

Australia's Relations with China



Edited by Justin Healey

ISSUES
IN SOCIETY

Australia's Relations with China

Volume | 471

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INTRODUCTION

Australia's Relations with China is Volume 471 in the 'Issues in Society' series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC

The Australia-China bilateral relationship is very significant to Australia and is mostly based on substantial trade ties. Crucially, China accounts for around a third of Australia's total export income, however diplomatic and economic relations are currently at a low point.

Globally, China is asserting its emerging superpower status and it appears actions by the communist party leadership in Beijing are primarily responsible for the deterioration in the bilateral relationship – however both sides have made mistakes, and Australia is not without fault. China's blunt use of repeated trade sanctions to penalise Australia for alleged slights risks the mutually beneficial trading relationship being undermined by damaging political interference.

What are the various grievances and points of difference between these two countries? How can Australia serve its own national and strategic interests and maintain its foreign policy objectives, without needlessly antagonising China? Can we end the trade war and repair relations?

SOURCES OF INFORMATION

Titles in the 'Issues in Society' series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the 'Issues in Society' series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:

- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION

As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES

The 'Exploring issues' section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH

This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The 'Web links' section at the back of this book contains a list of useful websites which you can access for more reading on the topic.

Australia's bilateral relations with China

COUNTRY BRIEF FROM THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

After establishing diplomatic relations with the People's Republic of China in 1972, Australia established an embassy in Beijing in 1973. The Australia-China bilateral relationship is based on strong economic and trade complementarities and longstanding community and cultural links. In 2014, the Australian Prime Minister and Chinese President agreed to describe the relationship as a “comprehensive strategic partnership”.

In recent years, the relationship has come under strain. Nevertheless, the Australian Government remains committed to a mutually beneficial and respectful relationship with China in which we can pursue our shared interests, while remaining consistent with our own national sovereign interests.

Both sides acknowledge that Australia and China have different histories, societies and political systems, as well as differences of view on some important issues. Australia adheres to its one-China policy, which means we do not recognise Taiwan as a country. We maintain unofficial contacts with Taiwan promoting economic, trade and cultural interests.

Australia raises a wide range of human rights issues

with China including freedom of expression, freedom of religion, treatment of political prisoners and ethnic minorities (including abuses in Xinjiang and Tibet), torture, the death penalty, and the rights of legal practitioners and civil rights activists. Where appropriate, we also raise our concerns at appropriate multilateral fora such as the Human Rights Council.

Australia has largely phased out bilateral aid to China. In recognition of China's growing role as an aid donor, Australia and China signed a Memorandum of Understanding (MoU) on development cooperation in 2013, which was renewed in 2017. The MoU facilitates cooperation in shared development objectives on

In recent years, the relationship has come under strain. Nevertheless, the Australian Government remains committed to a mutually beneficial and respectful relationship with China in which we can pursue our shared interests, while remaining consistent with our own national sovereign interests.



issues of regional or global importance.

Australia's diplomatic network in China includes the embassy in Beijing and consulates in Shanghai, Guangzhou, Chengdu, Shenyang and Hong Kong. There are also 8 Austrade offices across China, assisting Australian businesses to enter markets and promote Australia as an investment, tourism and education destination. Most Australian state governments are represented in China's leading commercial centres. Australia and China share around 100 sister-state/province and sister-city relationships.

TRADE AND INVESTMENT

China is Australia's largest two-way trading partner in goods and services, accounting for 29 per cent of our trade with the world. Two-way trade reached \$251 billion in 2019-20 (up 7 per cent year on year). Our exports to China grew by 9 per cent to reach \$168 billion. China remained our biggest services export market, particularly in education and tourism.

The China-Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. ChAFTA is an historic agreement that is delivering

enormous benefits to Australia, enhancing our competitive position in the Chinese market, boosting economic growth and creating jobs. Businesses have taken advantage of lower tariffs under the agreement, with a utilisation rate of over 90 per cent in both directions.

Chinese investment in Australia is a highly valued and growing part of the bilateral relationship. China is the sixth-largest foreign direct investor in Australia (\$46 billion in 2019), accounting for 4.5 per cent of total foreign direct investment (FDI). In recent years, Chinese investment has broadened from mainly mining to include sectors such as infrastructure, services and agriculture.

Australia's foreign investment review framework is established clearly in legislation providing openness and transparency. Australian FDI in China reached \$16 billion in 2019. Our expertise in banking and wealth management services has seen financial institutions become some of the largest Australian investors in China.

Australian businesses continue to enter the Chinese market with great success. However – as with all cross-border commercial activities – there are risks. *Doing Business in China* (www.austrade.gov.au/australian/export/export-markets/countries/china/doing-business) informs Australian companies about how best to manage risks and offers best-practice guidelines to dispute resolution.

Chinese tourism to Australia is supported through access for Chinese nationals to Australia's SmartGate, online lodgement for visitor visas and an additional online lodgement service in simplified Chinese language through the Australian Visa Application Centres (AVACs) in China. Visa fast track services (priority processing within 48 hours) and a 10-year visitor visa option are available for Chinese applicants for business and tourist streams. Australia looks forward to welcoming students and travellers when borders reopen.

Australians are increasingly purchasing products from China through online shopping sites. There are risks buying products from an overseas-based online seller and difficulties exist in obtaining a remedy from them. The Australian Competition and Consumer Commission (ACCC) provides information regarding shopping online.

Information on doing business and opportunities in China can be found at: www.austrade.gov.au/australian/export/export-markets/countries/china/market-profile

PEOPLE-TO-PEOPLE LINKS

Community and cultural links continue to develop strongly and play a vital role in the Australia-China relationship. Chinese migration started in the middle of the nineteenth century and Mandarin is now the second most spoken language in Australia after English. Chinese Australians have contributed significantly to

China is Australia's largest two-way trading partner in goods and services, accounting for 29% of our trade with the world.



HIGH-LEVEL VISITS AND MEETINGS

Recent high-level meetings include:

- In January 2020, former Prime Minister the Hon John Howard OM AC co-chaired the Australia China High-Level Dialogue in Sydney with Mr Li Zhaoxing, Honorary President of the Chinese People's Institute of Foreign Affairs and former Minister of Foreign Affairs.
- In November 2019, Prime Minister Morrison met Chinese Premier Li Keqiang in Bangkok for the Annual Leaders' Meeting.
- In November 2019, Trade, Investment and Tourism Minister Birmingham visited Shanghai to lead Australia's delegation to the China International Import Expo (CIIE) and participate in ministerial discussions on World Trade Organisation (WTO) matters.
- In October 2019, Prime Minister Morrison met Chinese Vice President Wang Qishan in Jakarta.
- In September 2019, Foreign Minister Payne held a bilateral meeting with State Councilor and Foreign Minister Wang Yi on the sidelines of the UN General Assembly meeting in New York.
- In August 2019, Foreign Minister Payne and State Councilor and Foreign Minister Wang Yi held a bilateral meeting on the sidelines of the East Asia Summit Foreign Ministers' Meeting in Bangkok.
- In August 2019, Trade, Investment and Tourism Minister Birmingham visited Beijing for Regional Comprehensive Economic Partnership negotiations.
- In June 2019, Prime Minister Morrison met President Xi Jinping during G20 meetings in Osaka.
- In June 2019, Sports Minister Colbeck visited Shanghai.
- In January 2019, Defence Minister Pyne visited China and met Chinese Minister of National Defence General Wei Fenghe.
- In December 2018, Prime Minister Morrison met President Xi Jinping during G20 meetings in Buenos Aires.
- In November 2018, Prime Minister Morrison met President Xi Jinping during the APEC Leaders' Meeting in Port Moresby.
- In November 2018, Prime Minister Morrison and Premier Li Keqiang held their Annual Leaders' Meeting in Singapore.
- In November 2018, Foreign Minister Payne and State Councilor and Foreign Minister Wang Yi co-chaired the Fifth Foreign and Strategic Dialogue in Beijing.
- In November 2018, Trade, Investment and Tourism Minister Birmingham visited Shanghai leading an Australian delegation to the China International Import Expo.
- In September 2018, Foreign Minister Payne met State Councilor and Foreign Minister Wang Yi during the UN General Assembly in New York.
- In May 2018, Trade and Investment Minister Ciobo visited Shanghai.

the development of Australia and also foster people-to-people links with China. In addition to immigration, education, trade and tourism also bolster these links.

While travel restrictions as a result of COVID-19 have impacted international travel, Australia remains one of the most popular destinations for Chinese students wishing to study overseas. China continues to be Australia's largest source of overseas students.

In the other direction, China is a key destination for Australia's New Colombo Plan. The initiative will help to lift knowledge of China in Australia and strengthen people-to-people and institutional relationships, through study and internships undertaken by Australian undergraduate students in China.

Prior to the imposition of restrictions on international travel, China was Australia's largest inbound market in terms of visitor arrivals and total visitor spend. China remained the largest source country for visitor visa applications in the first half of 2020-21. Due to COVID-19 travel restrictions, all visitor visa arrivals over this period have been in an exempt category, received an individual travel exemption or travelled under the New Zealand Safe Travel Zone arrangements. In 2019-20, there were over 4.6 million visitor arrivals from China, which not only contributed to the Australian economy but also increased understanding about Australia in China.

Australia-China engagement in education, science, business and culture brings significant economic, social and cultural dividends to both countries and adds value to the bilateral relationship.

In 2019, the Foreign Minister announced the

establishment of the National Foundation for Australia-China Relations. The foundation works to build links between our country and China, by bringing together government business and communities to find and support ways to engage constructively with China.

Through its competitive grants program the foundation supports projects, including with cultural, sporting and educational institutions and the Australian-Chinese communities, that strengthen understanding of each other's society and cultures and promote greater people-to-people engagement.

For more information about the foundation, go to australiachinafoundation.org.au.

In 2014, Australia and China established a 1.5 track leadership forum, the Australia-China High-Level Dialogue. The Dialogue aims to enhance mutual understanding by bringing together senior Australian and Chinese government representatives with business, academic, and social leaders to discuss key issues affecting the relationship. These can include political and strategic issues, economic policies, and social and cultural developments.

The inaugural High Level Dialogue was held in December 2014 in Beijing. The sixth Dialogue was held in January 2020 in Sydney. Australia's delegation was led by the Hon John Howard OM AC.

Department of Foreign Affairs and Trade.
China country brief – Bilateral relations.
Retrieved from www.dfat.gov.au on 3 June 2021.

CHINA MARKET INSIGHTS

A FACT SHEET FROM THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

KEY FACTS AND FIGURES (2019)

- *Population:* 1.4 billion
- *GDP growth:* 6.1 per cent
- *GDP per capita:* US\$10,276
- *Two-way trade:* \$252 billion
- *Exports:* iron ore, coal, LNG, beef, wool, education, tourism
- *Imports:* telecom equipment, computers, refined petroleum
- *Australian total investment in China:* \$85 billion
- *Chinese total investment in Australia:* \$78 billion

Business conditions snapshot

- Mainland China is the world's second largest economy, with official GDP growth forecast to be around 1.9 per cent in 2020 and 8.2 per cent in 2021.¹ China's economy is recovering well from the impact of COVID-19 and is expected to be the only major economy to grow in 2020.
- Expanding domestic consumption is a government priority, described as the 'dual circulation' strategy. This presents potentially large opportunities for Australian exporters and service providers.
- As disposable incomes rise, demand will increase among China's growing middle-class for safe food and a higher protein diet, quality health care and education, more sophisticated products and services, more liveable cities, a cleaner environment and the opportunity to travel.
- The healthcare industry is undergoing significant changes as China addresses an ageing population, greater consumer demand for quality care and significant gaps in coverage between provinces.
- China has rapidly developed into a global leader in e-commerce and mobile payment systems. Chinese e-commerce, internet services and fintech companies now rank among the world's most valuable, including Alibaba, Baidu, DiDi Chuxing, JD.com, Meituan-Dianping and TenCent.
- China has invested heavily in infrastructure. Over the past decade it has steadily improved the competitiveness of its logistics chains. China is a world leader in 5G deployment, ranking behind only South Korea at the beginning of 2020. Investment in emerging technologies will grow strongly over the next five years, as China moves up the global value chain with strong government support.
- A Chinese government priority is to reduce air pollution, particularly in the major cities. China has announced it will reach peak carbon emissions by 2030. China is a leader in renewable energy technology.
- Chinese outbound investment has slowed from its peak in 2016. It contracted globally in 2018

and 2019 on the back of capital controls and new overseas investment regulations. Investment however will likely continue to grow in the medium to long term, driven by the needs of China's big companies to grow and diversify beyond their home market, and in part by state-driven 'Belt and Road' infrastructure projects.

Trade and investment opportunities

Current and emerging commercial opportunities

- Resources remain the backbone of Australia's exports to China, particularly iron ore and energy bulk commodities like LNG and coal.
- China is a top market for Australian exports of meat, wine, wool, fruit and nuts, seafood, grains and dairy.
- The Australian Government has been working to resolve a number of impediments to trade, which have impacted barley, meat and other exports, particularly in agriculture.
 - China imposed anti-dumping and countervailing tariffs of 80.5 per cent on Australian barley in May 2020, and is investigating alleged dumping and illegal subsidisation of Australian wine.
 - Australian businesses should consider the changing market risks when making commercial decisions to export to China – see Austrade trade updates for the latest information (www.austrade.gov.au/news/covid-19/updates/china).
- Cold-chain logistics capacity continues to grow beyond first tier into second and third tier markets, creating opportunities for premium Australian fresh produce and food product exports.
- The continued growth of e-commerce platforms and preferential cross-border e-commerce policies have created new channels for Australian exporters:
 - Australian brands are often top performers in China's 11:11 Singles Day shopping event.
 - In 2019 and 2020 Australia was the fourth most popular source country for imported products during the event.
- Services exports in education and tourism made up an increasing share of Australia's total trade with China before the closure of international borders due to COVID-19:
 - Consumer sentiment toward Australia remains high in both sectors, a positive indicator for recovery once international borders begin to re-open.
 - China was Australia's largest and most valuable inbound tourism market, with 1.4 million Chinese visitors spending A\$12.4 billion in the year ending December 2019.
 - In 2019, 203,000 Chinese students studied in Australia, making China our largest source market for education services.

- An ageing population, rising incomes and capacity shortages in China's healthcare sector create opportunities for Australian firms across the supply chain, including in areas such as aged care, clinical trials, digital health, medtech, and medical services.
- Australian fintech and blockchain firms are beginning to make connections in China, capitalising on both the gradual opening of China's financial services sector to foreign firms and disruption to the sector caused by the digital economy evolution.

Outbound and inbound investment opportunities

- China remains a major source of foreign investment globally and in Australia.
 - The stock of Chinese foreign direct investment in Australia has grown at an average rate of nearly seven per cent a year over the past five years.
- Australia is an attractive investment destination for Chinese firms.
 - The countries complement each other economically.
 - We share geographic proximity.
 - Australia's reputation as a safe investment destination with strong legal, political and business institutions – and low sovereign risk – is noted.
- Chinese investment in Australia continues to be welcomed in a diverse range of sectors.

The Australian Government has been working to resolve a number of impediments to trade, which have impacted barley, meat and other exports, particularly in agriculture.

Major events

- The third China International Import Expo (CIIE) was held in Shanghai in November 2020, which was an opportunity for China to signal the country's openness to imports.
 - CIIE is a unique opportunity for Australian firms to engage with our largest trading partner.
- Austrade's Festival of Australia program, which ran from September to November 2020, promoted Australia's high-quality products and services with a mix of offline and online events, and was supported by a complementary digital promotional campaign *Australia – Still Extraordinary*.
- China will host the 2022 Winter Olympics, creating opportunities for Australia to contribute expertise and services.

Trade policy and negotiations

- The China-Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. There have since been six rounds of tariff cuts. Almost all Australian goods can now enter China tariff-free.
 - ChAFTA has high use rates in both directions. It also has a built-in agenda of mandated reviews and committee meetings, although there has been no

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committee meeting since 2017.

