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Bankwest Curtin Economics Centre



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WESTERN AUSTRALIA -CHINA TRADE

Briefing Note

Benefits to
Western Households

MARK

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572

FOREWORD



As this series of reports continues to show, Western Australia's strong economic performance coming out of COVID cannot be decoupled from its trade and investment relationship with China. The report goes to show that not only did Western Australia export over \$147bn of goods to China in 2022-23, but it also shows the positive trickle-down effects this crucial relationship has on WA households.

The data tells us that in 2022-23 WA's trade with China contributed to approximately 220,600 jobs, representing 14.5 per cent of total employment in WA. In the same period Western Australian households enjoyed a 2.9 per cent reduction in the cost of living and an additional \$8,700 in disposable income per household.

This report affirms that the complementarity nature of these two economies continues to play a crucial role in the average Western Australian household today and has the potential to continue to do so for many years to come.

James Clarke

President – ACBC Western Australia

INTRODUCTION AND KEY FINDINGS

This briefing note provides an overview of the trade relationship between China and Western Australia (WA). It highlights the impact of WA-China trade on the welfare of households in the state through household income, labour market and cost of living effects.

This note should be read in conjunction with the national report which provides a detailed methodological approach and highlights the benefits to the average Australian household.



LABOUR MARKET EFFECTS

220,600

Trade related Jobs

14.45%

Of total employment



HOUSEHOLD INCOME EFFECTS

+\$8,700

Disposable income per household

14.2%

Of average household disposable



COST OF LIVING EFFECTS

2.9%

Reduction in cost of living



IRON ORE EXPORTS TO CHINA

25.8%

Of WA'S total GSP



VALUE OF GOODS EXPORTED TO CHINA

\$147.68bn

54.6%

Share of total exports goods

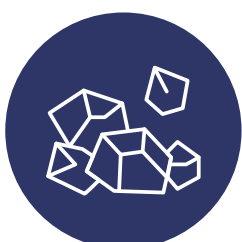


VALUE OF GOODS IMPORTED FROM CHINA

\$10.4bn

22.3%

Share of total imported goods



LARGEST GOODS EXPORT TO CHINA

\$104.4bn

Iron ore and concentrate



LARGEST GOODS IMPORT FROM CHINA

\$1.26bn

Passenger motor vehicles

MERCHANDISE TRADE WITH CHINA

Exports

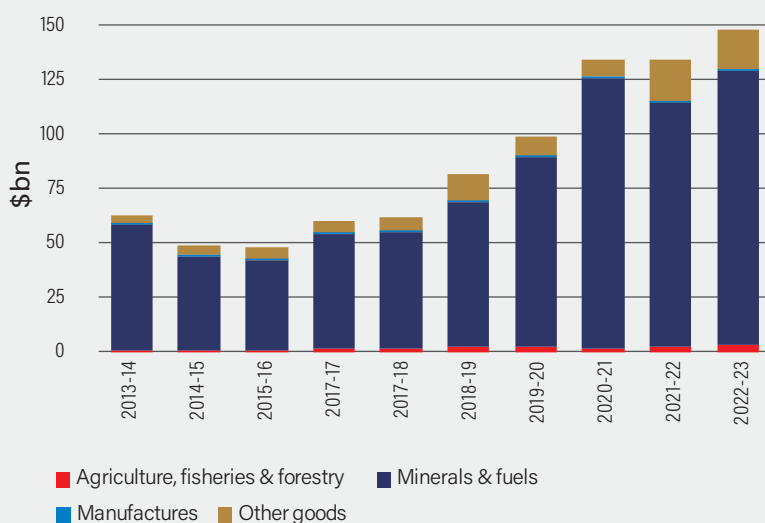
Exports from WA to China constitute more than three quarters of Australia’s overall export value to China, and 54.6 per cent of the state’s overall worldwide exports. In dollar terms, this equates to \$147.7bn.

WA’s exports to China are dominated by minerals and fuels exports, making up 85 per cent of the state’s exports to China in 2022-23. Iron ore and concentrate exports alone contributed \$104bn dollars to the economy in 2022-23. This was 71 per cent of all of WA’s exports to China that year.

The next most valuable merchandise export consisted of crude minerals that did not fall under other notable classifications, including clays and metal slag, which were worth a little under \$20bn and made up roughly 13 per cent of the state’s exports.

