RESERVE BANK OF AUSTRALIA

Speech

Open the Door and See the Mountain: Reflections from a Recent Trip to China

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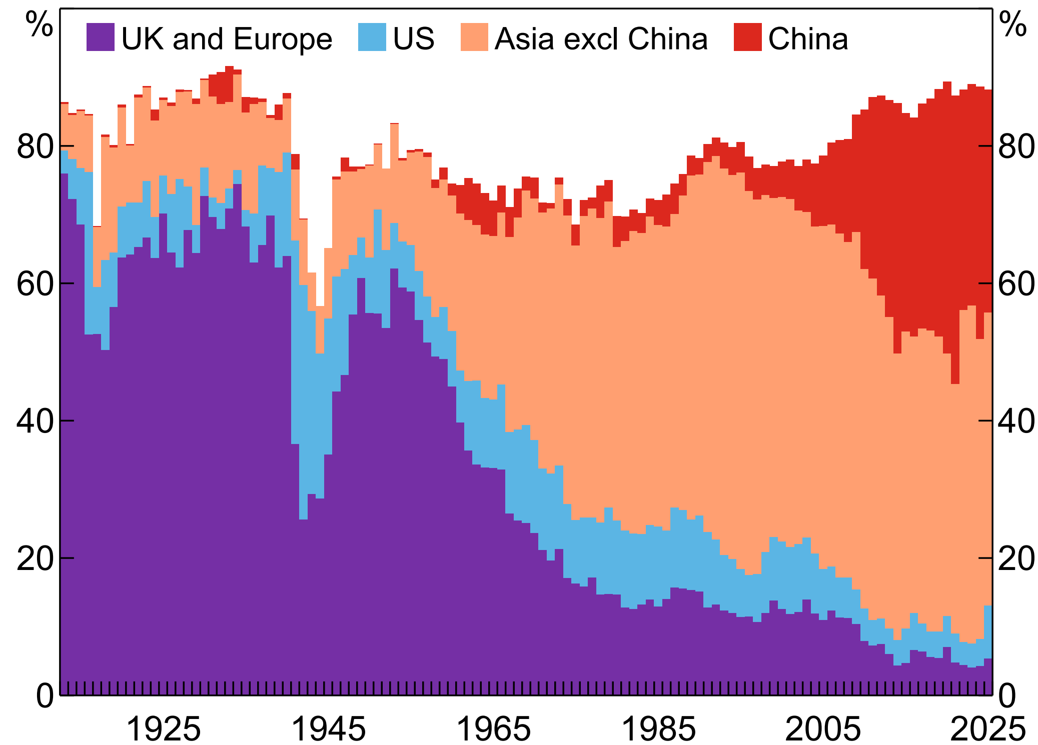
Introduction

Of all the trends shaping the Australian economy over the past half century, one of the most profound has been the long swing towards Asia (Graph 1) and, more specifically in recent years, China – now our biggest single trading partner by a country mile (Table 1). [1] But China is also front and centre in the US administration's rapidly evolving tariff strategy. How that strategy plays out, and how China responds, are therefore key issues for the economic outlook in Australia, and hence the RBA's monetary policy.

Graph 1 [2]

Australia's Goods Exports

Proportion by geography



Sources: ABS; Owen Analytics; Pinkstone (1992); Vamplew (1987).

Table 1: Australian Goods Trade with the United States and China (2023)

	Rank in Australian ...		**Australian exports to country as share of ...**		**Australian exports from country as share of ...**		**Australian trade balance (US$bn)**
	Exports	Imports	Australian exports	Country imports	Australian imports	Country exports	
US	5	2	4%	0.5%	11%	1.7%	−18
China	1	1	37%	7%	25%	2%	71

Sources: Observatory of Economic Complexity; UN Comtrade.

Given the importance of understanding the Chinese economy, the RBA has maintained a small team based at the Australian Embassy in Beijing since 2011, to take the temperature of the economy up close.[3] Their work, together with the work of our Australian-based staff, directly informs our Monetary Policy Board's deliberations – most recently earlier this week – and our broader analysis.[4]

I recently joined the team to speak with a wide range of organisations drawn from right across the Chinese economy and the Australian export community, in both Beijing and Shanghai. The trip, arranged months earlier, turned out to be auspiciously timed, because it came in the week after so-called 'Liberation Day' – when US tariffs on China rose to 145 per cent, and China retaliated in kind.