- The Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020 with 15 Indo-Pacific countries including China.
 - RCEP provides a single set of rules and procedures for trade across all 15 members, and includes greater access to China's services sectors, including professional, financial, education and health services.
- Australia is also engaged with China through ongoing negotiations in the World Trade Organization, including on e-commerce, services domestic regulations, and investment facilitation for development.

1. *IMF World Economic Outlook*, October 2020.

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Department of Foreign Affairs and Trade (December 2020). *Market Insights: connecting Australian business to the world – China*. Retrieved from www.dfat.gov.au on 16 March 2021.

CHINA'S TRADE WITH AUSTRALIA

THE LATEST TRADE STATISTICS, COURTESY OF THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE



General information

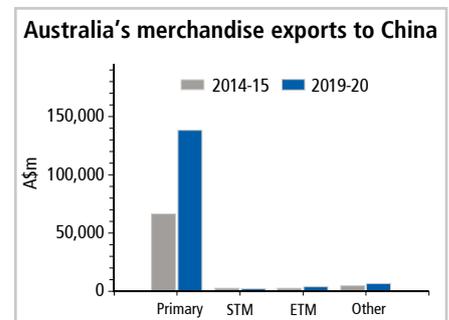
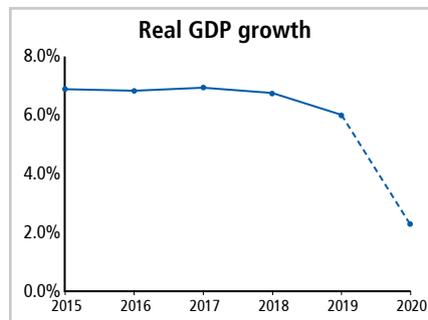
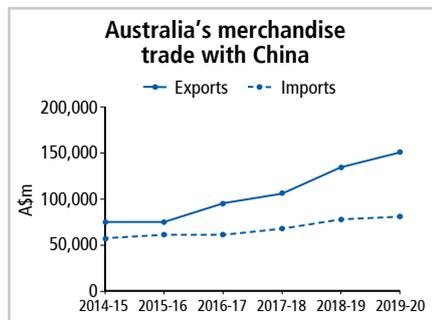
Fact sheets are updated biannually in August and February.

Capital: Beijing
Land area: 9,388,211 sq km
Official language(s): Mandarin
Population: 1400.1 million (2019)
Currency: Yuan Renminbi

Head of State
 President HE Mr Xi Jinping
Head of Government
 Premier of the State Council HE Mr Li Keqiang

Economic indicators^(a)

	2015	2016	2017	2018	2019	2020
GDP (US\$b) (current prices)	11,113.5	11,227.1	12,265.3	13,841.9	14,731.8	15,222.2
GDP per capita (US\$)	8,084.8	8,119.6	8,823.5	9,919.8	10,522.3	10,839.4
GDP PPP (Int'l \$)	17,880.3	18,701.7	19,814.1	21,659.3	23,393.0	24,162.4
GDP per capita PPP (Int'l \$)	13,007.5	13,525.4	14,253.9	15,522.2	16,708.7	17,205.7
Real GDP growth (% change yoy)	6.9	6.8	6.9	6.8	6.0	2.3
Current account balance (US\$b)	304.2	202.2	195.1	25.5	141.3	193.4
Current account balance (% GDP)	2.7	1.8	1.6	0.2	1.0	1.3
Inflation (% change yoy)	1.4	2.0	1.6	2.1	2.9	2.9
Unemployment (% labour force)	4.1	4.0	3.9	3.8	3.6	3.8



Australia's trade and investment relationship with China^(b)

Australian merchandise trade with China, 2019-20 (A\$m)	Total share	Rank	Growth (yoy)
Exports to China	39.6%	1st	12.3%
Imports from China	26.1%	1st	3.6%
Total merchandise trade (exports + imports)	33.5%	1st	9.1%

Major Australian exports, 2019-20 (A\$m)

Iron ores & concentrates	84,683
Natural gas	15,772
Coal	13,707
Beef, f.c.f.	2,839

Major Australian imports, 2019-20 (A\$m)

Telecom equipment & parts	9,380
Computers	7,276
Furniture, mattresses & cushions	3,371
Refined petroleum	3,034

Australian trade in services with China, 2019-20 (A\$m)

	Total share	Rank	Growth (yoy)
Exports of services to China	17.6%	1st	-12.3%
Imports of services from China	2.8%	11th	-26.4%

Major Australian services exports, 2019-20 (A\$m)

Education-related travel	10,494
Personal travel excluding education	2,828

Major Australian services imports, 2019-20 (A\$m)

Personal travel excluding education	895
Transport	539

Australia's investment relationship with China, 2019 (A\$m)

	Total	FDI
Australia's investment in China	85,268	15,511
China's investment in Australia	78,152	45,992

China's global merchandise trade relationships

China's principal export destinations, 2019

1 United States	16.7%
2 Hong Kong (SAR of China)	11.2%
3 Japan	5.7%
13 Australia	1.9%

China's principal import sources, 2019

1 Republic of Korea	8.4%
2 Taiwan	8.4%
3 Japan	8.3%
5 Australia	5.8%

Compiled by the Statistics Section, DFAT, using the latest data from the ABS, the IMF and various international sources.

(a) Economic indicators data is from the IMF WEO where available, the EIU or other reputable source. Data may include forecasts or projections for recent years. GNI may be shown in lieu of GDP for countries where GDP data is unavailable.

(b) Merchandise trade data is based on published and unpublished ABS data. May exclude confidential items of trade. Totals may not add up due to rounding. Investment data is stocks as at end December.

All data may be subject to future revisions.

GDP – Gross Domestic Product. PPP – Purchasing power parity. GNI – Gross National Income. na – Data is not available. np – Data is not published. ... – Data is not meaningful. Primary – Primary goods. STM – Simply transformed manufactures. ETM – Elaborately transformed manufactures. Other – Other goods including non-monetary gold. f.c.f. – Fresh, chilled or frozen. nes – Not elsewhere specified.

Department of Foreign Affairs and Trade. *China* (Last updated February 2021). Retrieved from www.dfat.gov.au on 5 March 2021.

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CHINA-AUSTRALIA FREE TRADE AGREEMENT: OUTCOMES AT A GLANCE

China is Australia's largest trading partner. Trade and investment with China is central to Australia's future prosperity, according to this fact sheet from the [Department of Foreign Affairs and Trade](#)

In 2017, China bought \$116 billion of Australian exports, more than a quarter of Australia's total exports to the world; China is our top overseas market for agriculture, resources and services. Chinese investment in Australia reached \$65 billion by the end of 2017.

The China-Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015, has built on Australia's large and successful commercial relationship with China, by securing markets and providing Australians with even better access to China across a range of our key business interests, including goods, services and investment.

FOR AUSTRALIAN GOODS EXPORTERS

On full implementation of ChAFTA, almost all of Australia's goods exports to China will enjoy duty-free entry.

China buys more of Australia's agricultural produce than any other country. In 2017, this market was worth around \$13 billion to Australian farmers and the broader agricultural sector.

ChAFTA provides Australia with an advantage over our major agricultural competitors, including the United States, Canada and the European Union. It also counters the advantages Chile and New Zealand have enjoyed through their FTAs with China.

In agriculture, ChAFTA eliminated remaining tariffs on Australian barley and sorghum on 20 December 2015, and will see a rapid tariff reduction on other agriculture exports, including seafood, sheepmeat and a variety of horticulture.

Other key agriculture outcomes include:

- **Dairy:** tariffs up to 20 per cent are being eliminated by 1 January 2026
- **Beef:** tariffs of 12 to 25 per cent are being eliminated by 1 January 2024
- **Wine:** tariffs of 14 to 20 per cent are being eliminated by 1 January 2019
- **Wool:** a new Australia-only duty-free quota (which commenced on 1 January 2016), in addition to continued access to China's WTO wool quota.

China is by far Australia's largest market for resources and energy products. In 2017, Australia exported over \$85 billion worth of resources, energy and manufactured products to China. On full implementation of ChAFTA (1 January 2029), virtually all of Australia's resources, energy and manufacturing exports will enjoy duty-free entry into China.

Key outcomes include:

- **Iron ore, gold, crude petroleum oils and liquefied natural gas:** ChAFTA locked in existing zero tariffs on these major exports, providing greater certainty for Australian exporters
- **Coking coal:** tariff of 3 per cent completely eliminated on 20 December 2015
- **Thermal coal:** tariff of 6 per cent completely eliminated on 1 January 2017
- **Refined copper and alloys (unwrought), aluminium oxide (alumina), unwrought zinc, unwrought aluminium, unwrought nickel and titanium dioxide:** tariffs of up to 10 per cent eliminated, many immediately on 20 December 2015
- **Pharmaceuticals, including vitamins and health products:** elimination of tariffs up to 10 per cent, either on 20 December 2015 or progressively by 1 January 2019
- **Car parts and engines, plastic products, opals and other precious stones:** elimination of tariffs on these and other manufactured products by 1 January 2019.

FOR AUSTRALIAN SERVICES SUPPLIERS

China is Australia's largest services market, with exports in services valued at \$15.8 billion in 2017.

In ChAFTA, China offers Australia its best-ever services commitments in an FTA (other than China's agreements with Hong Kong and Macau). Most valuably, this includes new or significantly improved market access commitments for Australian banks, insurers, securities and futures companies, law firms and professional services suppliers, education services exporters, as well as health, aged care, construction, manufacturing and telecommunications services businesses in China.

The agreement also includes a Most-Favoured Nation (MFN) clause, under which Australia's competitive position in services into the future will be protected if China extends any more beneficial treatment to other trade partners in ten specific sectors: education, tourism and travel-related services, construction, engineering, securities, environmental services, services relating to forestry, computer and related services, and certain scientific and consulting services.

Key outcomes include:

- **Legal services:** Guaranteed market access for Australian law firms to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ)
- **Education services:** China has listed 68 additional Australian private higher education institutions registered on the Commonwealth Register of Institutions and Courses for Overseas Students on

a key Chinese Ministry of Education overseas study website

- **Telecommunications services:** Guaranteed market access for Australian companies investing in specified value-added telecommunications services in the SFTZ, providing greater certainty for Australian telecommunications investments in the SFTZ
- **Financial services:** China committed to deliver new or improved market access to Australian financial services providers in the banking, insurance, funds management, securities, securitisation and futures sectors
- **Tourism and travel-related services:** Guaranteed market access for Australian services suppliers to be able to construct, renovate and operate wholly Australian-owned hotels and restaurants in China
- **Health and aged care services:** Australian service suppliers can establish profit-making aged care institutions throughout China, and wholly Australian-owned hospitals in certain provinces, enabling Australian private health sector's offerings of medical services through East Asia to expand.

FOR INVESTORS

ChAFTA improves opportunities for investors in both countries. China's commitments on investment in ChAFTA protect the competitive position of Australian businesses in China into the future. Increasing numbers of Australian businesses are entering the Chinese market with great success, with banking and wealth management the leading sector of Australian direct investment in China. At the end of 2017, Australia's stock of investment in China totalled \$77.1 billion.

The investment obligations in ChAFTA can be enforced directly by Australian and Chinese investors through an Investor-State Dispute Settlement (ISDS) mechanism. The ISDS mechanism includes safeguards to protect governments' ability to regulate in the public interest and pursue legitimate public welfare objectives such as public health, safety and the environment.

Chinese investment in Australia has increased from \$6 billion 10 years ago, to around \$65 billion at the end of 2017. ChAFTA promotes further growth of Chinese investment into Australia, in particular by liberalising the Foreign Investment Review Board (FIRB) screening threshold for private Chinese investors in non-sensitive sectors from \$252 million to \$1,094 million. The Government will continue to screen Chinese investments at lower thresholds for agricultural land and agribusiness, and in sensitive sectors, including media, telecommunications and defence-related industries.

Moreover, FIRB also continues to screen all direct investments, new business proposals and acquisitions of interests in land (including agricultural land), by Chinese state-owned enterprises, regardless of transaction size. ChAFTA does not change these arrangements in any way, consistent with the Government's practice in other FTAs.

FOR AUSTRALIAN CONSUMERS AND BUSINESSES

Consistent with Australia's other bilateral trade agreements, remaining Australian tariffs on Chinese imports will be eliminated progressively. This includes removal of the five per cent tariff on Chinese manufacturing exports, electronics and white goods, with consumers and businesses to benefit from downward pressure on prices and greater availability of Chinese products.

Business and skilled worker mobility

ChAFTA supports increased trade and investment between Australia and China by reducing barriers to labour mobility and improving temporary entry access within the context of each country's existing immigration and employment frameworks and safeguards.

ChAFTA provides improved access for a range of Australian and Chinese skilled service providers, investors and business visitors, supporting investment and providing business with greater certainty. Innovative new Investment Facilitation Arrangements (IFAs), which will operate within the framework of Australia's existing visa system, will also provide greater flexibilities for companies to respond to unique economic and labour market challenges. IFAs will be available for large infrastructure projects above \$150 million, strengthening investment in this key area and leading to the creation of jobs and increased economic prosperity for all Australians.

Other outcomes

ChAFTA includes additional commitments which:

- Provide a framework for the growth of electronic commerce between Australia and China
- Reaffirm existing international intellectual property obligations and provide a framework for future cooperation
- Promote cooperation and coordination between relevant agencies on competition policy
- Provide for future negotiations on access to China's government procurement market
- Facilitate trade through streamlined customs processes.

Work and holiday arrangement

Alongside ChAFTA, Australia and China have also implemented a Work and Holiday Arrangement (WHA) under which Australia will grant visas for up to 5,000 Chinese work and holidaymakers annually.

The WHA will increase demand for tourism services and support the development of Australia's tourism sector, particularly in rural Australia.

Department of Foreign Affairs and Trade. *China-Australia Free Trade Agreement – Outcomes at a Glance* (Last updated August 2018). Retrieved from www.dfat.gov.au on 16 November 2020.

Australia signs Regional Comprehensive Economic Partnership, the world's largest trade deal

The largest trade deal in history has been signed, with 15 countries including Australia agreeing to the pact, which covers 30 per cent of the global economy. An [ABC News](#) report by political reporter Matt Doran and staff

In heralding the benefits of the deal, Trade Minister Simon Birmingham again voiced concern over China's trading behaviour, urging Beijing to respect international trade rules and "focus on evidence" when making decisions about imports of Australian products.

Leaders agreed to terms on the Regional Comprehensive Economic Partnership (RCEP) at the Association of South-East Asian Nations (ASEAN) summit in Bangkok last year. The signing on the dotted line was expected to happen late on Sunday during this year's virtual meeting. The countries involved are Australia, China, Japan, South Korea, New Zealand and the ten members of ASEAN, including Indonesia and Vietnam.

The RCEP pact, which has taken eight years to negotiate, surpasses the Trans-Pacific Partnership (TPP) in scale after the United States pulled out of that agreement under the Trump Administration.

"The real benefits here are two-fold – one is for our farmers and exporters, they get a more common set of rules across all 15 nations," Senator Birmingham said on Sunday.

"The other is for our services export industry, they get significant new access across financial, banking, aged care, health care, education and other types of services industries, right into the provision of architectural, engineering or planning services.

"This is about making sure that we have the opportunity for that part of the economy, the services industry, to be able to grow and be able to get the same type of uplift in trade benefits across the region that our goods exporters have had over recent years," he said.

Much of the focus of RCEP is on standardising trade rules across countries, making it easier for people to do business. India had been at the negotiating table for much of eight years of talks, before pulling out last year.

"That diminishes some of the value for Australia, particularly given India would've been the one RCEP partner with whom we did not previously have any type of free trade agreement," Senator Birmingham said.

"However, the value of RCEP is still there."

The deal also does not include the United States, despite the country having \$US2 trillion (\$2.7 trillion) in trade with the countries which are involved.

AGREEMENT COMES AMID TENSIONS BETWEEN CANBERRA AND BEIJING

Australia again clashed with China over its military

KEY POINTS

- The Regional Comprehensive Economic Partnership has taken eight years to negotiate.
- Labor has said the trade deal should not distract from Australia's ongoing trade tensions with China.
- US President Donald Trump did not attend the ASEAN meeting for the third year in a row.

activities in the South China Sea during the ASEAN meeting. Prime Minister Scott Morrison joined other leaders condemning "destabilising actions" in the contested waterways.