Some 7 per cent of WA’s exports to China are confidential, with a value of roughly \$10bn.

WA exports to China by industry category, 2013-14 to 2022-23



WA’s top export products to China, 2022-23

Good	Value (\$bn)	Share (%)
Iron ore & concentrates	104.4	70.7
Crude minerals, nes	19.8	13.4
Gold	8.1	5.5
Wheat	1.7	1.2
Crude petroleum	0.7	0.5
Wool & other animal hair (incl tops)	0.6	0.4
Inorganic chemical elements	0.6	0.4
Aluminium ores & conc (incl alumina)	0.3	0.2
Meat (excl beef), f.c.f.	0.2	0.2
Others	1.1	0.8
Confidential items of trade	10.1	6.8
Total	147.7	100.0

Source: Bankwest Curtin Economics Centre | Department of Foreign Affairs and Trade, Trade Statistical Pivot Tables.

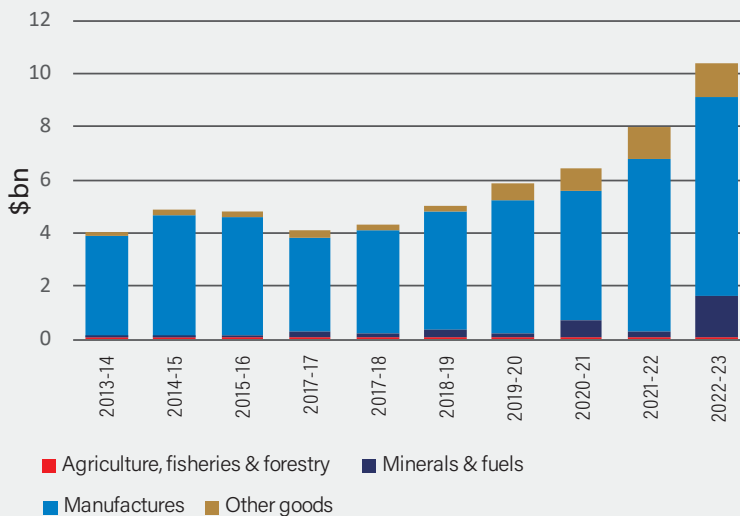
Imports

Imports from China account for 22.3 per cent (\$10.4bn) of all imports to WA. This share is lower than that of New South Wales (29.4%) and Victoria (28.5%), but more concentrated than those of South Australia (18.4%) and Tasmania (\$14.2%).

Most goods imported from China to WA are classified as manufactured goods (71.9% share), while WA does import some minerals and fuels from China as well.

The top merchandise import from China to WA in 2022-23 was refined petroleum, valued at \$1.5bn and making up 14.7 per cent of WA's total imports from China. A sizable number of imports from China are confidential, with a combined value of around \$1.3bn or 12.5 per cent of the state's overall import profile with respect to China. With Chinese cars beginning to gain some presence on the world stage, imports of passenger motor vehicles from China to WA have also increased with a value of just under half a billion dollars in 2022-23.

WA's imports from China by industry category, 2013-14 to 2022-23



WA's top import products from China, 2022-23

Good	Value (\$bn)	Share (%)
Refined petroleum	1.5	14.7
Passenger motor vehicles	0.5	4.8
Inorganic chemical elements	0.4	3.9
Civil engineering equipment & parts	0.3	3.1
Furniture, mattresses & cushions	0.3	3.1
Specialised machinery & parts	0.3	3.0
Railway vehicles (incl hovertrains)	0.2	2.2
Insecticides, herbicides, disinfectants	0.2	2.2
Mechanical handling equip & parts	0.2	2.0
Others	5.0	48.5
Confidential items of trade	1.3	12.5
Total	10.4	100.0

Source: Bankwest Curtin Economics Centre | Department of Foreign Affairs and Trade, Trade Statistical Pivot Tables.



