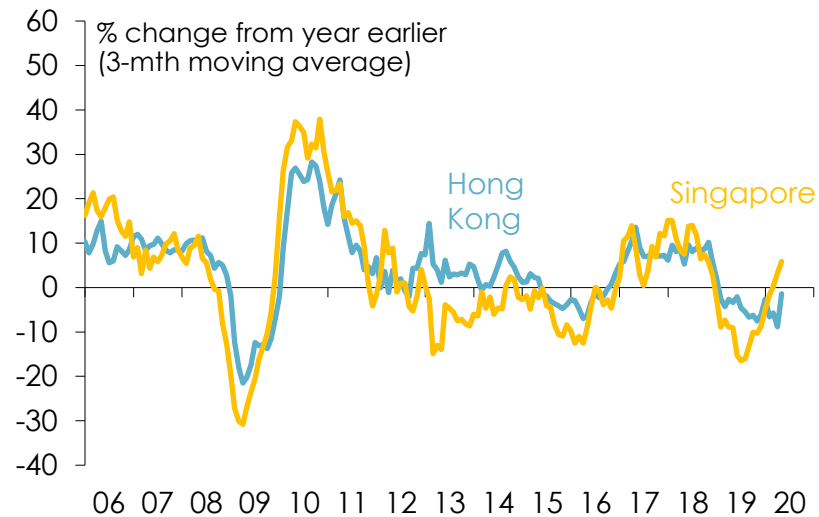
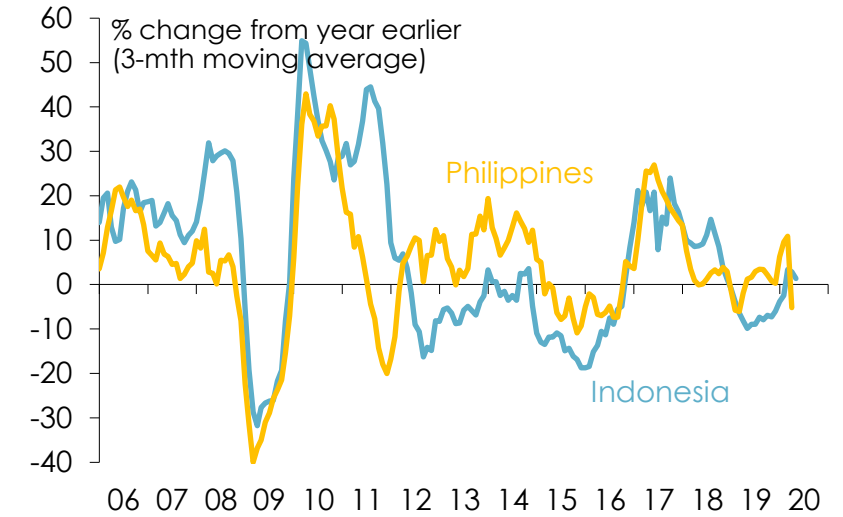
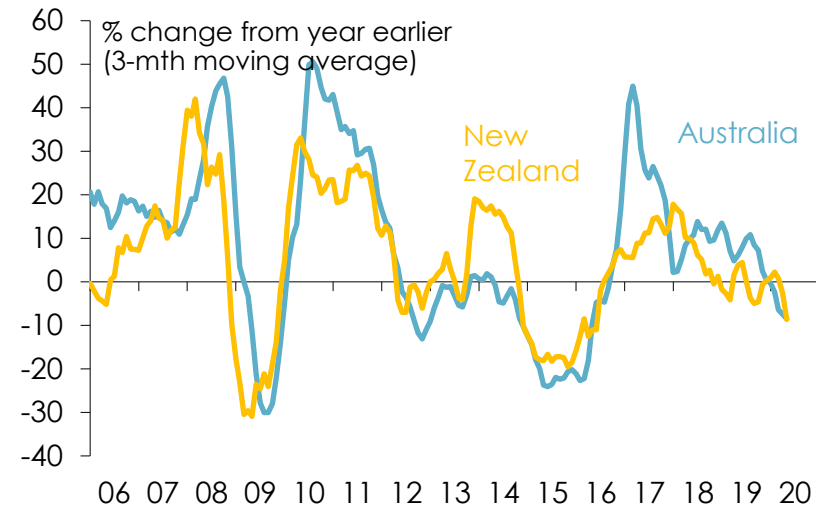
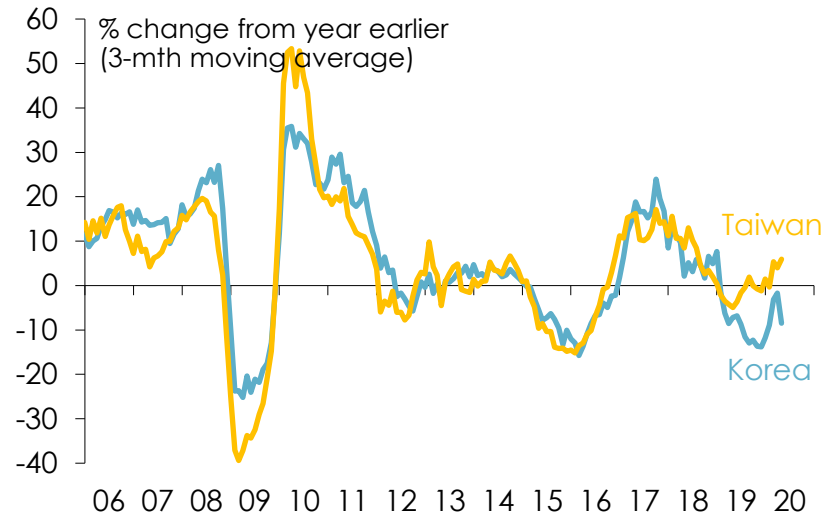
Merchandise exports to the EU



Sources: Statistical agencies listed in footnote to slide 9, and IMF, *Direction of Trade Statistics*.

... though up to March-April, 'peripheral' Asian exports had held up better than during the global financial crisis, or the 'trade recession' of 2015-16

Merchandise exports

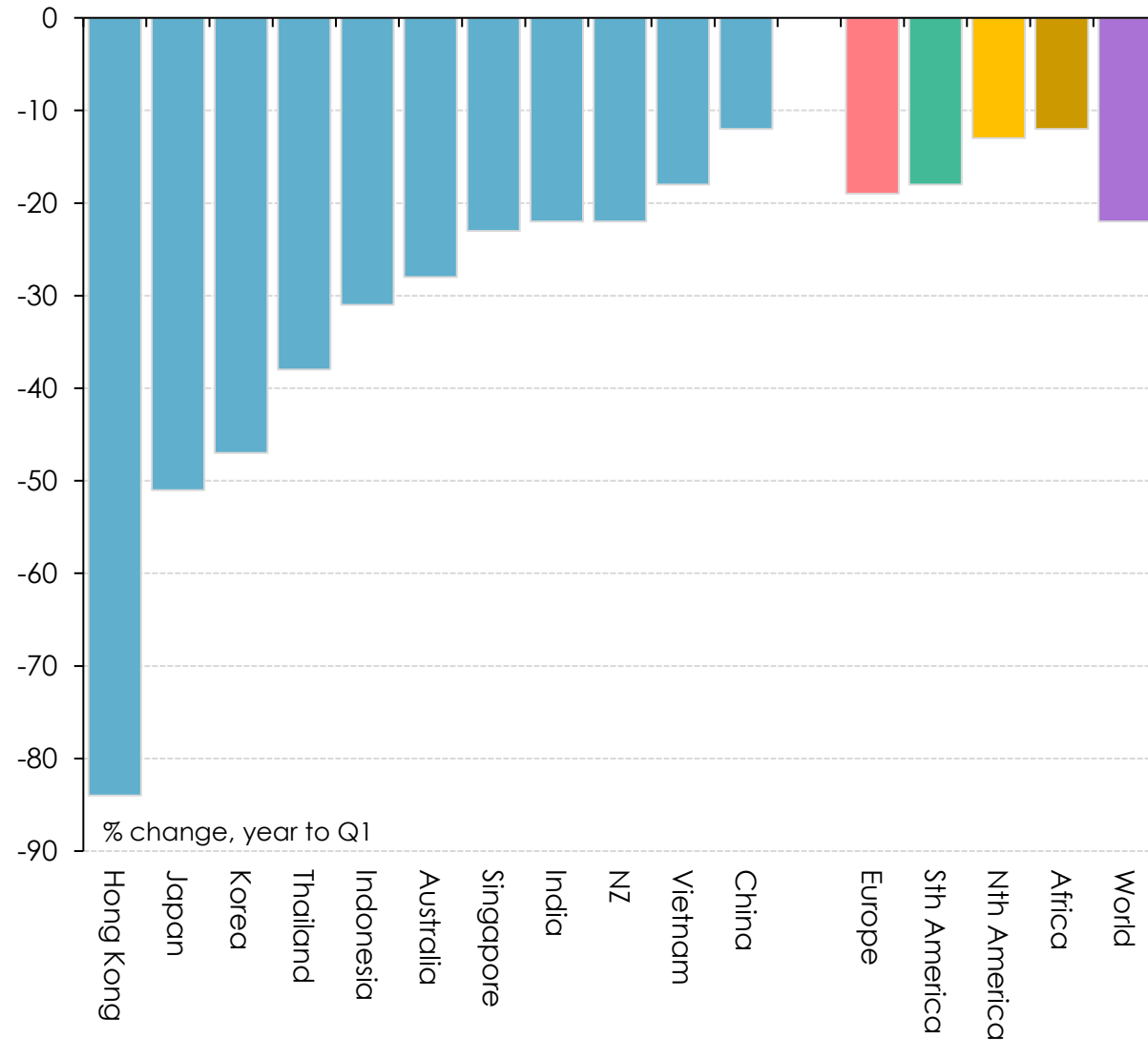


Note: all data in US\$ (for Singapore, Hong Kong, Australia and New Zealand converted from national currencies using month-average exchange rates).

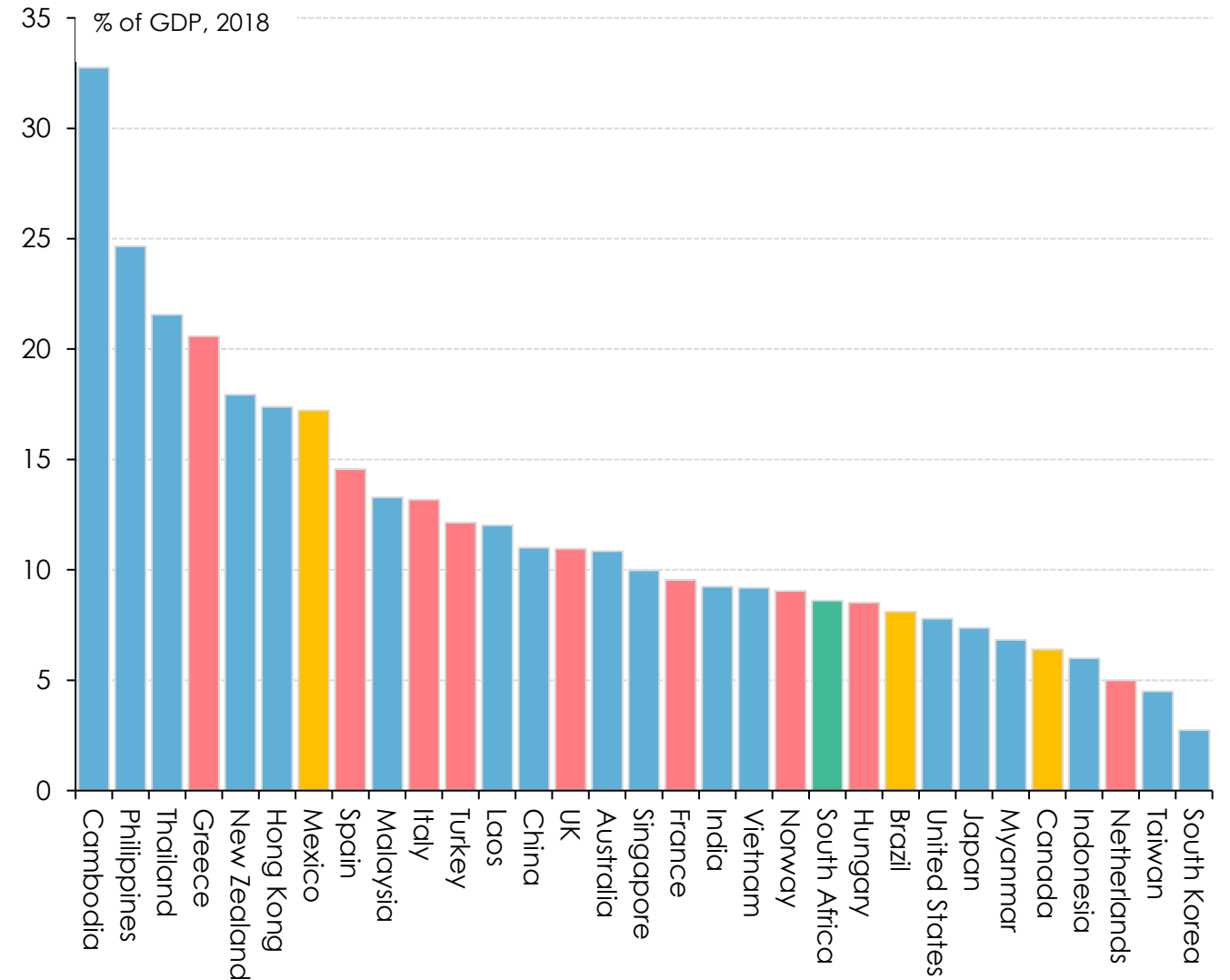
Sources: Bank of Korea; Taiwan Foreign Trade Bureau; Hong Kong Census & Statistics Department; Singapore Department of Statistics; Australian Bureau of Statistics; Statistics New Zealand; Department of Statistics Malaysia; Thailand Ministry of Commerce; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation.

Most 'peripheral Asian' economies are also vulnerable to a prolonged downturn in tourism

International visitor arrivals, Q1 2020



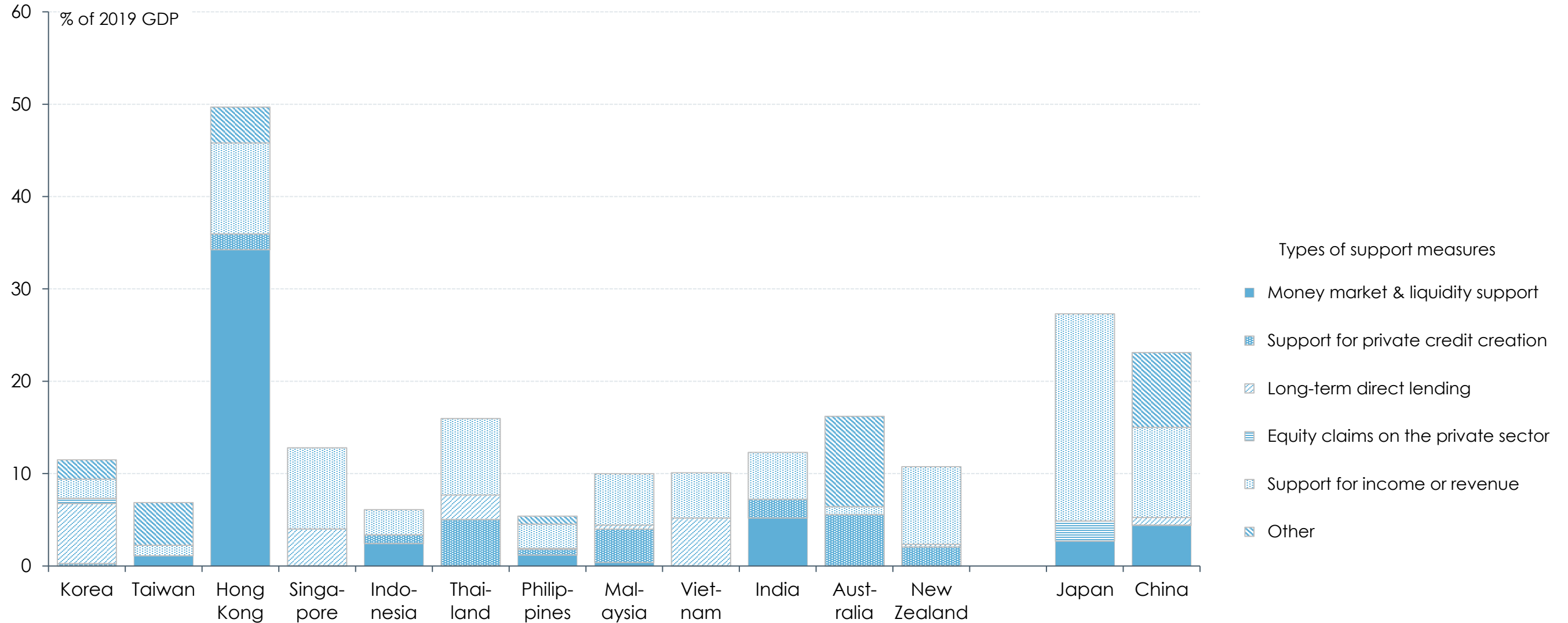
Tourism as a pc of GDP, 2018



Sources: World Tourism & Travel Council; United Nations World Tourism Organization.

Policy measures in 'peripheral Asia' have, except for Hong Kong, been on a smaller scale than in larger economies

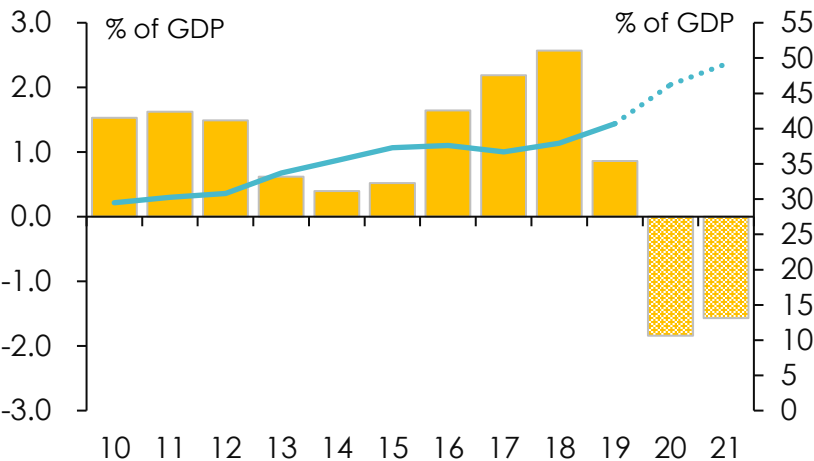
Policy support for lending, incomes and economic activity in response to Covid-19



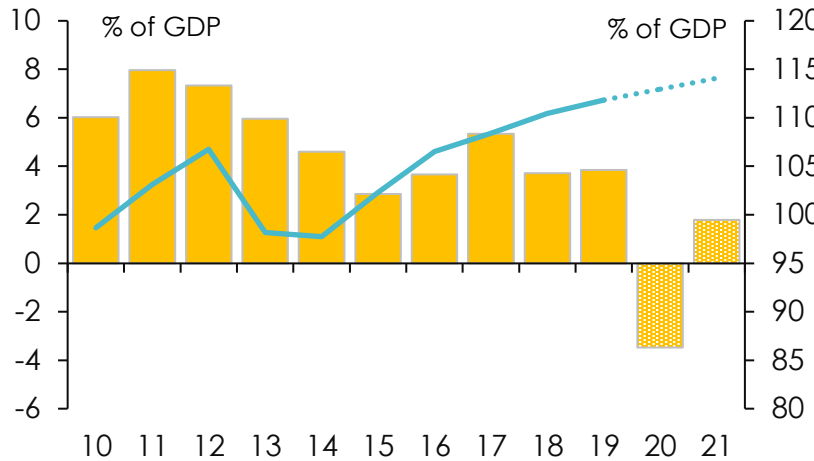
Note: The amounts depicted in this chart are derived from government or central bank public statements, and represent amounts allocated for the identified purposes. These are not necessarily the amounts which will be actually spent, or lent. Source: Asian Development Bank, Covid-19 Policy Database.

All the advanced 'peripheral' Asian economies will record large fiscal deficits in 2020 – but the resulting debt levels are all 'manageable'

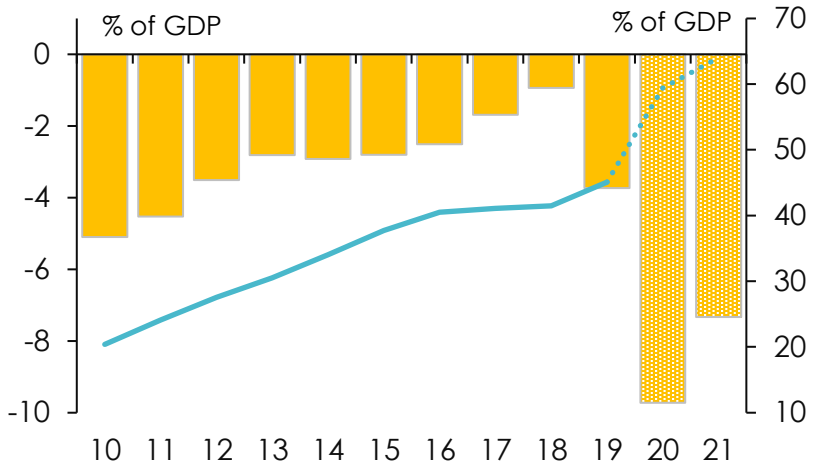
Korea



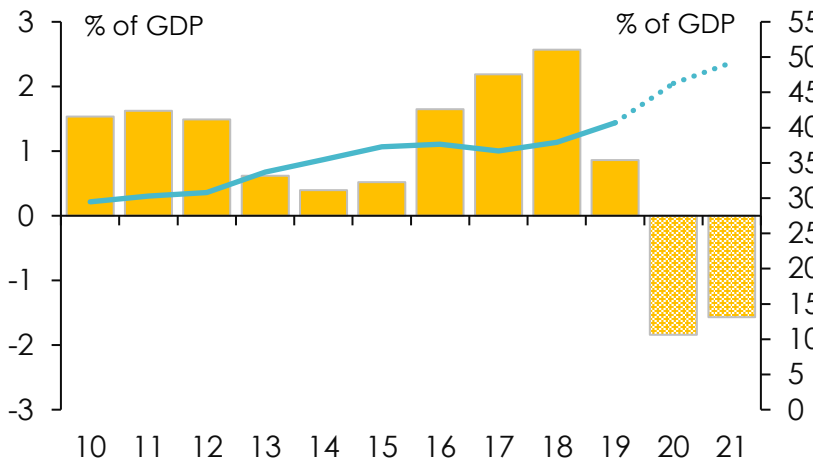
Hong Kong



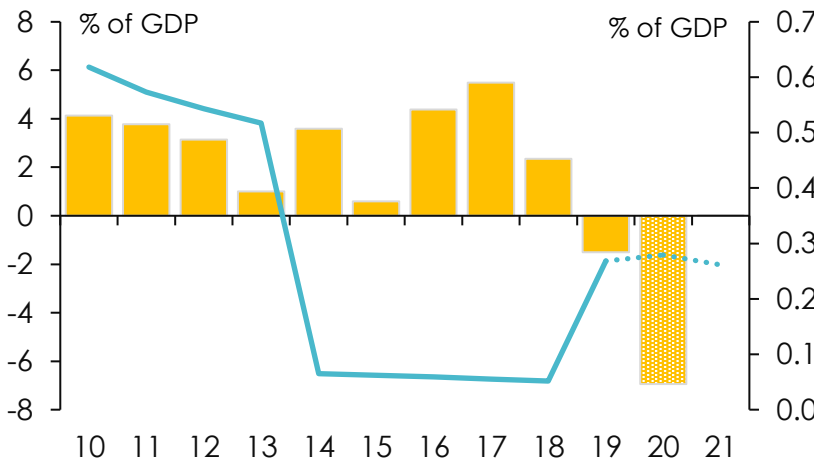
Australia



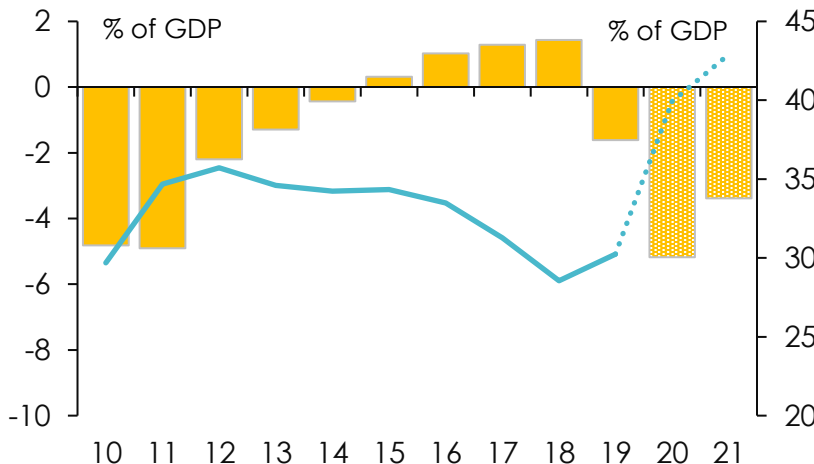
Taiwan



Singapore



New Zealand

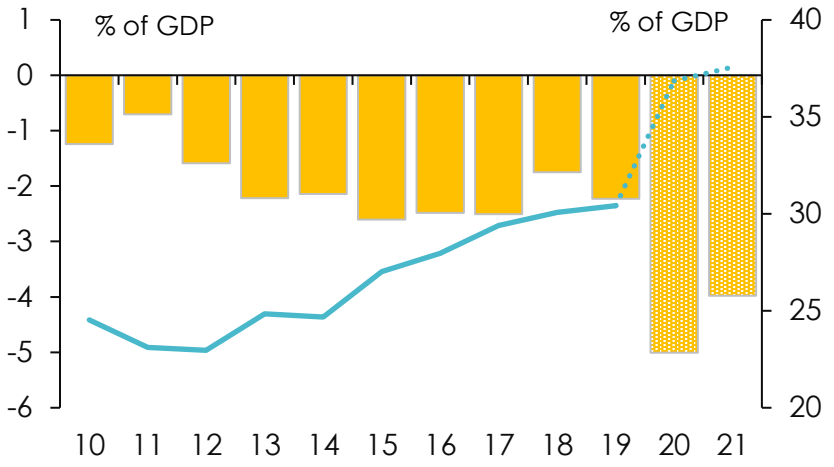


General government overall fiscal balance (left scale)
 General government net debt (right scale)

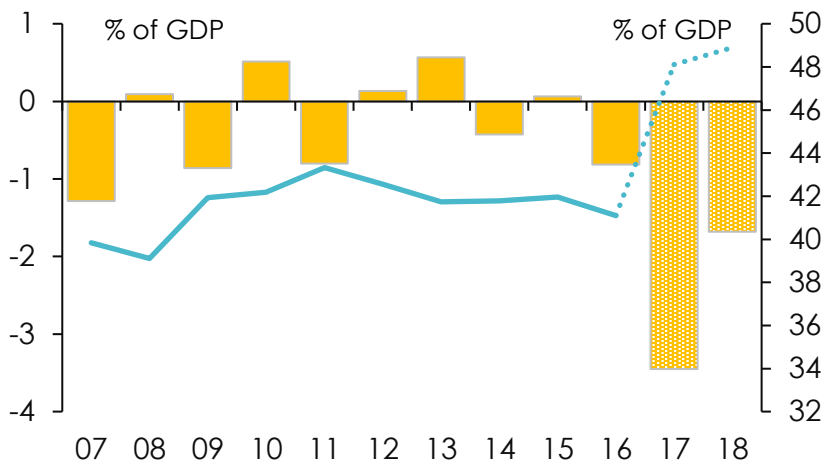
Sources: International Monetary Fund, *Fiscal Monitor*, April 2020 (except for Taiwan, data for which are sourced from the October 2019 edition of *Fiscal Monitor* and thus do not include any fiscal responses to Covid-19). Note that Singapore's apparently very large gross debt is (probably more than) offset by large holdings of financial assets: but unlike most other 'advanced' economies, Singapore does not publish data on net public debt (nor does Hong Kong).