Chinese state media quoted Premier Li Keqiang as telling the meeting that China was "firmly resolved in safeguarding the region's peace and stability".

Australia's trading relationship with China has strained in recent months. Barley exports were the first to be

"The bottom line is, when you've got a country which is your biggest trading partner – we make one in three dollars from trade from China – then you've got to lean into it and make sure you've got the contacts in China to fix things when there's a problem."

– Labor frontbencher Jason Clare



What is the Regional Comprehensive Economic Partnership?

- The Regional Comprehensive Economic Partnership (RCEP) is a regional free trade agreement that aims to complement and build upon Australia's existing free trade agreements with 14 other Indo-Pacific countries.
- The RCEP covers trade in goods, services, investment, economic and technical cooperation, and creates new rules for electronic commerce, intellectual property, government procurement, competition, and small- and medium-sized enterprise.
- The agreement between Australia, China, Japan, South Korea, New Zealand and the ten members of ASEAN (Brunei, Cambodia, Indonesia, Laos, Myanmar, The Philippines, Singapore, Malaysia, Thailand and Vietnam) was signed on 15 November 2020.
- Negotiations were first launched in 2012, however India left in November 2019. Even without India, the RCEP will become the world's largest free trade agreement, covering one third of the world's population and economy.
- Since Australia already has free trade agreements with all of the remaining members, India's absence significantly diminishes what might have been on offer for Australian exporters.
- Australia will work towards ratification of the RCEP Agreement in 2021.
- The RCEP Agreement will enter into force 60 days after six ASEAN Member States and three non-ASEAN Member States have ratified the Agreement.

SOURCES

Ranald, P, The Conversation (16 November 2020), *We've just signed the world's biggest trade deal, but what exactly is the RCEP?*, <https://theconversation.com>

Department of Foreign Affairs and Trade, *Regional Comprehensive Economic Partnership*, www.dfat.gov.au

targeted, hit with significant tariffs, while meat from some Australian abattoirs was also suspended.

Chinese authorities have launched an investigation into allegations Australia has been dumping wine into the country at low prices, distorting the market. There have also been concerns raised about Australian exports of cotton, sugar, timber and copper, while millions of dollars of rock lobsters were left stranded at Shanghai Airport earlier this month.

"I welcome the fact that Australia and China have been able to continue as partners in the RCEP agreement," Senator Birmingham said.

"There are difficulties at present, and I am deeply concerned that in a number of areas, Chinese regulatory actions have disrupted trade flows.

"I urge all parties to the RCEP agreement to engage in implementing not only the letter of it, but also the spirit of it," he said.

The Federal Opposition said it would pore over the details of the trade deal closely, but warned it could not be used as a distraction from the serious deterioration of the relationship between Canberra and Beijing.

Australian ministers have not been able to talk to their Chinese counterparts for months.

"We've got big problems with China at the moment, getting goods into China," Labor frontbencher Jason Clare said.

"It's pretty extraordinary that after being in government for seven years, this Government can't get anyone in Beijing to answer the phone.

"The bottom line is, when you've got a country which is your biggest trading partner - we make one in three dollars from trade from China - then you've got to lean into it and make sure you've got the contacts in China to fix things when there's a problem," Mr Clare said.

US PRESIDENT DONALD TRUMP DOESN'T ATTEND ASEAN FOR A THIRD TIME

Senator Birmingham was hopeful an incoming US administration under Joe Biden might take a less protectionist approach to trade than that of his predecessor, Donald Trump. Mr Trump pulled the United States out of the TPP, arguing it was a bad deal for his country.

The remaining signatories to the deal went ahead with it anyway, and Senator Birmingham argued the "door ... is always open" to the US returning.

Mr Trump snubbed the ASEAN meeting again this year, for the third consecutive time.

US National Security Adviser Robert O'Brien said Mr Trump regretted he was unable to attend the online summit, but stressed the importance of American ties with the region.

"At this time of global crisis, the US-ASEAN strategic partnership has become even more important as we work together to combat the coronavirus," Mr O'Brien said in remarks at the opening ceremony.

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Doran, M (15 November 2020). 'Australia signs Regional Comprehensive Economic Partnership, the world's largest trade deal' (Updated 16 November 2020), *ABC News*. Retrieved from www.abc.net.au/news on 17 November 2020.

AN ALL-OUT TRADE WAR WITH CHINA WOULD COST AUSTRALIA 6% OF GDP

A TRADE REVERSAL WOULD SEE AUSTRALIA'S TERMS OF TRADE FALL AND OUR COST OF LIVING RISE, ACCORDING TO **ROD TYERS** AND **YIXIAO ZHOU**

China accounts for more than a third of export dollars earned by Australia. The figures, for the 12 months to October, cover the period of coronavirus disruptions and disputes over trade.

They apply to physical exports rather than harder to measure services, and are dominated by record high Chinese takings of Australian iron ore.

But they mightn't last.

China is changing, transitioning from growth driven by the iron-ore hungry expansion of cities and manufacturing to growth driven more by the supply of services. Externally, its "belt and road" infrastructure investments facilitate the supply of resources from locations other than Australia, among them the Simandou iron ore and bauxite deposits in Guinea, West Africa that will eventually offer higher quality ore than Australia from a region China may regard as more friendly.

Even if this source is slow to emerge, China will seek to diversify its supplies of iron ore by other means, as suggested by Australia's former ambassador Geoff Raby in his recent book *China's Grand Strategy and Australia's Future in the New Global Order*.

One will be to ensure a steady supply from Brazil which, with China, is a member of the BRICS group of major emerging national economies. Australia prod-

uces few manufactured goods and pays for the considerable quantity it imports by exporting commodities, mostly to China. The loss of this export channel would be serious, but how serious?

IRON ORE MATTERS MORE THAN WE THINK

Conversation authors John Quiggin and James Laurenceson argue the effects would be small. They point out that mineral exports account for only 1% of Australia's national income and that China would hurt itself if it cut off the flow. But China's size means the damage to China would be proportionately smaller than the damage to Australia.

And while the mining sector is not the largest in Australia's economy, its growth since 2002 has brought with it a secondary boom in Australian service industries. Australia's east coast cities have prospered even while most of the mining has been occurring in the Pilbara.

The mining boom brought a substantial boost to our terms of trade (the earning power of our exports relative to the cost of our imports), pushing up the Australian dollar and making imported goods much cheaper. A reversal would see our terms of trade fall and our cost of living rise.

Some commentators place store in our ability to re-direct exports of wine and barley, and whatever else is



affected by trade disputes, to other customers. At least for iron ore, however, there are few other customers at current volumes. This suggests a decline in export prices and in Australia's terms of trade.

DAMAGE TO US, A MOZZIE BITE FOR CHINA

So it is worthwhile attempting to quantify the damage from a winding back by China of its imports from Australia. We have conducted simulations of the effect of shutting down Australia-China trade by 95% in which we allow time for capital flows and production and employment to readjust and assume that monetary policy and fiscal balances remain unaltered throughout the world.

We find the shock to the demand for Australian products is large and it is only partially offset by the redirection of our exports, even with a large depreciation of the Australian dollar. The reason for this is that the loss of Chinese exports reduces the rate of return on investment in Australia, forcing financial markets to reallocate finance to other parts of the world.

The effects on Australian gross domestic product and real disposable income per capita are big (6% and 14%), while those on China are mosquito bites by comparison (0.5% and 2.4%).

IT'S WISE TO BE PREPARED

Important things we can do to hedge against such an occurrence include maintaining strong relations with current and potential export destinations and fostering innovations that will allow our export product mix to adjust so as to better service the markets that remain open. Examples include the proposal by Ross Garnaut to turn Australia into an exporter of green

energy and associated plans by Fortescue and others to raise exports of energy by more than the east coast of Australia currently consumes.

The effects on Australian gross domestic product and real disposable income per capita are big (6% and 14%), while those on China are mosquito bites by comparison (0.5% and 2.4%).

Without such innovations a substantial decline in trade with China would cut investment in Australia and cut living standards.

It is, of course, entirely possible that the worst won't happen, but we don't think that's something Australians can bank on. If our ship does begin to sink, capital and skills will jump off and what we are left with won't be enough to support us in the manner we have come to expect.

DISCLOSURE STATEMENT

The authors do not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and have disclosed no relevant affiliations beyond their academic appointment.

Rod Tyers is Winthrop Professor of Economics, University of Western Australia.

Yixiao Zhou is Senior Lecturer in Economics, Australian National University.

THE CONVERSATION

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TIMELINE OF A BROKEN RELATIONSHIP: HOW CHINA AND AUSTRALIA WENT FROM CHILLY TO BARELY SPEAKING

When the history of this latest low point in China-Australia relations is written, both sides will be blamed for mistakes, observes **Tony Walker**

Australia is not without fault. However, China is primarily responsible for the continuing deterioration in the relationship. Its ruthlessness in asserting itself far and wide, by fair means and foul, means there will be no going back to the status quo that prevailed before President Xi Jinping emerged in 2013 as China's most nationalistic leader since Mao Zedong.

Likewise, Beijing's crude use of trade sanctions to penalise Australia for real or imagined slights signifies that a trading relationship born of mutual benefit risks being subject to persistent, politically-motivated interference.

This is the reality, whether we like it or not. China is done with "biding its time" in line with former leader Deng Xiaoping's advice in pursuit of its big power ambitions. It may no longer be correct to describe China as a "rising power". The power has risen.

What is clear is that Canberra has vastly underestimated the velocity of change in the Asia-Pacific region, and, more to the point, the costs associated with an attachment to old models for doing business.

This is not an argument for sliding away from the American alliance, the cornerstone of Australian security. Rather, a more realistic assessment is required of what is and is not in the national interest.

What is not in the national interest are policies that needlessly antagonise the nation's dominant customer. Again, this is not making the case for excusing China's bad behaviour, or somehow suggesting the customer is always right. It is simply saying that gratuitous provocations should be avoided.

The timeline below tracks the recent tensions between China and Australia. Multiple episodes stand out that have marked — and in some cases scarred — Canberra's relations with Beijing since Xi came to power.

These moments have all contributed to the deterioration of the relationship to the point where Australia now risks long-term harm to its economic interests. This is policy failure on the run.



THREE PARTICULARLY DAMAGING EPISODES

Three episodes have been particularly damaging.

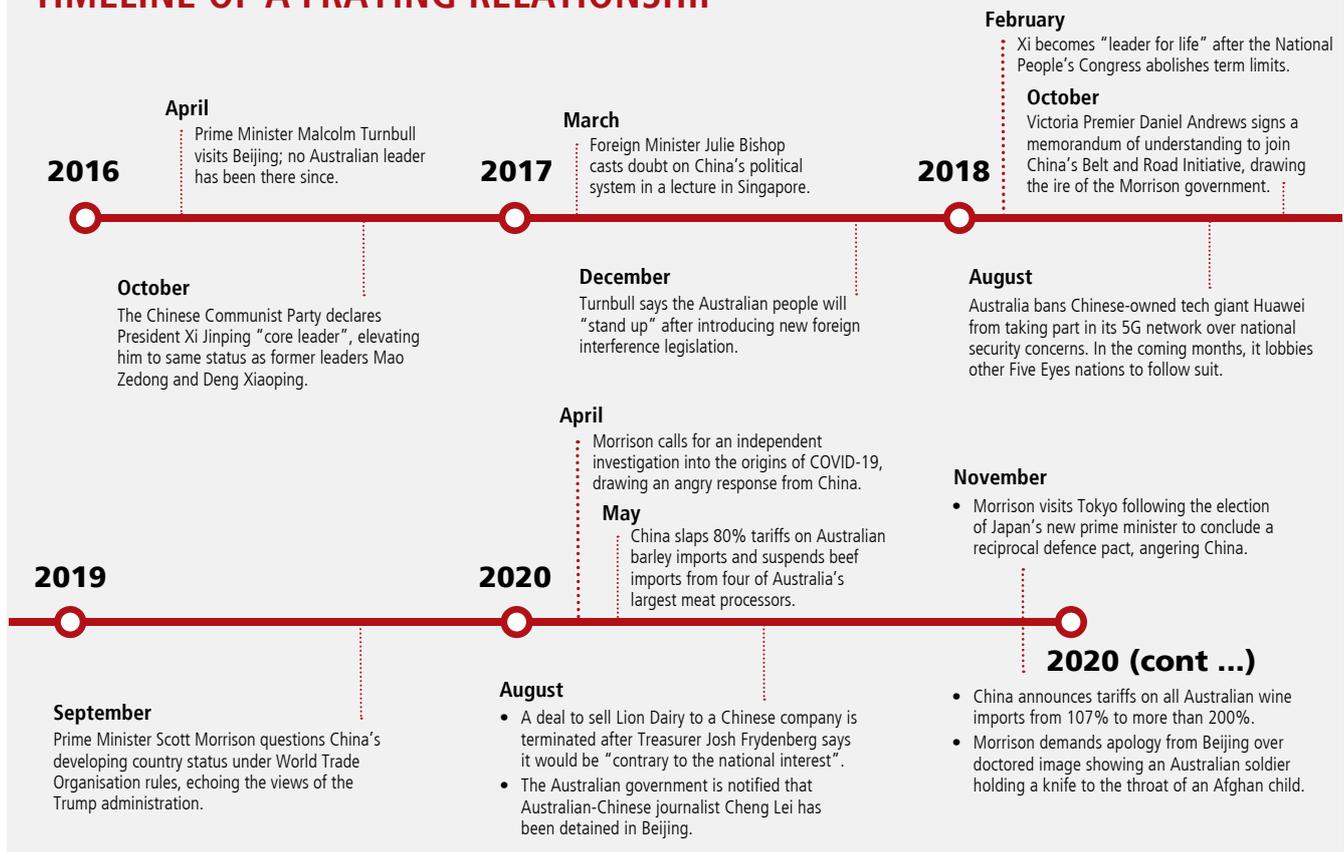
The first and almost certainly the most scarring was the decision in early 2019 for Australia to take the lead role in lobbying its Five Eyes partners to exclude the Chinese company Huawei from supplying technology for their 5G networks.

What is not in the national interest are policies that needlessly antagonise the nation's dominant customer. Again, this is not making the case for excusing China's bad behaviour, or somehow suggesting the customer is always right. It is simply saying that gratuitous provocations should be avoided.

Australia's decision to exclude Huawei from its own 5G roll-out is one thing, lobbying others to follow suit is another. What possessed decision-makers in Canberra to take it upon themselves to put Australia at the forefront of a global campaign against China's economic interests remains a mystery.

To say this decision enraged Beijing would be an

TIMELINE OF A FRAYING RELATIONSHIP



understatement, with the caveat that Australia had every right to exclude Huawei if it was deemed in the national security interest to do so.

The second damaging episode involved Prime Minister Scott Morrison volunteering to lead the charge for an investigation into China's responsibility for the coronavirus that emerged in the city of Wuhan in late 2019.

Those responsible for Australia's foreign policy clearly have not been able to navigate treacherous diplomatic terrain and avoid the pitfalls that have brought Sino-Australian relations to an all-time low.

Again, why Morrison took it upon himself to coordinate such an inquiry – when one was in train anyway under World Health Organisation auspices – is unclear. Beijing's furious response might have been anticipated, with the editor of the state-run *Global Times* referring to Australia as the "gum stuck to the bottom of China's shoe".

The third damaging episode involved Treasurer Josh Frydenberg's decision to prevent the Hong Kong-listed China Mengniu Dairy from taking over the Japanese-owned Lion Dairy and Drinks in a \$600 million acquisition. In rejecting Mengniu's takeover bid, Frydenberg overrode advice from the Foreign Investment Review Board and Treasury – both of which had supported the deal.

This was a politically motivated decision to satisfy

critics of the sale of Australian assets to Chinese entities. It certainly reinforced a view in Beijing that Australia's foreign investment approval process is tilted against Chinese companies.

DOES THE GOVERNMENT ACTUALLY HAVE A PLAN FOR CHINA?