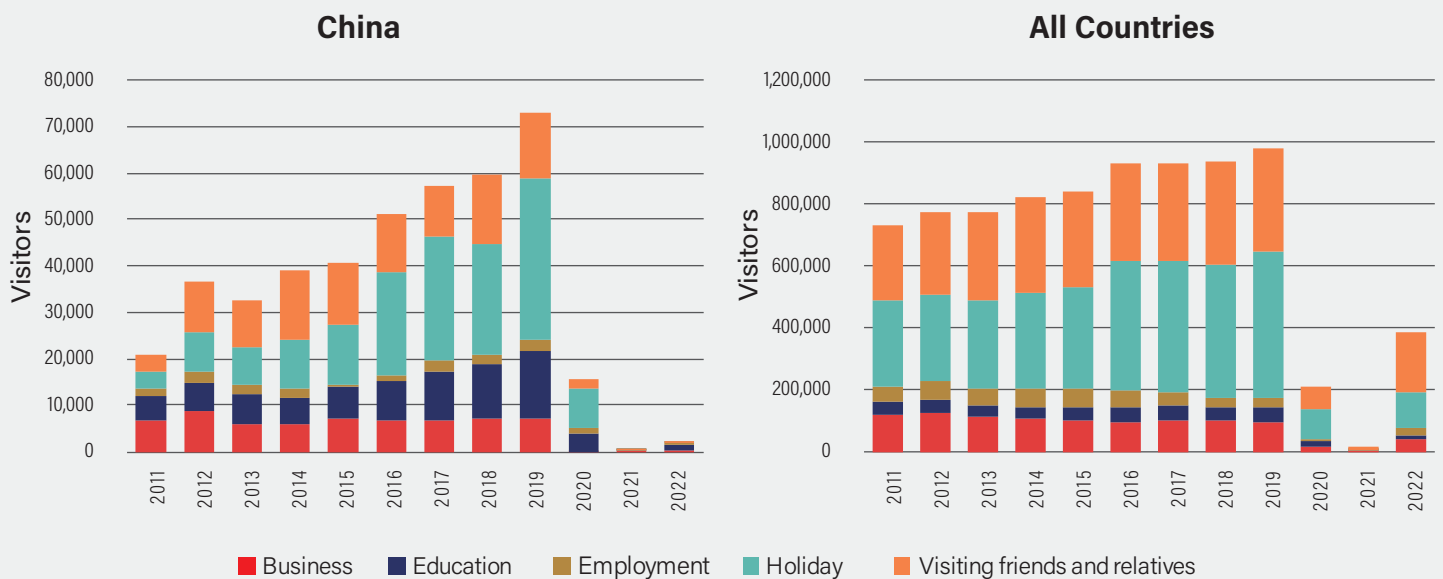
SERVICES TRADE WITH CHINA

Although WA's trade profile with China is dominated by merchandise exports, services trade with China also holds adds value and presents opportunities for future expansion and benefits for businesses and employment.

Between 2011 and 2019 growth in incoming Chinese arrivals to WA more than tripled, from 21,000 to 72,000 arrivals. This compares to the 38 per cent increase for overall arrivals to WA over the same period. A key driver of growth in visitor arrivals from China was for the purpose of a holiday, with education related purposes also a factor at play.

The COVID-19 pandemic had clear implications for arrivals to WA. While overall arrivals to WA were at 39.5 per cent of 2019 levels as of 2022, arrivals from China were a mere 3.3 per cent of those observed in 2019.

Count of arrivals to WA by purpose of visit, China and the All Countries, 2011 to 2022