Tonight, I want to discuss four key themes that we heard that week, and which – despite the further dramatic turn of events since then – seem so far to have stood the test of time.

For anyone wanting to cut to the chase, or, in the words of the Mandarin saying, 'open the door and see the mountain', I'll put it more bluntly: don't count China out.

Theme 1: People felt the economy was finally turning a corner in early 2025

Nearly everyone we spoke with felt the Chinese economy was at last turning a corner in the months leading up to 2 April:

- The September 2024 Politburo announcements and subsequent policy pivot were seen as a recognition of the need both for further stimulus and for a more determined switch in emphasis from boosting supply to boosting demand.
- The DeepSeek announcement, President Xi's meeting with business leaders in the private sector and his well-publicised handshake with Jack Ma, triggered renewed optimism in support for the private sector and its capacity to innovate and harness the benefits from high technology, after a period of negative government sentiment, declining foreign investment and technology embargoes.
- Property markets seemed finally to be showing signs of stabilising, at least in larger cities, after years of declining sales, investment and prices. [5]

It's important to put these points in context. For anyone visiting China, the ever-present abandoned housing developments and stationary cranes provide a potent reminder of the challenges the Chinese economy has been through. But an improvement in sentiment, if it persists, would itself be an important economic development, after such a long period in the doldrums. And harder data also support the view that domestic demand growth had begun to strengthen in the first quarter of 2025.

Theme 2: 'Liberation Day' was a genuine shock

Against this backdrop, the eye-popping tariff tit-for-tat escalation in early April came as a genuine shock to most of those we spoke with. Significant increases were of course expected – but there was surprise along three dimensions. On **scale**, the typical expectation had been for a 25–50 percentage point increase: anything over 60 was judged to be an effective embargo. On **speed**, expectations of a rolling increase, or a negotiation period, were dashed. And on **scope**, the huge tariffs on China's southeast Asian neighbours were seen as being aimed at cutting off trade and production chains that linked China to the United States via third countries. Some also contrasted the scale and immediacy of the Chinese retaliation with the absence of a similar reaction in Europe and elsewhere in the West, disappointing those hoping for a common front.

It is difficult to quantify the economic impact these mega-tariffs could have had on China. But expectations in China appeared to be in the range of 1.5–2 percentage points of GDP in 2025, before accounting for any offsetting policy stimulus.

Theme 3: China feels it has a strong economic hand in responding to tariffs

Those are big numbers. But for every expression of surprise, we also heard a striking confidence that China was going into this trade war with a strong hand.[6] Judged solely in economic terms, that view rested on four main planks:

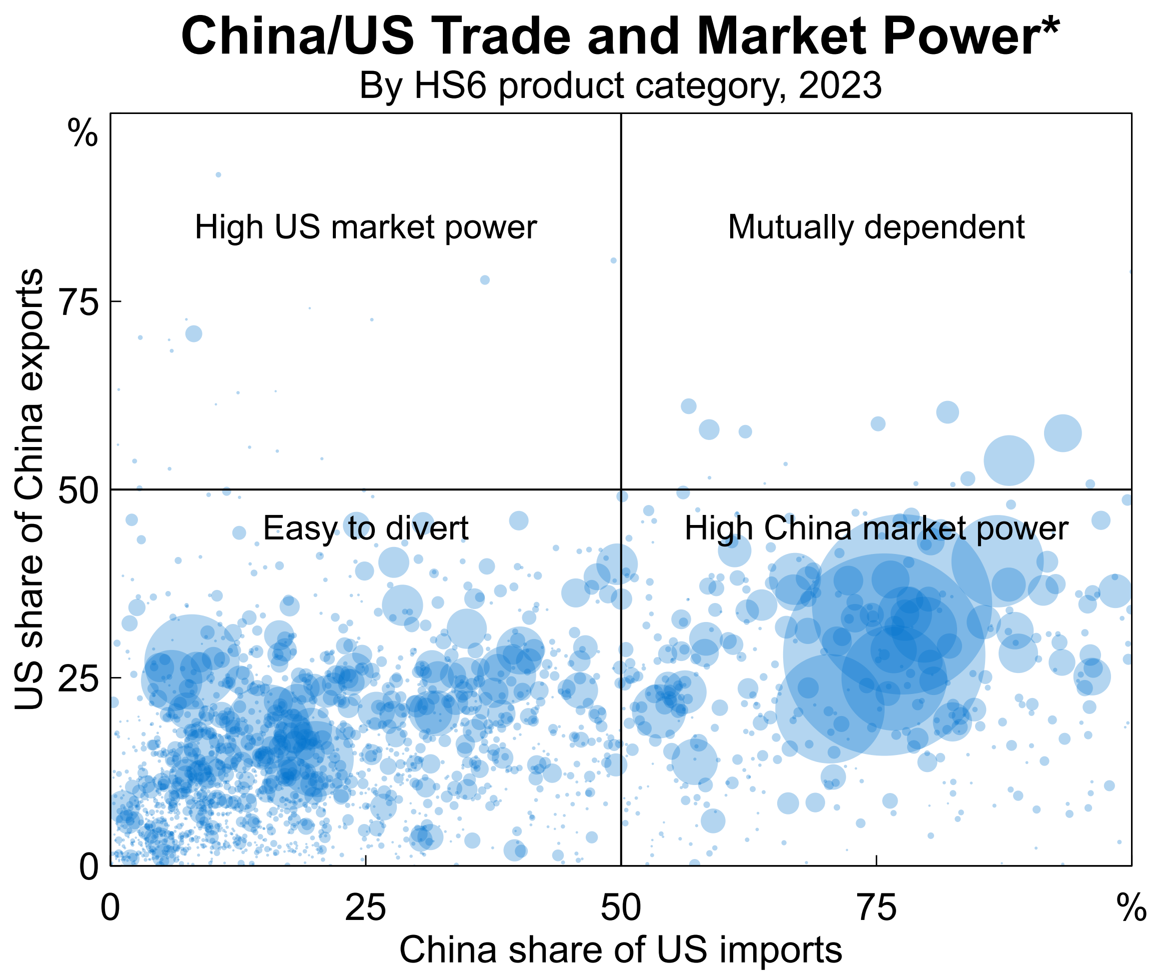
- First, a **deep belief in the authorities' commitment to deliver the growth target of 'around 5 per cent' a year**. This goal may attract scepticism in some quarters –10-year bond yields in the 1.5–2 per cent range certainly suggest market participants have doubts over the medium term. But the commitment to the goal had a seemingly totemic status amongst most of those we spoke with.
- Second, a **confidence that the Chinese authorities had the policy tools, the space and the will to inject the domestic stimulus needed to compensate for any weaker growth in trade**. There are limits to this of course. Past efforts to boost domestic consumption have had mixed success. Many of the authorities' existing policy tools are best suited to boosting supply, which diverts resources from consumption and adds further to production capacity, bearing down on inflation. And the barriers to a more persistent rise in consumption are arguably as much structural as cyclical,

reflecting a limited social safety net, and constraints on the use of capital markets to manage savings.[7] There are questions too about how much headroom is left for further stimulus. Public debt is elevated, particularly at local government level;[8] nominal interest rates are already quite low, and focused on exchange rate and financial stability as well as demand management; and the central bank has made it clear it does not favour quantitative easing.[9] This may be one reason why the authorities bided their time in the immediate aftermath of 2 April, spurning the 'big bazooka' policy package that some in the financial markets hoped for. But a range of monetary and financial easing measures have subsequently been announced, and the authorities have underscored their commitment to expand fiscal policy if needed to support the growth target.[10]

- Third, we heard a **general expectation that a large share of the economic costs of US tariffs would fall on the United States itself, and a determination not to cushion that impact**. Nearly half China's exports to the United States are products for which the United States has limited alternative external suppliers, including lithium batteries, computers, smartphones and video game consoles (Graph 2, lower right quadrant). Indeed, the massive advance in technology use is one of the most striking impressions to any outside visitor.[11] The pass-through of US tariffs to US consumer prices for such goods is likely to be high – perhaps explaining why many were quickly exempted.[12] Much of the rest of China's exports (Graph 2, lower left quadrant) are products for which the United States is not a dominant source of demand, so could to some degree be divertible to other markets. There are far fewer products in the upper part of Graph 2, where the United States is a dominant source of demand for Chinese exports, and hence is more likely to have market power.