Less advanced 'peripheral Asian' economies will also run large deficits this year and next, but some of them are more debt-constrained

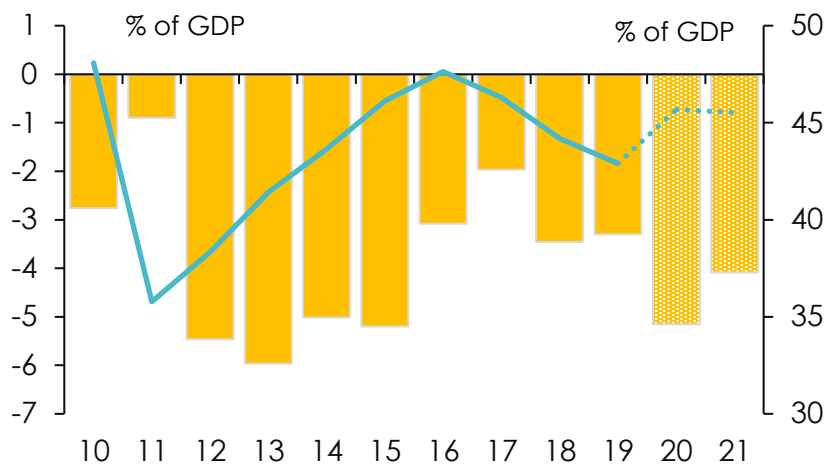
Indonesia



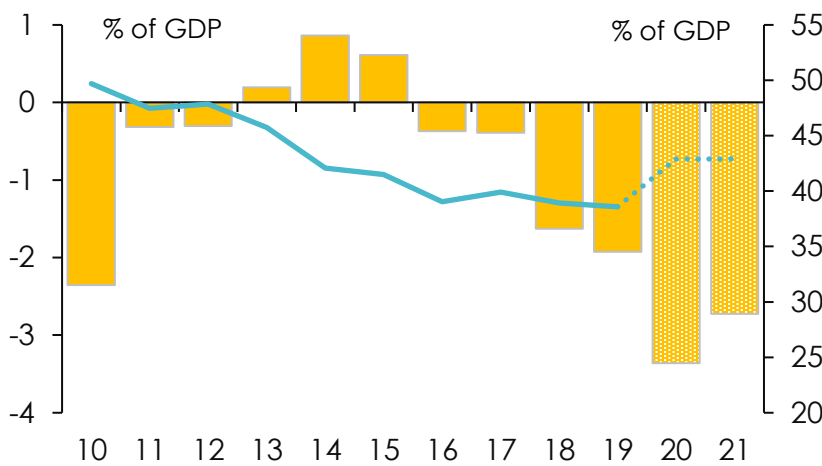
Thailand



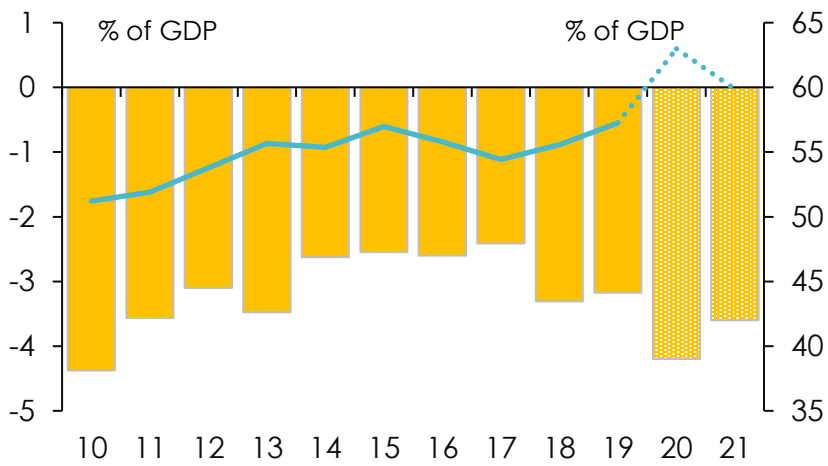
Vietnam



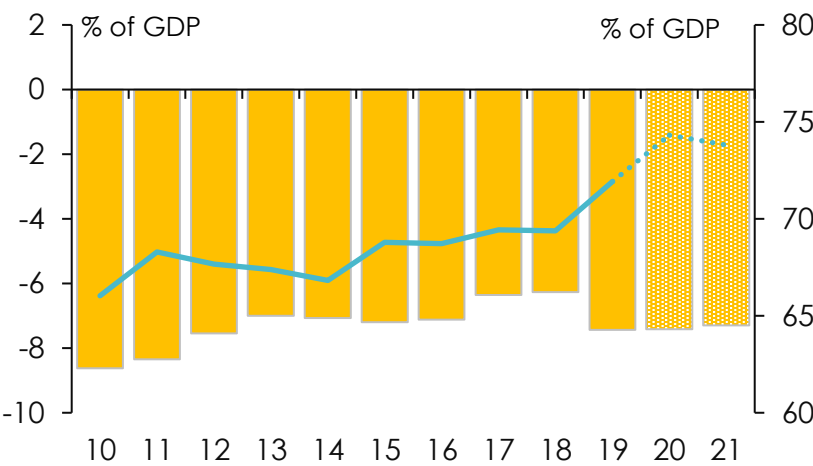
Philippines



Malaysia



India

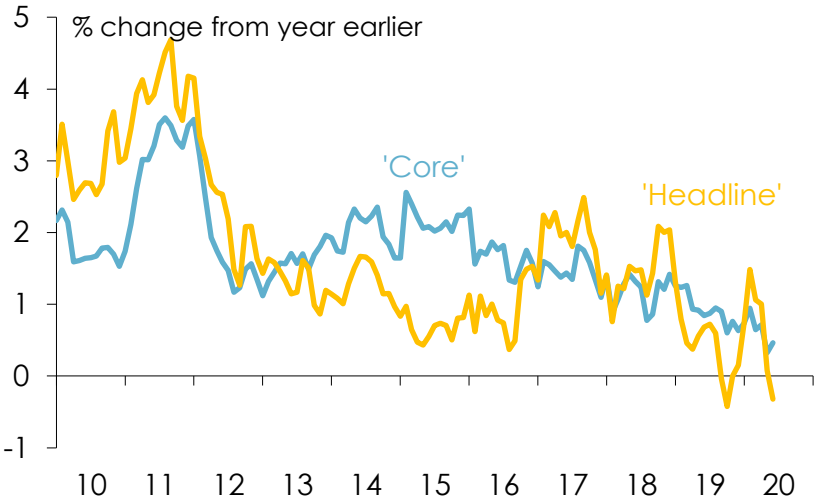


■ General government overall fiscal balance (left scale)
 — General government net debt (right scale)

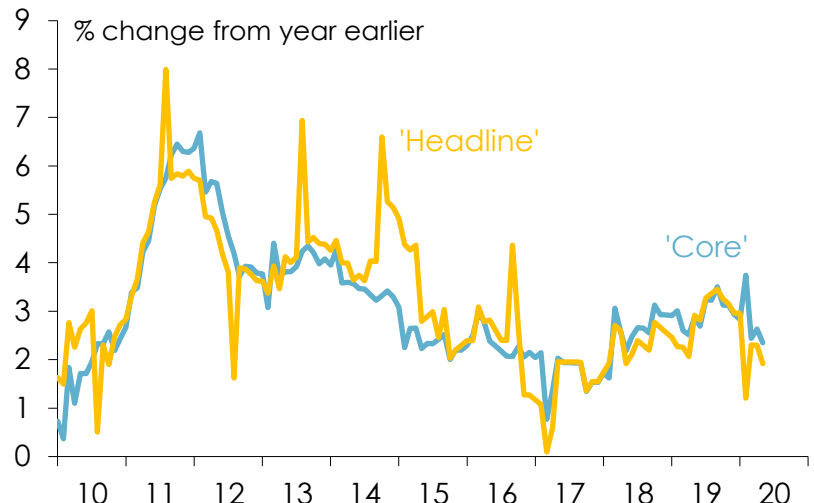
Sources: International Monetary Fund, *Fiscal Monitor*, April 2020.

In the more advanced 'peripheral Asian' economies, inflation has remained very low (often below central bank targets) ...

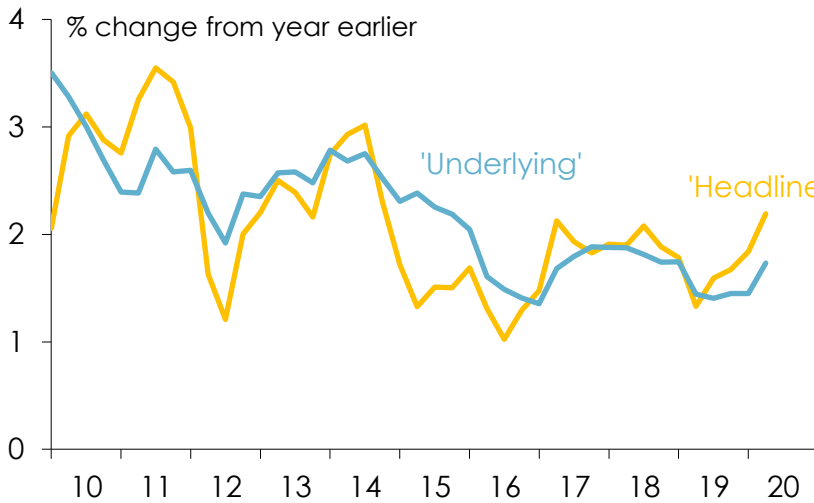
Korea



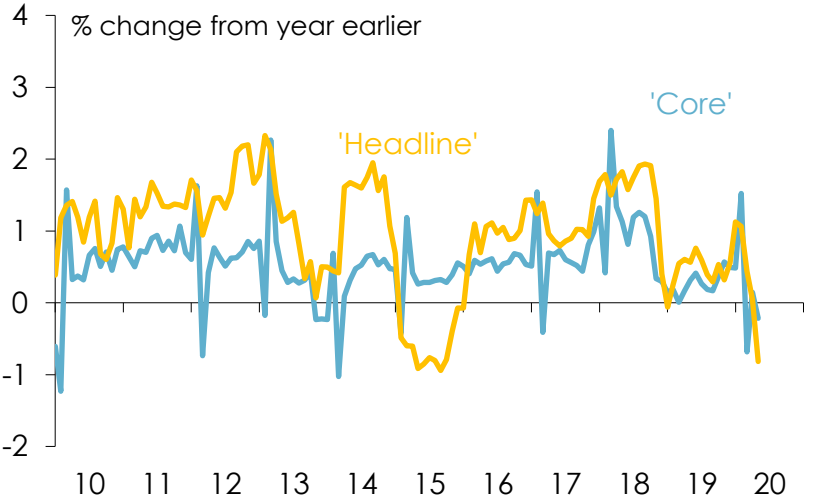
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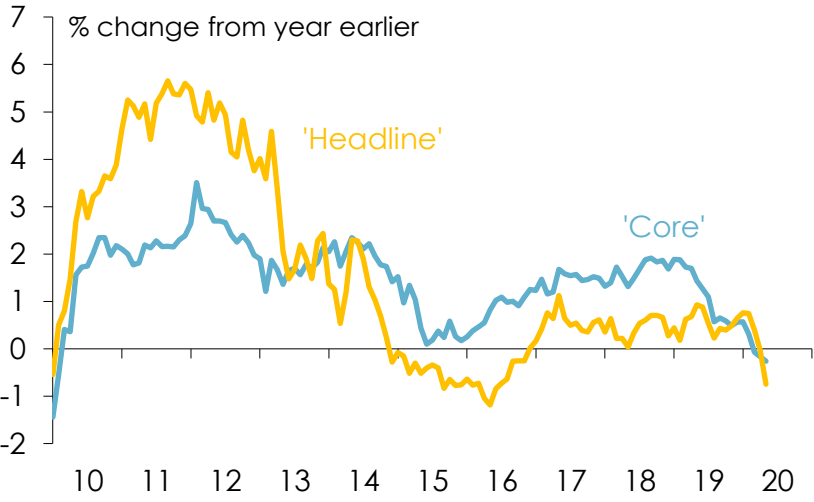
Australia



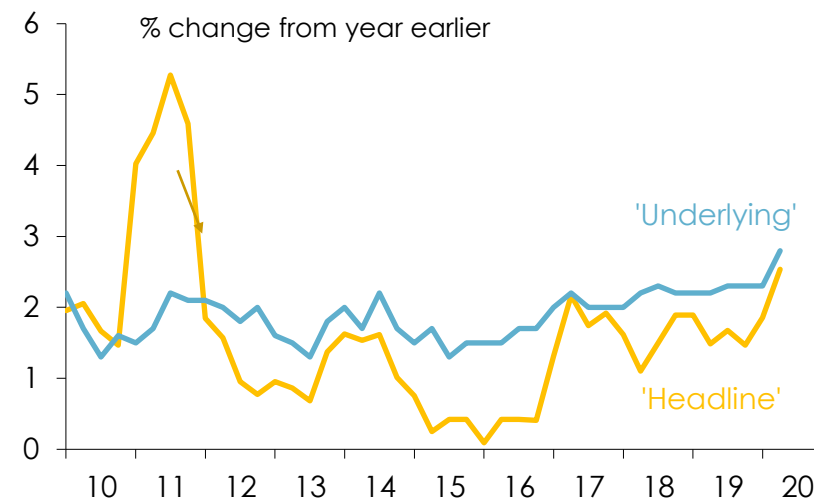
Taiwan



Singapore



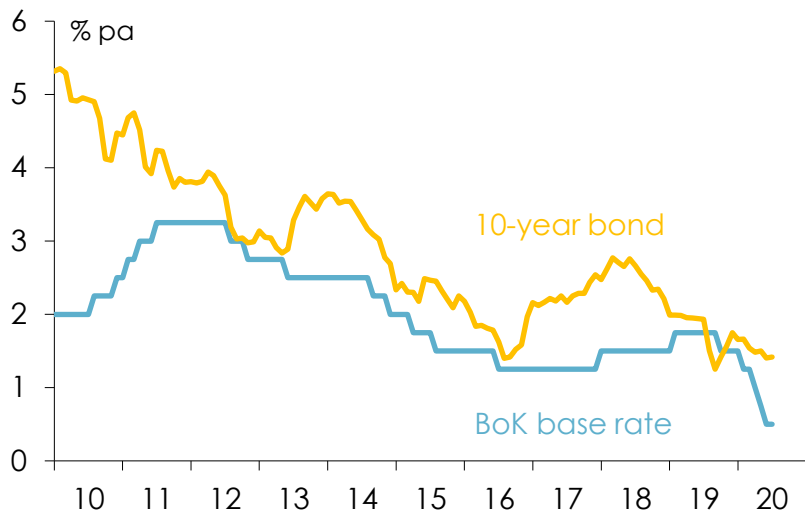
New Zealand



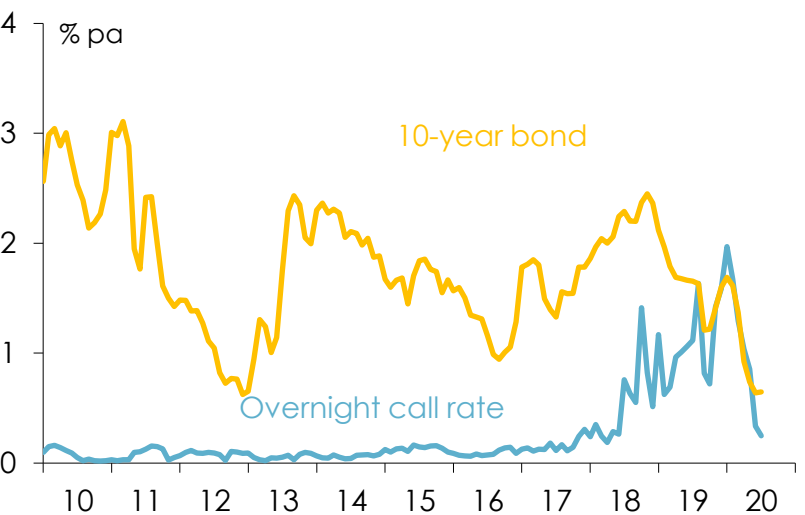
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Underlying inflation' in Australia is the average of the weighted median and trimmed means; in New Zealand it is the weighted median. Sources: national statistical agencies and/or central banks.

... allowing central banks in these economies to cut policy interest rates to record lows in response to the current downturns in activity

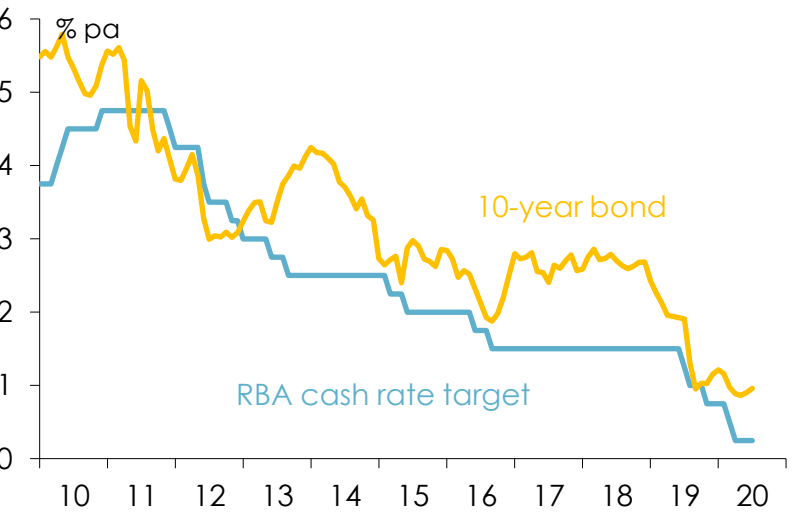
Korea



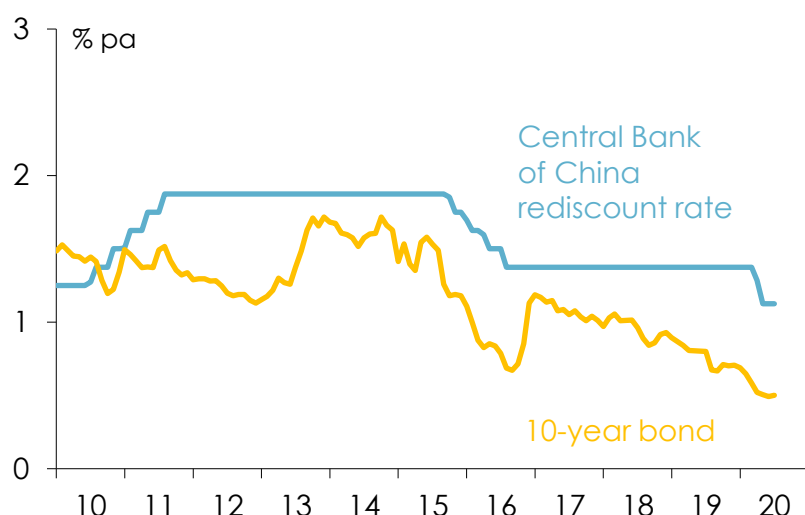
Hong Kong



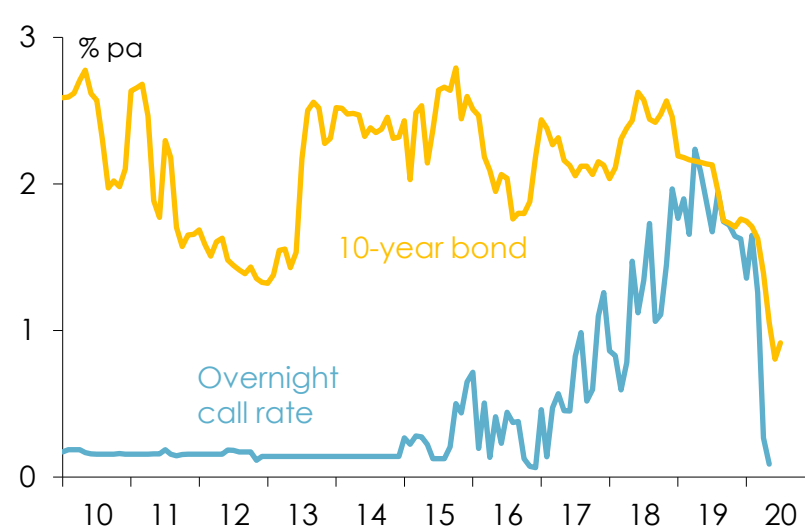
Australia



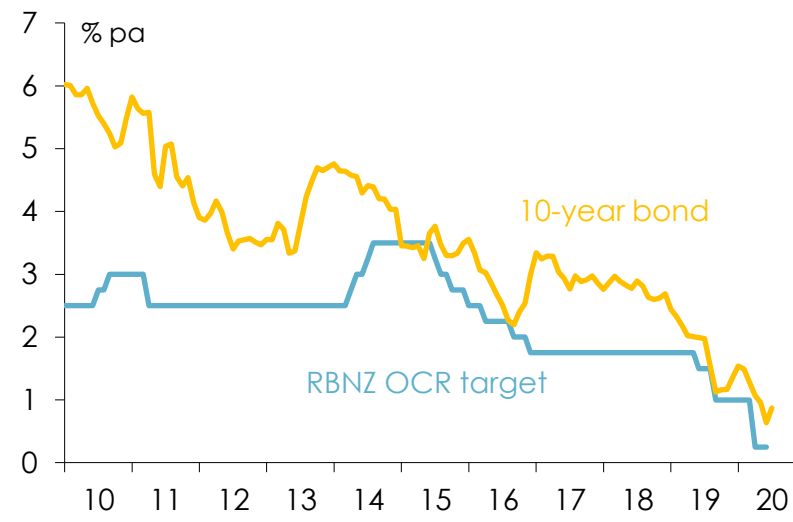
Taiwan



Singapore



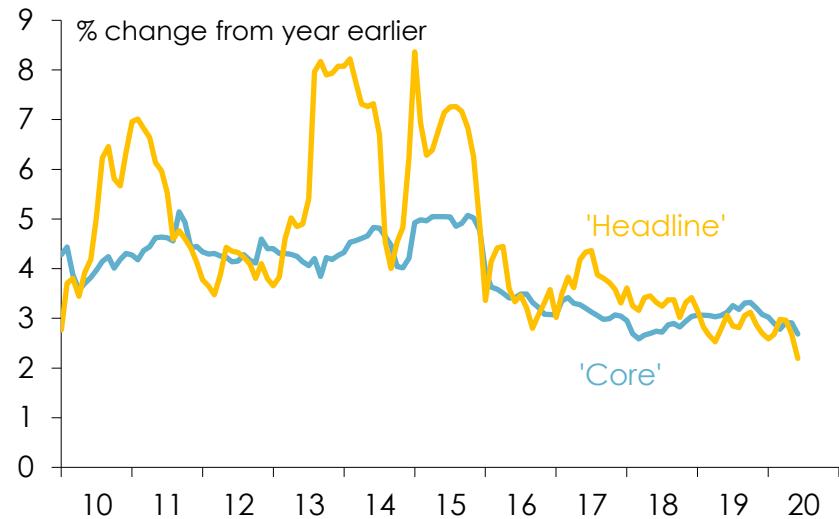
New Zealand



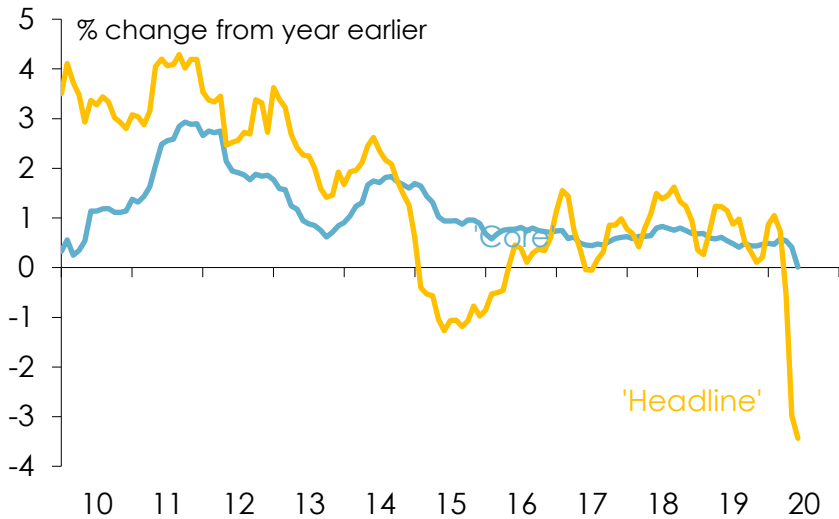
Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate. Sources: Bank of Korea; Central Bank of China; Hong Kong Monetary Authority; Monetary Authority of Singapore; Reserve Bank of Australia; Reserve Bank of New Zealand; Refinitiv Datastream.