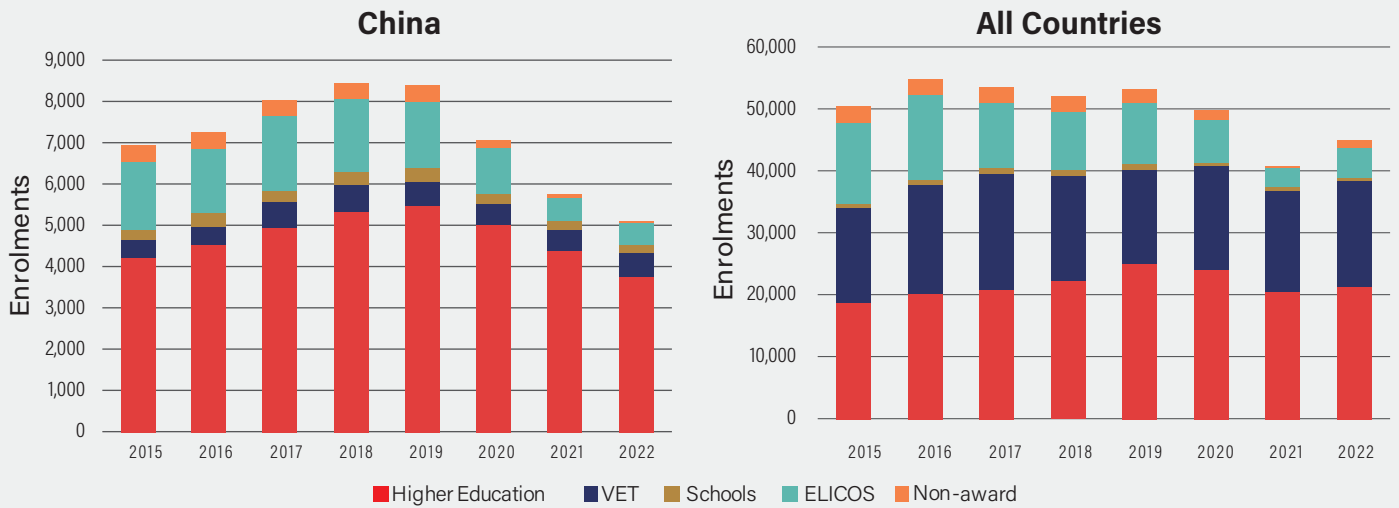


Source: Bankwest Curtin Economics Centre | Tourism Research Australia, International Visitor's Survey

The education sector is a critical services sector for the WA economy. Enrolments of Chinese students in WA saw continuous growth up to the onset of the COVID-19 pandemic. Compared to the average across all countries, international students from China have been much less likely to enter VET pathways, preferring the higher education sector (73% of enrolments).

The higher education sector was particularly impacted by the pandemic. The ELICOS and non-award education sectors also saw sharp declines in enrolments, whilst the vocational education and training sector (VET) sector remained stable over the period between 2020 and 2022.

Total international student enrolments from China and All Countries, by education sector, 2015 to 2022