The inflationary impact of US tariffs on US consumers could, of course, be reduced if the Chinese currency were devalued substantially, as happened in 2018–2019. But we detected little expectation that this would happen, because China would want to avoid: insulating the United States from its own tariffs; provoking retaliation from other countries; triggering capital outflow of the kind seen around the 2015 devaluation; or undermining the political and social gains (including recognition of China's economic and technological advance) perceived to flow from a stronger exchange rate. Some noted that, according to simple measures of purchasing power parity such as the *Economist*'s 'Big Mac Index', the Chinese currency was more likely to *appreciate* rather than depreciate against the dollar, if left to its own devices.[13]

Graph 2



* Dot size indicates the value of exports; only exports of over US$5m are included.

Sources: RBA; UN Comtrade.

There *was* of course a recognition that Chinese exporters would face real economic costs if high tariffs persisted. It was too early to see any of that at the time of our visit. But we did hear a determination to face into it, if it came.

- Fourth, **we heard real doubts about how much manufacturing currently done in China would relocate to the United States**. Elevated labour costs, and a finite stock of advanced manufacturing skills, were thought to make it impossible to produce many goods at the prices US consumers expected to pay – as would the absence of the highly integrated, co-located supply chains that had developed within China as well as across Asia. And there were doubts about the viability of long-term investment in factories while the volatility of US policy settings remained so elevated. [14]

Recent weeks have walked us back from the precipice a little. The rapid reductions in US tariffs on China's Asian neighbours saw a pick-up in production and export via third countries, as was evident from the April trade data. And the threat of 'mutual assured (economic) destruction' provided the context for the rapid, if ostensibly temporary, reduction of United States and China tariffs. Those tariffs still remain well above historical levels, of course – and future increases, or other trade barriers, cannot be ruled out. But in view of the near-term de-escalation, China's seemingly strong negotiating position and its scope to inject further stimulus, our baseline projection for Chinese GDP growth in the May *Statement on Monetary Policy* is 4.8 per cent in 2025 and 4.4 per cent in 2026 – only modestly changed on three months ago.[15]

Theme 4: Australian companies see opportunities amidst the risks

As part of our trip, we held a roundtable discussion, organised by Austcham Shanghai, with a large group of Australian firms active in China, across retail, agriculture, banking, finance, law, steel, health care, manufacturing and commercial property. What really struck me about that session was how upbeat most, if not all, of the firms were about the outlook for their businesses. The recovery in sentiment in early 2025, and confidence that the authorities would 'do what it takes' to sustain the economy was part of it. But there was also a sense that recent developments in trade policy could enhance their competitive position in Chinese markets.

There's always a risk of survivor and recency bias in such discussions, of course – and the firms involved varied considerably in size (and hence macro-economic impact). But we heard something similar in separate discussions with companies active in steel and iron ore – the latter, of course, being Australia's largest export to China by some distance. They saw few threats to the scale and cost advantages of Australian ore relative to other producers in the near term (longer term challenges from the energy transition are of course a different matter).[16] Their central expectation was for Chinese steel output to remain relatively robust, remaining at or near one billion tonnes a year in the near term. A large majority of Chinese steel is consumed domestically; and demand has been sustained in recent years by a pivot from property-related uses towards manufacturing and infrastructure. Further Chinese policy stimulus was expected to continue to involve (steel-intensive) infrastructure investment, despite the pivot to consumption.[17] Chinese steel exports were obviously seen as more vulnerable to a slowdown in global demand. But direct exports account for a little more than a tenth of Chinese steel output (very little of which goes to the United States). And indirect exports via steel-intensive products, like machinery, ships and cars) are roughly the same again.

Conclusion

Let me conclude.

My goal this evening was deliberately narrow – to set out what I heard in China in the immediate aftermath of 'Liberation Day'.