By contrast, in most of the less advanced 'peripheral Asian' economies, inflation has given central banks less room to move

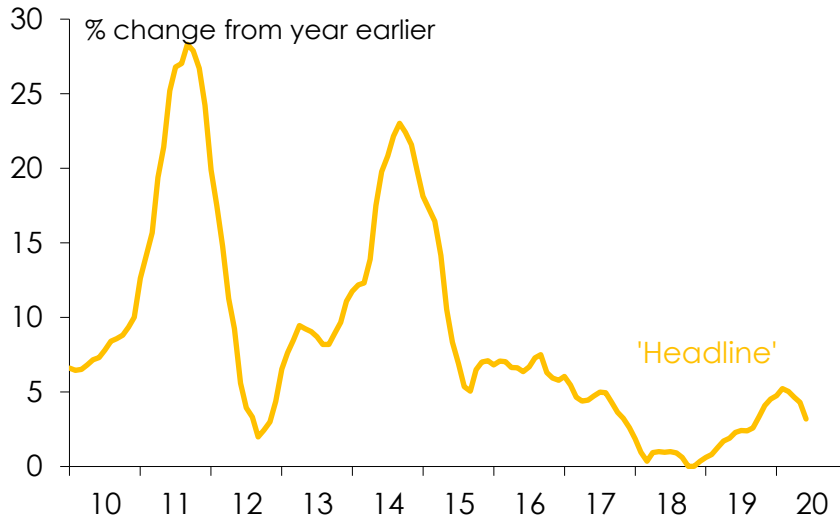
Indonesia



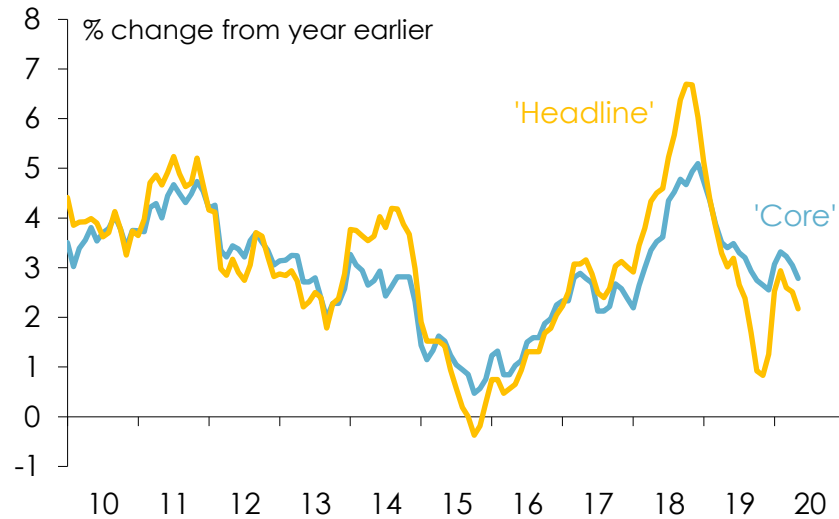
Thailand



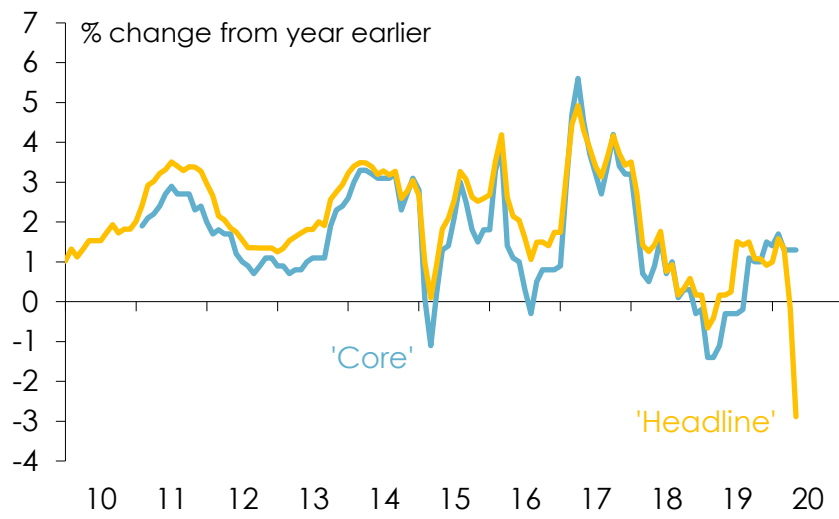
Vietnam



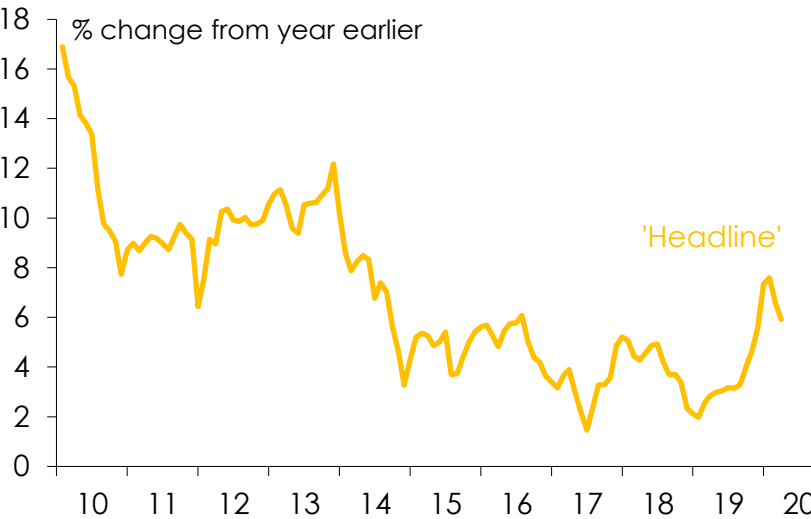
Philippines



Malaysia



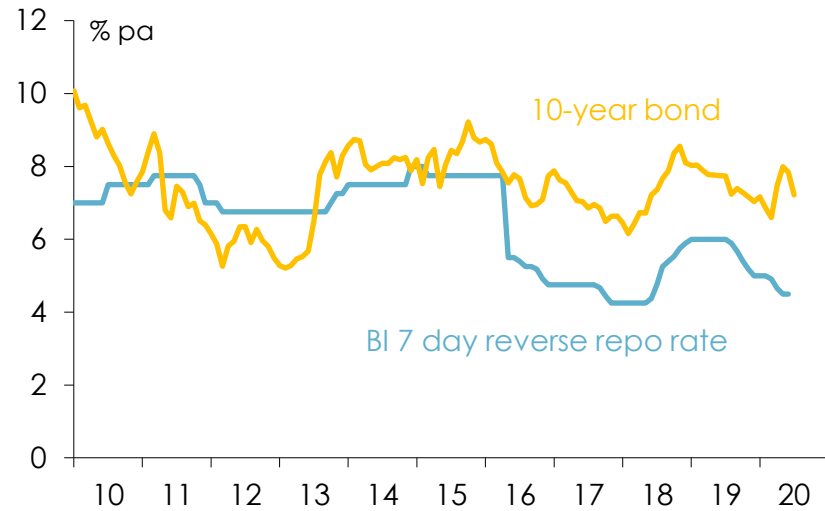
India



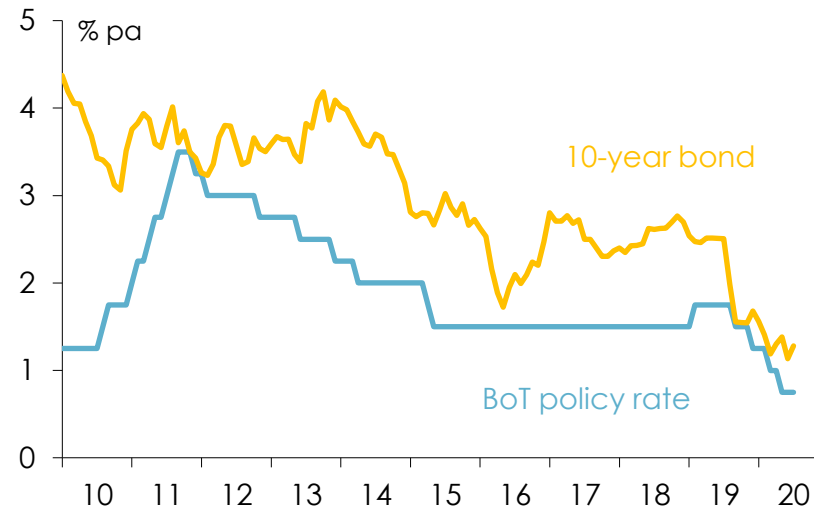
Note: 'Core' inflation in Indonesia excludes 'volatile foods' and changes in 'administered prices' (such as fuel subsidies, transport fares and electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables and fuels; in Thailand it excludes fresh or raw food and energy; and in Malaysia it excludes fresh food and 'administered' prices. Vietnam and India do not publish 'core' inflation measures. Sources: national statistical agencies and/or central banks.

Central banks in the less advanced 'peripheral' Asian economies haven't been able to cut interest rates as far

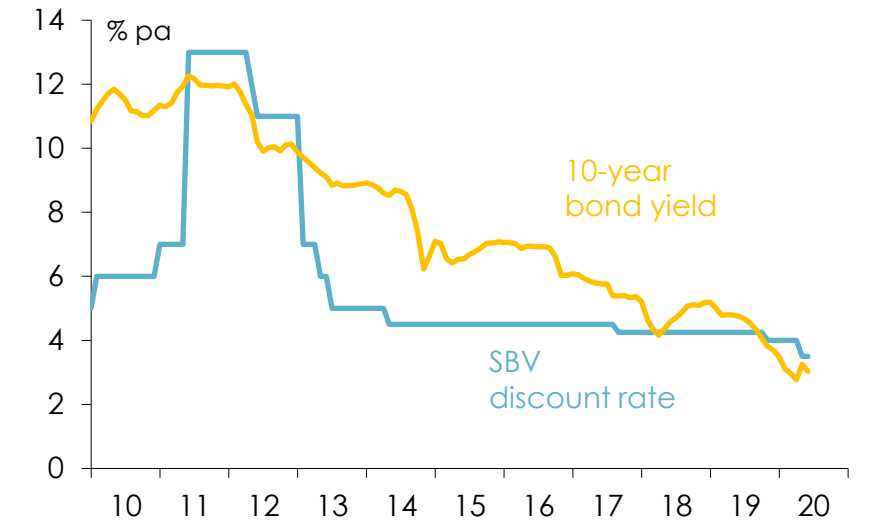
Indonesia



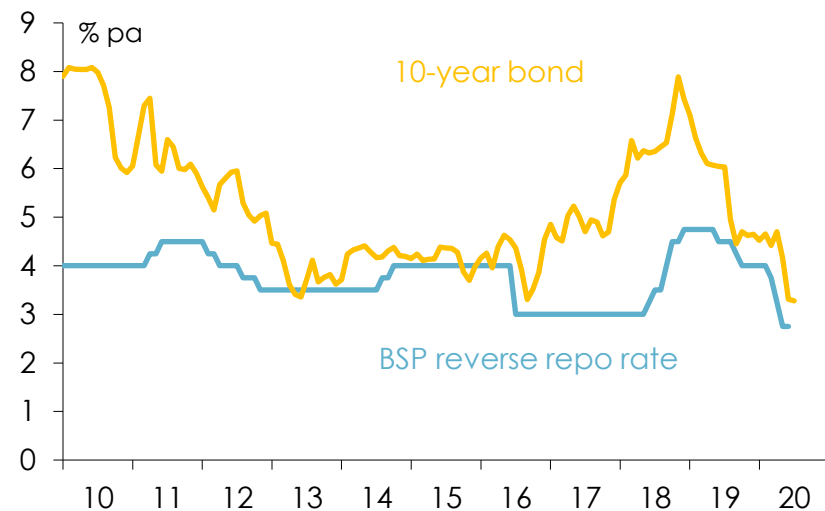
Thailand



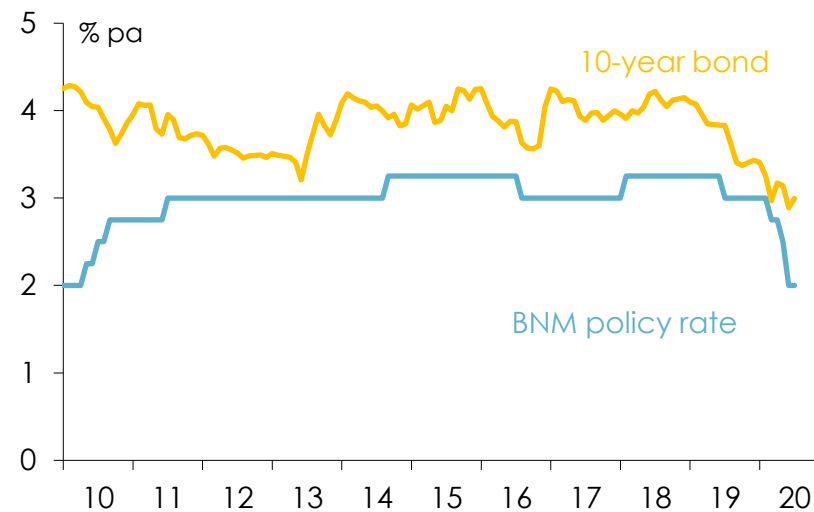
Vietnam



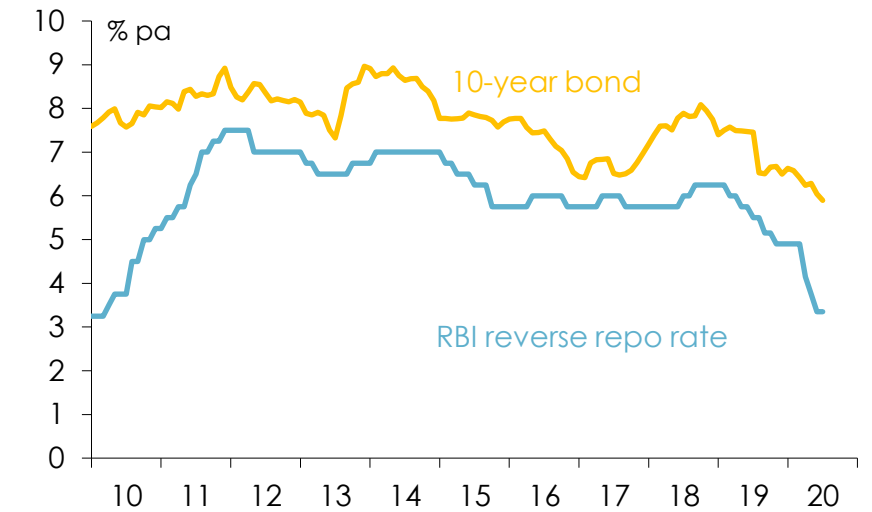
Philippines



Malaysia



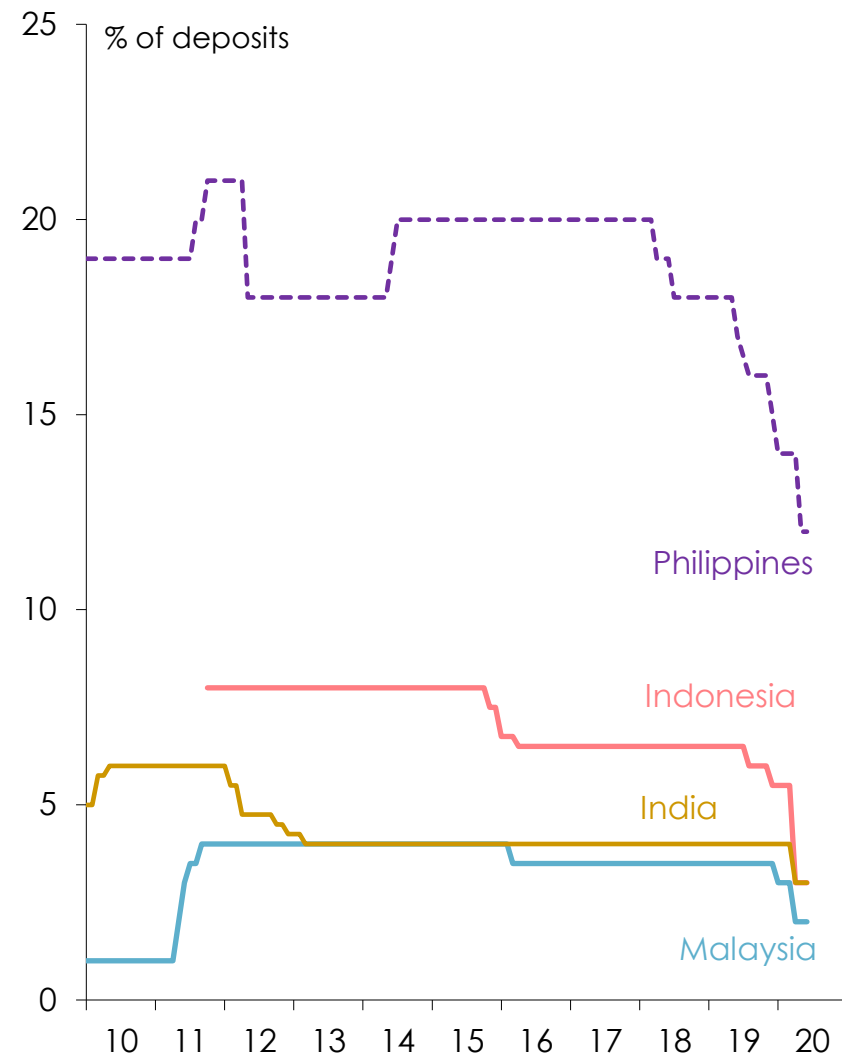
India



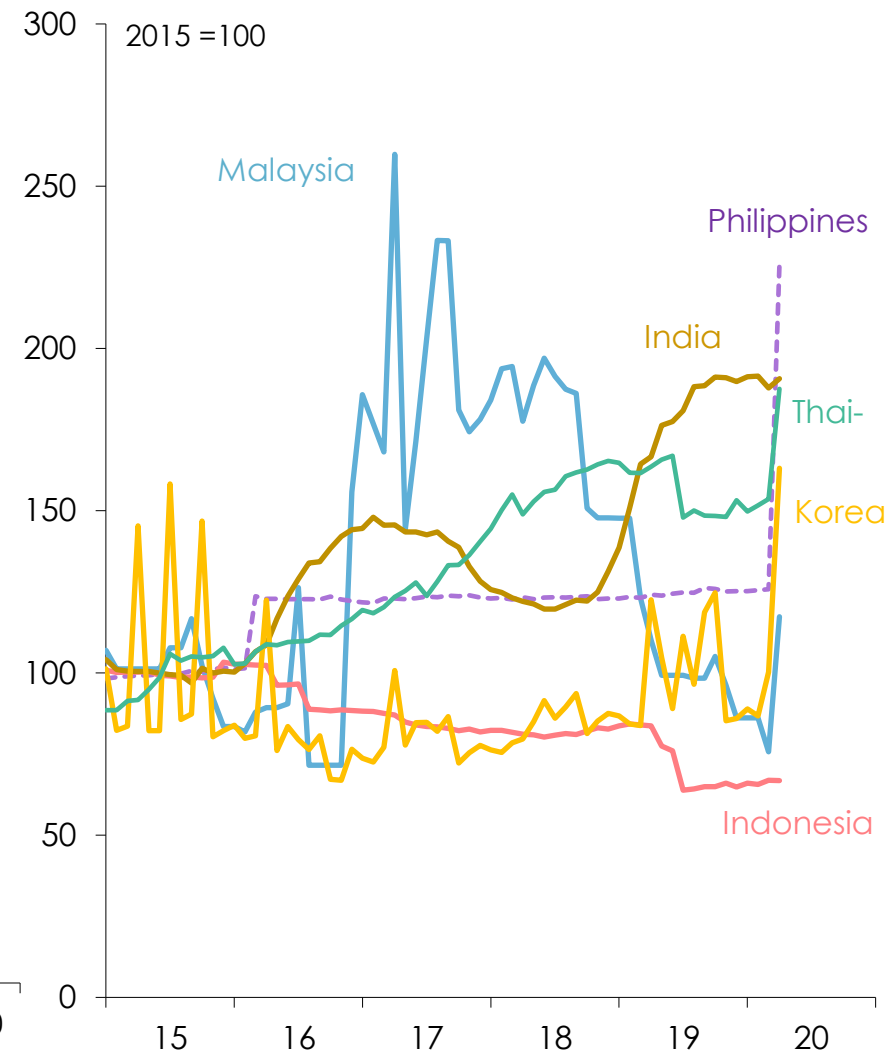
Sources: Bank Indonesia; Banco Sentral ng Pilipinas; Bank of Thailand; Bank Negara Malaysia; State Bank of Viet Nam; Reserve Bank of India; Refinitiv Datastream.

