



What the Chinese Government Did to the Australian Economy: A Painful Lesson

Description

Introduction

In the early 2000s, China was booming, then known as the “Factory of the World” and home to nearly 1 billion people. The country had a vast domestic market and was increasingly exporting manufactured goods to other nations to expand its economy.

However, as a typical boom, many businesses began overproducing goods and putting excess capital into production, which resulted in severe overcapacity in manufacturing industries and a sharp downturn in demand across the entire economy.

In response to this economic contraction, China’s government tightened its monetary policy, which included scaling back lending standards for banks and public sector institutions, reducing credit availability for small and medium-sized enterprises (SMEs), restricting access to capital for private investors, clamping down on wealth dispersal by wealthy elites, reducing social spending by local governments, cutting back funding for non-profit organizations and tightening controls on foreign investment.

With these macroeconomic measures taken by the Chinese government, Australia experienced a painful contraction in its primary export industry: coal mining.

Australia’s Used Coal Industry

Australia’s primary export product is coal, generating nearly 60% of the nation’s total export revenue. In the early 2000s, the global price for thermal coal — primarily used to generate

electricity — surged. As a result, Australian companies set up shop in new markets and higher-cost countries, expanding their coal export capacity.

However, the thermal coal supply outstripped demand, creating a surplus on world markets. At the same time, growing concerns about climate change and decreasing demand due to an economic recession led to a significant drop in the price of coal.

By 2006, Australian companies were making massive profits selling coal at such low prices that they were losing money. They were forced to cut back on production and lay off workers to remain profitable.

The Long-Term Consequences of China's Economic Contraction

Unfortunately, the contraction in Australia's coal industry had long-lasting and painful consequences. In many Australian industries, the increased cost of electricity caused by the closure of coal-fired power plants resulted in a sharp decline in product demand.

Similarly, reduced demand for coal-derived energy has had severe economic consequences for steel, cement, and other sectors that rely on coal for their raw materials and energy. The closure of many coal-fired power plants has also resulted in a significant decline in the number of jobs in the mining and related industries. For example, there were more than 50,000 mining jobs in Australia in 2006, but only about 10,000 today.

Australia Must Adapt or Be Left Behind

The contraction in the coal mining industry has had severe economic consequences for Australia. The country has relied on coal mining to power its economy and generate a large share of its export revenue.

However, the sudden contraction in the industry meant that Australia was no longer receiving cheap, high-quality coal. Instead, it had to import coal at a significantly higher price. As the price of coal and other goods rose in Australia, citizens experienced a high cost of living.

In response, many Australians have turned to more expensive forms of energy such as wind and solar power and have become more environmentally conscious.

The Great Recession and the contraction in Australian coal mining

Australia's reliance on the mining of coal also had long-term repercussions for the country's economy. In 2006, the Australian government implemented a new mining tax to increase the cost of coal mining and fund environmental protection.

However, the tax was poorly designed and levied on coal and iron ore mines, resulting in a contraction in the coal mining industry and a decrease in Australian exports of these products.

Australia's economic recession deepens.

In response to the sudden collapse of the global economy and the contraction in the coal mining industry, Australia's government implemented an aggressive stimulus program. The government hoped to spur growth and reduce unemployment by spending money on public infrastructure projects and extending unemployment benefits.

In short, the government hoped to use the economic recession as an opportunity to stimulate the economy and boost long-term growth.

However, the stimulus implemented in Australia was drastically smaller than those in other developed nations, such as the United States. In the end, Australia's stimulus was too small to counter the economic contraction and reverse the downward economic trend.

How China's Tightening monetary policy caused the downfall of the Australian coal industry

China began tightening its monetary policy in response to the economic contraction and a lack of demand for its manufactured goods. China's tight monetary policy is mainly responsible for the collapse of the Australian coal industry. In addition, the Chinese government's efforts to reduce the amount of money it was printing also contributed to the sharp increase in the cost of coal. Together, these measures caused the price of thermal coal to rise sharply.

China implements harsh macroeconomic measures to combat contraction.

China's government responded to the economic contraction by implementing several measures to stimulate the economy and increase demand for Chinese goods. The Chinese government cut interest rates, expanded the money supply, lowered taxes on businesses, and implemented large infrastructure projects. These efforts helped boost demand for Chinese goods and coal, iron, steel, and other manufactured goods produced in China. However, the efforts were too little, too late.

China's tight monetary policy even further.

By 2016, China's monetary policy had become even more restrictive. In addition, the Chinese government implemented a new policy of increasing the cost of capital for financial institutions and other businesses. This policy was designed to reduce private and speculative capital and limit access to credit for smaller businesses, particularly in manufacturing and energy.

The increased lending restrictions and the increased cost of capital caused a sharp decline in private sector credit and an even more significant contraction in the Chinese economy. With demand for many goods and services continuing to fall, China's government once again implemented harsh measures to boost demand for goods and stimulate the economy.

The measures included a series of tax cuts, tax subsidies on infrastructure projects, subsidies on public housing and other public works, and expanded access to social welfare benefits.

How Australia's reliance on coal mining caused the downfall of the Australian coal industry

The reliance of Australia's economy on the mining of coal was problematic from the beginning. In the early 2000s, a sudden surge in the price of coal greatly exceeded the price of other energy sources such as natural gas and renewable sources such as wind and solar power, which resulted in a significant increase in the cost of electricity for residential and commercial users. To make up for this increase in cost, the government implemented several subsidies and tax breaks for the energy industries, including coal mining.

The Chinese economy suffers from overcapacity in manufacturing

By 2016, China had become an overcapacity in manufacturing. In particular, China's manufacturing industries had become severely oversupplied with a large excess capacity compared with domestic demand, which resulted in a sharp decline in the price of China's manufactured goods and a dramatic decline in demand.

The Chinese Government Tightens Monetary Policy Even Further

The Chinese government has continued to tighten its monetary policy and implement strict measures to reduce credit availability and control the amount of money in the economy. In 2015, the Chinese government implemented new laws prohibiting financial institutions and

other businesses from loaning money to individuals or small businesses. The government also implemented a strict limit on