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Opinion

They want our lithium, we want their cars. No, we're not decoupling from China

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Foreign Minister Penny Wong has made clear that Australia's relationship with China is 'not going to go back to where we were'. There will be no 'reset'.

That's because while in years past, 'you could have your strategic relationship with the United States and your economic relationship with China and the world stayed separate, we don't live in that sort of world any more'.

And if push comes to shove, Wong put it plainly: 'we have already chosen'.

Prime Minister Anthony Albanese agrees: 'we've already chosen' the US when the ANZUS treaty was signed in 1951.

All of this has led many commentators to conclude that the best days of the Australia-China economic relationship are behind us. The campaign of trade disruption that Beijing launched in 2020 is held up as Exhibit A of what the new world looks like.

According to this reading, infused with risk, Canberra's job is to lead the de-coupling – or at the very least, the 'de-risking'.

The fact that the share of Australia's goods trade with China finished 2022 at 28 percent, down from 35 percent two year earlier, has been interpreted as evidence that desirable 'diversification' is underway.

Yet challenging this reading are the most recent trade numbers. These show that in the year to April, Australia's goods trade with China hit a record high: $A296 billion. China's share of Australia's total goods trade ticked up too, to 29 percent.

There's no denying that geopolitical disputes are spilling over to impact economic exchanges with increasing frequency.

But the informed question is around how significant these spill-overs are compared with unfolding trends in the fundamental drivers of trade, which are economic, not political.

Politicians and bureaucrats don't trade. Business and households do.

Burgeoning Australia-China trade since the mid-2000s has never been about a political meeting of the minds.

Similarly, 'shared values' was never the driver of Australia's trade with Japan after World War II.

More prosaic factors have led the way, like what China and Japan need and what Australia can competitively supply.

There's good reason to think that prosaic factors will continue to dominate – and China will only become more important as Australia's trading partner of choice.

Aside from buoyant commodity prices, two factors underpin the strength of the latest bilateral trade numbers.

First, the disruptive trade measures that Beijing imposed in 2020 are now being removed.

After a long absence, in January this year $A24 million of Australia coal made its way through Chinese ports. By April, this had exploded to $A844 million.

Trade Minister Don Farrell has also declared the blockages affecting cotton and copper to be over, while last month China's ambassador, Xiao Qian, delivered the news that Australian timber was once again welcome in the Chinese market.

Visiting Beijing in May, Farrell was further assured that the Chinese side's review into tariffs placed on barley was 'well underway' and a decision can be expected 'in the next few weeks'.

Second, the complementarities between the Australian and Chinese economies keep expanding, while shrinking vis-à-vis other trading partners.

As the world moves away from a reliance on fossil fuels, businesses and households on both sides have quickly recognised the potential for mutual benefit in clean energy supply chains.

In 2022-23, the value of Australia's raw lithium exports is expected to reach $18.3 billion, up from just $1 billion two years ago. In 2021-22, China bought 96 percent of the total.

This is not a one-way dependence vulnerable to political spats.

Chinese researchers recently put the country's reliance on raw lithium imports at 87 percent of its total demand, and with nearly 90 percent of this coming from Australia.

On the import side of the equation, Australia has long relied on international markets for passenger vehicles and last year this hit a new record high, at $27.7 billion. This was the second-largest category of goods imports, following only petroleum.

Historically, Japan has long been the supplier of choice, meeting more than 40 percent of Australian demand, while China has been a bit player at less than 3 percent.

But now that Australian consumer preferences are shifting to electric vehicles (EVs), the two countries' shares are changing rapidly.

That's because when it comes to EVs, the global leader is China. Companies like Tesla evaluate Shanghai to be preferable to Nagoya as a value-for-money production base. And that's not just because of cheaper labour costs. China also leads Japan in many of the technologies that EVs embody, such as those found in batteries.

The 'new Toyota' isn't to be found in Korea, Germany or the US either. Rather, the company's name is BYD, and it's headquartered in Shenzhen, China.

Consumers are giving the ticket of approval not just to BYD. In fact, in the first quarter of 2023, the top 6 EVs sold in Australia were 'Made in China'.

This explains why China's share of Australia's imported passenger vehicle market has shot up to 17 percent, while Japan's slumped to 31 percent.

If we accept that trade goods like lithium and EVs are on the up, while fossil fuels and cars with internal combustion engines are on the way down, the already large gap between China and Japan as Australia's largest and second-largest trading partners is about to become a chasm.

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