Likewise, the government's foreign relations bill – passed by parliament this week – can be read as an attempt to reinforce Canberra's control over a panoply of relationships between Australian states, territories and educational institutions and their Chinese counterparts. The government might pretend this is an omnibus bill aimed at asserting federal government oversight of the foreign policy-making responsibilities of the Commonwealth. But in reality it is aimed squarely at contacts with Chinese entities.

Victoria's Belt and Road agreement with Beijing is in the bill's sights, along with the Northern Territory's deal with the Chinese Landbridge Group for lease of part of the Darwin port.

There is a central question in all of this: does the Morrison government actually have an overarching game plan for dealing with China, or is it simply stumbling from one crisis to the next?

Those responsible for Australia's foreign policy clearly have not been able to navigate treacherous diplomatic terrain and avoid the pitfalls that have brought Sino-Australian relations to an all-time low.

Morrison's foreign policy team has also proved ineffectual at facing down pressures from those in the

government's own ranks who have a particular animus towards Beijing. Such antagonism has proved to be a dead weight on constructive China policy-making.

This brings us to Morrison's own reaction to the offensive tweet depicting a doctored image of an Australian soldier with a knife at the throat of an Afghan child. Soon after it was shared by a Chinese Foreign Ministry spokesman, Morrison went on television to denounce both the official and the crude caricature.

No one could reasonably object to the prime minister's outrage. However, he should not have lowered himself to engage a Chinese spin-doctor in an argument about a graphic piece of Chinese propaganda.

This should have been left to Foreign Minister Marise Payne, or, better still, the head of the Department of Foreign Affairs and Trade. Morrison further compounded the issue by vaingloriously demanding an apology. Morrison's clumsy handling of the issue speaks to a lack of China literacy among his advisers.

AN AUSTRALIAN MEDIA ECHO CHAMBER

The Australian media has also played a role in amplifying anti-Beijing viewpoints to such an extent, it has had a deadening effect on reasonable discussion about managing the country's China policy more effectively.

The business community, for example, has been dis-

couraged – even intimidated – from voicing its opinion out of concern it would be accused of pandering to Beijing for its own selfish reasons.

All this adds to pressures on policymakers to pursue a one-dimensional “stand up to Chinese bullying” approach, not give ground and ascribe the worst possible motives to whatever China says or does.

This is hardly a substitute for a carefully thought-through, well-articulated, tough-minded approach to managing a highly complex relationship in the national interest. As things stand, those in charge of framing Australia's policies with China are failing to do this – and Australia's best interests are clearly not being served as a result.

DISCLOSURE STATEMENT

Tony Walker does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond his academic appointment.

Tony Walker is Vice-chancellor's fellow, La Trobe University.

THE CONVERSATION

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CHINA'S GRIEVANCES WITH AUSTRALIA

Following is an edited outline of the content of a dossier of 14 disputes leaked to *Nine News*, *The Sydney Morning Herald* and *The Age* which appears to be aimed at pressuring the Australian government to change Australia's position on key China-related policies.

1. Foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of ChAFTA. Since 2018, more than 10 Chinese investment projects have been rejected by Australia citing “national security concerns” and putting restrictions in areas like infrastructure, agriculture and animal husbandry.
2. The Australian government ban of the Chinese telecommunications companies Huawei and ZTE from taking part in the rollout of 5G mobile infrastructure, over national security concerns, and doing the bidding of the United States by lobbying other countries to also ban them from their 5G networks.
3. The introduction of foreign interference legislation in Australia, viewed as targeting China, in the absence of any evidence.
4. Politicising and stigmatising the normal exchanges and cooperation between China and Australia, creating barriers and imposing restrictions, such as the revocation of visas for Chinese scholars.
5. Australia's prominent call for an international independent inquiry into the COVID-19 virus, echoing the United States' attacks on China.
6. Constant interference in China's affairs in relation to Xinjiang, Hong Kong and Taiwan; spearheading a crusade against China in multilateral forums.
7. Australia became the first non-coastal neighbouring country to make a statement on the South China Sea to the United Nations.
8. Siding with the United States in its anti-China campaign and spreading US-originated disinformation around China's efforts to contain COVID-19.
9. Introduction of Australian government legislation to scrutinise agreements with foreign governments, thereby targeting China with the aim of torpedoing the Victorian state government's participation in the Belt and Road initiative.
10. Australian government's funding of an anti-China think tank [editor's note: presumably the Australian Strategic Policy Institute] for spreading untrue reports and lies around the mass detention of Uyghurs in the Xinjiang autonomous territory in north-west China; also Australia's claims of so-called Chinese infiltration, intended to manipulate public opinion against China.
11. Search and seizure of Chinese journalists' homes and properties without any charges or explanations.
12. Implied allegations against China on cyber attacks, without any evidence.
13. Condemnation of the Chinese Communist Party by MPs; racist attacks against Chinese and Asian people.
14. Unfriendly or antagonistic reports on China by Australia's media, poisoning the atmosphere of bilateral relations.

SOURCE

Kearsley, J, Bagshaw, E and Galloway, A (18 November 2020), 'If you make China the enemy, China will be the enemy': Beijing's fresh threat to Australia, www.smh.com.au

It might look like China is winning the trade war, but its import bans are a diplomacy fail

As Australian producers scramble to find markets for goods hit by Chinese import restrictions, it might look as though China is winning the diplomatic war. But the current situation is a diplomacy fail for China as much as for Australia, comments [Melissa Conley Tyler](#)

What products have been banned?

In recent months, China has imposed restrictions on an array of Australian imports including lobsters, beef and timber as part of a deteriorating relationship summarised in a list of grievances against Australia.

This has hurt some Australian products, such as wine and barley, which have struggled to find equally lucrative markets. However, some others such as wheat have found new buyers relatively easily.

Overall, Australia's total exports to China actually increased in December, mainly thanks to iron ore, which China needs too much to restrict.

Restrictions cut both ways

But while these import restrictions hurt Australia, they hurt China too. In the short term, Chinese consumers miss out on products they enjoyed, such as premium Australian wine and lobsters, which are valued for celebrations.

Chinese manufacturers that used Australian goods might have to pay more or accept lower quality, such as for barley used for brewing, which hurts their productivity and economic growth. In some sectors, there may not be enough immediate replacements for Australian products.

For example, coal shortages have led to China's worst power blackouts for a decade. While import restrictions are not the only factor – and the Chinese government has denied any link – widespread blackouts at the same time as more than 70 coal ships are stuck offshore show how restrictions cut both ways.

It would have been much better for China to have a model relationship with Australia. Australia and China have no historical conflicts, no border disputes and Australia is the one with the trade surplus. If China can't get along with Australia, who can it get along with?

Wider impact

In the medium term, other countries watch the treatment of Australia and consider how to protect themselves, so as not to suffer the same fate. When China restricted sales of rare earth minerals to Japan in 2010, this led Japan to invest in other countries, resulting in a significant reduction in China's market share.

While I don't think countries will band together to resist Chinese coercion – they are more likely to help their companies capture Australia's market share – they may try to slow the growth of economic ties with China, such as through restricting investment in some sectors. This means Chinese investors may find overseas markets less friendly, as has happened in Australia with much of the economy now unavailable.





Unfavourable views of China

In the long term, economic coercion has an impact on China's international reputation. China starts to be seen as a less reliable trade partner, and trade starts to be seen not as mutual benefit, but as a potential vulnerability that China can weaponise.

Australia is party to two trade agreements with China: the China-Australia Free Trade Agreement and the Regional Comprehensive Economic Partnership. If these do not protect Australia from trade coercion, the message is that such agreements mean little.

Chinese citizens seem to be blissfully unaware of the damage to their country's reputation. Recent public opinion polling found 78% believe China's international image has improved in recent years. This is dead wrong.

Comprehensive polling by Pew Research shows China's international reputation in advanced economies has plummeted over the past decade. China's assertive diplomacy has been spectacularly unsuccessful as a way of winning hearts and minds.

'Kill the chicken to warn the monkey'

Chinese thinkers who argue China should show patience and restraint in its foreign policy are not winning the argument in Beijing. National pride and strength is seen as more important than the costs.

Looking forward, China is likely to continue to mete out punishment to Australia for the demonstration effect to other countries. The Chinese have a saying "kill the chicken to warn the monkey".

But no one should be under any illusion this situation is a good result for China.

It would have been much better for China to have a model relationship with Australia. Australia and China have no historical conflicts, no border disputes and Australia is the one with the trade surplus. If China can't get along with Australia, who can it get along with?

Like any downward spiral, both sides have contributed. Worryingly for China, issues that have contributed to the deteriorating relationship – such

as cyber attacks, espionage and political interference – are also concerns for other countries.

The unravelling of the relationship in just five years is a terrible result for Chinese diplomacy.

Like any downward spiral, both sides have contributed. Worryingly for China, issues that have contributed to the deteriorating relationship – such as cyber attacks, espionage and political interference – are also concerns for other countries.

This week, China will celebrate the New Year. China has controlled COVID-19 and emerged with an economy stronger than it was a year ago. China's rhetoric advocates peaceful coexistence, mutual benefit and win-win cooperation. But when it comes to diplomacy, there is room for improvement.

In the words of ancient Chinese scholar Mencius, there are two ways of being a great power: a "big power" that aggressively pursues its interests through force and coercion, or a "great state" that attracts and gains respect by its virtuous character and consideration of others' interests.

China's own self-interest is in the latter.

DISCLOSURE STATEMENT

Melissa Conley Tyler does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond her academic appointment.

Melissa Conley Tyler is Research Fellow, Asia Institute, University of Melbourne.

THE CONVERSATION

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What's behind China's bullying of Australia? It sees a soft target – and an essential one

According to [Chongyi Feng](#), the recent unrestrained attacks and repeated humiliations of Australia are engineered to suit a couple of specific purposes for the totalitarian regime in China: one domestic, the other global

As the diplomatic fallout continues over the digitally altered war crimes tweet sent by China's Foreign Ministry spokesman, Zhao Lijian, earlier this week, it's important to note this inflammatory and offensive post is not an isolated case. Zhao and other Chinese officials and diplomats have made many outrageous attacks on Australia and the US in recent years. Zhao himself was probably best known before this week's tweet for his official promotion of a conspiracy theory that the US military was responsible for bringing the coronavirus to China.

Hu Xijin, the editor in chief of the *Global Times*, an official newspaper of the Chinese Communist Party, is another vocal critic of Australia. Four years ago, the newspaper published a scathing editorial directed at Australia after Canberra said China must abide by an international tribunal ruling on the South China Sea. It called Australia a "paper cat" with an "inglorious" history, and said, "If Australia steps into the South China Sea waters, it will be an ideal target for China to warn and strike."

WHY NATIONALISM IS SUCH A POWERFUL FORCE IN CHINA

These unrestrained attacks and repeated humiliations

of Australia look bizarre, but they are engineered to suit a couple of specific purposes for the totalitarian regime in China: one domestic, the other global.

Domestically, this more aggressive posturing toward the world, known as "wolf warrior diplomacy", is a key function of President Xi Jinping's dictatorship, which is based almost exclusively on Chinese nationalism cultivated by the Communist Party.

Just like former leader Mao Zedong, Xi has consolidated his power, in part, due to the cult of personality that has developed around his rule. Xi's image is everywhere in China and he's even promoted his own ideology called "Xi Jinping Thought" in a similar vein to "Mao Zedong Thought" (and his famous *Little Red Book*).

Mao's power was built on the twin ideologies of communism and Chinese nationalism. Today, however, communism is a waning force in China. And though Xi and his followers still use the ideals of Marxism and "Xi Jinping Thought" for political purposes – such as purging rivals and dissidents – they rely heavily on Chinese nationalism to maintain the legitimacy of their rule in the eyes of the public.

Nationalism is a powerful force in today's China. It's seen in everything from Xi's persistent calls for the



“great rejuvenation of the Chinese nation” to Beijing’s increasingly strident anti-American and anti-foreign sentiments.

Xi rose to the top with a mediocre career, but has been dressed up magically as a strongman with great talent and unyielding will – an image that has become indispensable for the stability and cohesion of the regime. In order to develop Xi’s strongman image and impose submission on the entire nation, the Communist Party propaganda machine has even resumed the titles used by Mao and other great dictators, such as “helmsman” and “people’s leader”. Loyalty to the country, the party and the leader has been made identical once again.

Still, there is rising resentment among some Chinese to Xi’s rule and the country faces enormous political, economic and social challenges. As such, Xi lives with a profound sense of insecurity. And his arbitrary rule and desire for absolute control make everyone else feel insecure.

It’s against this backdrop that “wolf warrior diplomacy” has taken rise. Those who are seen as being tough against any real or potential enemies designated by the great leader are rewarded for their loyalty.

This is why Zhao Lijian isn’t punished for his inflammatory rhetoric against Australia, the US and other adversaries; rather, he’s become a star because of it.

BEIJING SEES AN ESSENTIAL AND SOFT TARGET

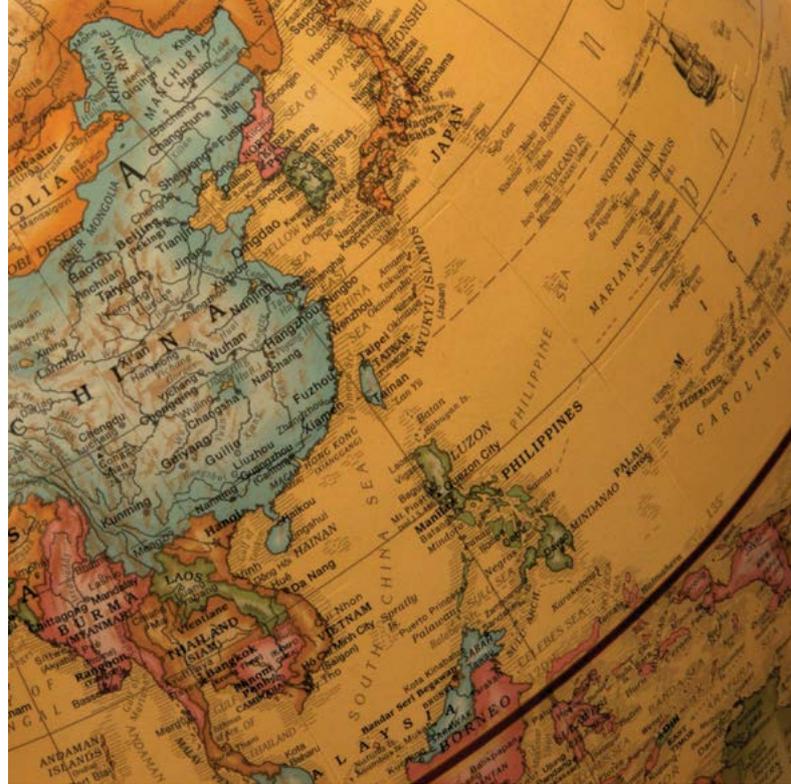
And on the global stage, China has long promoted its economic and political system as a legitimate alternative to the US-led, rules-based international order. As such, it has increasingly expanded its influence diplomatically and militarily in recent years and set up the Belt and Road Initiative to create a new global economic and infrastructure network with China at the centre.

As part of this grand strategy, China has taken aim at countries like Australia that dare to challenge it to force their submission. Australia is perceived by the Communist Party as both an essential target for its close alliance with the US and a soft target for its economic dependence on China. In short, Beijing can attack Canberra without facing many repercussions – and set an example for the rest of the world.

The “wolf warriors” in the party have made frequent references to Australia being nothing but a pawn or lapdog of the US – an obvious attempt to drive a wedge between the two countries.

With nearly half of all Australian goods exports now going to China, Beijing has also tried to use this economic reliance to its advantage to force Canberra to modify its tone and behaviour.

Showing the determination of the Communist Party regime to rein Australia in, the Chinese embassy in Canberra last month handed over a dossier of “14 grievances” to several Australian news outlets and demanded the Morrison government reverse Australia’s position on key policies. These included criticising



Australia is perceived by the Communist Party as both an essential target for its close alliance with the US and a soft target for its economic dependence on China. In short, Beijing can attack Canberra without facing many repercussions – and set an example for the rest of the world.

human rights abuses in Hong Kong and Xinjiang, calling for an independent investigation into the origins of COVID-19 and banning Huawei from the country’s 5G network.