Most Asian central banks have also made use of other monetary policy instruments, old and new

Bank reserve requirements



Central bank claims on national governments



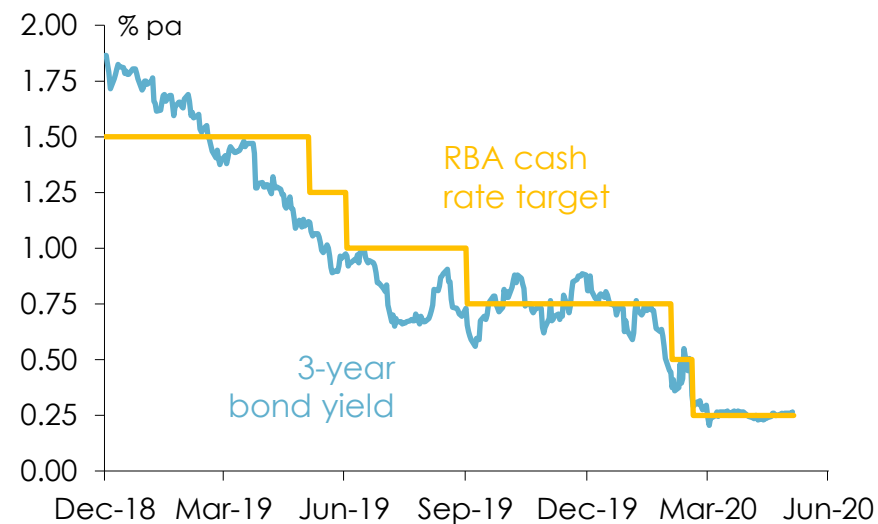
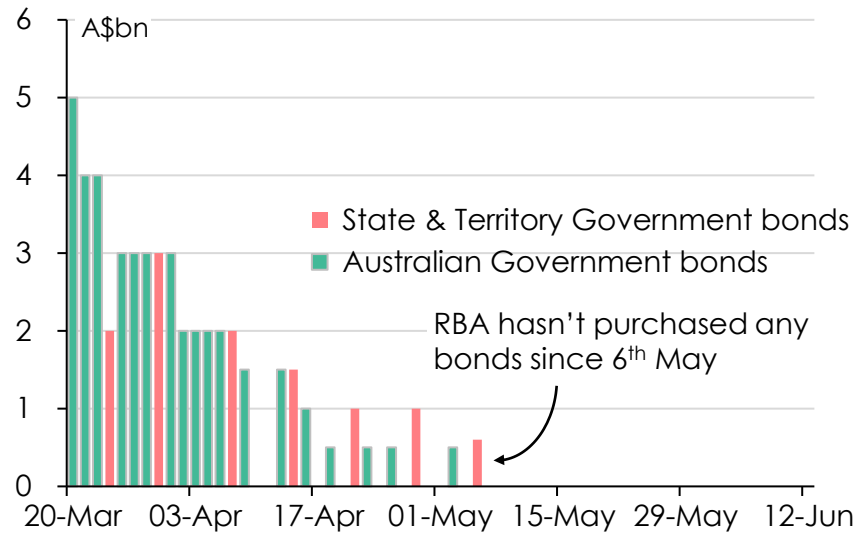
Publicly acknowledged instances of 'QE' in Asia

- ❑ Bank of Korea announced 19th March it would purchase ₩3 trn (US\$1.2bn) of government bonds
- ❑ On May 20th the BoK announced that it would lend up to ₩8 trn to an SPV established by the Government to purchase corporate debt
- ❑ On April 21st Bank Indonesia directly purchased Rph1.7trn (US\$108mn) of sharia sovereign bonds
- ❑ On March 23rd Banco Sentral ng Pilipinas agreed to purchase up to ₱300bn (US\$6bn) of government securities from the Treasury under 6-month repo
- ❑ The Bank of Thailand purchased ฿300bn (US\$3.1bn) of government bonds in March
- ❑ On April 20th, the Reserve Bank of India increased the limit on short-term advances to the central government by Rs800bn (US\$10.8bn) to Rs2trn; and on 27th April purchased Rs100bn (US\$1.4bn) of government bonds

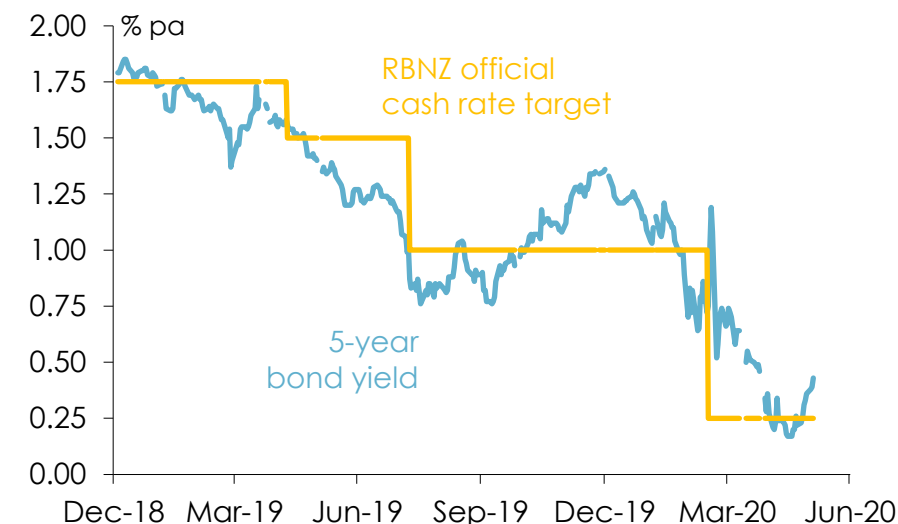
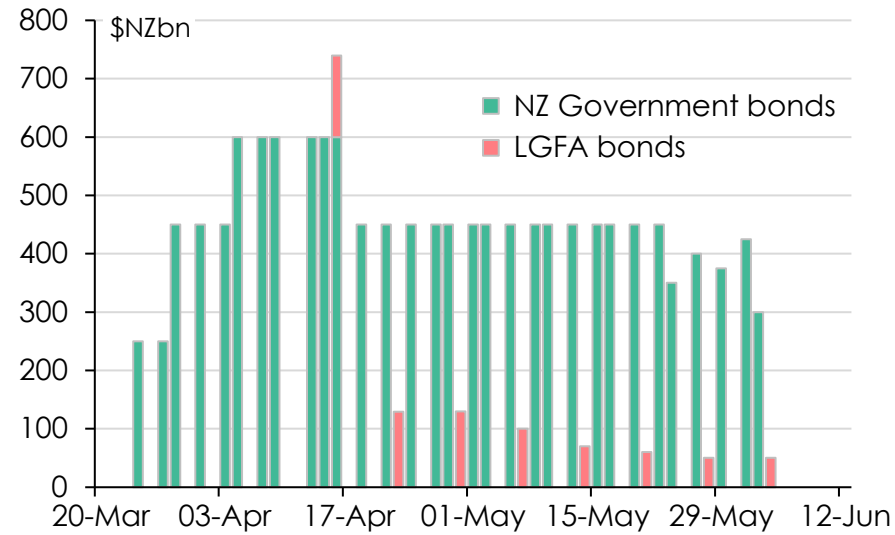
Sources: Bank Indonesia; Banco Sentral ng Pilipinas; Bank Negara Malaysia; Reserve Bank of India; Bank of Korea; Bank of Thailand; Asian Development Bank.

The RBA and RBNZ are pursuing different versions of 'QE', on different scales, and the RBNZ is flirting with the idea of negative rates

Australia



New Zealand

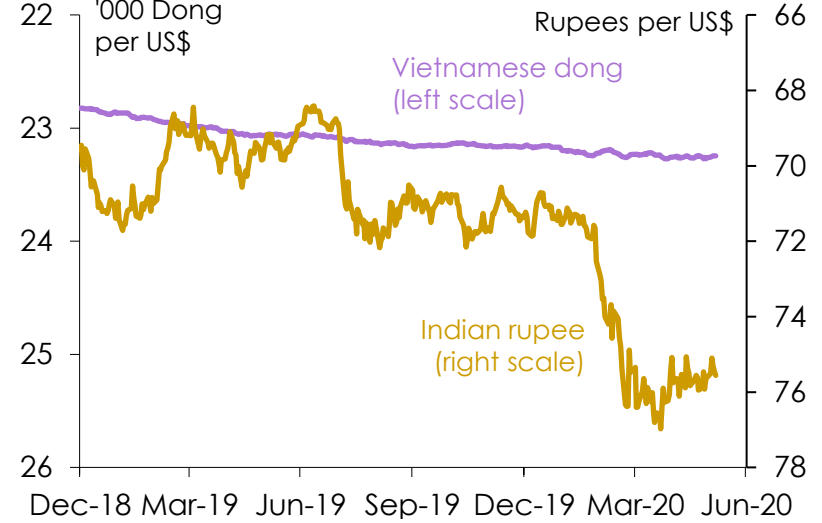
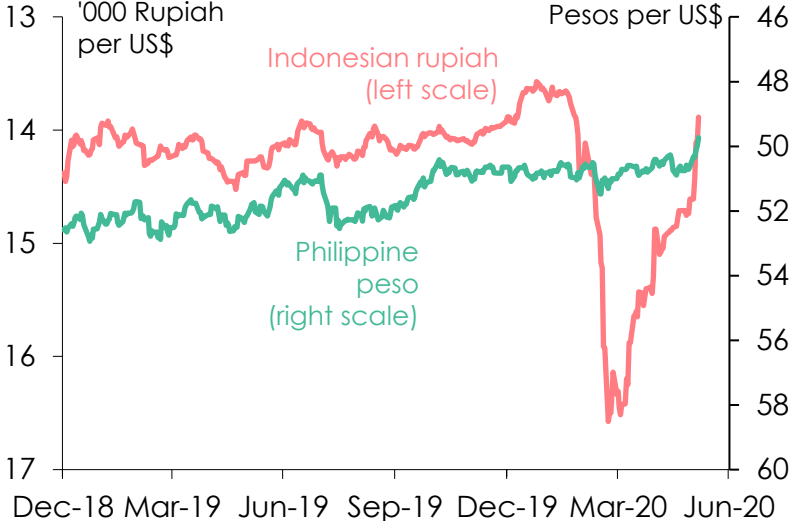
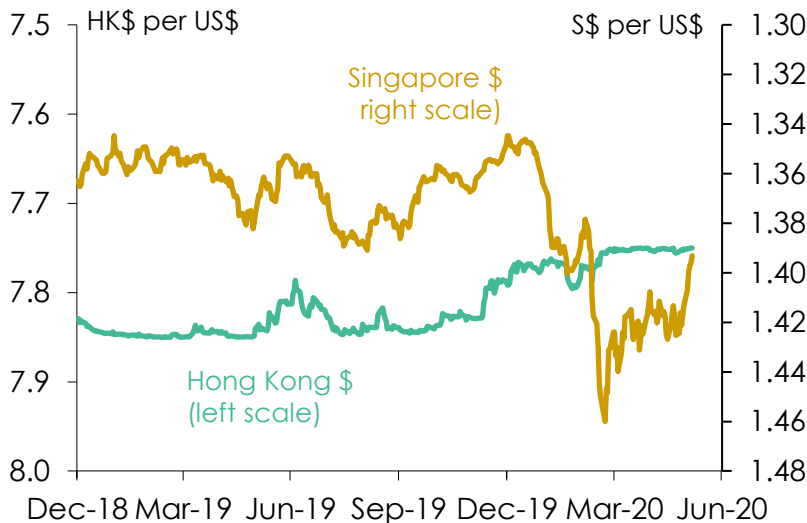
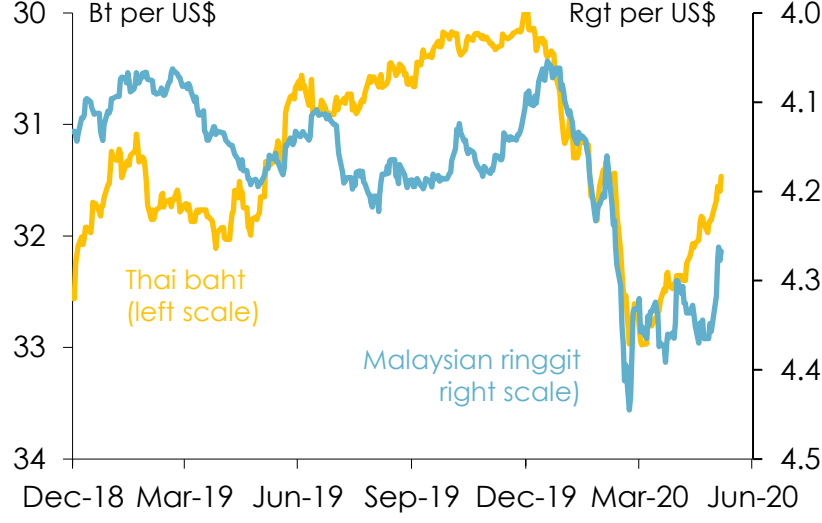
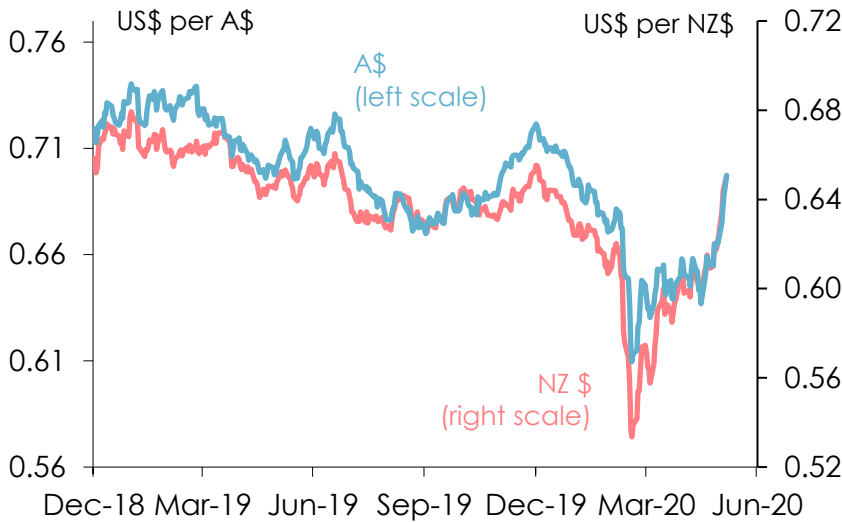
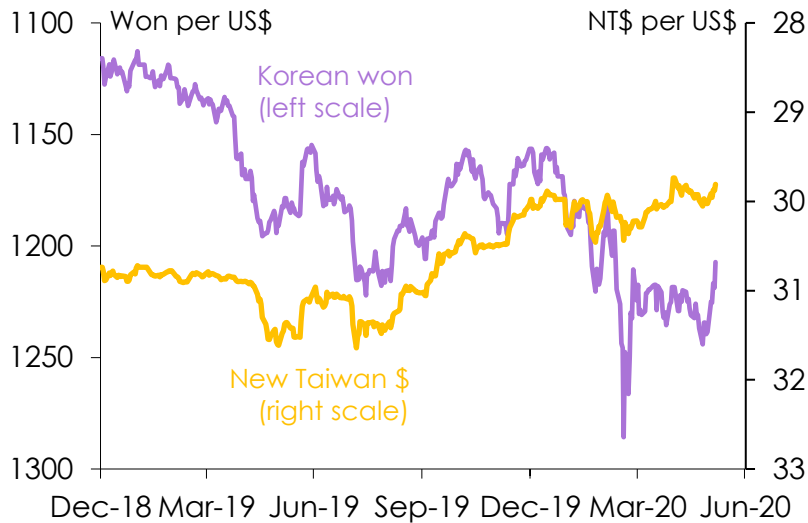


- ❑ The RBA has adopted a BoJ-style 'yield curve control' program, with the explicit aim of keeping the 3-year yield at 0.25% pa
- ❑ Since 20th March the RBA's bond purchases have amounted to the equivalent of 2½% of GDP (or about 30% of total Australian Government bond issuance in FY 19-20), and it has met its 3-year yield target without needing to buy any bonds since 6th May
- ❑ The RBNZ has adopted an ECB-style QE program, establishing a Large Scale Asset Program initially set at \$NZ33bn (10.6% of GDP), since increased to \$60bn (19% of GDP) - equal to the NZ Government's planned bond issuance for FY 20-21
- ❑ Since 25th March RBNZ bond purchases have amounted to the equivalent of 4¾% of GDP, but NZ medium term yields have been more volatile than in Australia
- ❑ The RBNZ has also asked banks to prepare for the possibility of negative interest rates, which the RBA has emphatically ruled out

Sources: Reserve Bank of Australia; Reserve Bank of New Zealand. 'LGFA' is the New Zealand Local Government Financing Agency. Data up to 5th June.

The NT\$ has strengthened, the HK\$ and Philippine peso have been stable, while others (except the rupee) fell sharply but have since rebounded

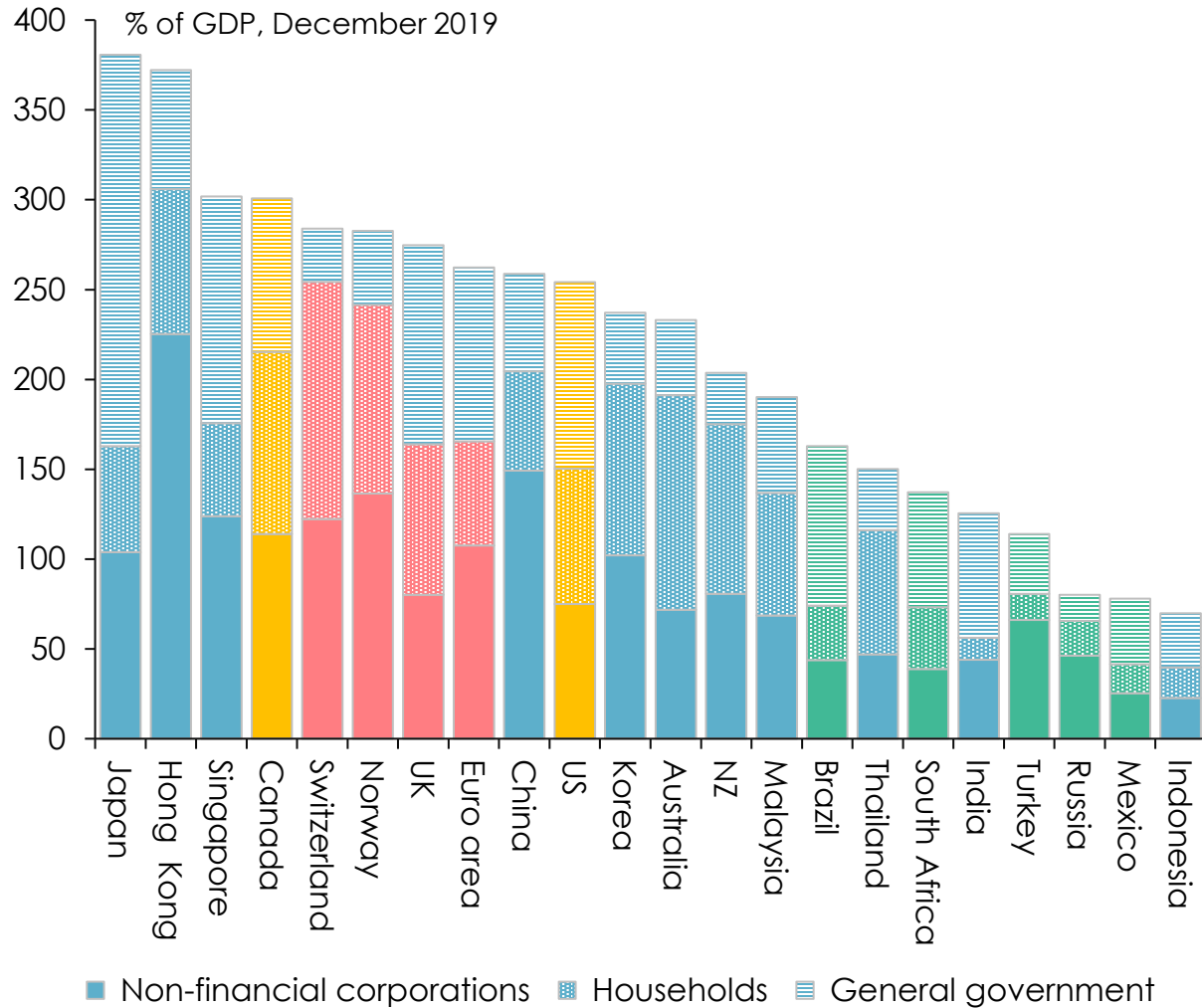
Currencies vs US dollar



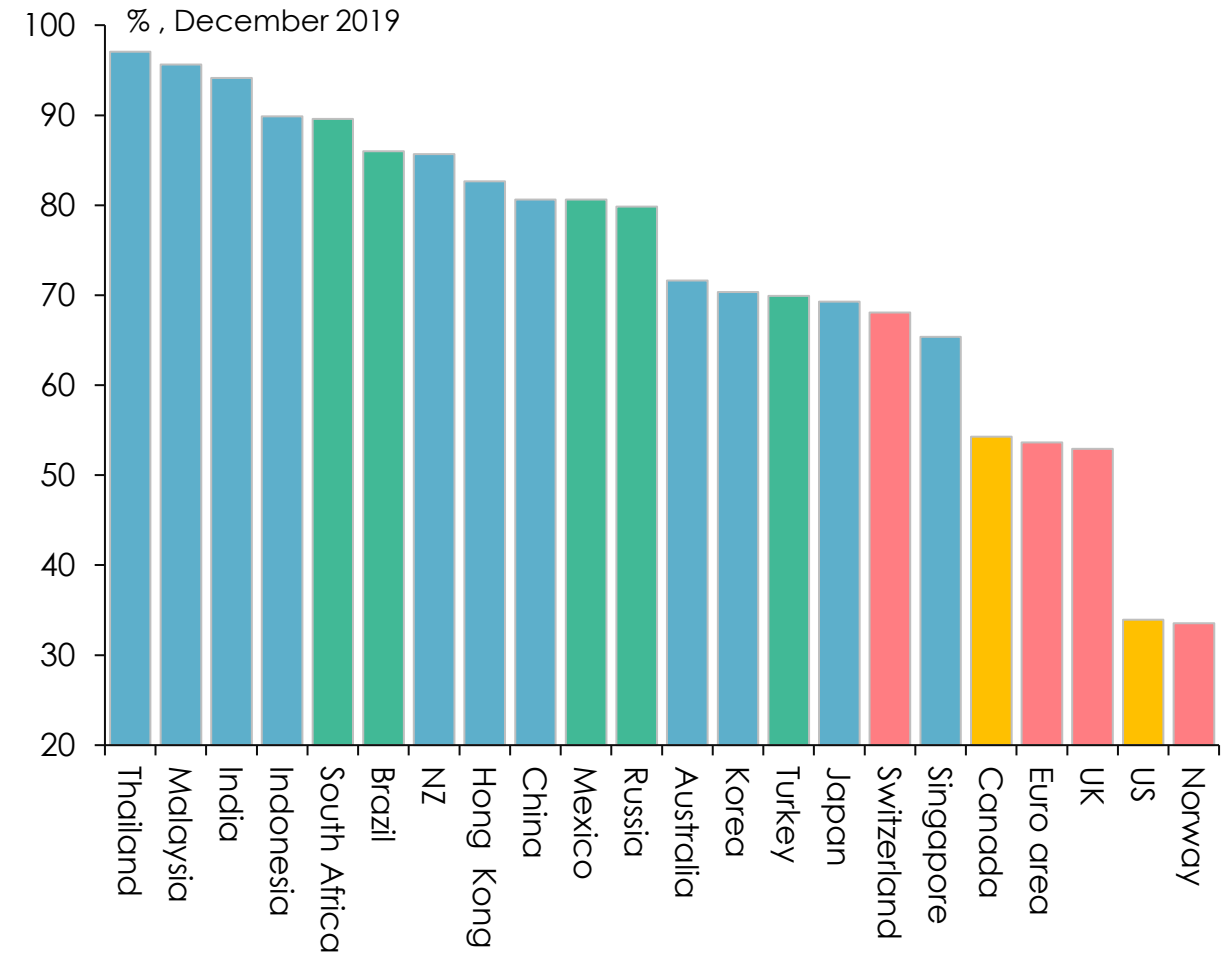
Note: all scales are inverted except for the Australian and New Zealand dollars. Data up to 5th June. Source: Refinitiv Datastream.

Except for India and Indonesia, Asian economies typically operate on higher levels of debt than other EMs, with banks as dominant providers

Credit to non-financial sectors as a pc of GDP, December 2019



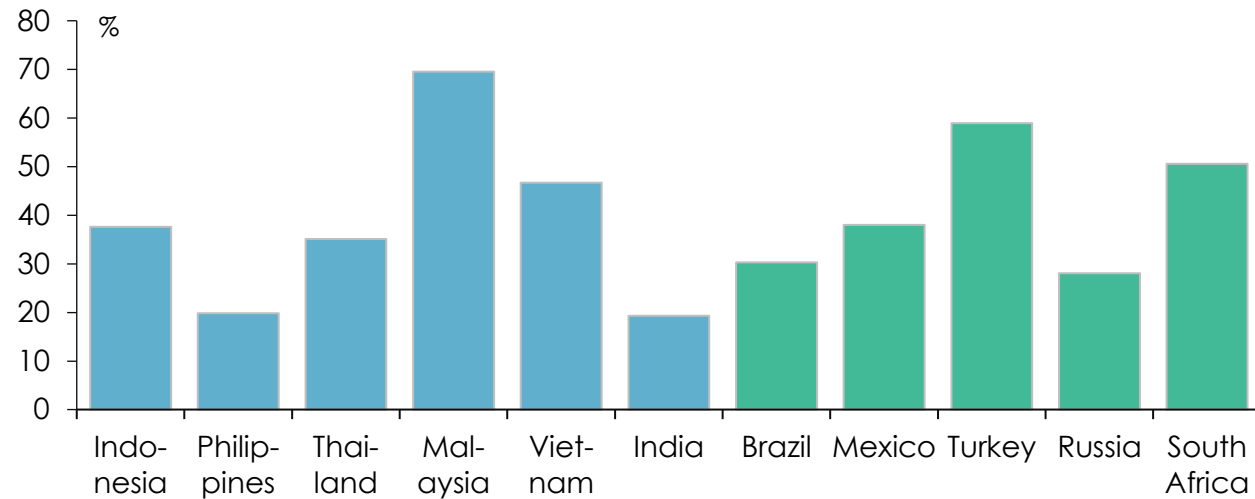
Bank credit as a pc of total credit to private non-financial sectors, December 2019



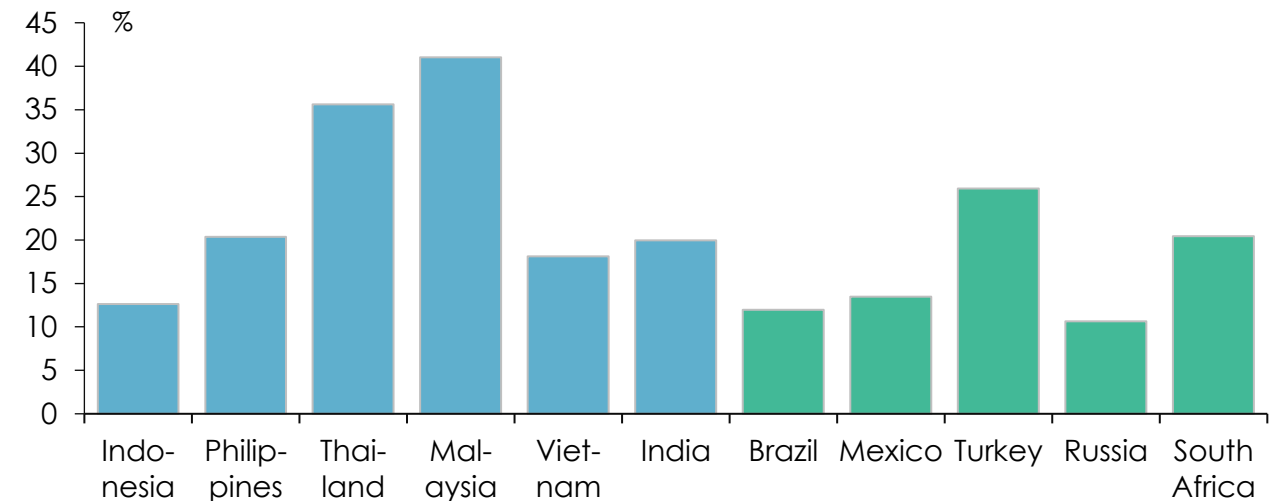
Source: Bank for International Settlements, *Credit to the Non-financial Sector*.