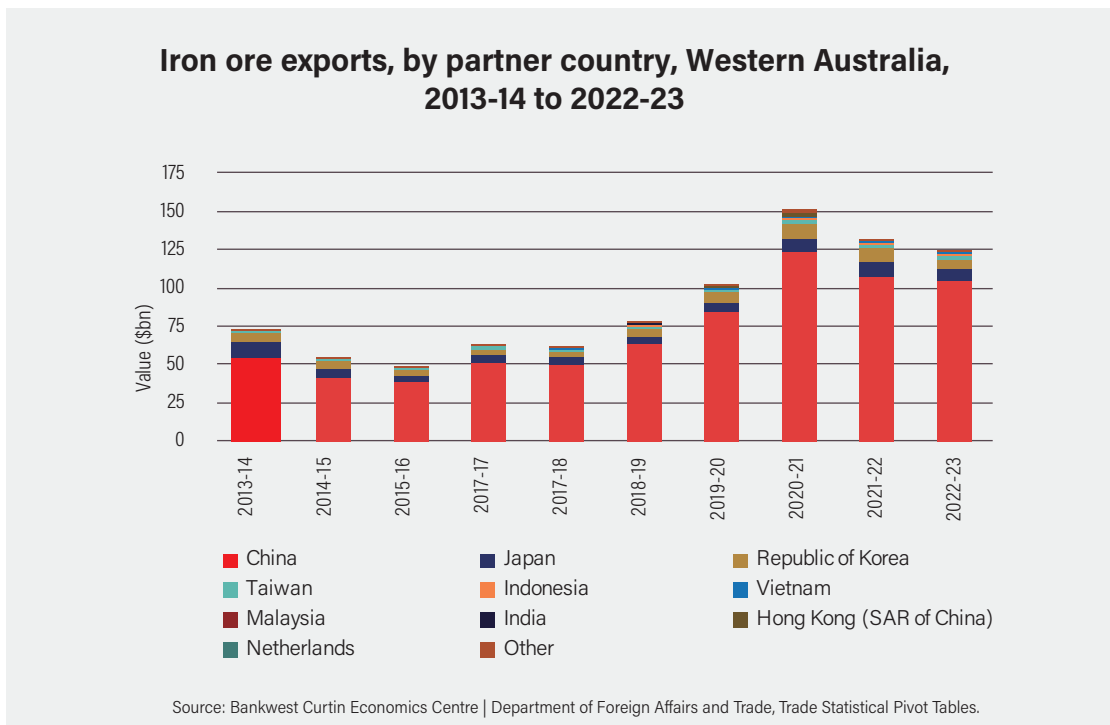


Source: Bankwest Curtin Economics Centre | Department of Education, PRISMS Data



IRON ORE AT THE CORE

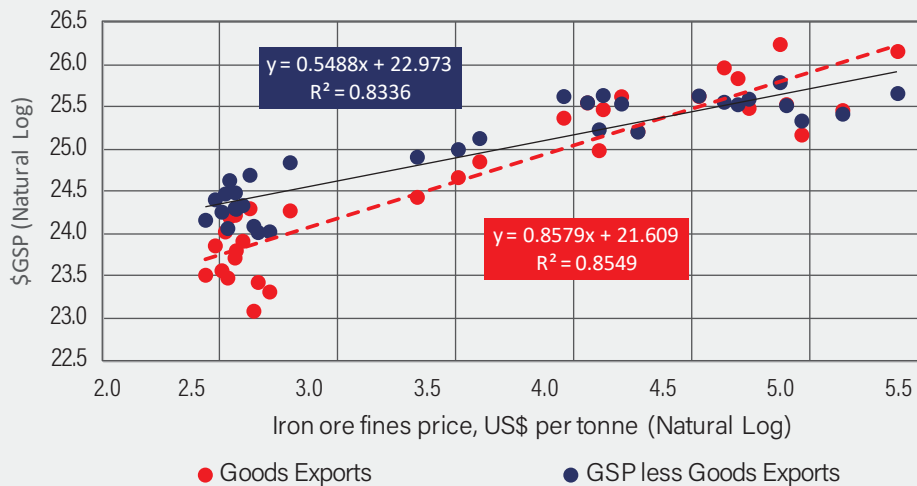
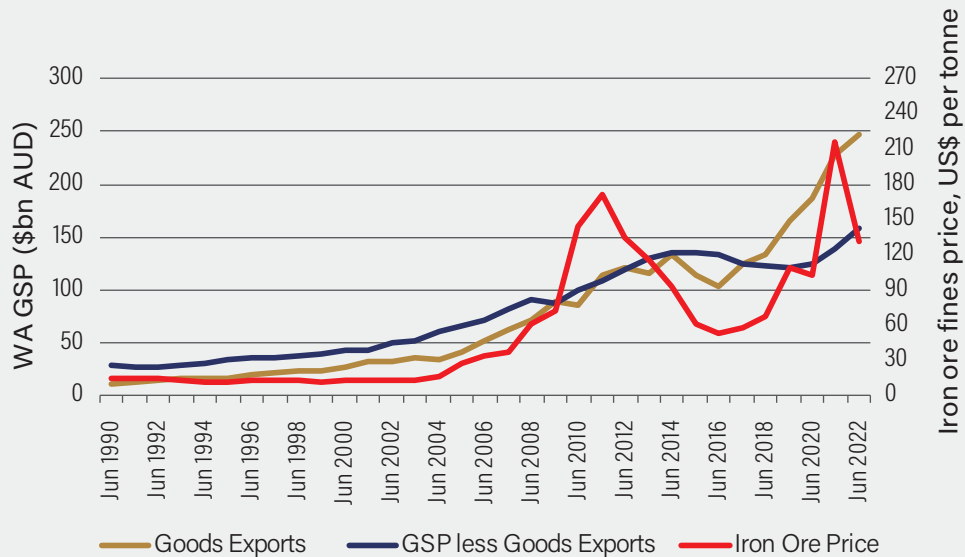
The value of WA's iron ore exports to China have grown substantially over the last five years. WA's iron ore quality and reliability of supply, including during the pandemic, has played a major part in the state's successful economic growth. However, WA's reliance on iron ore exports to China does leave the state and the national economy open to some vulnerability, both in terms of price and volume volatility.



The investment and employment benefits from WA's iron ore are not only evident directly in the mining sector, but also lead to spillovers from mining to other aspects of the WA domestic economy. This relationship is evident in the correlations between the iron ore price and WA's total Gross State Product (GSP) and GSP less exports displayed.