The Communist Party state will not recognise how its quest for regional domination and expansionist policies threaten its neighbours, nor will it understand how its oppressive policies against its own citizens are a cause of legitimate concern for the world. It will also not accept the reality of a strong Australia fighting back against Chinese bullying and interference to safeguard its sovereignty, core values and institutional integrity.

Beijing is flexing its muscles to ensure the submission of Australia and break up an Australia-US alliance based on national interests and shared values. But this is a gross miscalculation that will likely bring about the opposite result.

DISCLOSURE STATEMENT

Chongyi Feng has received research grants from the Australian Research Council.

Chongyi Feng is Associate Professor in China Studies, University of Technology Sydney.

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AUSTRALIA'S TRADE WAR WITH CHINA IS UNWINNABLE FOR BOTH COUNTRIES

The way out of this trade war and the demeaning war of words is to appeal to the rules to which both countries have committed, and to find issues of shared strategic interest to work together on with regional partners, writes [Shiro Armstrong](#)

China has unleashed a range of trade sanctions on Australia. Australian barley was hit with punitive tariffs of up to 80 per cent in June and more recently lobster from Australia has been left to rot as it waited to be inspected for quarantine. The latest casualty is Australian wine, now facing import duties of up to 212 per cent, affecting what is an AU\$1.3 billion (US\$900 million) a year market.

The trade and economic assault from China is a departure from the more targeted and opaque measures Beijing has deployed in the past. Chinese imports of Norwegian salmon collapsed after human rights activist Liu Xiaobo was awarded the Nobel Peace Prize in 2010 and Filipino bananas were left to rot in Chinese ports in 2012 over a South China Sea dispute.

The most blatant case was Chinese sanctions on South Korean retail, tourism and pop culture in response to the deployment of US Terminal High Altitude Area Defense (THAAD) missiles in South Korea to protect against North Korean missiles that were seen as a threat to Beijing.

Not all the examples are clear cut. Australian barley exports to China rebounded in July after the initial tariffs in June. A lot of Norwegian salmon found its way into China via Vietnam when it was blocked in China. Overall trade between South Korea and China grew during the sanctions and THAAD missiles are still deployed on South Korean soil. China may have a technical case against Australia's Wine Equalisation Tax.

It is conventional wisdom to cite the restriction of rare earth element exports to Japan after a Chinese fishing trawler and Japanese coast guard vessel collided in waters near disputed territory as Chinese trade coercion. Japan, the European Union and the United States won the case over the dispute at the WTO and China accepted the ruling. The sanctions of the strategically important resources were not aimed at Japan around one incident but were a series of export restrictions put in place to rein in the fragmented and environmentally damaging rare earth mining industry.

Unlike past cases of Chinese economic coercion that have gone unannounced, the assault on Australian exports suggests that Beijing is happy to make quite clear to Australia, and the rest of the world, its displeasure with Australia's diplomacy towards it.

Deploying sanctions so blatantly and tying them to political disputes will raise the cost of doing business with China. China's middle class is huge and growing rapidly but businesses trying to sell into that market will be less confident too. Other governments may put in place preemptive measures.

As the world's largest trading nation, China has a huge stake in the open, rules-based trading system. It has just made significant concessions, like a negative list for foreign investment and signing up to East Asia's Regional Comprehensive Economic Partnership agreement, the world's largest trade agreement.

Much of the Australian commentariat is frothing at the mouth over the trade assault from China and those who wanted to diversify trade away from China are pleased Beijing is doing that for them – treating China as an enemy is turning China into one.

The Australian government has made the point clearly now that it will stand for its own interests and values and will not be bullied. Australia's sovereignty is not for sale. But now Australia needs to find a way to manage its largest economic relationship. Self-defeating Chinese wolf warrior diplomacy and misguided economic policies provide Australia with no excuse for a race to the bottom.

Australia has made its fair share of blunders. Calling for an independent inquiry into the origins of COVID-19 ahead of any multilateral initiative looked like an assault on sovereignty from Beijing. Blocking yet another Chinese investment – from buying a Japanese





dairy operation in Australia – on security grounds was another gratuitous affront to the Chinese.

A more confident and mature China might ignore such measures and get on with running the world's second largest economy. But after China became the target of Trump's America First agenda and growing hostility, Australia made itself an easy target on which to make a point.

The way out of this trade war and the demeaning war of words is to appeal to the rules to which both countries have committed, and to find issues of shared strategic interest to work together on with regional partners.

As the world's third most active user of protectionist anti-dumping measures behind the United States and India, Australia is far from the innocent, rule-abiding open trading nation many like to believe. The largest target of Australian anti-dumping measures by far has been China, with Australia putting punitive tariffs on Chinese steel, glass, cables and A4 copy paper. Chinese factory workers and manufacturers have been affected, just like Australian farmers and wineries.

The relationship has shifted from a breakdown in trust to outbursts of outright hostility. The war of words around which side did what, how it was started and who is responsible leads nowhere. What to do now is what's important.

China has been until recently under assault of economic sanctions from the United States. It was hit with sustained and broad-based punitive US tariffs under dubious national security claims. The Chinese chose to retaliate and then sign the Phase One trade deal as a ceasefire.

The problem is that this deal moves the world's two largest economies closer to managed trade where instead of agreeing to lower barriers and letting the market determine trade, China agreed to purchasing targets from the United States, including \$36.6 billion worth of US agricultural produce. Diverting imports away from Australia helps China meet those quotas.

The way out of this trade war and the demeaning war of words is to appeal to the rules to which both countries have committed, and to find issues of shared strategic interest to work together on with regional partners.

Australia should challenge the Chinese measures in the WTO. China may challenge Australia's anti-dumping duties too. Both countries are part of the 23-member multi-party interim appeal arrangement (MPIA) workaround that enforces dispute settlement rulings in the WTO after the Trump administration neutered the WTO's appellate body. Both countries have demonstrated their commitment to rules in signing RCEP and joining the MPIA.

Economic recovery from COVID-19 and the climate change and energy transition agenda are just two major issues that both countries will need to work on multilaterally to resolve. Perhaps working constructively with others in the region can help Australia and China break out of their downward spiral and protect their deeply complementary economic relationship.

Shiro Armstrong is Director of the East Asian Bureau of Economic Research at the Australian National University.

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AUSTRALIA CAN REPAIR ITS RELATIONSHIP WITH CHINA, HERE ARE 3 WAYS TO START

Australia has no ability to remake China into a completely different country. We need to live with it. This means both standing up to China and getting along – hardening our defences, while ensuring our economic prosperity. Without an economy, a country can't pay to keep itself safe, explains [Melissa Conley Tyler](#)

China has certainly got Australia's attention with a highly inflammatory tweet from a government spokesperson. It has provoked the desired reaction – a storm of outrage. This is the latest in an ever-growing list of problems between Australia and China. In recent days, China imposed new tariffs on wine, while Australia threatened legal action on barley.

None of this is inevitable. Australia and China may not be best friends anytime soon, but they can reset the relationship. Australia could make one big gesture and two small to improve its relationship with China. As federal parliament meets in Canberra, there is even an opportunity to start this week.

WHAT'S WRONG?

It's the multi-billion dollar question: what could the Australian government do if it wanted to reset the relationship with China?

Sometimes when China has dealt out economic punishment, the desired result has been clear – such as pressuring South Korea to cancel a missile defence

system. But in Australia's case, China's displeasure is not directed towards one policy. It's more a sense Australia has been acting in an unfriendly, hostile manner and this has consequences.

We know this because China recently leaked a 14-point list of grievances via the Australian media. It contained no surprises, but is useful to show where there may be room to manoeuvre.

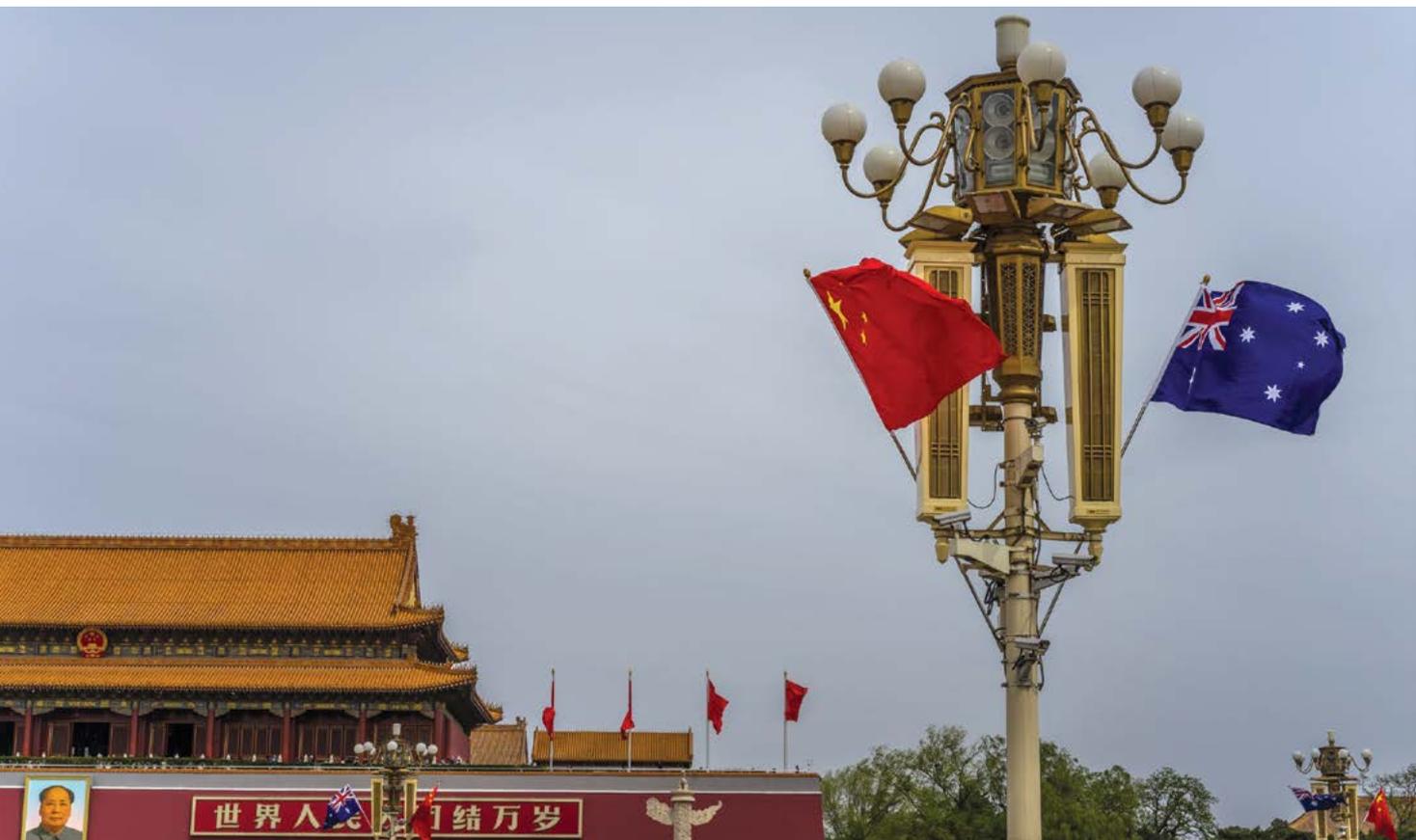
BEIJING'S 14 POINTS

Out of the 14, there were only a few relating to what I see as non-negotiable interests. These relate to Australia's criticism of human rights abuses in China, cyber-attacks and the South China Sea dispute.

Quite a few should also be interpreted as venting – such as China's criticism of Australia's foreign interference powers and Australia's decision to exclude Huawei and ZTE from the 5G network over national security concerns. Realistically, Australia is not going to reverse these decisions.

Similarly, Australia's call for an inquiry into COVID-19, questions over the origins of the virus, alleged raids on Chinese journalists and revoking visas for Chinese scholars are now in the past.

Others on the list are gripes China knows the Australian government can't do much about, such as "antagonistic" media reports or members of parliament making "outrageous" comments.



But the language used in the 14 points suggests many of the problems are less about the policy and more about how it's been communicated, such as former Prime Minister Malcolm Turnbull announcing foreign interference legislation as "standing up to China".

Australia may come to regret being stridently tough on China without thinking through the real-world consequences. It costs China very little to punish Australia economically in sectors where it has other suppliers or wants to encourage domestic production.

If the core problem is a perception that Australia is unfriendly, this suggests the best way to show a desire for better relations is through a big gesture – ideally one that is showy but low cost. China has said it wants actions, not words, so a speech alone won't cut it.

THE GRAND GESTURE

If Australia did want to signal a desire to be more friendly without changing any of its policies, what might it do?

The best candidate would be to sign up for the Belt and Road Initiative. There is zero chance this will happen – despite earlier neutral comments, the federal government has made this clear. But it meets all the criteria for a gesture to reset the relationship.

First, it's entirely symbolic and doesn't bind Australia to do anything. Australia can participate in individual projects or not as it chooses. Second, there's no material cost to Australia, or any need to alter substantive policies. Yet it would be read as a significant gesture by China.

The fact that it's not on the table shows how the range of options to pursue the national interest has been narrowed by priming the public to see China as an enemy, rather than as a challenge to be managed.

TWO OTHER OPTIONS

There are two smaller options that are achievable and in Australia's interests. And they are both before parliament.

First, the Senate is currently debating a bill to give the Foreign Affairs Minister the power to cancel international agreements entered into by state governments, local councils and universities. China has specifically named this in its grievances as "targeting" China.

I've argued in detail why it's a terrible piece of legislation that would impose a large compliance burden and negatively affect Australia's international engagement. It would be in Australia's own interests to drop it and come up with a better, more targeted response.

Second, parliament is also looking at amendments to foreign investment rules, which China singled out at the top of its list as "opaque". Foreign investment puts money into the Australian economy so this is an area of potential mutual interest.

China's complaint is the lack of transparency about which investments get approved – it sees the process as ideological. The Australian government could, for



example, postpone proposed amendments and consult with investor countries about how the process could be improved in Australia's self-interest.

A DIPLOMATIC MINDSET

Some will say Australia shouldn't do any of these things precisely because China might want them. And China is hardly helping its case by exercising subtle or effective diplomacy. But deciding to always oppose lets China control your behaviour. We need a negotiation mentality. We need to find things we don't mind giving that China values in order to get what we want. That's not "capitulation" or "obedience" – it's acting in our own self-interest.

Australia has no ability to remake China into a completely different country. We need to live with it. This means both standing up to China and getting along – hardening our defences, while ensuring our economic prosperity. Without an economy, a country can't pay to keep itself safe.

Australia is not under military attack, offensive as China's "wolf warrior diplomats" can be.

Australia and China have disputes that can and should be managed diplomatically. It is not inevitable we must have a bad relationship – and it's certainly not a sign of success if we do.

DISCLOSURE STATEMENT

Melissa Conley Tyler works for the University of Melbourne.

Melissa Conley Tyler is Research Fellow, Asia Institute, University of Melbourne.

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China cannot have it both ways on trade

*Beijing's tactic of using trade as a political stick against Australia will not impress the rest of the world, argues [Natasha Kassam](#) in this article originally published in the *Australian Financial Review**

It is getting hard to believe China's leaders when they say the country "will hold high the banner of free trade and multilateralism". China has paraded the ASEAN-led Regional Comprehensive Economic Partnership, and this week Xi Jinping floated the idea of joining the resurrected Trans-Pacific Partnership.

In the same breath, China is targeting exports from 13 Australian industries worth \$54 billion, almost entirely outside of established mechanisms for trade disputes. This contradiction is indicative of many others that are exposing weaknesses in China's strategy.

As much as China's officials claim that the delays on Australian exports are in line with quality procedures, anti-dumping regulations and quotas, the now-famed list of "14 grievances" tell another story. The Chinese embassy's list of irritations was lengthy, spanning concerns from foreign investment decisions to unfriendly media reporting. None of this is surprising to Australians; Chinese government officials and state-owned media alike have complained about all of these issues in real time, very loudly.