External debt risks greatest for Malaysia, Indonesia and Thailand

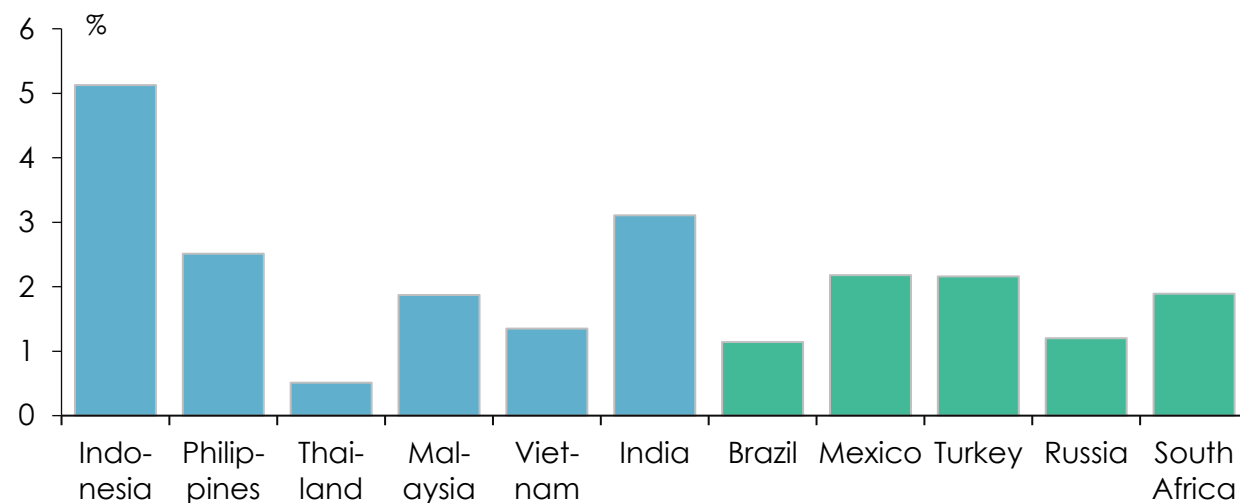
External debt as a pc of gross national income, 2018



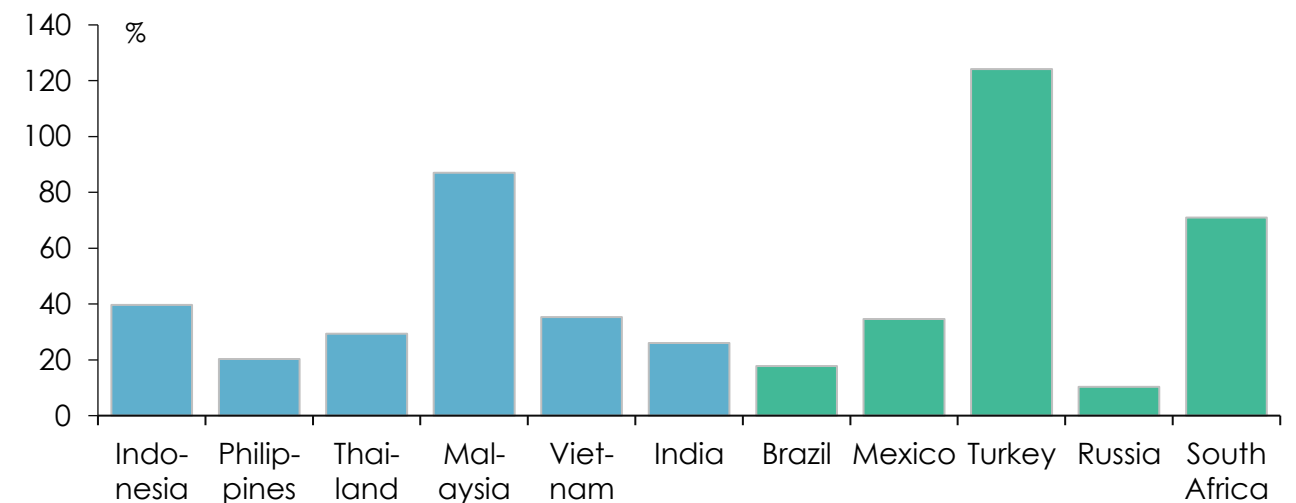
Short-term external debt as a pc of total, 2018



Debt interest payments as a pc of export income, 2018



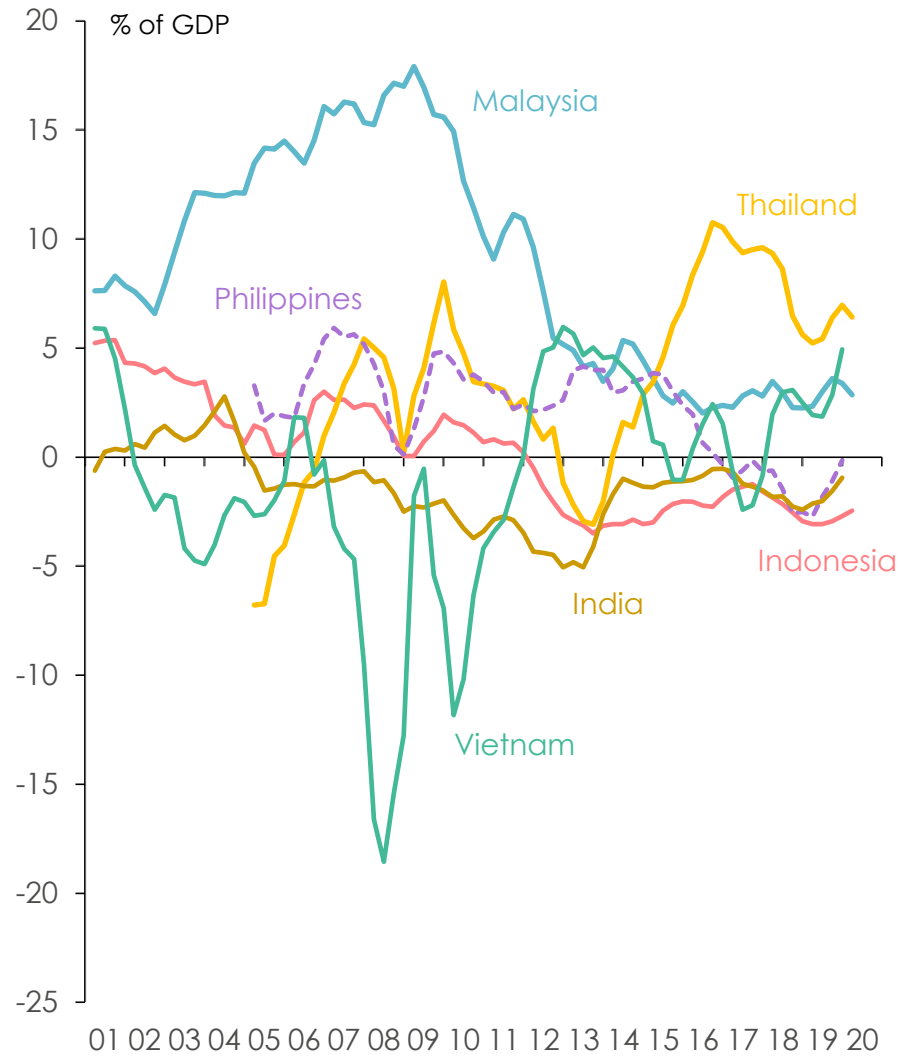
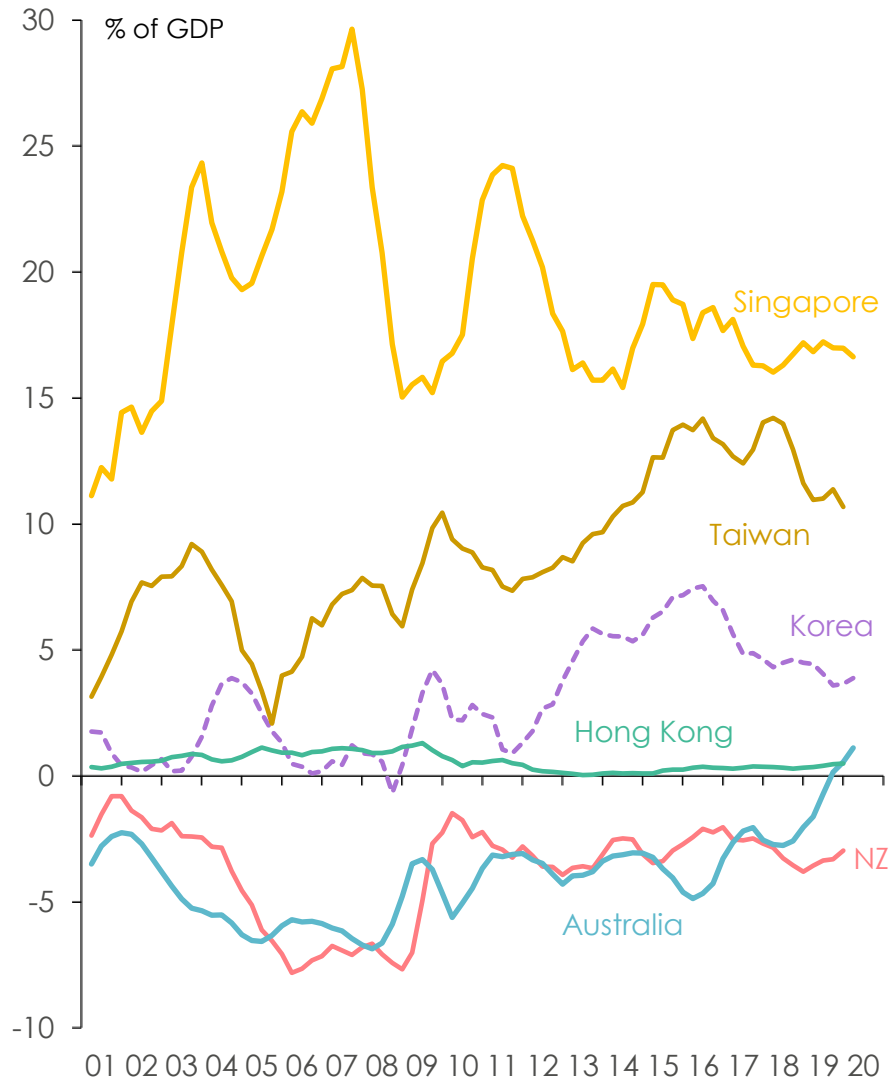
Short-term external debt as a pc of FX reserves, 2018



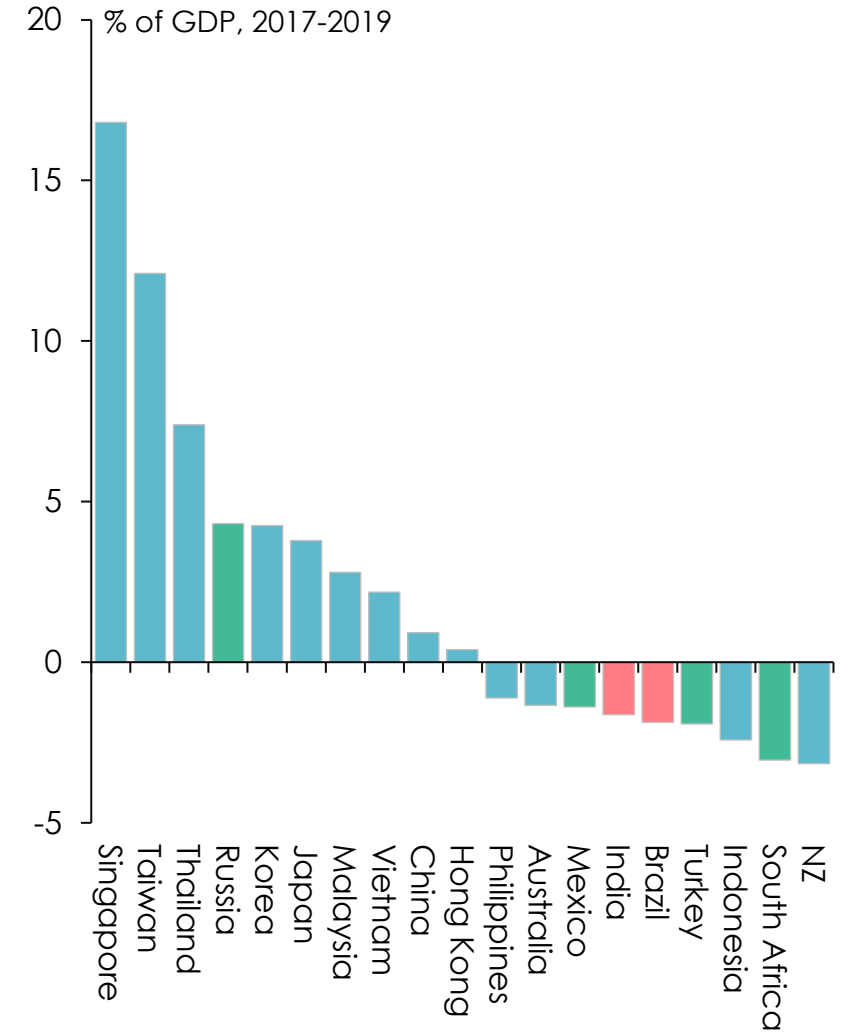
Note: Data for Malaysia are for 2016. Source: The World Bank, World Development Indicators.

Some 'peripheral' Asian economies run very large current account surpluses; only Indonesia, Philippines, India and NZ now run deficits`

Current account balances as pc of GDP, 2001-2019



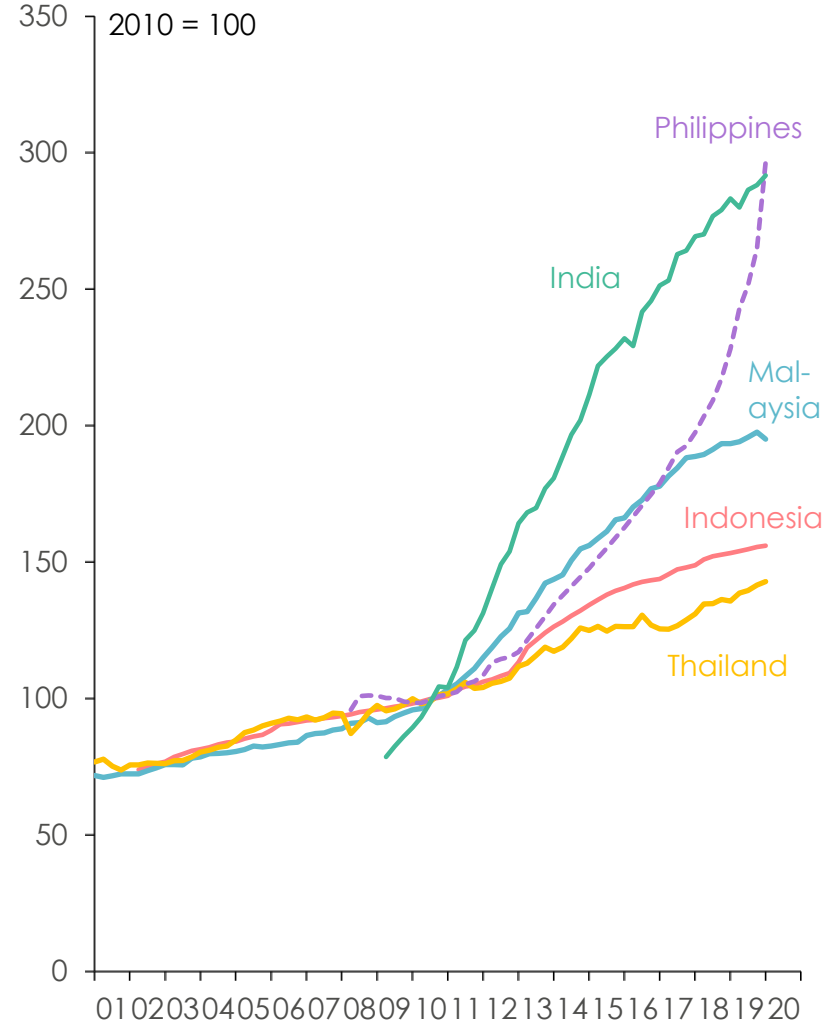
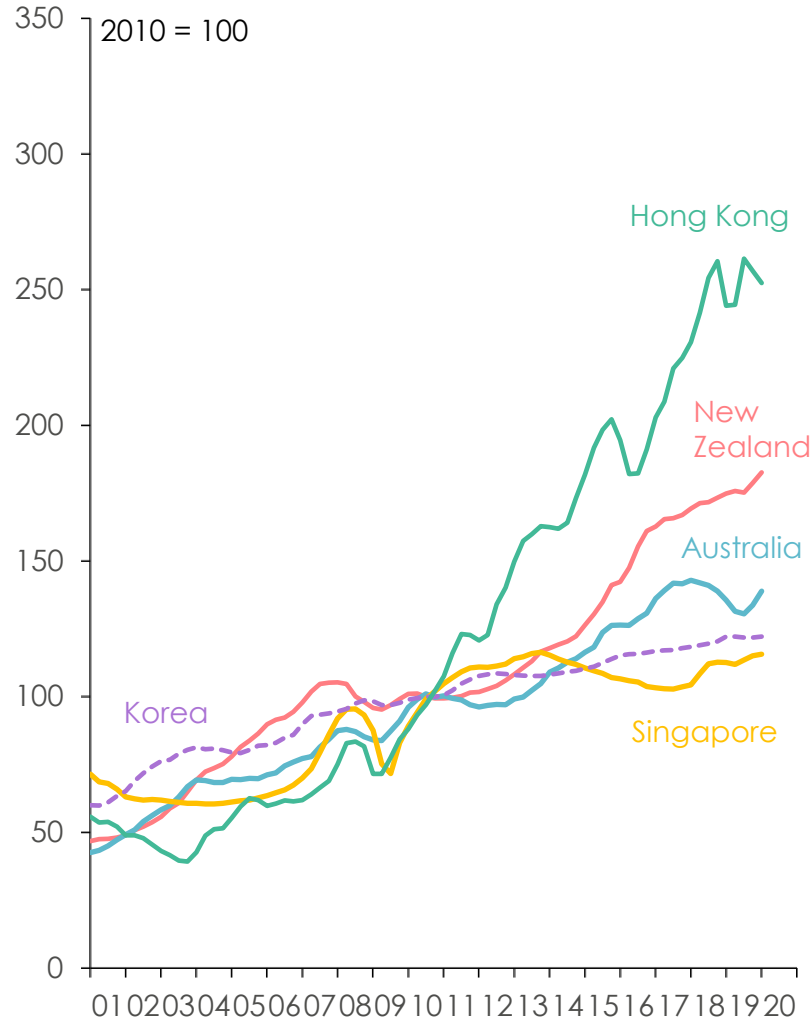
Asian and other large emerging markets current account balances



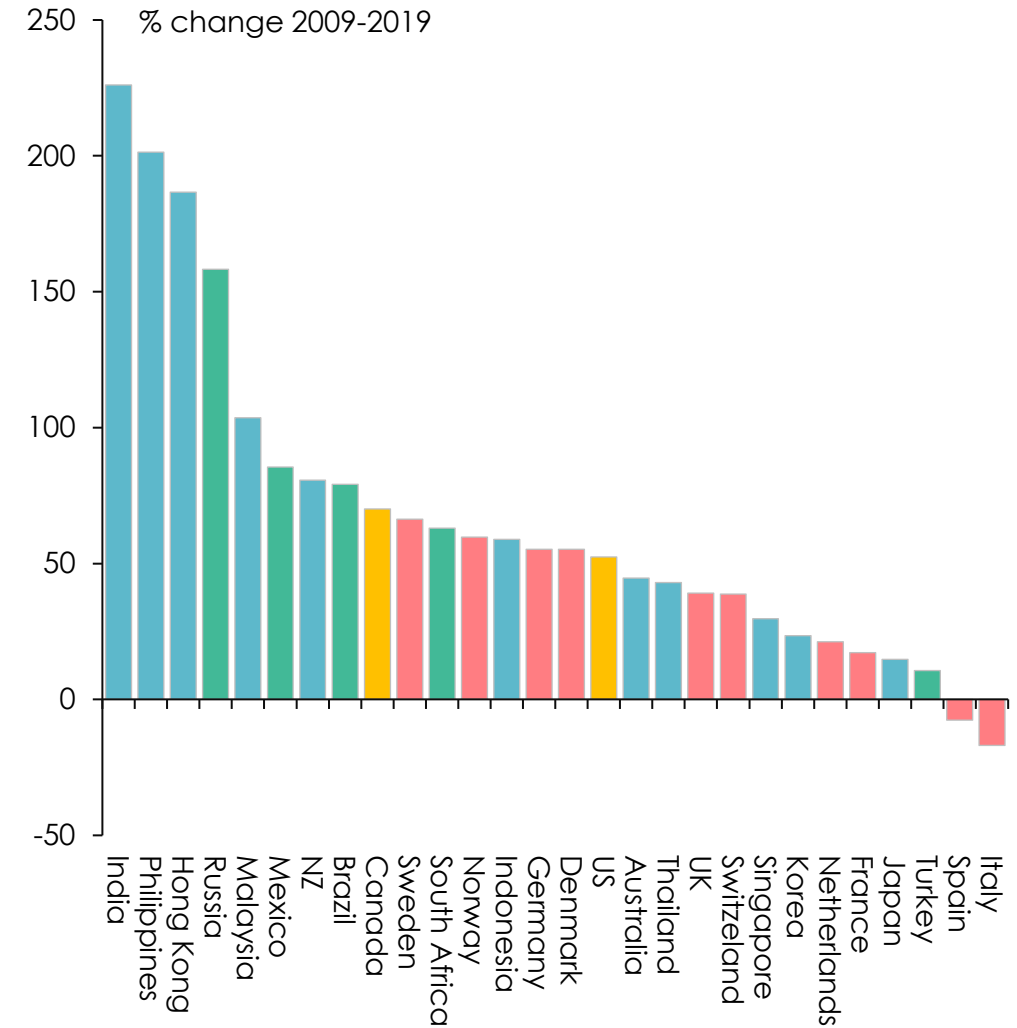
Sources: Bank of Korea; Central Bank of China; Hong Kong Census & Statistics Department; Singapore Department of Statistics; Australian Bureau of Statistics; Statistics New Zealand; Department of Statistics Malaysia; Bank of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; Reserve Bank of India; China State Administration of Foreign Exchange; Japan Ministry of Finance; Refinitiv Datastream.