Iron ore price, and WA GSP (exports and non-exports component), June 1990 to June 2022



Source: Bankwest Curtin Economics Centre | ABS CAT 5220 Table 6, and IMF Primary Commodity Prices Excel Database.

China is looking to diversify its reliance on iron ore supplies from both Australia and Brazil. This will play out over the longer term. But in the meantime, WA needs to continue with a diversification agenda, both in terms of markets and products. This includes looking for new and emerging opportunities with China, including for example, opportunities to collaborate in downstream processing, such as in the battery manufacturing supply chain. Previous BCEC research (Buckland et al., 2023¹) showed that while climate change and net zero emission targets do present significant challenges, the WA economy can benefit from the transition to net zero. This includes a role in supporting China transition to a green economy.

1: Accessed here: <https://bcec.edu.au/publications/international-trade-western-australian-economy/>

FORTESCUE

Fortescue is an integrated green technology, energy and metals company that is committed to eliminating emissions and developing the green solutions required for the world to step beyond fossil fuels. Fortescue has a long history of growing iron ore production to meet the demands of China's steel industry and today, Fortescue's Chinese customers remain its key market.

By 2030, Fortescue's aim is to have its Australian iron ore operations running on green energy and achieve real zero terrestrial emissions (Scope 1 and 2). Separately, Fortescue is addressing emissions across its entire value chain with a target to achieve net zero Scope 3 emissions by 2040. Like China, Fortescue is demonstrating that heavy industry can decarbonise profitably. Through its decarbonisation roadmap, Fortescue is aiming to reduce operating costs by eliminating expenditure in diesel, natural gas and offsets.



Last year marked an important milestone in Fortescue's relationship with China, as the Company extended its relationship beyond its existing iron ore supply chain to work together on green technology, green energy, and green metals. This included through partnerships with Chinese suppliers, research institutes and customers such as China Baowu, where they are working together on reducing emissions associated with iron and steelmaking.

While the Pilbara in Western Australia will always be Fortescue's spiritual home, its presence in China has been an important part of Fortescue's story from the very beginning and will remain so for many years to come as they work together to bring shared prosperity to their communities and economies.

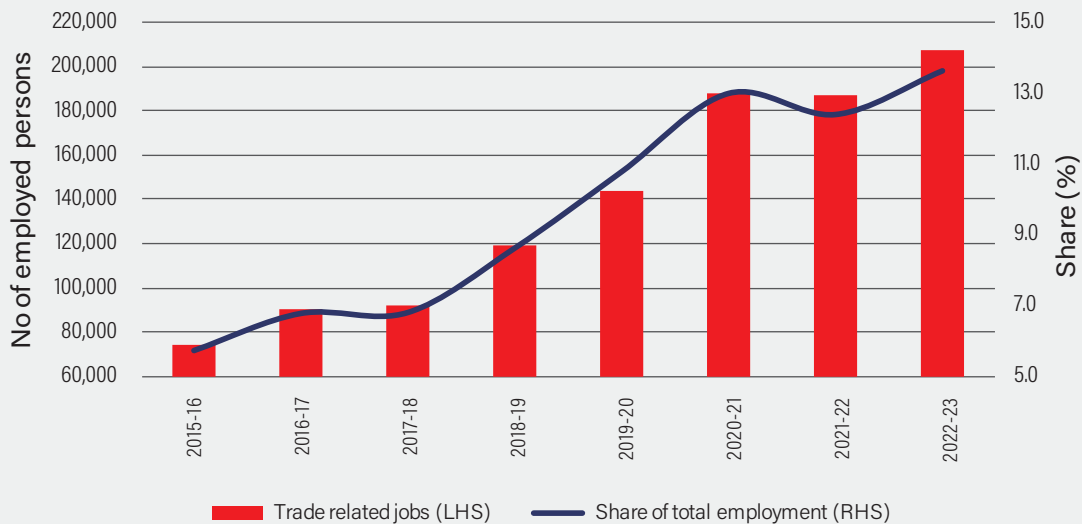
Source: Provided by Fortescue

EMPLOYMENT, HOUSEHOLD INCOME AND COST OF LIVING EFFECTS

WA-China trade intensity² sat at almost 38 per cent in 2022-23. This compares to around 14.8 per cent observed prior to the signing of the China-Australia Free Trade Agreement (ChAFTA). That is, trade intensity has recorded more than 150 per cent growth during the post-ChAFTA period.