That narrative, at that time, was pretty positive: that the Chinese economy was seen as picking up in early 2025; that China felt it had a strong hand in responding to the economic impact of tariffs; and that Australian companies in China saw opportunities amidst the risks.

But, just as clearly, it was also partial – in four important ways.

First, it was just a moment in time – and as Jay Powell reminded us recently, life moves pretty fast.[18] Tariff settings have already moved on dramatically, and will doubtless change further, whether up or down. And we'll soon start to see data on just how the existing tariffs – still high by historical standards – are affecting the Chinese and global economies.

Second, it was just one set of views, from one country with a story to tell. Some of the judgements may prove wide of the mark – the tolerance for bearing economic costs may prove lower; domestic stimulus may prove to be harder to deliver; and so on.

Third, no in-the-moment assessment can hope to capture the 'general equilibrium' effects of such dramatic changes. An example of this is the possibility that Australian firms might in time face more intense competition, at home and overseas, from Chinese firms discounting output diverted from US markets. It's unclear how big an effect this would be, given the limited overlap between Chinese and Australian outputs.[19] But it's clearly on the minds of others in the Asia–Pacific region.[20]

Last, but not least, is perhaps the elephant in the room: how purely economic factors of the kind I've discussed here will interact with more strategic considerations, and where that leaves Australia. I've neither the competence nor the authority to discuss such issues – but I know that others on the panel and in the audience tonight here do! So I look forward to our discussion.

Thank you.

Endnotes

[*] I am particularly grateful to Samual Nightingale and Patrick Hendy for their assistance in writing this speech. Thanks go also to Adam Baird, Sue Black, Michele Bullock, Natasha Cassidy, Kassim Durrani, Samuel Evangelinos, Georgia Face, Sarah Hunter, David Jacobs, Bradley Jones, Christopher Kent, Vanessa Li, Penny Smith, Morgan Spearritt and Grace Taylor and for their comments and contributions on an earlier draft.

[1] The economic ties between Australia and China go beyond trade alone, as discussed in: Lowe P (2018), 'Australia's Deepening Economic Relationship with China: Opportunities and Risks', Address to the Australia–China Relations Institute, Sydney, 23 May; and Kent C (2019), 'Remarks at the Australian Renminbi Forum Melbourne', Melbourne, 12 June. As the animated chart in one of my co-panellists' co-authored Lowy article vividly shows, these trends are not unique to Australia: China is now *many* countries' biggest trading partner: Rajah R and A Albayrak (2025), 'China Versus America on Global Trade', Lowy Institute *The Interpreter*, 30 January.

[2] I am once again grateful to Ashley Owen of Owen Analytics for this chart.

[3] Importantly, the team has Mandarin skills. The importance of Chinese language skills in Australia is long debated. Mandarin is spoken at home by nearly 700,000 people in Australia, making it the most common language other than English: ABS (2022), 'Snapshot of Australia, 2021', 28 June. Yet the proportion of non-native Australians studying Chinese language at school is tiny: Field L, R Wilson and K Cruickshank (2024), 'Prioritized But Declining: An Analysis of Student Participation in Asian Languages Courses in Secondary School 2001–2021', *Curriculum Perspectives*, 44, pp 263–277; the top level of fluency may not reach four figures: ABC (2019), 'Are There Only 130 Australians of Non-Chinese Heritage Who Can Speak Mandarin Proficiently?', *ABC News*, 24 June; and the public sector faces particular challenges, as highlighted by Jiang Y (2021), 'Chinese–Australians in the Australian Public Service', Lowy Institute Policy Brief, 12 April.

[4] Our latest assessment of the economic outlook, including our China assessment, is set out in RBA (2025), *Statement on Monetary Policy*, May. Recent RBA publications on China include: Baird A, S Nightingale and G Taylor (2025), 'Behind the Great Wall: China's Post-pandemic Policy Priorities', RBA *Bulletin*, January; Hendy P, E Ryan and G Taylor (2024), 'The ABCs of LGFVs: China's Local Government Financing Vehicles', RBA *Bulletin*, October; Maher W (2024), 'China's Monetary Policy Framework and Financial Market Transmission', RBA *Bulletin*, April; Baird A (2024), 'Urban Residential Construction and Steel Demand in China', RBA *Bulletin*, April; Adams N, D Jacobs, S Kenny, S Russell and M Sutton (2021), 'China's Evolving Financial System and Its Global Importance, RBA *Bulletin*, September; Jones B and J Bowman (2019), 'China's Evolving Monetary Policy Framework in International Context', RBA Research Discussion Paper No 2019-11; Day I and J Simon (eds) (2016), *Structural Change in China: Implications for Australia and the World*, Proceedings of the RBA Annual Conference, Reserve Bank of Australia, Sydney, 17–18 March.

