Australia’s central bank chief highlights rise of China

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Glenn Stevens, the governor of the Reserve Bank of Australia, delivered a keynote speech entitled “Cross-currents in the Global Economy” to the annual forum of the Australian Industry Group on Monday that underlined the fundamental dilemmas facing Australian capitalism.

While speaking in the muted terms of a central bank chief, Stevens pointedly referred to the loss of American global economic domination, the “ongoing shift in the world economy’s centre of gravity towards Asia” and the economic rise of China, which is now Australia’s top export destination.

Where Canberra lines up amid mounting tensions between the US and China is preoccupying the Australian establishment. Stevens had just returned from last weekend’s G20 meeting of finance ministers in South Korea, where Washington again pushed for a revaluation of China’s currency. Far from supporting the Obama administration’s demands, Stevens suggested that exchange rate changes would do little to overcome the global economic slowdown and imbalances.

Stevens began his address by noting that his hosts had asked him to speak on “The Australian Economy to 2020”. He warned: “That’s a rather risky proposition because forecasts are very hard to make.” To reinforce that caution, he reviewed the extraordinary shifts in the global economy over the past decade, and their implications for Australia.

Between 1999-2000 and 2009-2010, Australia’s economy became far more reliant on mining exports, especially to China. Resource exports, Stevens said, had risen “very significantly” and “well and truly outpaced everything else,” including manufacturing, agriculture and services. But the “most striking changes” had occurred in the destination of exports.

A decade ago, Japan had been “far and away” the largest export market for Australia (19.3 percent of merchandise exports), with the US second (9.9 percent), South Korea and Europe tied for third (7.8 and 7.7 percent). China only came sixth (5.1 percent), after New Zealand (6.9 percent). Today, the top export destinations were all Asian—China (23.2 percent), Japan (18.5 percent), South Korea (8.2 percent) and India (8.1 percent)—“followed at some distance” by the US (4.8 percent), New Zealand (4 percent) and the euro area (4 percent).

Led by China, the Asian markets now take 58 percent of exported goods, whereas the US, New Zealand and Europe account for just 13 percent between them. There has been a profound shift in just 10 years. China has leapt from sixth place to first, more than quadrupling its share of Australian exports, while the US has fallen from second place to fifth, halving its share.

Stevens observed that a similar change in investment flows was “surely in the process”. Cross-border investment between Australia and Asia remained small compared to that between Australia and the US or Europe, but the size of “offshore investments by Asian official holders” (a not-too-subtle reference to China) had already become “quite important”.

The Reserve Bank governor drew attention to the fact that the Asia-Pacific region “is progressively becoming both larger and more capable of exerting a degree of independent influence over its own economic performance”. Referring to the impact of the global financial crisis that erupted in 2008, Stevens observed: “It used to be said that when the United States sneezed, Asia caught a cold. Recently it seems that the United States has contracted pneumonia, while Asia sneezed and caught a bad cold, but then recovered pretty quickly.”

The bank chief displayed a graph showing that gross domestic product in East Asia, excluding Japan, nearly trebled between 1996 and 2010, while GDP in North America, Europe and Japan rose only about 20 percent, and stagnated after 2008.

Stevens emphasised the poor performance of the US, Britain, Japan and some European states—the “countries that once completely dominated the global economy, but no longer do”. He reserved his sharpest words for the US, where “in particular there is a very troubling increase in the duration of unemployment, which, with its likely atrophy of skills, does not bode well for future growth”.

Without directly referring to the US, the central banker criticised the “increasing focus on exchange rates of late” to explain the global imbalances. While more “flexible” exchange rates in Asia—“including China, but not only China”—would be part of a more balanced outcome, “changes in exchange rates don’t themselves create global growth, they only re-distribute it”.

These comments are at odds with the US claims, repeated by US Treasury Secretary Tim Geithner in the lead-up to last weekend’s G20 ministers meeting, that China is partly responsible for the US slump by refusing to allow the revaluation of its currency, the yuan (also known as the renminbi), in order to boost Chinese exports and build up its currency reserves.

Stevens also said it was unrealistic to expect rapid changes to increase public spending or household consumption in China and other Asian countries. Spending rates would probably rise over time, he said, but only gradually as incomes rose. By contrast, he identified the US and Europe as major sources of the global slowdown since the 2008 crash, insisting that “very deep-seated attitudes to saving” would have to occur in America and Europe to overcome mounting public debt. In other words, austerity measures must be imposed on the working class to drive future economic performance.

The central banker warned that Australia was no exception to the need for such an “adjustment” in “economic policies and structures”. Its economy had not been, nor would be, “saved” by China or Asia. There would be “no free ride”. Instead, Australian business had to take more interest in the Asian region, and “there is no escaping responsibility to keep our own house in order”.

While Stevens concluded by optimistically forecasting per capita GDP growth of 15 percent in Australia over the next decade, he insisted that this prospect depended on “giving constant attention to the fundamentals of improving productivity”.

All this was a message to the corporate elite and the Gillard Labor government: as in the US and Europe, there must be an assault on the working conditions and living standards of ordinary people, even as the mining giants reap super-profits.

Despite the significance of his remarks, Stevens’ speech was barely reported or discussed in the Australian media, receiving less coverage domestically than it did on international news wires and business web sites, such as Bloomberg.com. The local silence is rooted in the fact his comments pointed to the deep contradiction facing Australian ruling circles and the Labor government.

The growing dependence of Australian capitalism on the export of mineral resources, especially to China, is fundamentally at odds with the Australian establishment’s military and strategic reliance on the United States since World War II, a relationship that Prime Minister Julia Gillard tightened this month by committing her government to keep Australian troops in Afghanistan for another decade at least. As global economic imbalances worsen, and tensions rise between the US and China, this dilemma is only going to intensify.

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