

# Why Australia and the West suffer from Sinophobia

by **Geoff Raby**

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*As China grows and grows, critics can't decide if they are sure it's going to collapse or that it's about to take over.*

As farce masquerades as politics in the US with the storming of the Capitol, it can be tedious to note good news from the other great global power, China. China's continued [strong economic growth](#) is of far greater importance to Australia's wellbeing than the circus in Washington. But judging from public discussion, who would know?

On Christmas eve, revised international estimates showed that China would now [overtake the US as the world's biggest economy in 2028](#), nearly five years earlier than previously expected, when measured in nominal dollars.

Under the International Monetary Fund's preferred measure of purchasing power parity, China has already eclipsed the US as the world's biggest economy. *The Economist's Big Mac Index* has China's economy even larger relative to the US.

The IMF estimates China's GDP growth will be 8.2 per cent in 2021. On this basis, Bloomberg calculates that in 2021 China will account for 26.8 per cent of world economic growth – substantially more than America's estimated 16 per cent.

The global tipping point in economic predominance has been passed and China's economic power relative to both the US and rest of the world will grow massively. This is the big geopolitical story in the years ahead. As the recent EU-China bilateral investment agreement shows, it is not a foregone result that Western powers will link arms to resist China's economic ascendancy.

US President-elect Joe Biden will struggle with his China policy. A reset in Washington-Beijing relations is on the cards, and Australia may well be on its own again.

The holiday period is a good time to catch up on both sleep and reading. One of the previous year's most important books, which inexplicably has received scant

attention, is [Tom Orlik's](#) *China: The Bubble that Never Pops*. With respect to writings on China, it should have been the book of the year.

It is a book that was long waiting to be written. Orlik was Bloomberg's veteran China analyst based in Beijing. His 2011 book, *Understanding China's Economic Indicators*, was a must-read guide to the country's statistics. Few commentators understand the numbers as well as Orlik.

Since the late 1970s, when China's reform and open-door policies unleashed five decades of almost uninterrupted rapid economic growth and changed the world along the way, a consistent theme has been that it would all end in tears.

**Certainly, Beijing has given the Cassandras plenty of material with which to work.**

Expert commentators were always predicting – and still are – that China's growth "bubble" would imminently burst. Certainly, Beijing has given the Cassandras plenty of material with which to work, [notably its rapidly increasing levels of debt](#).

By 2019, China's total debt was estimated to be about 300 per cent of GDP, higher than debt-to-GDP ratio of the US and other developed economies. While China's per capita income is around emerging economy levels, its debt is more than double the emerging economy average. As Orlik observes, this is a significant disadvantage for China.

China's debt-to-GDP ratio has also risen rapidly. In the past decade, it has almost doubled – compared, for example, with Greece, before the onset of its financial crisis, where it increased 75 per cent from 2001 to 2010. The IMF has found that no economy where debt was higher than 100 per cent and that had grown as fast as China had escaped a financial crisis.

Orlik argues, however, that China has consistently confounded the pessimists. He says, "to read the history of modern China is to read the history of collapse theories". The post-Tiananmen crisis, the Asian financial crisis, the refinancing of the banking system in the early 2000s, the global financial crisis, the 2015 Shanghai equities debacle, ghost towns, the inability to rebalance towards consumption, local government debt and shadow banking, and rural-urban income inequalities were all going to bring the house of cards down.

But the bubble never pops. As Orlik concludes, "Collapse theories have been many and varied. So far they have one thing in common: they have all been wrong."

The China "expert" [Gordon Chang](#) famously miscued when he titled his 2001 book [The Coming Collapse of China](#). Any number of financial market analysts and public

commentators have lemming-like fallen over the same predictive cliff. Orlik convincingly shows why so many have got China's economy so wrong for so long.

Today we are gripped by what Orlik cleverly terms "Sinophrenia" – China is at the same time about to collapse and take over the world. Australia today is very much in the thrall of Sinophrenia. It is damaging to both commercial and public policy decision-making.

After my 35 years of analysing, commenting on, advising and doing business with China, it is hard not to give China's policymakers the benefit of the doubt. One day the bubble may burst. The economist [Rudiger Dornbusch](#) famously said crises take longer to arrive than can possibly be imagined, but when they do, they happen faster than you can imagine.

If the China bubble does burst, it will cause enormous harm not only to the 1.4 billion people of China, but to the world economy. The IMF recently estimated that among developed countries, Australia would suffer most in terms of loss of economic welfare.

This is my last monthly column after [contributing](#) to *The Australian Financial Review's* opinion pages for the past seven years. The forum is now well populated with many excellent commentators. It has become the premier place for short-form articles on foreign and strategic policy, inevitably heavily focused on China, which opinion makers read – and by which they are influenced.

*Geoff Raby was Australia's Ambassador to China, 2007-11. His book [China's Grand Strategy and Australia's Future in the New Global Order](#) was published on 3 November by MUP. He is also an Associate with China Matters.*