[5] Some felt the support provided to the developer Vanke also signalled a change in tone from the public authorities.

[6] Richard McGregor, my co-panellist at Lowy here tonight, has suggested if there were 'a German word for being resolute and freaked out at the same time, that would capture the mood in Beijing': McGregor R (2025), 'My China Trip Made One Thing Clear About the Global Trade War', *Australian Financial Review*, 15 April. If there is, I am yet to find it!

[7] China's national savings rate remains amongst the highest in the world: see, for instance, Wolf M (2024), 'China's Excess Savings are a Danger', *Financial Times*, 6 March.

[8] See Hendy, Ryan and Taylor, n 4. Fitch also cited this as one reason for its downgrade to China shortly after 'Liberation Day' (see FitchRatings (2025), 'Fitch Downgrades China to "A"; Outlook Stable', 3 April), although the government strongly rejected that assessment (see Huaxia (2025), 'China Deeply Regrets, Rejects Fitch Ratings Downgrade', *Xinhua*, 3 April).

[9] Gongsheng P (2024), 'China's Current Monetary Policy Stance and Evolution of Monetary Policy Framework in the Future', Keynote Speech at the 15th Lujiazui Forum, 19 June.

[10] See, for instance, the comments made by Lan Fo'an at the IMF Spring Meetings: Xinhua (2025), 'China's Finance Minister Vows More Proactive Fiscal Policy', *Xinhua*, 24 March.

[11] Though now de-emphasised from official Chinese communications because of the friction it generated overseas, the 2015 'Made in China 2025' program is worth a look (see PRC State Council (2015), 'Notice of the State Council on the Publication of "Made in China 2025"', Center for Security and Emerging Technology Translation, 8 May). According to the European Union Chamber of Commerce in China, China is now a (limited or complete) global technological leader in six of the 10 sectors singled out for investment in that plan (see European Chamber (2025), 'Made in China 2025: The Cost of Technological Leadership', Report, 16 April).

[12] There is some evidence of this happening the other way too: China has exempted imports of medical equipment and industrial chemicals, products in which the United States is dominant, from its own tariffs.

[13] The Big Mac index suggests that the Chinese currency is 39 per cent undervalued against the US dollar: The Economist (2025), 'Our Big Mac Index Shows How Burger Prices Differ Across Borders', *The Economist*, 28 January.

[14] Such points are of course eerily reminiscent of concerns cited by Western firms considering locating in China only a few decades ago.

[15] The February forecast already assumed some increase in tariffs.

[16] Most Australian ore will require an intermediating process like direct reduction to be usable in cleaner electric arc furnaces. See, for instance, Australian Trade and Investment Commission (2024), 'Australia Forges a Future Made from Green Steel', 28 August.

[17] It was noted that Australian producers would be exposed if Chinese demand fell sharply for any reason, for instance, if the government imposes production controls. That's because there are no alternative iron ore export markets of the scale of China. Indian capacity is much smaller, and can use domestic ore; and there is little or no production growth outside of southeast Asia.

[18] See Powell J (2025), 'Economic Outlook', Speech at the Economic Club of Chicago, Chicago, Illinois, 16 April; also Walsh R (2020), 'Ferris Bueller's Day Off – "Life Moves Pretty Fast"', ACMI, 1 October!

[19] See RBA (2025), 'Box A: How Might Tariffs Affect Australian Trade?', *Statement on Monetary Policy,* May, and Fenner S (2025), 'Net Impact of US Tariffs on Industries Limited but Uneven', Westpac IQ, 1 May for analyses of this issue.

[20] See, for instance, The Economist (2025), 'Why China Has the Upper Hand in Its Trade War with America', *The Economist*, 1 May.