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# China trade aggression could cause \$76b hit: Citi

**Matthew Cranston** *Economics correspondent*



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A 10 per cent drop in exports to China over the next year would slice only 0.33 percentage points off Australia's nominal economic growth, according to global bank Citi, but a downside scenario could cause a \$76 billion hit.

Citi's Faraz Syed and Josh Williamson said the total damage of China's aggression would be limited because agriculture accounted for only a small portion of Australia's exports.

At about \$50 billion, agricultural exports constitute only 13 per cent of Australia's merchandise exports.

China has so far targeted Australia's beef, wine and barley exports but risks remain for wool, fruits and nuts, and wood chips.

"These are also the products where China has stipulated to increase its exports from the US under the Phase One trade deal," the Citi analysts said.

"Our baseline scenario currently points to a 10 per cent drop in total exports to China over the next 12 months, without any restrictions on iron ore shipments. This would leave growth only minus 0.33 per cent lower as a percentage of nominal GDP.



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"While China is a major export destination for the products that are exposed to China's trade sanctions, their overall contribution to export suggests that the damage is manageable."

The analysts consider various downside scenarios.

"Our modelling suggests that there would be an undeniable hit to the Australian dollar export earnings, income and growth under a worst-case scenario which includes restrictions on iron-ore."



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A downside scenario could lead to a 50 per cent drop in exports to China, including

iron ore.

"This would cause Australia's total merchandise exports to decline by 20 per cent, leading to a \$76 billion loss in export earnings, causing a sizeable 3.8 per cent hit to nominal GDP.

"Our modelling suggests that in this scenario, the Australian dollar would be around 16¢ lower compared to baseline over the next 12 months," Citi said.

The analysts said the frequency of trade restrictions over the past few months meant it was difficult to call the end to further trade restrictions.

An earlier analysis of the China Australia trade relationship by Commonwealth Bank has shown the trade tension is [manageable](#).

CBA economists have said the growth in Australian exports to other countries across several sectors such as education, tourism and commodities such as iron ore means Australia may not face [as dire a future as some expect](#).

In August, China's share of Australian exports [reached a record high](#), rising to 48.8 per cent and driving the 30th consecutive monthly trade surplus to \$8.2 billion.

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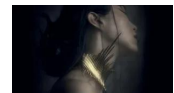
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