Property prices have risen especially rapidly in India, the Philippines and Hong Kong over the past decade, but less so in other Asian markets

Residential property prices, Asian and other markets, 2001-2020



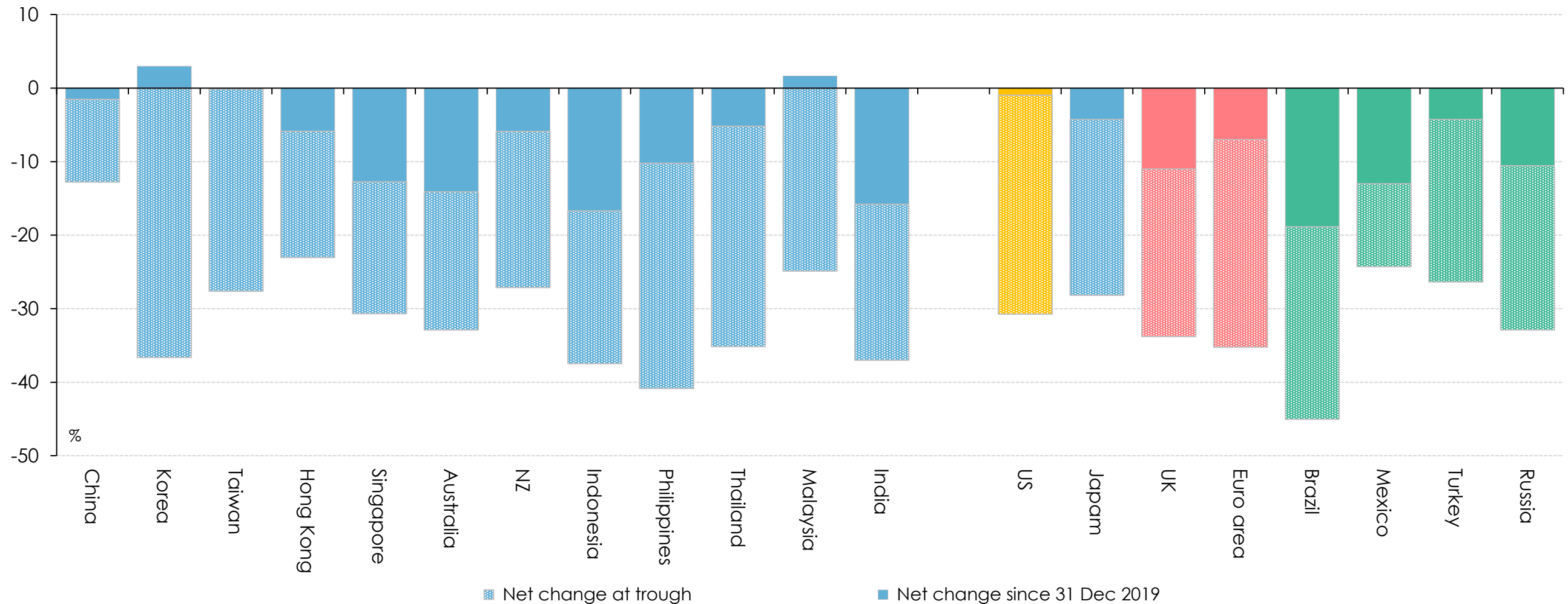
Change in residential property prices, 10 years to December quarter 2019



Source: Bank for International Settlements, *Residential Property Prices: Selected Series*. Data for Russia is March 2010-Dec 2019.

Korean, Taiwanese and Malaysian stock markets have recouped most of their initial losses but most other Asian markets are still down 10-20% ytd

Asian stock market performance in 2020 to date, compared with other 'advanced' and 'emerging' markets

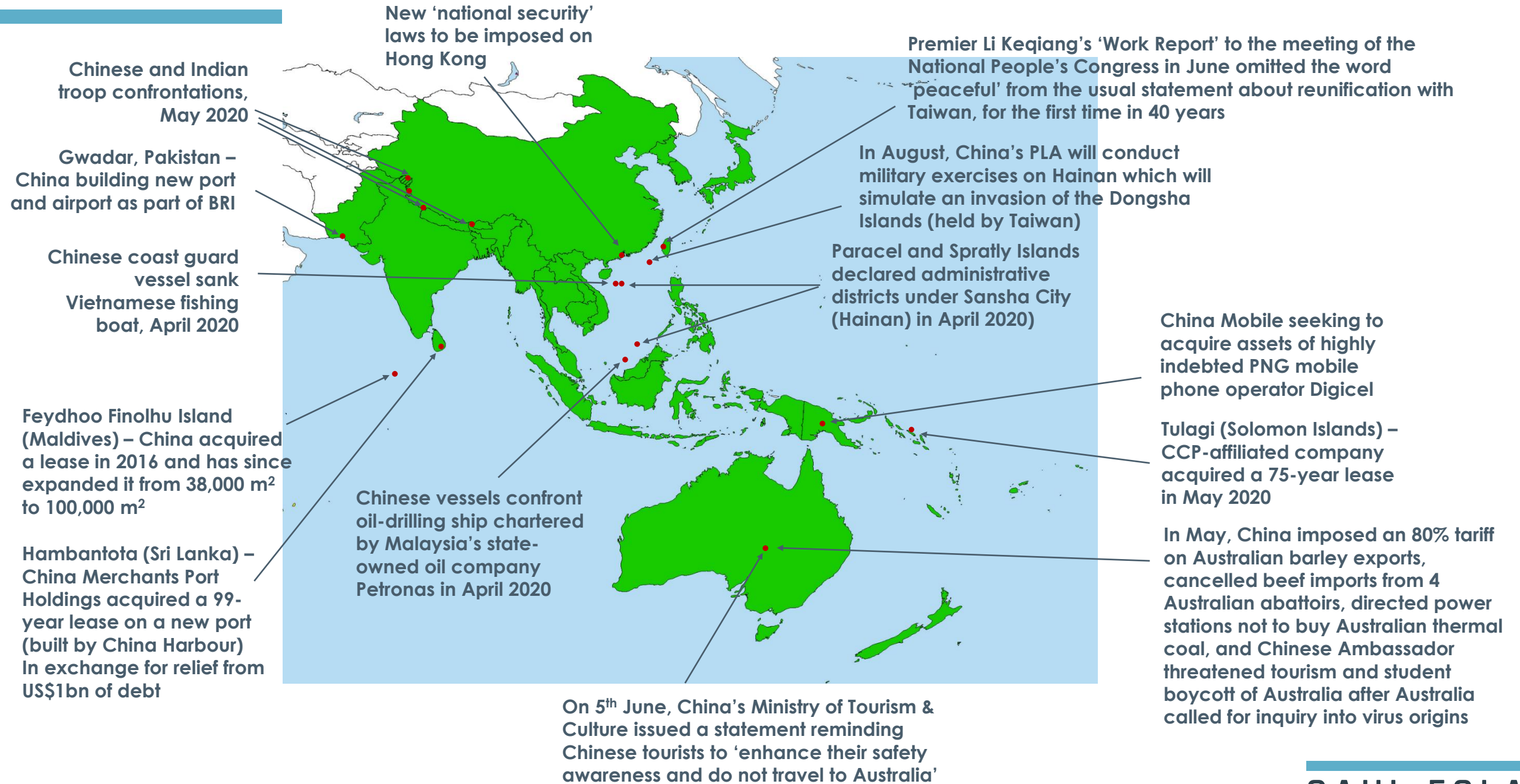


Note: US is S&P500; Japan is Topix; Euro area is Eurostoxx. 'Ytd' is year to data. Data up to 5th June 2020. Source: Refinitiv Datastream.

China's increasingly belligerent military posture (and possible US reactions to it) poses risks to 'peripheral Asia'

- ❑ **China appears to be becoming increasingly bellicose and belligerent**
 - it believes other countries aren't paying it the respect (or deference) that it believes its growing economic heft deserves
 - and sees an opportunity in the erosion of American moral authority under the Trump Administration
- ❑ **China's approach to Hong Kong and Taiwan is becoming more assertive and authoritarian**
 - last month's National People's Congress authorized the imposition of 'national security' law on Hong Kong, which would allow 'relevant national security organs' of the Chinese Government to 'set up agencies in Hong Kong to fulfil relevant duties to safeguard national security in accordance with the law'
 - Premier Li Keqiang's 'Work Report' to the NPC pointedly omitted the word 'peaceful' from the regular statement of intent for 'reunification' with Taiwan (for the first time in 40 years)
 - General Li Zuocheng (Chief of the Joint Staff and member of the CMC) said on 29th May 'if the possibility of peaceful reunification is lost, the people's armed forces will ... take all necessary steps to resolutely smash any separatist plots or actions'
- ❑ **China is continuing with its militarization of the South China Sea**
 - in April this year China proclaimed two new municipal districts to govern the disputed Paracel and Spratly Islands
 - on 3rd April a Chinese patrol boat rammed and sank a Vietnamese fishing vessel near the Paracel Islands,
 - in the latter part of April, a Chinese survey ship accompanied by two navy destroyers confronted a drillship chartered by Petronas operating in Malaysia's exclusive economic zone north of Sarawak
 - In response the US has stepped up its naval presence in the region, increasing the risk of an 'incident'
- ❑ **Chinese and Indian troops have been confronting each other along their Himalayan border**
 - Chinese and Indian troops confronted each other (with rocks) at several places along their border during May
- ❑ **China has been acquiring islands in the Indian and Pacific Oceans**
 - China has been artificially enlarging Feydhoo Finolhu Island in the Maldives, 600kms from India, which a Chinese company leased for 50 years for US\$4mn in 2016
 - while in May this year China Sam Enterprise Group acquired 75-year lease of Tulagi in the Solomon Islands (which served as an HQ for Allied naval operations during World War II)

Recent Chinese activity in the Indo-Pacific region



Other medium-term risks for ‘peripheral Asia’

❑ ‘Second waves’ of infections

- particularly in those countries which are easing restrictions without having ‘flattened the curve’ (Indonesia, India)
- conversely, countries which maintain severe restrictions for longer in order to contain the spread of the virus face more near-term downside economic risks (Philippines)

❑ ‘Reshoring’ to major advanced economies

- one likely consequence of the pandemic is a desire in ‘advanced’ economies for greater self-sufficiency in the supply of ‘strategic’ products – which could have adverse consequences for Asian economies (particularly Taiwan, Thailand, Malaysia, Singapore and Vietnam) where participation in Global Value Chains has been an important driver of economic growth
- this may partly offset the potential gains to some countries (most notably Vietnam) from the relocation of production from China in order to circumvent US tariffs on imports from China

❑ Protracted downturns or sluggish recoveries in major export markets

- more than 40% of Vietnam’s and the Philippines’ exports, and around 30% of Taiwan’s and India’s, go to the US, Japan or EU
- while others, such as Malaysia and Hong Kong, are more directly exposed to China, a significant proportion of those exports are indirectly exposed to developed markets

❑ Persistent investor risk aversion towards all ‘emerging markets’

- could adversely affect economies with persistent current account deficits or large FX-denominated debts, but in general Asia less exposed than other EM regions

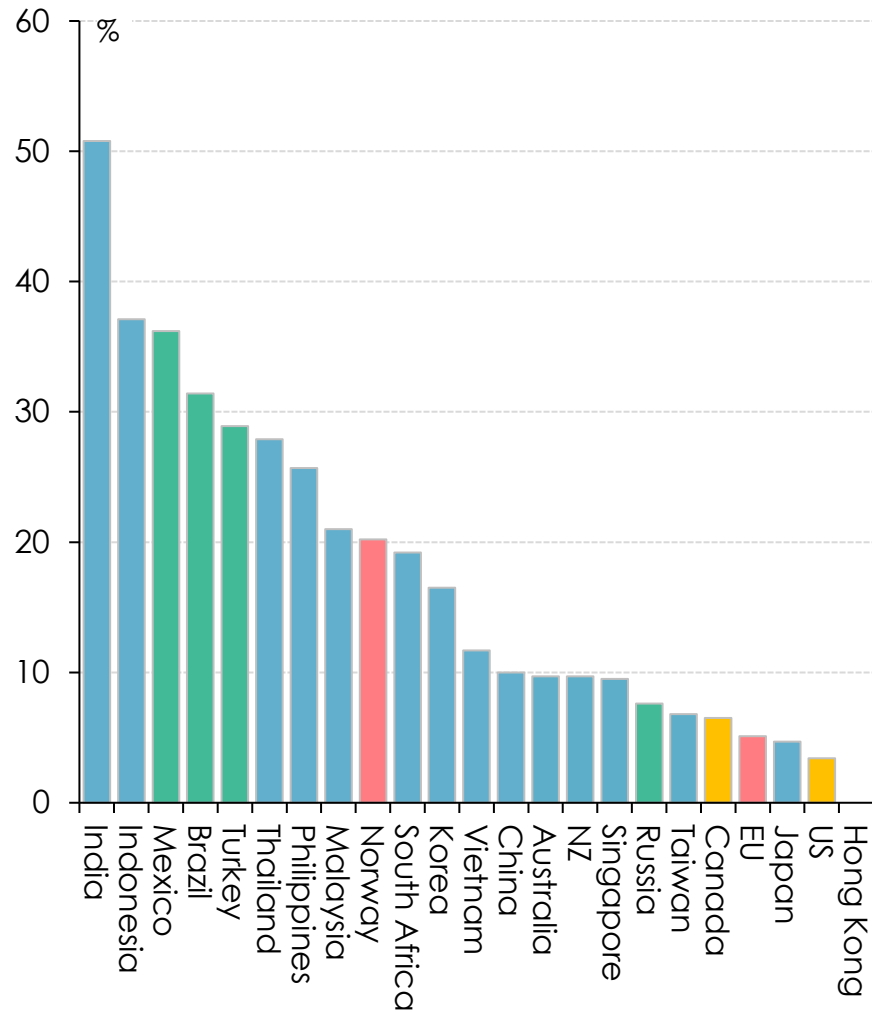
❑ Disappointment / exasperation with India’s failure to live up to expectations

❑ Climate change

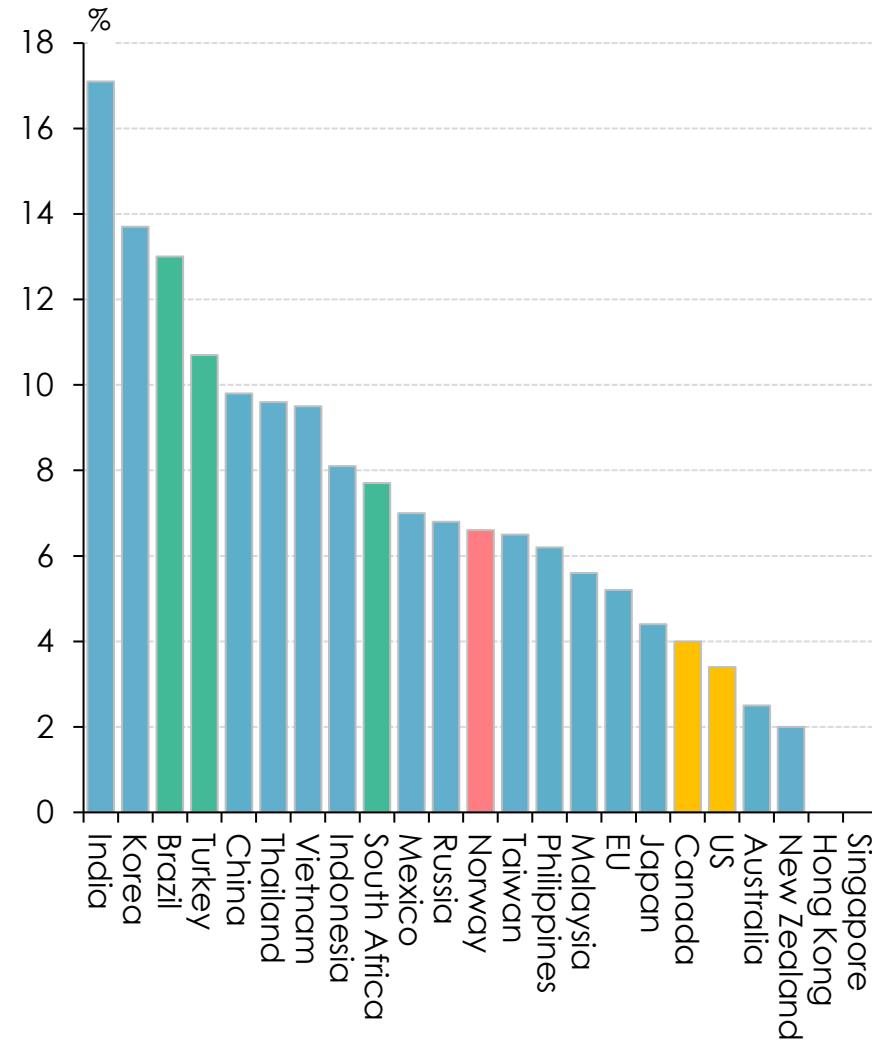
- 6 of the 10 countries most affected by climate change over the past 20 years are in ‘peripheral Asia’ (Myanmar, Philippines, Vietnam, Bangladesh, Thailand and Nepal)
- A large proportion of peripheral Asia’s population live in cities especially prone to rising sea levels (eg Manila, Jakarta, Bangkok, Ho Chi Minh City, Yangon, Kolkata, Dhaka and Singapore)

Many 'peripheral' Asian economies are very open to trade but some – most notably India – remain staunchly protectionist

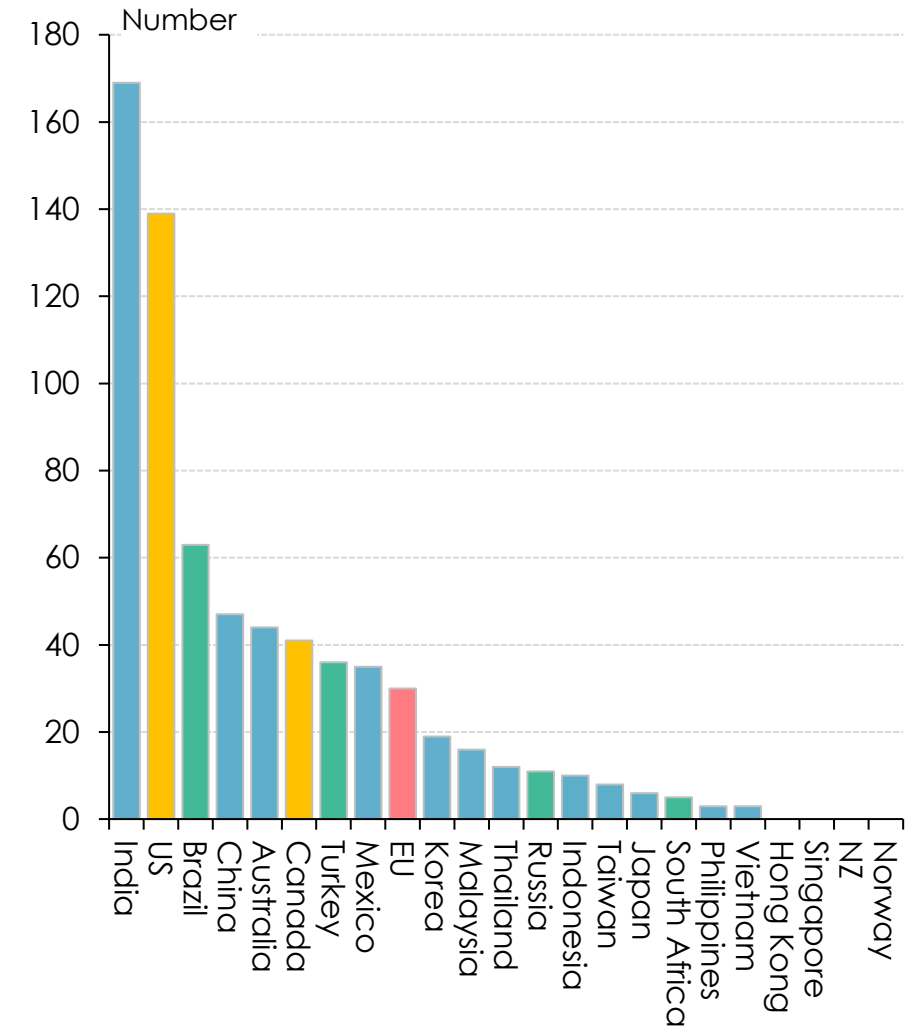
Average 'bound' tariffs, 2019



Average 'applied' tariffs, 2019

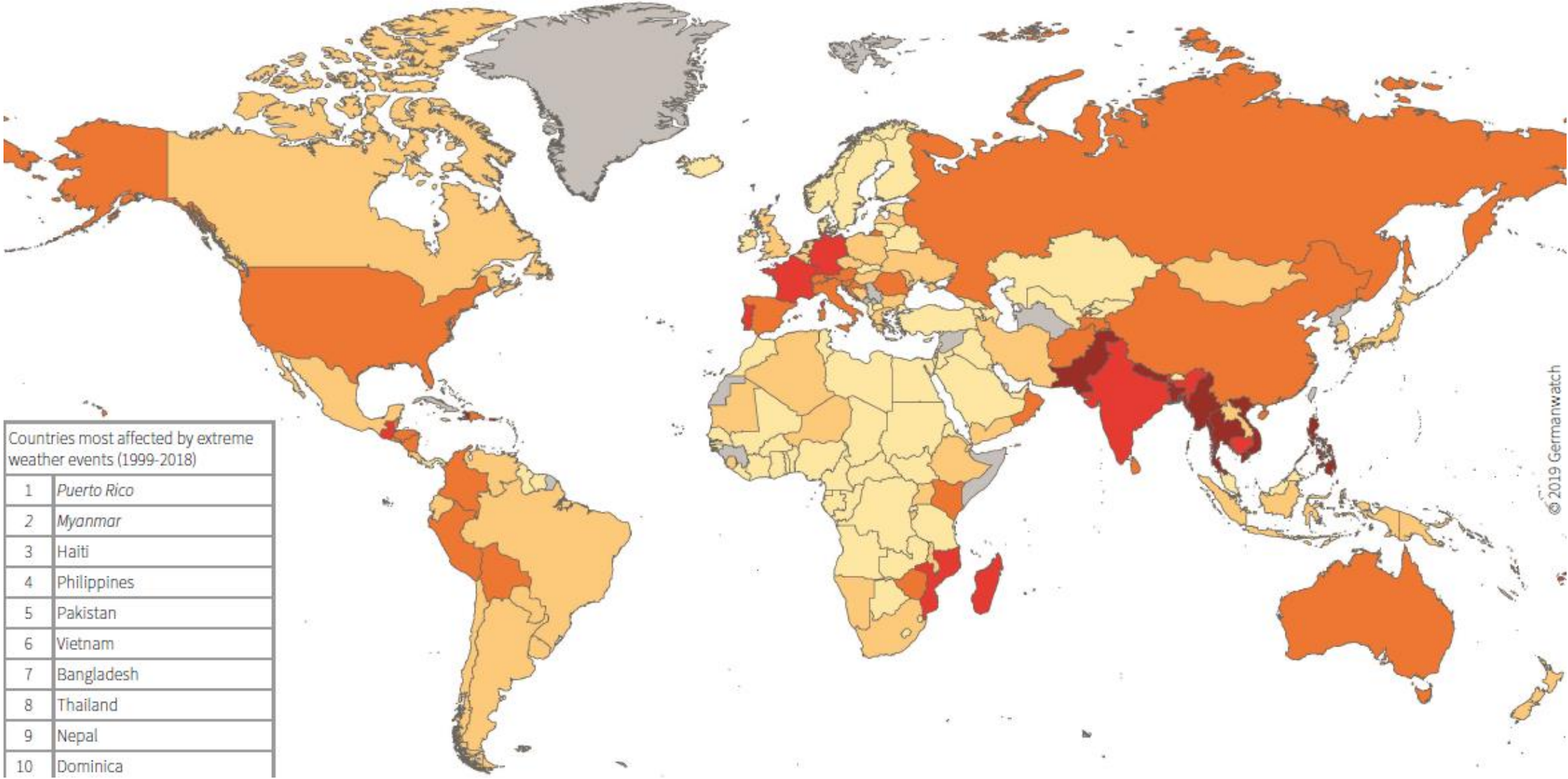


Number of 'anti-dumping' actions, 2015-2019



Note: 'bound' tariffs are the maxima that governments can set under legally binding commitments; 'applied' tariffs, are the rates which are actually charged, in each case expressed as an average of the total value of imports. Sources: World Trade Organization, International Trade Centre and UNCTAD, *World Tariff Profiles 2019*; World Trade Organization Committee on Anti-Dumping Practices.