But the list is notable because Beijing appears to have said the quiet part out loud. Wielding economic coercion is not new to statecraft, nor unique to China. But in previous cases, China has been careful to preserve some element of plausible deniability.

But now it seems that Beijing is openly demanding

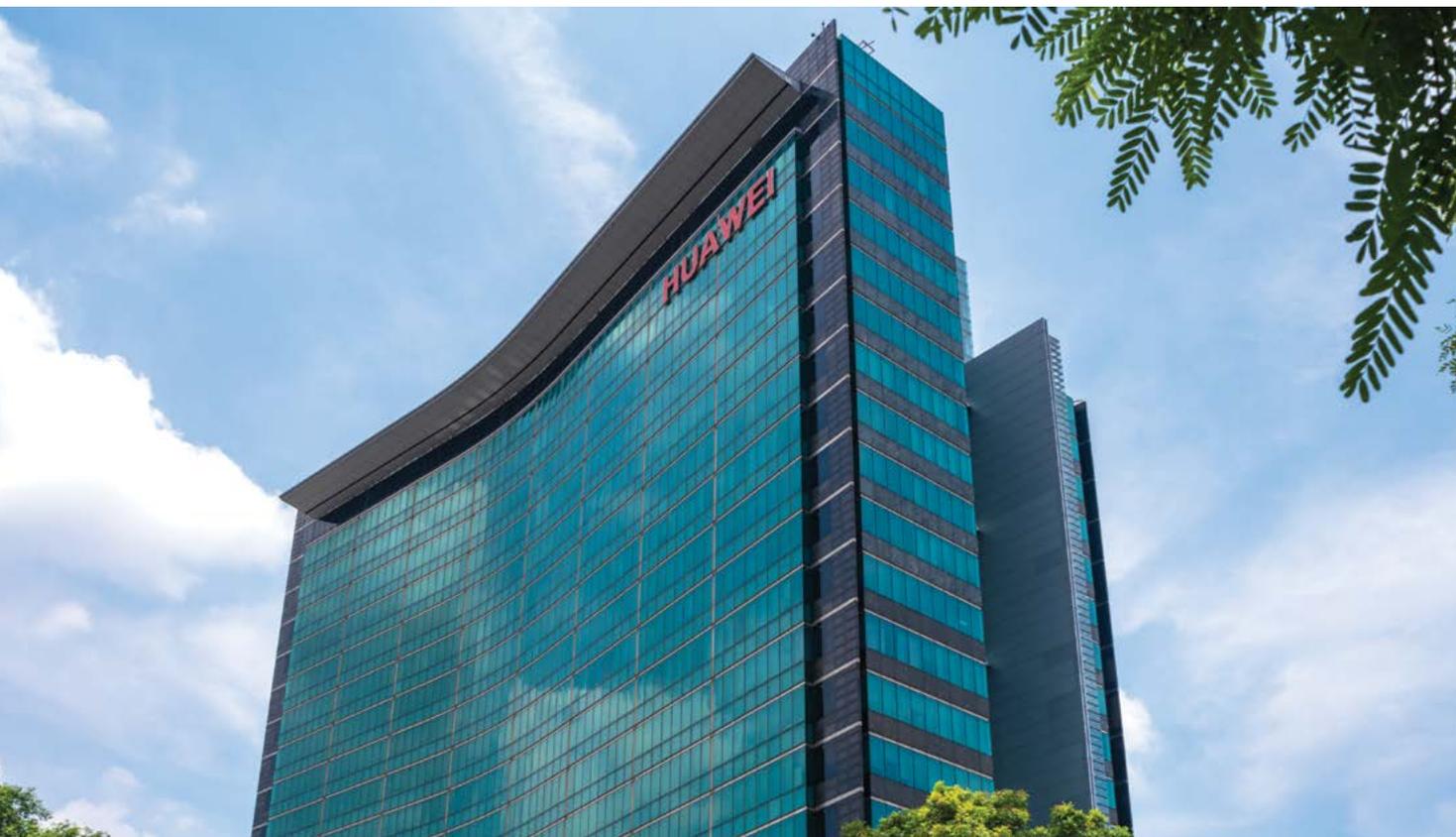
political compliance, from not just the Australian government, but the free press and academia too. All of this comes from a country that claims to be a defender of the international order, on the basis of "mutual respect".

Beijing's efforts to quieten Australia have been counterproductive. Australia is too accustomed to the familiar litany of claims that Canberra is out of line in the South China Sea or on Huawei's exclusion from Australia's 5G network. This list was notable for going beyond the usual complaints, criticising funding for media organisations and outspoken backbenchers.

DFAT Secretary Frances Adamson said earlier this week that "China may have reached a point where it believes that it can largely set the terms of its future engagement with the world. If it has, it is mistaken." This is hardly the sound of a government that has been cowed into compliance.

The opposite is true. Australian attitudes have been hardened by Beijing's heavy-handed approach. Almost all Australians want to diversify away from the Chinese market, and trust in China has plummeted, according to the latest Lowy Institute Poll.

Some may take small comfort from Beijing's flat reaction to the more conciliatory tones from Prime Minister Morrison's speech this week. But the flow-on effects of this saga are already palpable, as businesses in both countries look for alternatives and prepare





for what now seems inevitable: politically motivated trade disruption.

These consequences may partially align with China's goals, as it prioritises domestic production and aims to reduce its reliance on other countries. This is yet another contradiction on display, from a country that will soon be the world's largest economy but still claims developing nation status.

Still, it's unclear why Beijing has doubled down on this strategy. It could represent a misplaced confidence that China's approach is working to shift Canberra's behaviour. This would be yet another worrying sign that, in the paranoia of Xi Jinping's regime, internal reporting tells what the leadership wants to hear rather than the reality on the ground.

Alternatively, the same logic of Xi's China has led to public demonstrations of loyalty from lower-ranking officials. The "14 grievances" could be a signal back to Beijing of commitment to China's cause, though this may not be plausible given the stakes at this point. But it is this same phenomenon that has given rise to "wolf warrior" diplomacy.

It is more likely that Beijing's list of demands are not for Canberra, but aimed at other capitals. China needs to signal that Australia's perceived recalcitrance will be punished. It doesn't want to risk others getting any ideas about not deferring to Beijing's interests. The plight of Australia's export industries may serve as a potent warning.

Australia may seem like an outlier as a recipient of the Party's ire, as Beijing exacts retribution for perceived slights. But the number of clashes between China and other countries also grows by the day. A scan of Chinese state-owned media finds the airing of grievances with India, Canada, the United Kingdom, New

Zealand and Brazil just in the last two days. A number of these countries, including Australia, would have to agree for China to join the TPP trade agreement.

For these countries and others, the lessons are obvious. Unless they can control their media and political debates, and look the other way on Chinese interference or potential risks to critical infrastructure, they may be next in line.

In the face of overwhelming pressure from China, Australia has not blinked. But Beijing can't have it both ways. Punishing Australia could help to stifle criticism in the future, but not without China being seen as a bully and a threat.

But there is another lesson here, and yet more evidence of the contradictions in China's policy. No number of trade agreements and deals with China will insulate a country from the wrath of the Party. With every additional threat, China itself is making the argument for many countries, not just Australia, to hedge or even diversify away from China. Business confidence and trade relationships are both undermined.

In the face of overwhelming pressure from China, Australia has not blinked. But Beijing can't have it both ways. Punishing Australia could help to stifle criticism in the future, but not without China being seen as a bully and a threat.

Natasha Kassam is a research fellow in the diplomacy and public opinion program at the Lowy Institute.

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CHINA UNLEASHES BRUTAL WOLF WARRIOR DIPLOMACY ON AUSTRALIA

With the world's second largest economy, China's foreign policy has become more sophisticated and aggressive. The relationship between China and Australia is looking more strained than ever, observes [Anton Lucanus](#)

The Australian-Chinese relationship is looking more strained than ever in 2020. Australia's exports are at risk over a trade war with China as Australia promotes investigation into the origins of the COVID-19 pandemic.

Diplomacy, according to American writer, Robin Hobb, is "the velvet glove that cloaks the fist of power." China, over the past decade, has spent \$10 billion promoting "soft power" in the world which focuses on gaining cooperation through economic aid. In Australia, this included proliferating Confucius Institutes at Australian universities and monetary deals with Australian media to promote a positive China image.

However, along with China outstripping Japan's GDP in 2010 to become the world's second largest economy, its foreign policy also became sophisticated and aggressive, contrary to Deng Xiaoping's "keep a low profile" foreign policy of the 1980s which involved a bid to make China great again by opening its borders. On this basis, prominent Chinese analysts began campaigning for China to discard its long-held victim mentality and to instead embrace a "great-power mentality."

Accordingly, the tone of the Chinese Foreign Ministry has become increasingly vociferous, most recently exhibited in actions against the US, Australia, Canada, and UK, among others. Late in 2019, Chinese ambassadors were instructed to forcefully defend the Chinese government against international criticism, in a new approach to diplomacy named "wolf warrior diplomacy." Named after a movie in which China trumps white mercenaries, this conceptualisation of diplomacy was in apparent harmony with soaring nationalism within China as it supported the idealisms of Chinamen being the heroes for once instead of bowing down to Western forces.

Thus, since December 2019, Chinese diplomats have coordinated a campaign celebrating President Xi Jinping and threatening "counter-measures" against accusations of foreign governments. This was witnessed especially with regard to China's initial botched handling of the COVID-19 outbreak and the subsequent cover-up.

The relationship between Australia and China in particular had been souring for years over policy disputes. Tension inevitably skyrocketed when Australian Prime Minister Scott Morrison, in April 2020, defended the "entirely reasonable and sensible" call for an international investigation into the origins of COVID-19 in China. On the heels of this statement, the Chinese Ambassador to Australia threatened possible ramifications.

The focus of the threat was ominous to the world's most China-reliant developed economy. According to Australia's Department of Foreign Affairs and Trade, China is Australia's largest export market since 2016, buying up 32.6 per cent of Australia's exports. Beef and sheep meat, wool, wine, and barley are five Australian products that earn over \$1 billion from Chinese trade each year.

Rabobank analyst Tim Hunt said, "Almost one in three export dollars to the (agriculture) industry is earned from China and we haven't been that reliant on one market since 1958, and that country was the UK and the political relationship was pretty different." As China made good on its threat, trade sanctions were slapped on barley and beef exports without delay.

The first victim of China's retaliation was Australia's barley exports, 70 per cent of which was, until recently, exported to China. In May, China imposed a crippling 80.5 per cent tariff on Australian barley, pricing it out of the market. Swiftly thereon, China suspended beef imports from four of Australia's largest meat processors, which, according to Patrick Hutchinson, chief executive of the Australian Meat Industry Council, comprise around 20 per cent of Australian beef exports to China. This was an especially drastic measure considering Australia was China's third largest beef supplier in 2019, after Brazil and Argentina.



Trade Minister Simon Birmingham, referring to maintaining business during uncertain times, said “thousands of jobs relate to these meat processing facilities. Many more farmers rely upon them in terms of selling cattle into those facilities.” It is a staggering blow to the industry to lose the patronage of one of the most densely populated countries in the world.

The third Australian industry subject to attack was wine. In 2019, China imported 39 per cent of Australia’s total wine exports, valued at \$850 million. In August 2020, China’s Ministry of Commerce said it would investigate if Australian winemakers “dumped” bottles of wine at deliberately low prices for a bigger market share. As part of the investigation, the China Alcoholic Drinks Association (CADA) sent a written request to authorities for retrospective tariffs on Australian wine imports.

Now Australia’s lobster exporters fear they are next to suffer from China’s wrath. China imports 95 per cent of Australia’s \$750 million lobster exports. Recently, tonnes of live Australian lobsters which were unlikely to survive over 48 hours were stranded at a Chinese airport amid custom clearance issues.

Furthermore, there is anticipation that Beijing will ban an extra \$6 billion of export commodities, including timber and wheat, extending also to Australia’s copper and sugar exports. The respected Lloyd’s List maritime intelligence said China is expected to block Australian coal, copper ore, barley, timber, and sugar exports, even if importers have paid for them and they have arrived at their ports.

According to commodity price reporting agencies, recently Beijing had given “verbal” instructions to some steel mills, power companies, and coal traders to stop importing Australian coal. Soon afterwards, several Chinese customers of Australian mining giant BHP deferred orders. China imports 55 per cent of Australia’s 170 million tonnes of coal exports, in \$23 billion worth of trade.

Richard McGregor, senior fellow at Lowy Institute, said “China seems determined to punish Australia and make it an example to other countries. [They] warned earlier this year that many of the goods that Australia exports were replaceable. Now they’re going about replacing them.”

On top of these burgeoning trade losses, Australia faces an additional \$28 billion loss of services exports. This will be particularly drastic if Chinese citizens abide by warnings to its citizens against travel to Australia, which will impede an Australian post-pandemic recovery in tourism and international education.

It is most unwelcome news to Australia, as it struggles to emerge from its first recession in 30 years. Unsurprisingly, a Lowy Institute survey shows 41 per cent of Australians see China more as a security threat than an economic partner.

Australian Strategic Policy Institute’s Michael Shoebridge sees Australia’s agri-exports to China as “a relatively recent phenomenon,” and believes industries



While they are fighting against the encroaching monopolisation of China, Australia will have to survive the current trade war with one of their largest trade partners and become more self-sustaining.

would remain internationally competitive without China. However, Associate Professor of Economics at Monash University He-Ling Shi has remarked while some goods could be sold in other markets, industries like international education would have a harder time shifting towards countries other than China.

Malcolm Davis of the Australian Strategic Policy Institute said, “China is a rising, assertive, would-be hegemon that’s seeking to overturn the world order. Australia has now realised it has to do its bit to stop that from happening.” While they are fighting against the encroaching monopolisation of China, Australia will have to survive the current trade war with one of their largest trade partners and become more self-sustaining.

Not only is China making it increasingly hard for Australia to recover from their boycott, they are making an example of them for the world to see what happens when you don’t play nice with China.

Anton Lucanus holds a BSc from the University of Western Australia and is the Founder of Neliti, Indonesia’s largest digital library with over 200,000 publications and 3 million monthly website visitors. Anton is a past recipient of the AIIA’s Euan Crone Scholarship.

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As China hysteria reaches fever pitch, let's not pretend morality is a good basis of foreign policy

China is a complex and opaque nation which is not easily defined or understood. Yet there is scant vision of how we right this relationship or what we do if we can't, observes [Stan Grant](#) in this ABC News analysis

Bob Dylan famously wrote: “Something is happening here, but you don't know what it is, do you Mr Jones?”

I've felt like I've been living in that song this past week as China hysteria has reached fever pitch. To listen to some people, you'd think our sovereignty is at risk because of an offensive tweet from a Chinese official.

China must be stopped before it's too late! I have heard that this week, too. *We need to defend our values!* Are they being stolen from us?

China is a genuine challenge

We have lived with the reality of an oppressive China as a key partner for decades, and our democracy is still standing. Australia is right to defend itself and we should be in no doubt that the Communist Party represents a genuine challenge, even a threat to liberal democracies.

China is seeking to expand its influence, even interference, in countries like Australia. All great powers do. None of this should be a surprise. China today is the China of yesterday – the Communist Party has not changed.

The Communist Party has embraced an authoritarian capitalism that embraces the market but rejects liberal values.

It was the same Communist Party that ordered its soldiers to massacre their own people in Tiananmen Square in 1989. The same Communist Party to whom Britain handed back Hong Kong less than a decade later. The same Party that was rewarded with hosting Olympic Games a decade after that. It is the same Party that occupied Tibet and locked up dissidents. The Party we were happy to get into business with.

Suddenly, we're all talking about containment

China's leader Xi Jinping is the same man we feted and applauded when he visited here in 2014. Then, he was in the midst of a purge of rivals and locking up people who challenged the Party.

But we didn't care. Or if we did, we were prepared to look away.

Now, we are told China is an affront to our way of life – the Communist Party hates us because of who we are. Suddenly we are all Cold Warriors again, talking about containment of China's power.

Let's remember the words of the father of containment, George Kennan, writing in 1950 about American policy in the “Far East”.

