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HD **A continuing China dependency**

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There are hiccups aplenty in the vision of a fast expanding market for quality Australian wines.

Xi Jinping's crackdown on corruption means presenting bottles – or case loads – of expensive **wine** as "gifts" to officials is no long considered appropriate. Everyone is becoming too nervous to either give or receive such traditional methods of helping **business** get done.

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More big drops into negative territory for alcohol and tobacco last month contributed to **China**'s lower than expected inflation numbers of 1.6 per cent for the year to September.

Clearly this is nowhere near as significant for Australia as a 40 per cent reduction in the price of iron ore this year. Yes, Australian miners are engaging in the ultimate free-market free-for-all in their race to dramatically expand the supply of iron ore despite the obvious impact on price. But neither are higher-cost **Chinese** mines closing down as rapidly as either the miners or economic rationality predicted.

So the cork in the potential demand for **wine** demonstrates how much seemingly unrelated **Chinese** policy decisions or changes of direction now flow automatically across so many sectors of the Australian economy.

Trade Minister Andrew Robb has done a sterling job in trying to pin down a free-trade agreement with **China** by the time of the G20 visit next month and Xi Jinping's visit. Such an agreement – if it comes off – will benefit Australian access to markets across a broad range of industries.

Yet the national mood is becoming more apprehensive about the risks as well as the opportunities in **China**'s increasing economic power over Australia's prospects.

The growing community concern about the impact of **Chinese** investment in certain sections of the Australian property market is just one aspect of that. That is in addition to the National Party's paranoia about foreign (read **Chinese**) investment in rural property and agribusiness.

And the focus on the **China**-led resources boom pulling Australia through the global financial crisis is giving way to nervousness about the impact of falling commodity prices on national income.

A reluctance to adjust to inevitable economic change on a grand scale is always the underside of the many advantages of greater trade and globalised competition.blind-sided

The growth of a massive middle class market for Australian agricultural products and other services will help dissipate that. Closing off from the world offers no protection anyway for the Australian economy. But the government will have to be careful how it handles the politics of this new phase in **Chinese** development and the impact on Australia. **China**'s surprise announcement this month of an immediate 3 per cent tariff on coking coal imports and a 6 per cent impost on thermal coal, for example, is more evidence of how hard **China** plays its own version of protectionism. This move may be more about sheltering **China**'s own struggling coal producers rather than a last-minute ploy in free-trade negotiations. Or it could be both. The Australian Government was certainly blindsided. Unlike iron ore, **China** produces most of its own coal needs – 3.5 **billion** tonnes last year up from 900 **million** tonnes in 2000.

But the size of the market still means a lot of import tonnage and further pricing pressure when the Australian coal industry is also in bad shape. Australia is **China**'s largest supplier of coking coal, with **China** taking about 30 **million** tonnes of the 170 **million** tonnes exported from Australia last year. We are also **China**'s second largest supplier of thermal coal, second only to Indonesia, which is exempt from the new tariffs because of the **Chinese** ASEAN free-trade agreement. So what happens now? Part of the answer depends on how successfully **China** negotiates the speed bumps in its own economy which is slowing but apparently still growing at over 7 per percent.

How that plays out is still unclear. For every expert warning of the problems of oversupply and falling prices in the housing market leading to a financial crisis, for example, there's another suggesting the issue will be handled the **Chinese** way – quietly, gradually but effectively.

The **Chinese** government, afloat on its huge currency reserves, does remain the final arbiter in an economy determined to transform itself. None of its moves so far amount to the large stimulus spending programs the markets keep waiting for. Instead, the reaction is more targeted and nuanced.

So there have been recent modest moves in lowering short term **business** credit terms and the People's Bank of **China** has lowered the higher downpayments and interest rates applicable to those buying second homes. Yet this still means a minimum 30 per cent downpayment for all home buyers – a reasonable degree of **equity** by Western standards. The government's earlier attempts to limit an unsustainable housing price boom may have worked too well in terms of slowing growth rates overall. Yet the **millions** and **millions** of rural residents moving to the cities should smooth out the excesses in the **Chinese** real estate market – up and down – over time.

But the next year or two may not be so smooth for **China**'s economy – or Australia's.

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