Output Co-movement between Australia and China

James Laurenceson†#

Kam Ki Tang

University of Queensland

Abstract

Historical stylised facts show a high degree of output co-movement between Australia and the US. This has served to inform the policy response in Australia to developments in the US. However, in the 2000s, a perception has arisen in some policy circles, and even more so in the mass media, that output fluctuations in Australia increasingly reflect developments in China. This paper seeks to shed light on this view by examining the degree of output co-movement between Australia and China. The results indicate that while output co-movement has increased in recent years, it continues to lag behind that between Australia and the US. Several explanations are provided as to why output co-movement between Australia and China is modest, and likely to remain so into the foreseeable future.

JEL codes: E32, F15, F43

Key words – Australia, China, Output Co-movement

† Corresponding author – School of Economics, University of Queensland, St Lucia, 4072, Brisbane, Queensland, Australia; ph – (+617) 33656085; fax – (+617) 33657299; email – j.laurenceson@uq.edu.au.

# The authors would like to thank Kam Ki Tang, Rodney Strachan and participants at the 21st annual conference of the Association for Chinese Economic Studies (Australia) held at RMIT University, Melbourne, Australia, 15-17, July, 2009, for valuable comments on an earlier draft. Any errors are our own.