BCEC modelling shows that in 2022-23, WA's trade with China contributed to approximately 220,600 jobs representing 14.5 per cent of state's total employment. Looking at the historical trends, the state enjoyed a sizeable increase in employment resulting from increased trade intensity with China following the implementation of ChAFTA in 2015-16. Trade related jobs increased from 76,300 persons in 2015-16 to 220,600 persons in 2022-23 – a 190 per cent increase. This compares to a 17 per cent increase in overall employment in the state over the same period (from 1,302,000 to 1,527,000 persons).

Impact of WA-China trade on employment in WA



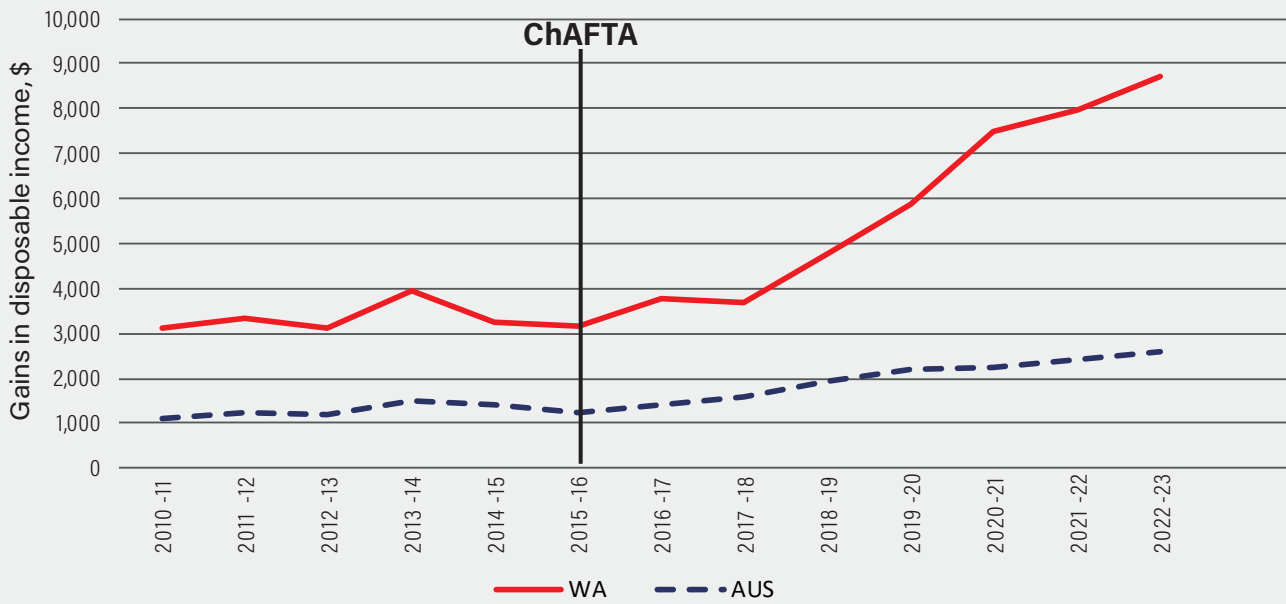
Source: Bankwest Curtin Economics Centre | BCEC model estimates based on DFAT and various ABS historical data

One of the primary welfare impacts emerging from international trade is exhibited through household income. BCEC's modelling shows that in 2022-23, WA-China trade increased household disposable income by \$8,700 per household, representing around 14.2 per cent of average household income. On aggregate, such gains are estimated at \$9.94bn in 2022-23 for WA, equivalent to around \$3,480 per person.

Trade also has an impact on the cost of living for households. About 25 per cent of W's total household consumption is spent on imports. In 2022, the cost of roughly 63 per cent of Western Australia's current imports was lower when sourced from China compared to the average unit costs from elsewhere across the world. BCEC estimates show that households in WA would pay 2.9 per cent more for the same consumption items if they were sourced from a country other than China.

2: Trade intensity is a measure of two-way trade (imports and exports) with country X as a share of the state's economy, as measured by Gross State Product. The higher the share the greater the trade intensity.

Disposable income effects per household from trade with China, WA and Australia



Cost of living effects from WA-China trade



Source: Bankwest Curtin Economics Centre | BCEC model estimates based on DFAT and various ABS historical data

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