"Peace, commerce and honest friendship with all nations, entangling alliances with none."

Thomas Jefferson, First Inaugural Address, 4 March 1801

Australia's most important trading relationship – by a long way – is with China. Apart from being the source of most of the electronic devices we rely on these days, China also accounts for a third of our exports. Japan (13%), South Korea (6%) and the United States (5%) are a distant second, third and fourth.

Our relationship with China has clearly become problematic in recent years, and particularly so over the past year. There is no direct communication between the two countries at a Ministerial level. No Australian mainstream media organisation has a correspondent in China. Our coal, beef, barley, wine, timber and lobsters are not welcome in their market. And I suspect our largest export – iron ore – will also be unwelcome once the Brazilian mining industry has recovered from the twin setbacks of COVID-19 and the collapse of the Mariana tailings dam. Our fourth and fifth biggest exports – education and tourism – are also unlikely to fare much better[1].

We are not the only country to be treated in this manner. China's growing power has enabled it to take a harder line on Hong Kong, Taiwan and the South China Sea. The United States and Canada have also been targeted with tariffs and sanctions, but it has a disproportionate effect on our relatively smaller economy.

There is no "easy" export market for Australia to call on to replace China. It's not a tap we can just turn on. It requires relationships and infrastructure, which must be built over time, and which sadly we have neglected in our rush to sell anything that's not nailed down in to the burgeoning Chinese market.

As investors the current state of play makes export businesses with exposure to China relatively less attractive. Principal among these are commodity exporters and providers of education and tourism services to that market. Thankfully clients in general do not have a great deal of exposure to these industries. Nevertheless there will inevitably be knock-on effects for the broader economy if the relationship remains fractured.

Less demand for Australian exports will also lead to lower demand for Australian dollars and a lower local currency. This in turn makes businesses earning global currencies relatively more attractive than those earning Australian dollars. However, if there is a silver lining it may be that, as the Australian export economy declines, we are able to console ourselves with a more moderately priced tipple from local wine producers bursting with excess inventory.

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[1] In 2019 visitors from mainland China spent $12 billion in Australia and those from Hong Kong a further $1.4 billion. By comparison visitors from the United States (the second highest visitor spend) spent $4 billion.

Lighthouse Investment Services Pty Ltd as the trustee for the Lighthouse Unit Trust (ABN 14 874 080 673) and
Richard Whan are Authorised Representatives of **Lighthouse Investment Group Pty Ltd** (AFSL 483326)
PO Box 2116 Byron Bay NSW 2481 **Telephone:** 02 6685 3630 **Mobile:** 0409 254 270 **Email:** richard@lighthouseinvestments.com.au