South and South-East Asian countries are among the most exposed to risks from climate change



Countries most affected by extreme weather events (1999-2018)

1	Puerto Rico
2	Myanmar
3	Haiti
4	Philippines
5	Pakistan
6	Vietnam
7	Bangladesh
8	Thailand
9	Nepal
10	Dominica

Climate Risk Index: Ranking 1999 - 2018 1 - 10 11 - 20 21 - 50 51 - 100 >100 No data

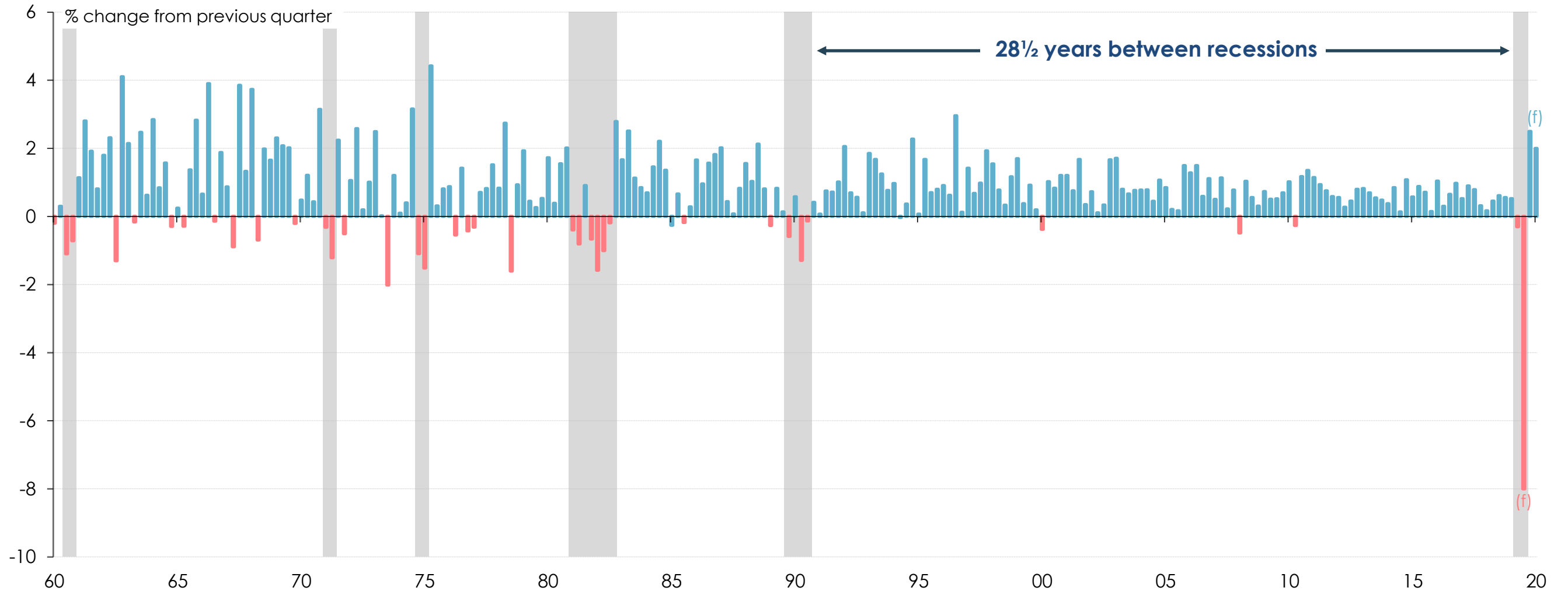
© 2019 Germanwatch

Source: David Eckstein, Vera Künzel, Laura Schäfer & Maike Wings, *Global Climate Risk Index 2020*, Germanwatch (December 2019).

Appendix: why Australia's record-breaking run of almost 30 years without a recession (as conventionally defined) has come to an end

Australia's record-breaking run of almost 30 years without a recession has come to an end

Quarterly growth in Australian real GDP, 1960-2020



Note: Shaded areas denote recessions. Source: ABS.

How did Australia manage what other economies couldn't?

Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

❑ Population growth

- Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
- net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly

❑ Our unusual (for an 'advanced' economy) economic relationship with China

- China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of Australia's commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which Australia imports, and contributed significantly to the growth of our tourism and education sectors
- By contrast, China's rapid economic growth undermined the competitiveness of manufacturing industries which account for a much larger share of most other 'advanced' economies, put downward pressure on the prices of their exports and put upward pressure on the prices of commodities which they import

❑ The 'housing boom'

- Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
- the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise

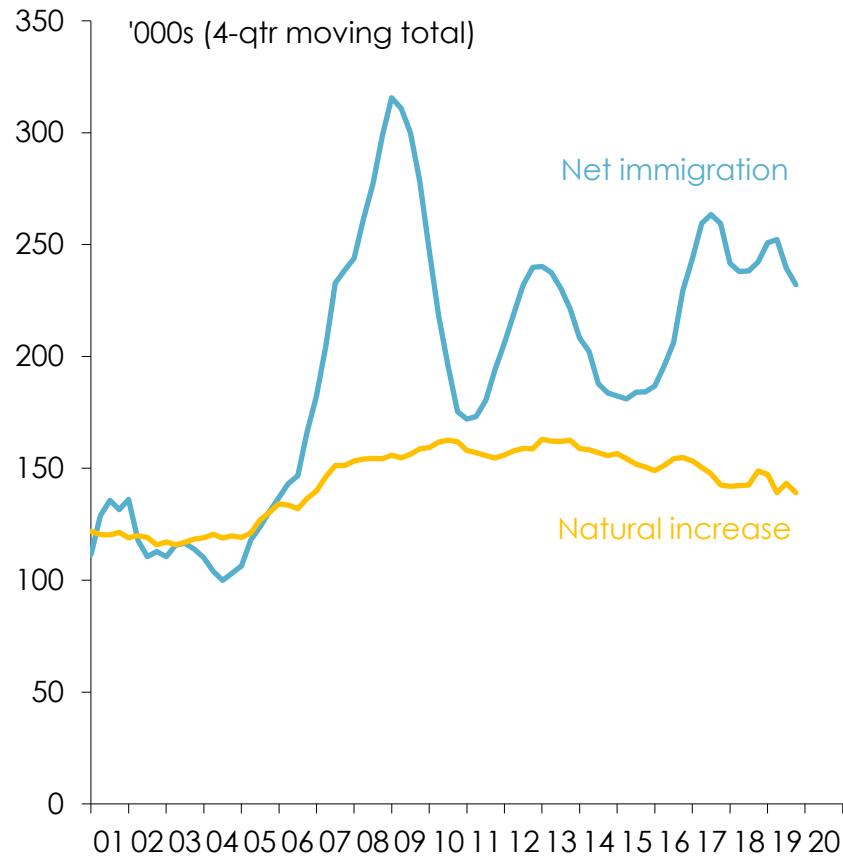
❑ (Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies

- although Australia hasn't done nearly as well as it once did on the micro-economic front (especially with regard to productivity)

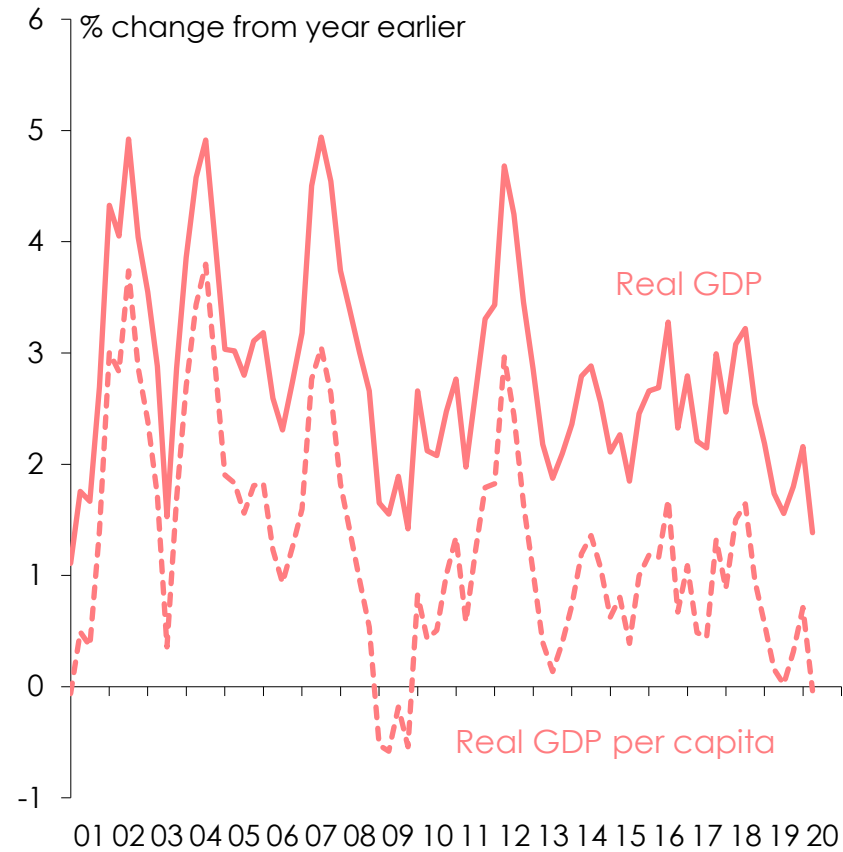
The first three of these are likely to be of less assistance from now on

A sharply lower immigration intake will detract significantly from Australian economic growth

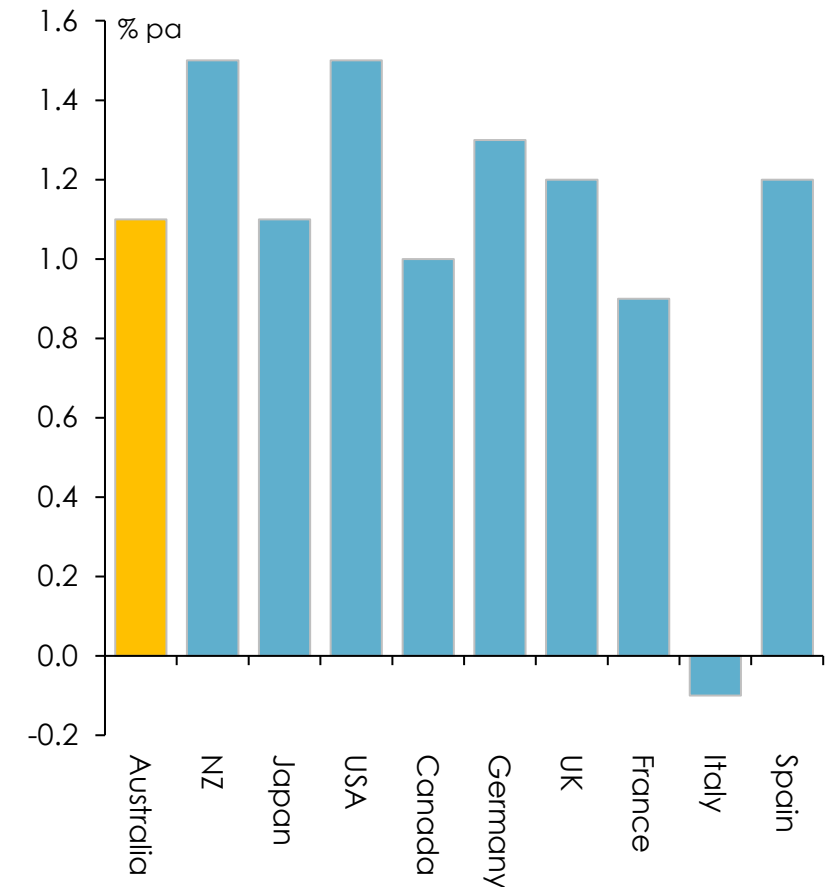
Sources of Australia's population growth



Australian GDP and per capita GDP growth



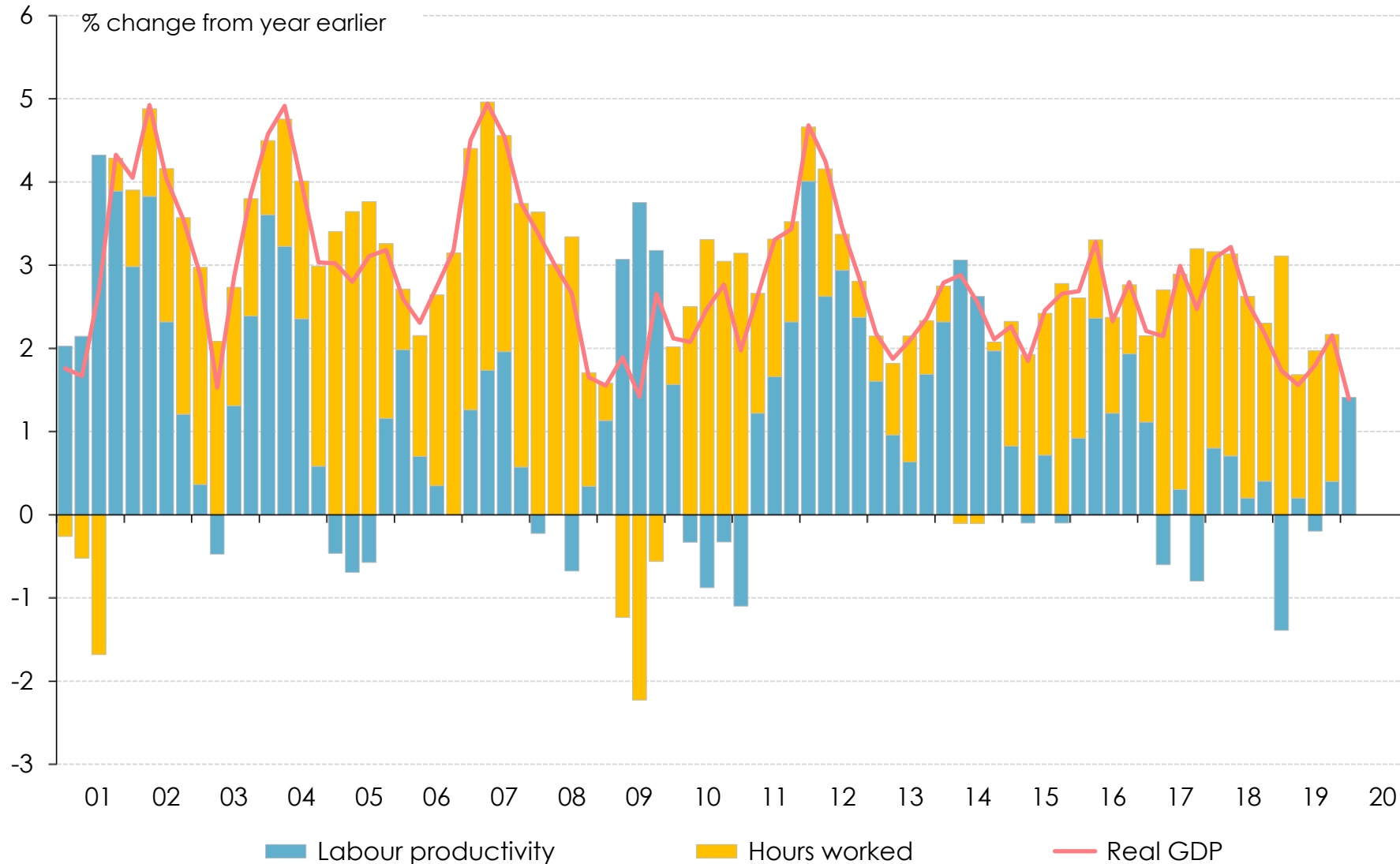
Real per capita GDP growth, 2010-2019



□ The Australian Treasury (Finance Ministry) reportedly expects net overseas migration to fall by 30% in 2019-20 (ie to about 168,000) and by a further ~ 80% in 2020-21 (ie to about 36,000)

Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years

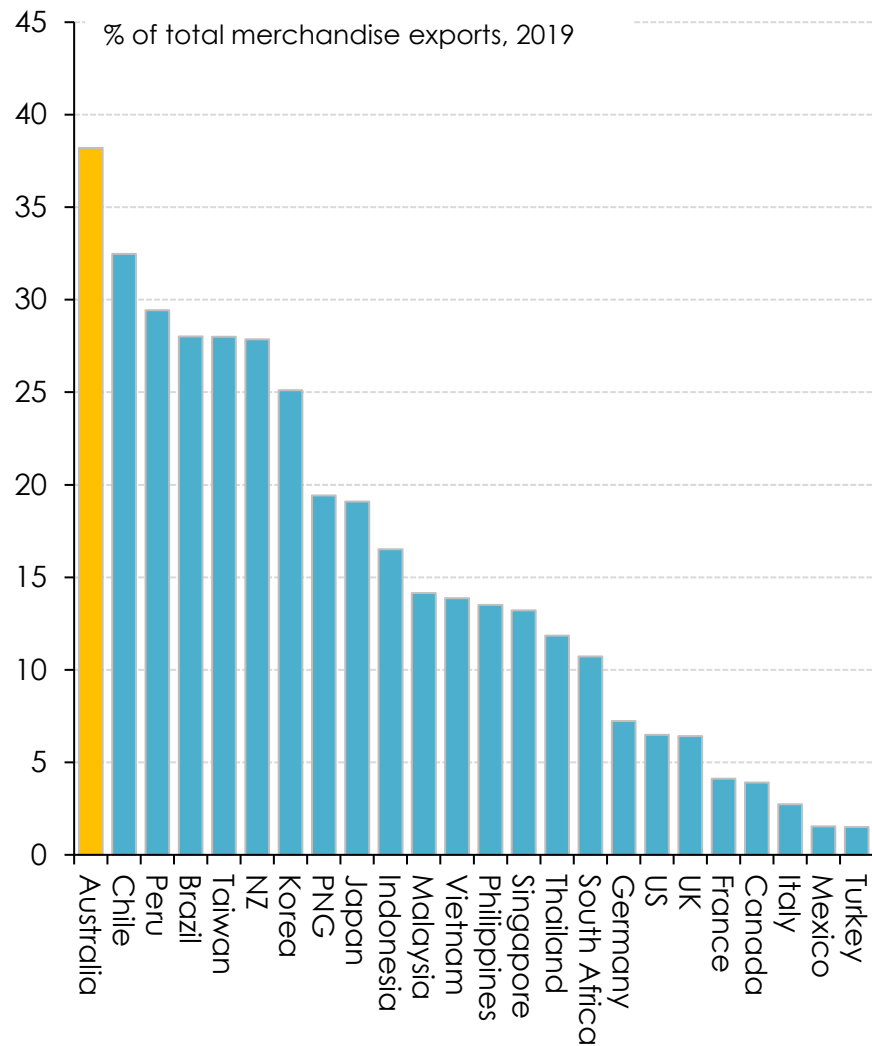
Labour input and labour productivity contributions to Australian real GDP growth



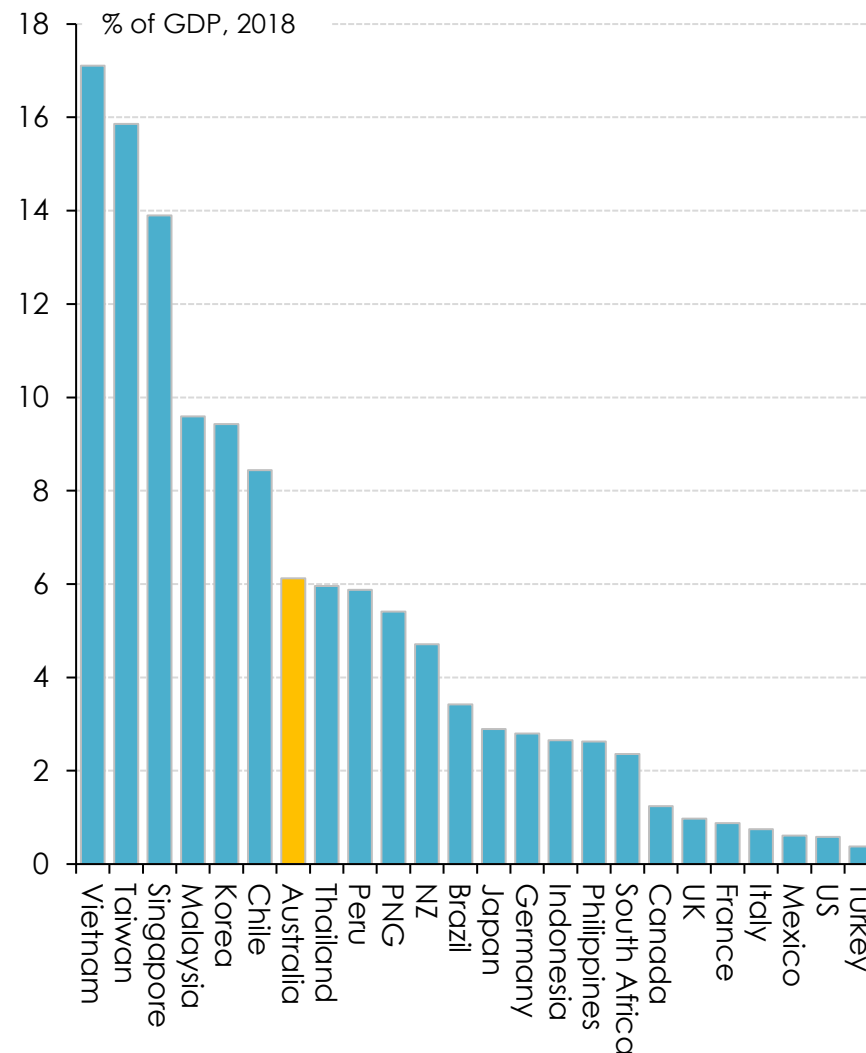
- ❑ Over the past five years, 72% of Australia's real GDP growth has come from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from increased labour input and 54% from productivity growth

Australia has benefited enormously from its economic relationship with China over the past 25 years, but will that continue to be the case?

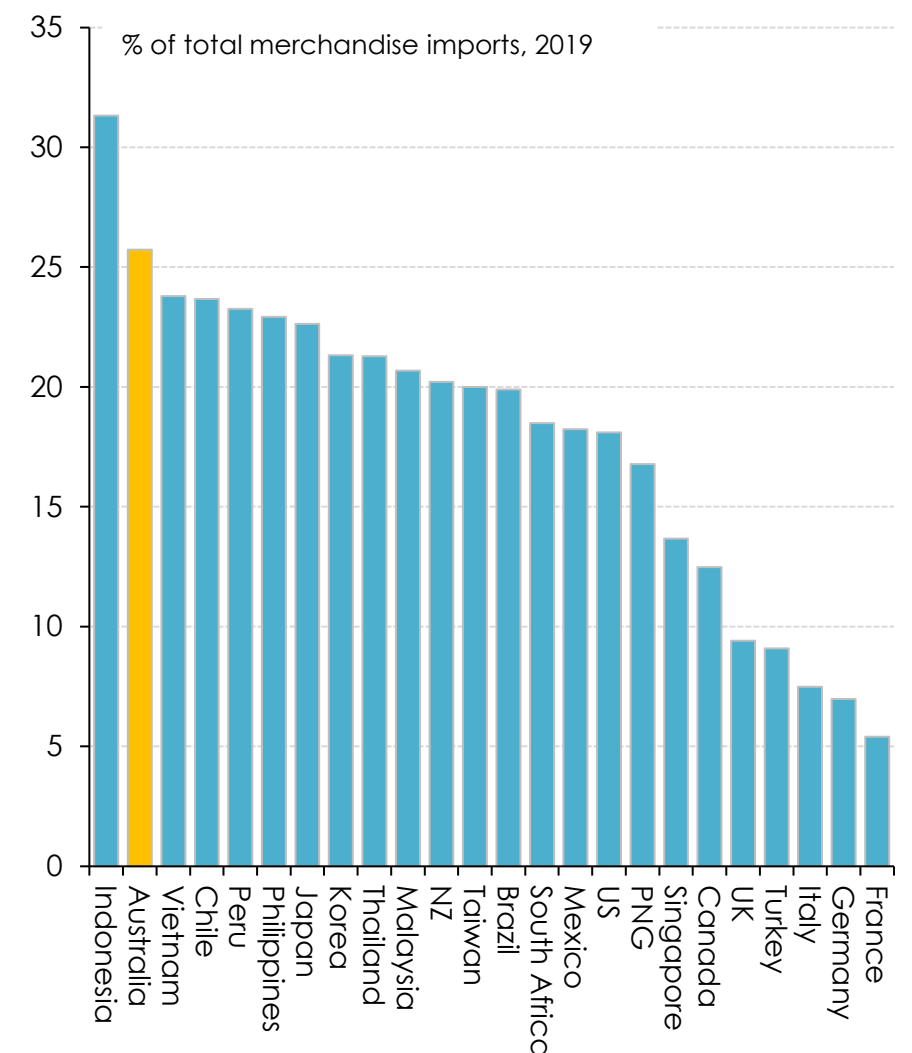
Merchandise exports to China as a pc of total