It was, he said, “fraught with danger”. He said US objectives were “emotional and moralistic” and he warned they could lead to “real conflict” with Russia.

Kennan was talking about the Korean War – he said it was beyond America's capabilities “to keep Korea permanently out of the Soviet orbit”.

Kennan cautioned against “hysterical anti-Sovietism”. He urged a “realistic and matter of fact” foreign policy approach.

Success in meeting the Soviet threat, he said, would come from an America confident and consistent in its own values projecting “a more positive and constructive picture of the world we would like to see”.

Should morals dictate foreign policy?

What would Kennan make of this last week? Surely he would lament the anti-China hysteria and how that, too, is fraught with danger.

This is now presented as a zero-sum game: with us on one side, and the Chinese on the other.



There is more talk about our “values” and ethics than diplomacy. But how do we protect and express those values?

I’m reminded of what the German sociologist, Max Weber, said about the difference between an ethics of conviction and an ethics of responsibility: the first deals in moral absolutes, the latter in results.

Where are the results from Australia’s outrage at China? Exports are banned and there is no political dialogue between Canberra and Beijing.

We are at a new low in Australia-China relations.

Should morals dictate foreign policy? Political scientist Joseph Nye in his recent book, *Do Morals Matter?*, reminds us that foreign policy always involve trade-offs and choices.

Nye says good moral reasoning requires “weighing and balancing the intentions, the means and the consequences of decisions”.

He is writing about an America that has always been prepared to put aside morality for results.

Authoritarian capitalism

America has propped up dictatorships and sponsored coups. Presidents have had no problem sitting down with despots when it is deemed necessary.

Barack Obama had no problem negotiating a nuclear deal with Iran – trading money for Iran shelving its nuclear weapons program – despite the regime’s horrendous record of human rights and sponsorship of international terrorism.

The Western allies formed an alliance with the Soviet Union to defeat the Nazis in World War II. Since the end of the Cold War, the West has believed in a liberal hegemony: that ideas of freedom and democracy were universal. China’s return as a global power refutes that. The Communist Party has embraced an authoritarian capitalism that embraces the market but rejects liberal values.

Foreign policy realists like US Political scientist, John Mearsheimer, say we need to be realistic. Liberalism, he says, is a force for good at home but as a basis for foreign policy “is not a formula for co-operation and peace but for instability and conflict”.

It also leaves Western nations open to allegations of hypocrisy when they fail to meet their own moral standards. We saw this after American soldiers committed human rights abuses on detainees in Abu Ghraib prison in Iraq. Australia is facing the same criticism after the Brereton Inquiry revealed allegations of war crimes by Australian soldiers in Afghanistan.

It was no surprise China and other nations would seize on it. Australia is also right to defend itself especially from the Chinese tweet. But it underlines how morality can be a perilous foundation for foreign policy especially when the West seeks to export its values.

Political realism, Mearsheimer says, has been with us since the ancient Greeks. It is timeless “because the international system is anarchic”.

The world has entered a new era of great power

politics: America versus China and Australia, like other nations, is dragged along in its wake.

There is no easy way out

Building alliances is going to be crucial to be able to push back when necessary against China. But it is also going to require a political realism.

China is an indispensable nation, on track to become the biggest economy in the world. Joseph Nye points out that nearly 100 countries list China as their biggest trading partner. For the US, it is just 57.

For Australia, there is no alternative export market that even comes close. Right now there appears no easy way out of an increasingly toxic relationship with China. This dispute is now existential: about who we are and who the Chinese Communist Party is.

Each move antagonises the other.

The Communist Party is a mix of fragility and strength; afraid of its own people and internal uprising, yet seeking to project its power globally. It demands respect and a history of a humiliation from foreign powers burns deeply in the Chinese soul.

A complex and opaque nation

I have been covering, reading and writing about China since I stood on the border and watched the People’s Liberation Army take back Hong Kong in 1996.

I lived and reported in Hong Kong and Beijing for a decade, and I have seen the rise of a power that is repressive, often brutal, yet enduring.

The Communist Party is a mix of fragility and strength; afraid of its own people and internal uprising, yet seeking to project its power globally. It demands respect and a history of a humiliation from foreign powers burns deeply in the Chinese soul.

China is a complex and opaque nation, not easily defined or understood. Even with years of experience, I would not rush to the judgments and assumptions that we hear so much of today.

Yet now we are bombarded with commentary driving fear and antagonism, hyping confrontation and talking about values as if morality has always been the basis of foreign policy.

Everyone, it seems, is a China expert, regardless of whether they’ve even spent much time in the country. Yet there is scant vision of how we right this relationship or what we do if we can’t.

Yes, Bob Dylan was right: *Something is happening here, but they don’t know what it is.*

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Australia and China: getting out of the hole

ACCORDING TO FORMER FOREIGN MINISTER **GARETH EVANS**, WE HAVE TO BOTH GET ALONG WITH CHINA, BUT ALSO STAND UP TO IT

The Scottish Independent Labour Party leader in the 1930s, Jimmy Maxton, summed up the challenge of political leadership as well as anybody ever has: “If you can’t ride two bloody horses at once, you shouldn’t be in the bloody circus”.

In getting out of the hole into which we have dug ourselves with China, the beginning of wisdom for Australia’s political leaders is to recognise that – as their Vietnamese counterparts are reportedly fond of saying – we have to both “get along with China, but stand up to it”. Easier said than done, but it can be.

Our huge economic dependency on China gives us no choice but to get along: how long will it take us to find alternative markets for nearly 40 per cent of our exports? But there have also been multiple legitimate concerns about Beijing’s behaviour which require a firm and clear response, among them defiance of international law in the South China Sea; egregious domestic violations of human rights (and in the case of Hong Kong, of treaty obligations as well), discriminatory and overprotective trade and industry policies, and some attempts – most of them clumsy – to exercise undue influence over public institutions.

The question in these issues is not whether to stand up, but how to stand up. And the reality is that the way in which we have responded to for the most part

legitimate concerns over the last few years has made us extremely vulnerable – much more so than other countries in the region, like Japan, who have been walking a similar tightrope. I would identify four key failures in this respect.

The first is what (as John McCarthy recently reminded us) Talleyrand would have described as “excessive zeal” – too much tone-deaf stridency in our language, starting with the way Malcolm Turnbull introduced the undue influence legislation in 2017; too much over the top behaviour, as in the ASIO/AFP raids on Chinese journalists; and too much unchecked offensiveness in parliamentary performances by Senator Abetz and his fellow Wolverines.

Accompanying this, there has been a failure to fully factor in the risks – for a country of our economic vulnerability and at best middleweight – of not only irritating but hurting China, as we have done in not just joining but leading the international charge on Huawei, tough foreign investment restrictions and foreign influence laws.

I love to see Australia playing a creative, energetic international leadership role, as I hope my own record as foreign minister makes clear, but caution is the better part of valour when other major national interests are at risk.

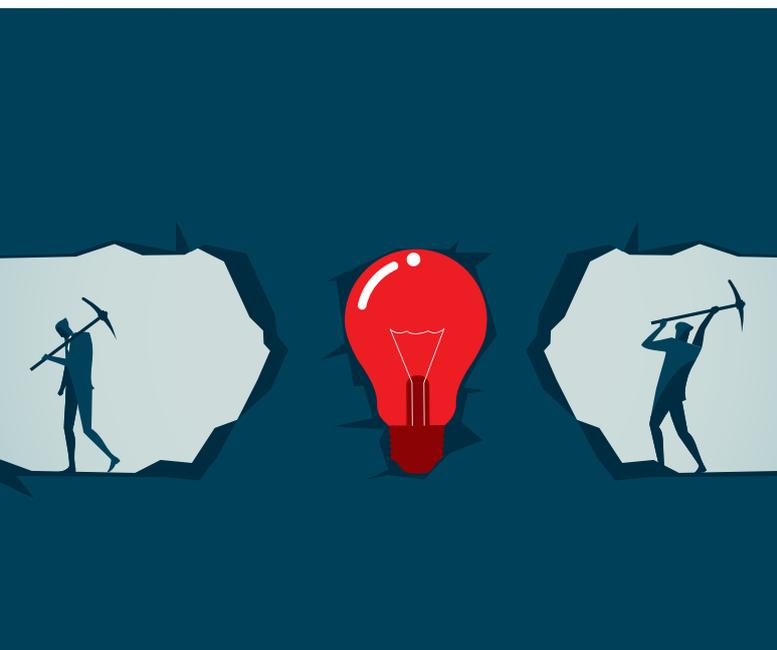
Again, too many of the stands we have taken – those just mentioned, and above all our operationally and diplomatically ill-prepared braying for an inquiry into China’s COVID response – have played all too readily into the United States “Deputy Sheriff” narrative, and as such left us open to even heavier counter-punching. We are an easier and more vulnerable target than the US itself ever will be.

Finally, there has been insufficient recognition that there is not a lot of downside for China in getting stuck into Australia. Our iron ore is needed, but not much else. China may like our coal, and agricultural products, and to have Australia as a student and tourist destination, but it does not need us for any of them.

So what is the right strategy to get out of our present hole? To me, it has five elements.

The *first*, as in all these cases, is to stop digging – don’t add any more grounds for complaint to the fourteen that have been conveniently listed for us recently by the Chinese Embassy’s resident wolf warriors. While I would regard most of these complaints as overdrawn, only three of them (relating to Australia’s statements on the South China Sea; positions on Xinjiang, Hong Kong, and Taiwan; and failure to curb unfriendly press comment) seem to me completely without justification: on all the rest some real navigational care is required.

Our huge economic dependency on China gives us no choice but to get along: how long will it take us to find alternative markets for nearly 40 per cent of our exports?



The *second* is to moderate our official language, as Prime Minister Morrison and some of his senior ministers, notably the Treasurer, have belatedly started to do, including by emphasising the positives in the relationship, and remembering that when we make legitimate criticisms of Chinese behaviour, in diplomacy words are bullets.

Beyond that, the legion of over-excitable foreign influence enthusiasts in the government's ranks need to be much more careful than they have been about using language tending to demonise our hugely valuable Chinese-Australian community, which is presently feeling very stressed and vulnerable. Some self-restraint from the media in all these respects would also be a consummation devoutly to be wished.

Third, our leaders should make absolutely clear, when we take a negative position on anything to do with China, that this is a matter of independent national judgment and not of looking over our shoulder for guidance from our own imperial masters. Foreign Minister Payne and more recently the Prime Minister have made some useful forays in this direction, but we cannot overdo the independence talk – or, of course, actions consistent with it.

Fourth, we need to acknowledge the legitimacy and inevitability of some of China's international aspirations, and not get over-excited about it wanting to buy strategic space for itself, the military capacity to protect its economic lifelines, and an influence in global policy-making consonant with its new strength. Much of its recent behaviour is no more than could be expected of a dramatically economically rising, hugely trade-dependent regional superpower wanting to flap its wings and reassert its historical greatness after more than a century of wounded pride, and should not be assumed to be a precursor to military aggression.

We should also acknowledge that some of China's commercial concerns may not be entirely without foundation: plenty of objective observers think we have been overdoing our anti-dumping complaints, which have hugely exceeded in number those coming back at us from Beijing.

Finally, we should work hard to find issues on which there is genuine common ground. Australia should play both on what's left of our reputation as a good international citizen, committed to finding effective multilateral solutions to global and regional public goods issues, and China's desire to project soft power. Beijing has not been helping itself in this respect in recent times, but in areas like on climate, nuclear weapons, peacekeeping, counter-terrorism, arms control and – for the most part – response to pandemics, it has played a more interested, constructive and potentially cooperative role than has generally been recognised.

It seems clear that the Biden administration, while maintaining – not least under Congressional pressure – a harder line on China than previous Democrat presidencies, will be keen to explore opportunities for cooperation in this space, on the same principle that



The question in these issues is not whether to stand up, but how to stand up.

when a relationship is under strain, the smart course is to focus hard on potential shared interests, that can unite rather than further divide.

Climate is clearly the issue which Biden will focus on, and hopefully the American shift here – and the accompanying pressure we in Australia will be under to finally get our act together on a credible 2050 target – will be the straw that finally breaks the back of Scott Morrison's unedifying capitulation to his party's climate troglodytes.

I am not suggesting that getting the Australia-China relationship back on even keel will be quick or easy. But there does seem to be an emerging consensus among our more thoughtful and informed commentators, including those contributing to these columns, that there is – as Geoff Raby puts it – a middle way between sycophancy and hostility, and that it involves the kind of elements I have here sketched out.

If tensions between the US and China do ease, as is likely with adults – tough-minded though they may be – back in charge in Washington, and if our own leadership keeps its head down and itself acts a little more maturely than has been the norm during the life of this government, a resumption of something like normality over the course of the next year or so is certainly possible, and I am optimistic enough to think likely.

Gareth Evans was Australia's Foreign Minister 1988-1996.

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AUSTRALIA HAS MADE ITSELF AN OUTLIER IN ITS DEALING WITH CHINA

Protecting Australia's interests involves not only hardening defences against an overreaching China, but also maintaining relations with the dominant power in the region. We have opted for strategic competition with China at the cost of strategic cooperation where it is in our interests to do so, writes Geoff Raby

The Prime Minister's dash to Japan to meet the new Japanese Prime Minister – the first foreign leader to do so – should be welcomed. It is unusual in terms of diplomatic protocol for an established leader to visit a newly appointed leader, not the other way around, unless it is the US for which normal protocol seldom applies.

Far from being seen as kowtowing to the Japanese, Morrison's visit has however underscored how much the world has changed around Australia. It is also a further example of how Australian foreign policy has started to notice this fact and the need for Australia to adopt more realist positions in foreign policy.

The embrace of Vietnam – a communist, one-party, authoritarian state with a deplorable human rights record – is another. These adjectives could, of course, be used to describe another major state in East Asia.

The Defence arrangement (it is unclear what instrument exactly was signed) seems not to add much in substance to what has already been announced or is underway. The thorny issue of capital punishment for ADF personnel if found guilty for crimes committed in Japan that carry the death penalty seems not to have been resolved. Opposition to capital punishment remains an important Australian value. It will be interesting to see how the Government manages balancing our values and interests in this particular case.

Still, what matters more is the symbolism and clearly China's vitriolic response indicates that it has not been lost on Beijing. The East Asian region is now one of many moving parts, all set in motion by China's ascendancy and the US's turn inwards.

After years of being rejected by India from participating in the trilateral annual naval exercises, Malabar, Australia has now been let in, presumably as part of India's strategic messaging to China following their mid-year clashes in Ladakh. As a result, the Australian Navy finds itself exercising in the Bay of Bengal and the Arabian Sea, far removed from areas of strategic sensitivity in East Asia.

Nonetheless, the Quad has now been militarised which will further add to Beijing's sense of insecurity and support the hawks' assessment that Australia is bent on containment of China. The Prime Minister's rush to Tokyo will be interpreted by Beijing as reinforcing this view.

This will most certainly crowd out any attention that the Treasurer's conciliatory remarks towards China may have received from his speech in recent days acknowledging China's success in managing the pandemic and returning to robust economic growth. As Australia looks to its own economic recovery, China's will be of fundamental importance for the Treasurer.

Also in the past week, we have also seen states in East Asia engaging and hedging with China. The Regional Economic Cooperation Partnership (RCEP) was signed finally after eight years of negotiations. It includes all the major countries of the region. India's absence reinforces the minimal interests India has in East Asia and the converse, namely, that East Asia is the only security system in the region that matters.

Indicative of declining US engagement in the region, RCEP is the second major piece of regional architecture to be created without the US, following the Asia Infrastructure Investment Bank (AIIB) in 2014. The US had been a founding member of the TPP but withdrew after the election of President Trump. It is not evident that a Biden Administration will return to the TPP. So the region continues to reshape itself to declining US engagement and China's rising power.

When many pieces are moving, it is challenging for diplomacy and strategic missteps in timing and substance are an ever-present reality. Just as the Prime Minister was leaving Japan, the Chinese Ambassador to Tokyo was sounding conciliatory on the fractious Senkaku/Diao Yu Dao Islands dispute and progress





was announced on the Japan/China/South Korea free-trade negotiations. Tokyo and Beijing are busily recalibrating their relationship through further engagement ahead of the change in Administration in Washington.