Merchandise exports to China as a pc of GDP



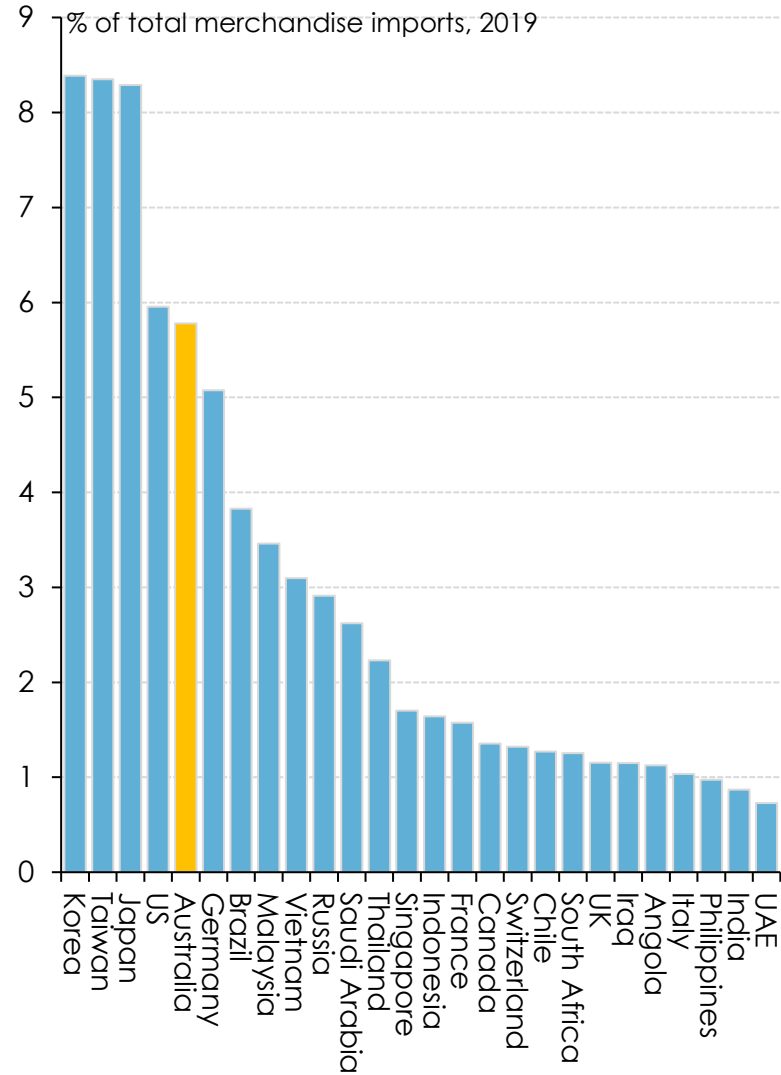
Merchandise imports from China as a pc of total



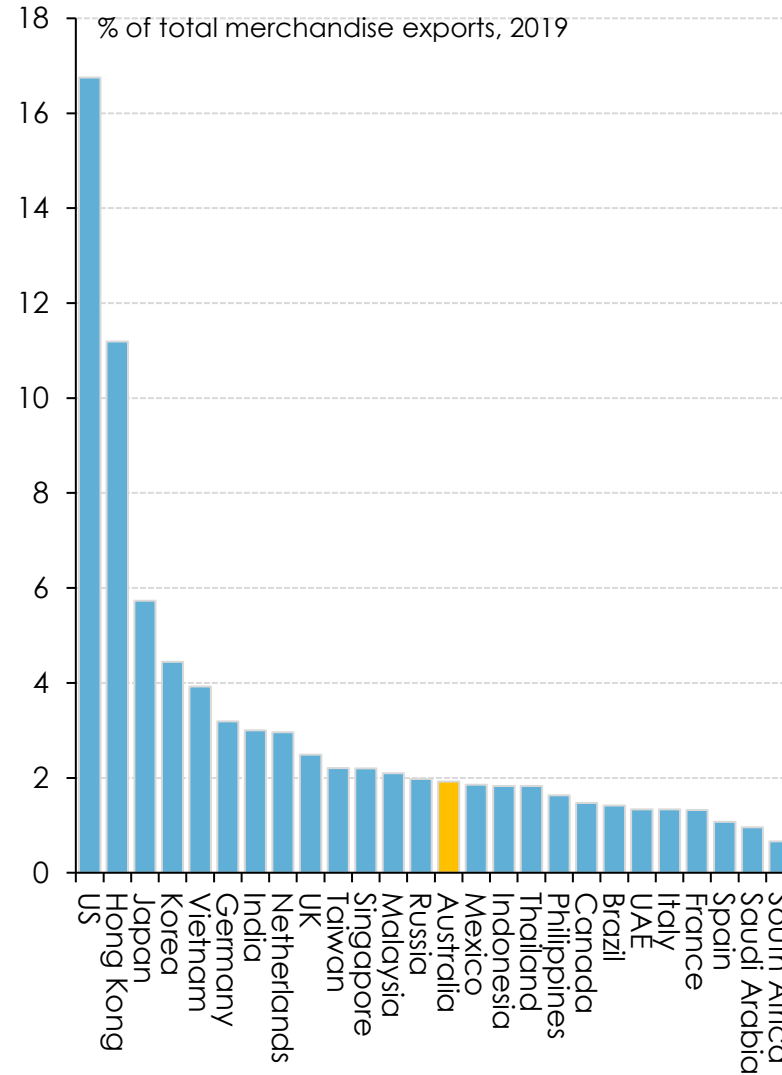
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade.

Australia is China's 5th biggest source of imports (of goods), 14th biggest export market, and has the 2nd-largest bilateral trade surplus with China

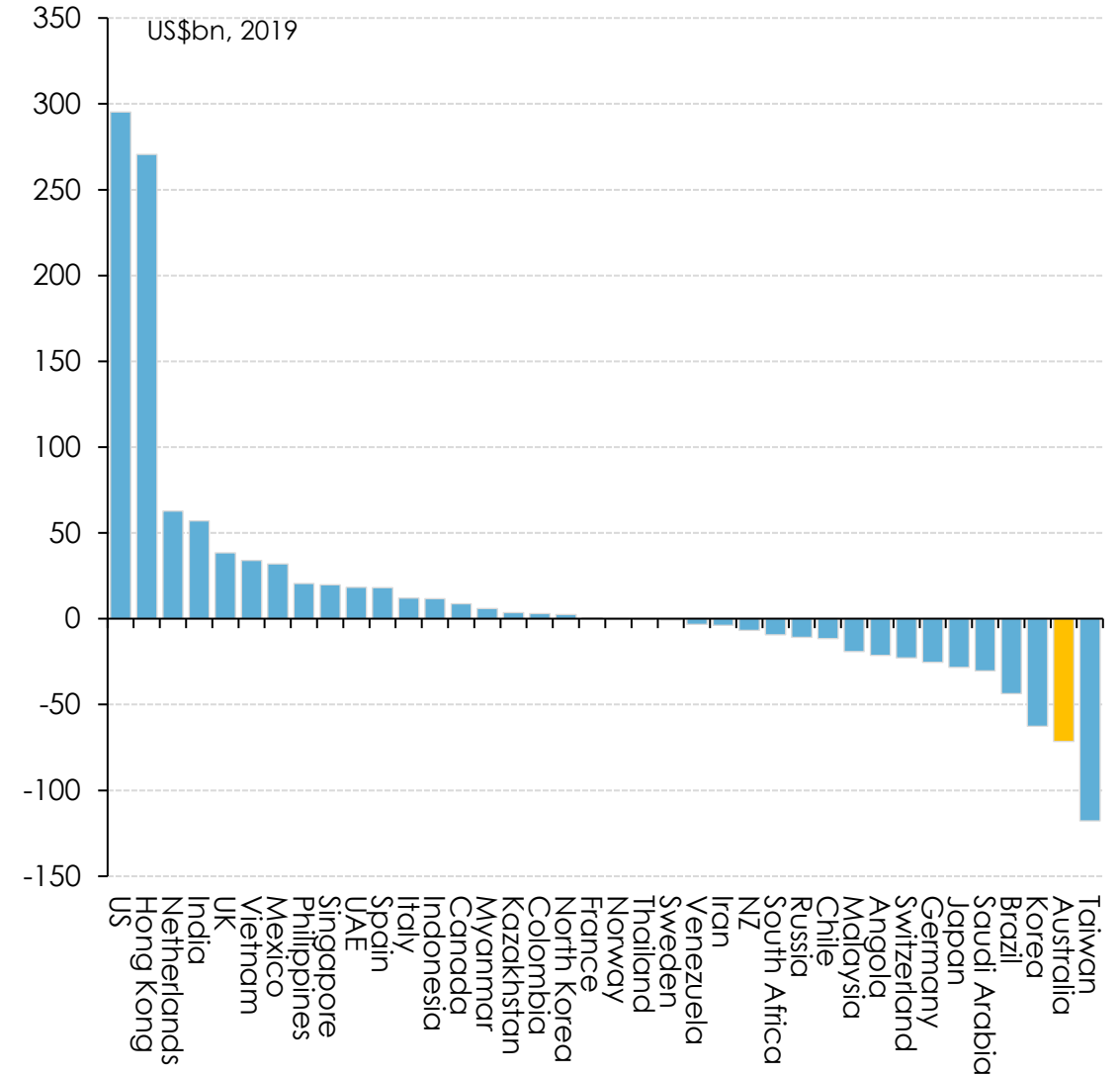
China's sources of imports



China's export destinations



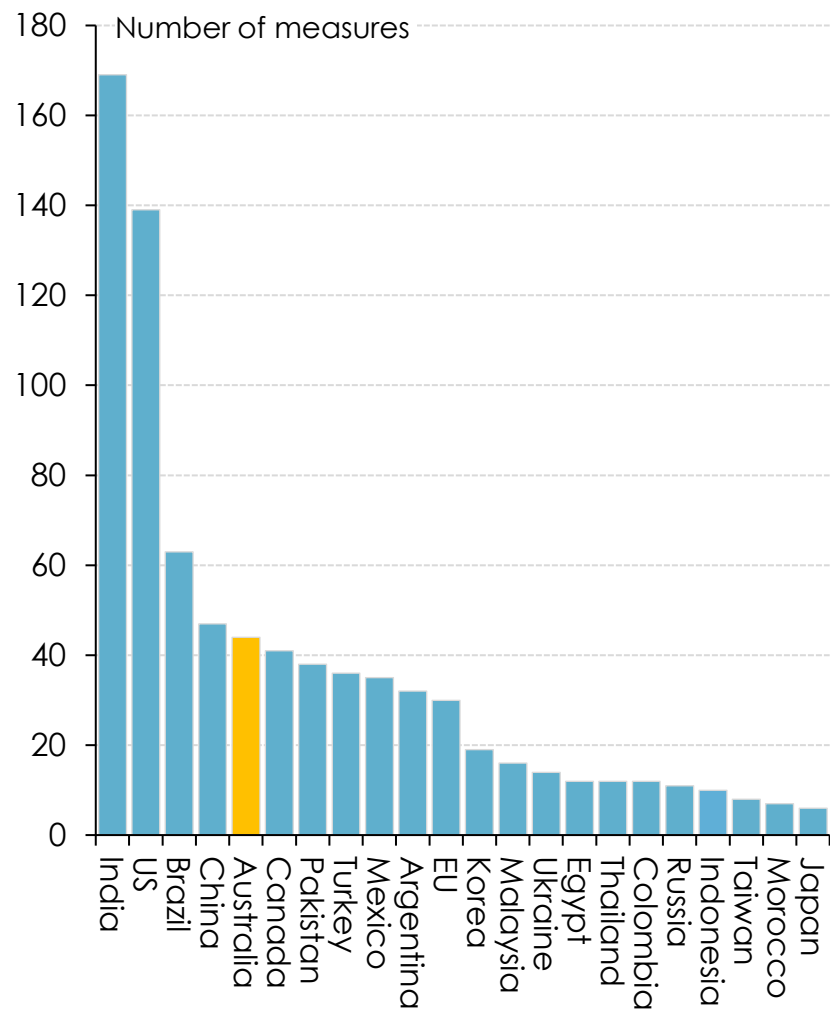
China's bilateral merchandise trade balances



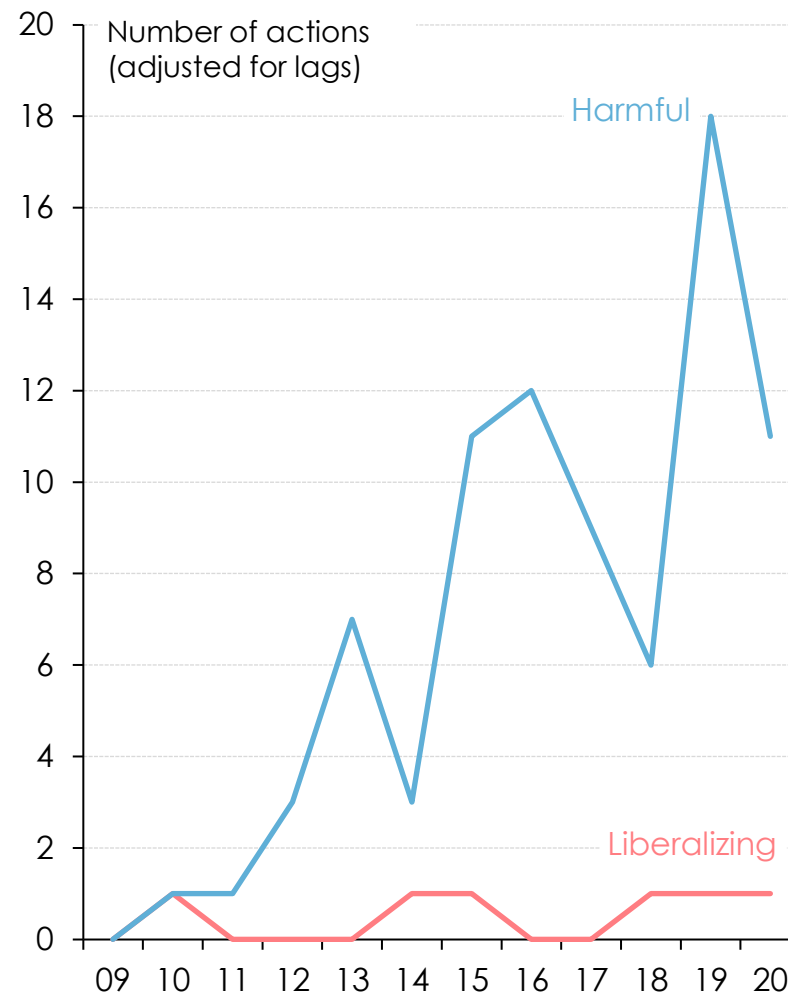
Source: International Monetary Fund, *Direction of Trade Statistics*.

China's actions against Australian exports of barley, beef, coal and iron ore aren't justified, but we aren't complete innocents either

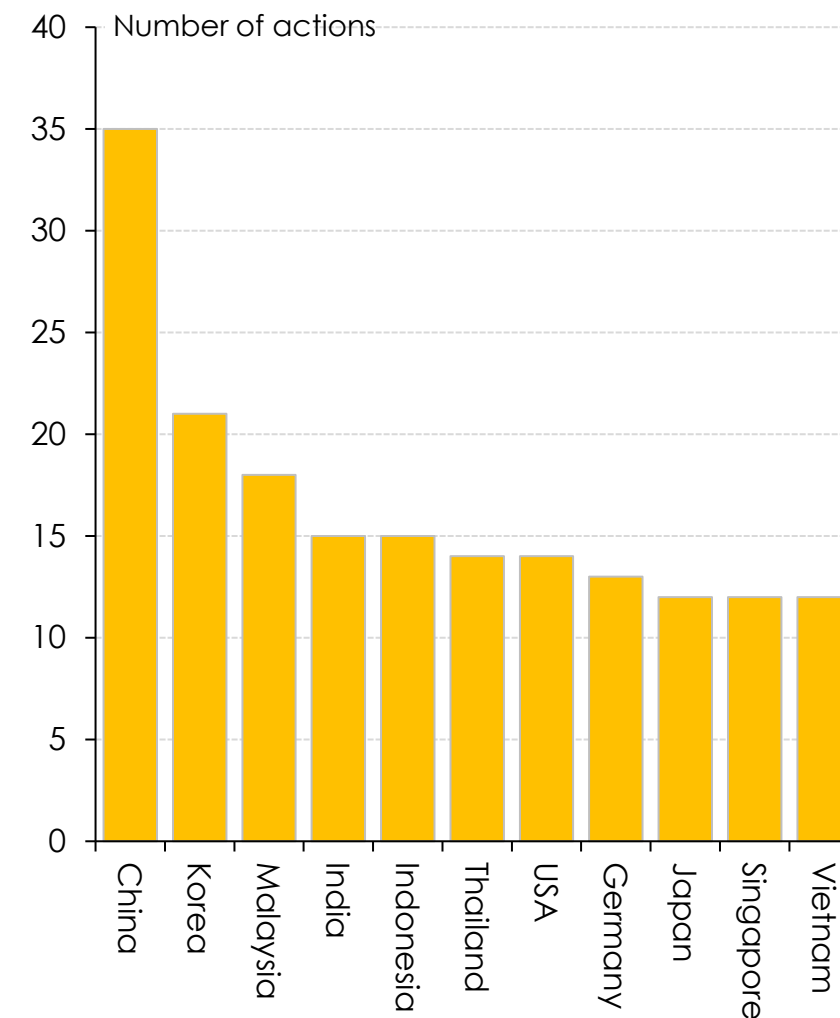
Number of anti-dumping measures imposed, 2015-19



Australian trade policy measures since 2009

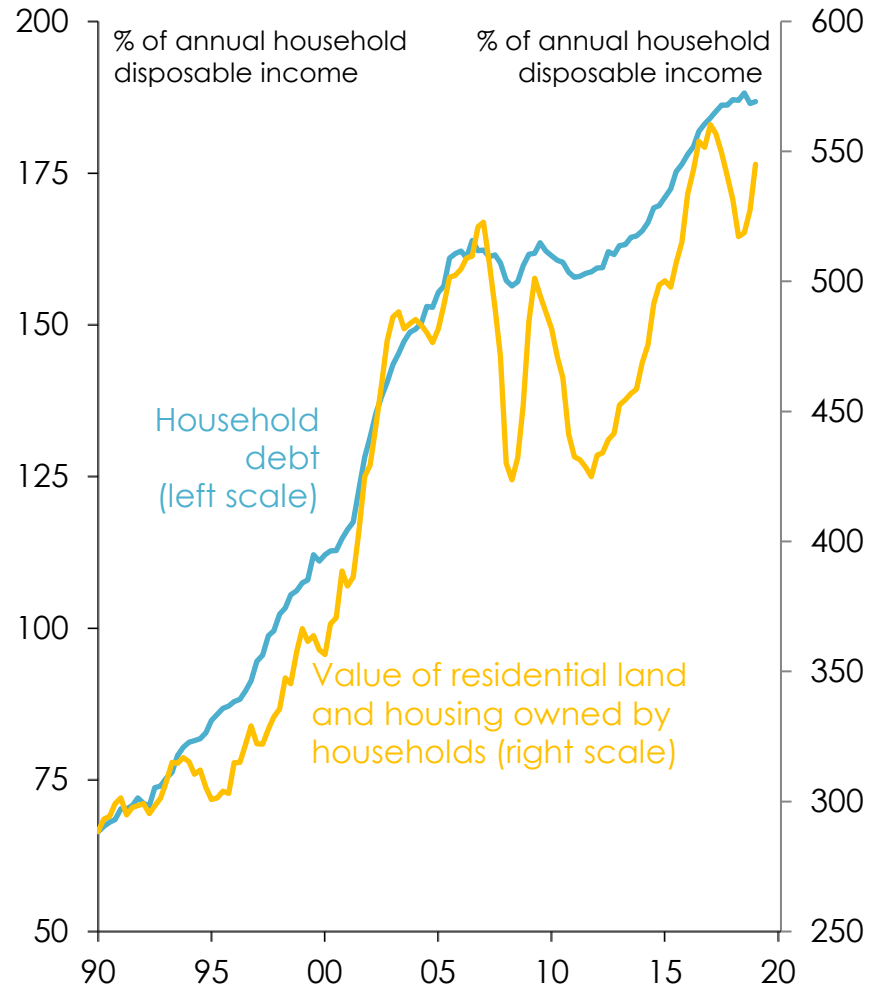


Countries adversely affected by 'harmful' Australian trade actions

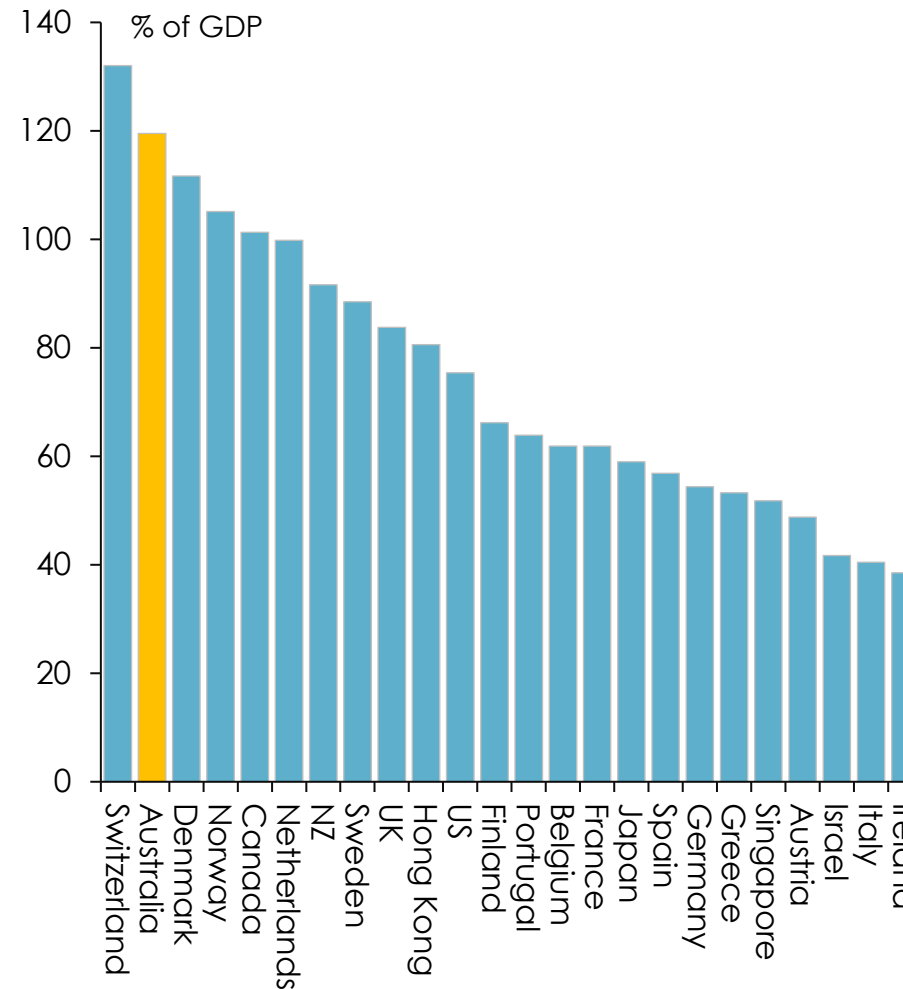


Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

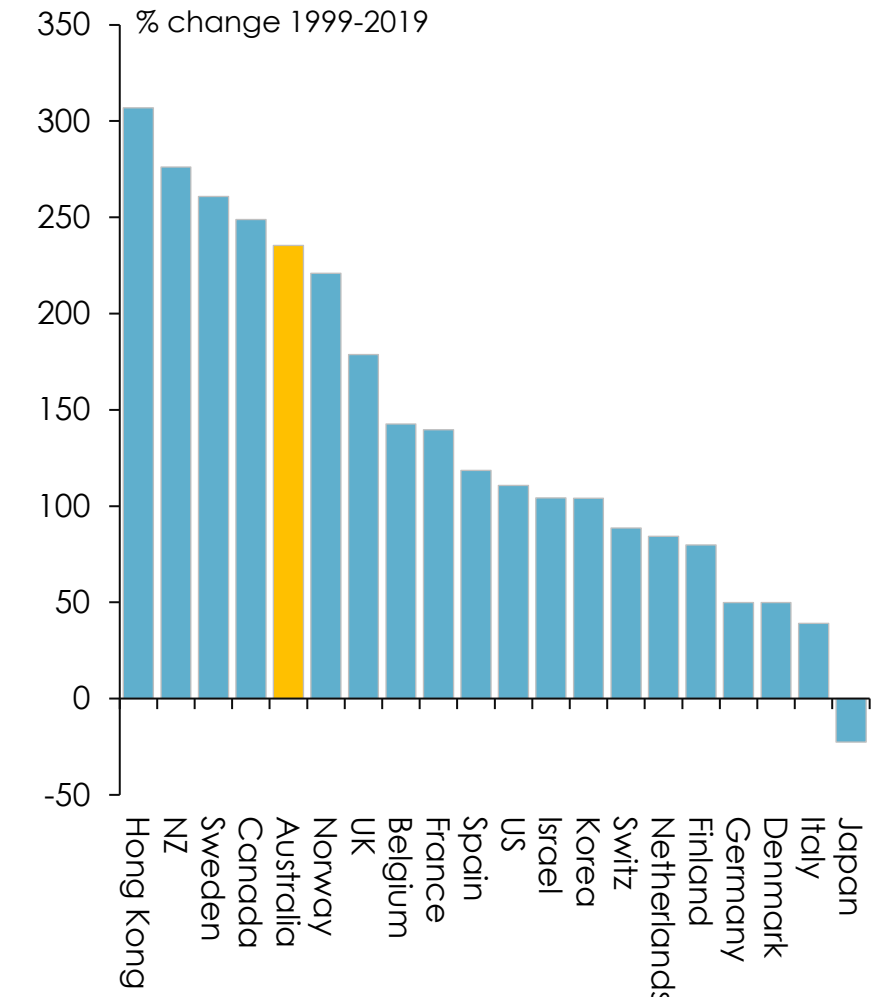
Australian housing wealth and household debt



Household debt as a pc of GDP, December 2019



Increase in residential property prices, 1999-2019



Sources: ABS; Bank for International Settlements.

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