In contrast, Australia has made itself an outlier in its dealings with China. This is an inconvenient truth that no amount of feigned or even real indignation coming out of Canberra over China's actions should be permitted to conceal.

Protecting Australia's interests involves not only hardening defences against an overreaching China, but also maintaining relations with the dominant power in the region. We have opted for strategic competition with China at the cost of strategic cooperation where it is in our interests to do so.

Australia is most certainly not alone in having important and complex challenges to address with a rising and assertive China. If we were, the current dire state of our relationship would be just something we have to live with, as senior ministers suggest. The policy failure is that among all the many countries, both in our region and beyond, which are concerned about China's behaviour, we have not been able to walk and chew gum at the same time.

Protecting Australia's interests involves not only hardening defences against an overreaching China, but also maintaining relations with the dominant power in the region. We have opted for strategic competition with China at the cost of strategic cooperation where it is in our interests to do so.

In the region, Australia's values and democratic institutions are not the only ones that sit at odds with

China's. New Zealand for one faces all of the challenges that Australia does, but still manages to maintain constructive diplomatic relations, including high-level visits during the period in which Australia has been frozen out.

But no country more than Japan has to balance deep historical animosities, ongoing territorial issues, contingent geography, and deep economic interdependence. Yet Japan still maintains normal diplomatic relations and engagement, including the presence of a substantial contingent of its media in China. Xi Jinping was to have visited Japan in April this year until COVID intervened.

Some commentators, including in these pages, seem not to understand the difference between being alone and being an outlier. Australia is definitely not alone but is certainly an outlier. It is to be hoped that Prime Minister Morrison used some of his time last week with Prime Minister Suga to seek guidance on how to manage its various interests with an assertive China and avoid the binary choice of sycophancy or hostility, which is how Australia's China policy is now framed.

A version of this article appeared in the *Australian Financial Review*. It has been republished with the permission of the author.

Geoff Raby AO is an Australian economist and diplomat. He served as the Australian Ambassador to the People's Republic of China from February 2007 until August 2011.

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China blames Australia for trade spat – do we need more alternative markets?

There are calls for Australia to look to markets other than China as trade tensions continue, write [Michael Walsh](#) and [Jason Fang](#)

China is digging in its heels as the trade spat between Canberra and Beijing continues, with officials laying responsibility for the tensions solely at Australia's feet. Chinese Foreign Ministry spokesman Zhao Lijian told reporters on Tuesday night that some in Australia "tend to regard China's development as a threat", and that this was "the root cause" of the problems between the two countries.

Mr Zhao had been asked about comments made by Australian Trade Minister Simon Birmingham earlier this month, specifically the minister's comment that "the ball is in [China's] court" when it came to starting talks over the trade issue. Federal Government ministers have been unable to get their Chinese counterparts on the phone for months, and Senator Birmingham had been calling on Chinese officials to speak directly to the Government.

"The serious difficulties facing China-Australia relations are nothing China wishes to see, and the responsibility for causing this situation doesn't lie with China at all," Mr Zhao said.

With no resolution in sight, many exporters affected by China's sanctions are now looking for alternative markets where they can sell their goods and services.

Here's a look at what some of those markets are, and whether analysts view them as a long-term solution.

What are Australia's alternative markets?

China is easily Australia's largest export market and two-way trade partner, according to statistics from the Department of Foreign Affairs and Trade.

It was the destination for 32.6 per cent of Australia's exported goods and services in the 2018-2019 financial year, amounting to \$134.7 billion in exports – Japan was Australia's next largest export market, with a 13.1 per cent share worth \$59.1 billion.

"When you're going into alternative markets, there's other types of risks that you've got to deal with."

In that same period, Australia's other top markets in descending order were South Korea, the United States, India, New Zealand, Singapore, Taiwan, the United Kingdom and Malaysia, which each took between 2.5 and 5.9 per cent of Australia's exports.

They could be potential alternative markets for Australian goods that can no longer get into China, along with other nations like Indonesia and Vietnam.

However, simply selling goods and services somewhere else is easier said than done.

He-Ling Shi, an associate professor of economics



at Monash University, said while some goods could be sold in other markets, industries like international education would have a harder time shifting towards countries other than China.

“In the long run, Australia can find alternative sources to export our education services, especially to some emerging economies like India or Indonesia or Malaysia,” Dr Shi said.

“But in the short run, frankly, it’s quite difficult to replace the large scale of Chinese students with some alternative sources.”

And while some consumer goods could be shifted to other markets, the mining sector is heavily reliant on the Chinese market.

“Australia can export wine to different regions, different economies like Taiwan and Japan – [but] if you think about iron ore, that’d be big trouble,” Dr Shi said.

Are they viable markets for Australian exports?

This is the big question, and again it really varies from industry to industry. James Laurenceson, director of the Australia-China Relations Institute at the University of Technology Sydney, said the hopes that are being placed in alternative markets “may be a bit misplaced”.

“China’s [GDP is] expected to grow by 1.9 per cent, the US is going backwards 4.3 per cent, the Euro area backwards by 8.3 per cent, India – the great hope of replacing China – going backwards by 10.3 per cent, even ASEAN’s down by 3.4 per cent,” he said.

“Australian businesses, let alone Canberra, don’t get to choose where global purchasing power comes from. This year’s been a classic example of that.”

Dr Laurenceson said even though Australia’s political tensions with China had spiked in 2020, it had still sold more exports to China as a proportion of its total than ever before.

“In the first nine months of this year 40.5 per cent of our total goods exports went to China, that’s up from 38 per cent last year,” he said, adding that the costs involved in moving to new markets were also a concern.

“It’s not just about finding someone who likes Australian wine in Vietnam, you’ve got to build brand awareness, you’ve got to build distribution networks and so on.”

Dr Shi said exporters would also need to factor in a drop in profits if they chose to sell in alternative markets.

“If Australia exports goods to some alternative market, because of the lack of demand, therefore the price must be dropped,” he said.

“You should anticipate there’s a drop in profit.”

Industries that have profited from the high margins Chinese consumers are willing to pay would feel this particularly hard, further complicating calls for businesses to diversify their markets.

“If you’re a wheat grower, your prospects of selling wheat on the global market, whether it’s to China or anyone else are probably pretty good – there’s a number of buyers, and you’ve got a pretty standard product,”

Dr Laurenceson said.

“But it becomes harder when you’re a lobster fisherman, and China is the country that overwhelmingly is willing to pay so much more for your output than any other country.”

“Australia actually should diversify its business partners ... in the long run such kind of diversification could make Australia’s economy more resistant to any sort [of] international political or economic unpredictability.”

Could other markets be better than China in the long run?

China’s willingness to target Australian exporters over a political dispute with Canberra has led some to question whether the risks associated with trading with China were becoming too high. Dr Laurenceson said while the potential for China to use coercive measures against Australian businesses was “absolutely a real risk”, he was not convinced alternative markets provided a safer option.

“When you’re going into alternative markets, there’s other types of risks that you’ve got to deal with, for example Vietnam – guess what, that’s an authoritarian, one-party Communist state as well,” he said.

“India is a highly nationalistic market, one with very poor intellectual property protection.

“China brings risks – yes, these risks have increased – but still how does that compare with the alternatives out there?”

Dr Laurenceson argues businesses will need to hedge their bets by developing more sophisticated risk mitigation strategies, instead of “simply selling less to China”.

He cited a suggestion put forward by University of Queensland chancellor Peter Varghese, which would see universities invest the profit margin from international student fees into a fund, to be accessed if foreign students were suddenly unable to come to Australia.

Dr Shi said there was concern the trade difficulties with China could make Australia’s pandemic-related recession even deeper in the short term, however diversification could be beneficial for Australia in the future.

“There’s a basic rule in finance: don’t put all your eggs in one basket,” he said.

“Australia actually should diversify its business partners ... in the long run such kind of diversification could make Australia’s economy more resistant to any sort [of] international political or economic unpredictability.”

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THERE'S NO NEED FOR PANIC OVER CHINA'S TRADE THREATS

China's increasingly belligerent threats to close its markets to Australian exports have excited talk of a full-blown trade war. But let's not panic. These threats are best understood as psychological warfare, not a statement of reality, observes [James Laurenceson](#)

Last week Hong Kong's *South China Morning Post* reported the Chinese government was set to ban Australian imports of timber, sugar, copper ore and copper concentrates, wool, lobsters, barley and wine. These markets are worth about A\$6 billion a year.

The message from Chinese state media in the days before the mooted bans were supposed to take effect was loud and clear. *The China Daily* editorialised that "Canberra only has itself to blame" and warned the Morrison government to "steer clear of Washington's brinkmanship with China before it is too late".

Already this year China has taken punitive action against Australian barley, beef and possibly coal, and threatened the loss of Chinese tourists and students.

China has a history of using coercive economic pressure as a political weapon. In 2011, for example, it restricted salmon imports from Norway after the awarding of the 2010 Nobel Peace Prize to Chinese dissident Liu Xiaobo. In 2012 it banned bananas from the Philippines in the wake of territorial disputes in the South China Sea. And so on.

But such pressure has been narrowly focused, and China has been careful to maintain "plausible deniability", using excuses like food safety concerns to avoid being taken to the World Trade Organisation for flouting international trade rules.

This action against Australian exports would be unprecedented in China's economic statecraft. It would be impossible for China to deny its motives.

POLITICS BY OTHER MEANS

Though the Chinese market for the seven threatened export products is valuable, it's important to note they represent just 4% of the A\$150 billion in Australia's exports to China in 2019-20, and less than 2% of the value of all Australian exports.

The exports that are the backbone of the Australia-China trade relationship – such as iron ore – have avoided mention. That's for good reason. In the first nine months of 2020, China relied on Australia for 60% of its imported iron ore – crucial to make the steel needed for building bridges, factories and high-rise apartment blocks.

Still, an argument could be made that the scale of aggregate economic damage isn't the point.

Rather, by inflicting serious harm on lobster fishermen through to winemakers, the Chinese government is seeking to turn Australian producers into lobbyists that help it achieve its foreign policy objectives.

But if that's the intention, there's little evidence the plan is working.

With a few high-profile exceptions, Australian business groups have been conspicuously quiet as the bilateral political relationship has deteriorated since 2017.

COERCION CAN BACKFIRE

Indeed a key lesson from research on economic coercion is that success is difficult to achieve. One reason is that targets take steps to make themselves less vulnerable.

Chinese threats against Australia, for example, have led to calls for Australia to diversify its export markets.

With Australian public opinion towards China continuing to plummet, there is also the prospect of hardening the Australian government's resistance to Chinese pressure.

As political scientist Greg McCarthy (a former BHP Billiton chair of Australian studies at Peking University) has argued, the "political ballast" for the Australian government's China policy stems in large part from the "popularised perception of a China threat to national sovereignty".

So it isn't surprising China appears to have hesitated in moving from threat to action. Such moves would have hurt China too.





LEAVING IT TO BUSINESS

So far the Australian government is maintaining a steady approach to the trade relationship. On Monday federal Trade Minister Simon Birmingham noted the “rumours” of an outright blanket did not “appear to have materialised”. While there were “areas of problem and concern” such as delays in live lobster shipments being cleared through Chinese customs, he said, “we will continue to work at an administrative and diplomatic level to try to understand and resolve those points of concern”.

With China’s purchasing power over the next decade forecast to grow more than that of the US, Japan, India and Indonesia combined, expect Australian businesses to craft more sophisticated strategies to manage coercive risk, rather than just looking to sell more to other markets.

Prime Minister Scott Morrison has maintained that judgments on trading with China “are not decisions that governments make for businesses”.

The rationale would appear to be that China’s targets for punishment will vary from sector to sector and change over time. With their own money on the line and their industry knowledge, businesses are best placed to assess developments and manage risks.

The government can certainly support those assessments by, for example, partnering with industry bodies to fund research into the risks exporters face, providing businesses with clarity on where it sees foreign policy

headed and sharing insights gleaned from its diplomatic network and national security agencies.

With China’s purchasing power over the next decade forecast to grow more than that of the US, Japan, India and Indonesia combined, expect Australian businesses to craft more sophisticated strategies to manage coercive risk, rather than just looking to sell more to other markets.

Either way, Australia has less to fear from China’s trade threats than some might think.

DISCLOSURE STATEMENT

James Laurenceson does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond his academic appointment.

James Laurenceson is Director and Professor, Australia-China Relations Institute (ACRI), University of Technology Sydney.

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HOW AUSTRALIA AND CHINA CAN BEGIN THE GREAT DEFROST

Peter Drysdale and Yongjun Zhang offer some advice on how Australia and China may begin to repair their strained bilateral relationship

During the pandemic, the trade relationship between China and Australia has gotten bigger, not smaller. Strong commodity prices have cushioned the economic downturn in Australia during the COVID-19 lockdown.

Australia's resource exports will help fuel a strong economic recovery in China with low-cost, high-quality inputs into global supply chains. The Australia-China economic relationship is important for the recovery of both countries and all of Asia.

Economic interdependence is enormously beneficial but stands in marked contrast to the deterioration of the bilateral political relationship that has coincided with increased uncertainty in the international political environment. Foreign investment and trade in services – education, tourism and other areas – will not automatically revert to pre-pandemic levels without work that repairs the fracture of trust in the relationship.

In the aftermath of COVID-19, Australia and China share strong interests in ensuring public health and safety, financial stability and an open, rules-based trade in the region. Both governments can contribute towards these goals most effectively by working actively together in multilateral settings such as the ASEAN+6 group, the East Asia Summit, APEC and the G20.

To chart a course to economic recovery and reconstruction, Asian countries must deal with the international health policy and economic policy challenges of exit from the crisis simultaneously; failure to do so will cause more social disruption, more deaths and more economic hardship.

The foundations for post-COVID-19 coordinated regional policy action were laid at an ASEAN+3 summit on April 14 that included leaders from south-east Asia, China, Japan and South Korea, and committed to health and economic policy coordination. China now has an important contribution to make with other key neighbours such as Australia, India and New Zealand in building on that initiative to meet the continuing challenges.

Australia and China have successfully managed the public health dimensions of the crisis and will benefit from coordinated economic recovery in Asia to escape a serious economic slump caused by the health-related lockdowns.

The breakdown in bilateral political relations can be reversed by, as a first step, jointly declaring and then realising the deep shared interests of peace and prosperity Australia and China have in an open and rules-based order and commitment to working with other partners in the region to prosecute those interests.

In managing the public health dimensions of the



crisis, Australia and China can support arrangements to ensure equitable access to pandemic counter-measures and elevate medical and research exchanges. That should include timely and open sharing of data and information to support an early warning system for disease outbreaks with pandemic potential by expanding ASEAN+3's commitment to a COVID-19 ASEAN Response Fund to include Australia, New Zealand and India.

On the economic agenda, Australia and China can use the ASEAN-centred frameworks, APEC and the G20 to learn from each other about the impact of the pandemic on the macroeconomy and support a globally coordinated response. There are important opportunities for informal collaboration between Australia and China around the G20 on these issues.

Both Australia and China can encourage the region's central banks and finance ministries to expand bilateral currency swap arrangements to create a more robust regional financial safety net and avoiding a mess of bilateral arrangements with gaps.

Conclusion of the Regional Comprehensive Economic Partnership (RCEP) among 15 members – ASEAN plus Australia, China, Japan, New Zealand and South Korea, less India initially – will help keep markets open in East Asia and provide a platform for continuing cooperation. RCEP also has the weight to make a difference in keeping the global trading system open. Australia and China, in particular, can help keep India engaged and define a path towards eventual Indian membership.

While the WTO is no longer fit-for-purpose for the globalised economy of the 21st century, it's a critical bulwark in avoiding disintegration of the international economy and markets after the COVID-19 economic crisis. The core rules that govern goods trade and underpin the global trading system need to be preserved. That will be easier if progress can be made with updating and expanding WTO rules to new areas of importance to international economic exchange today, promoted jointly through a G20 taskforce to set the broad strategic direction for reform of the global trading system.

Industrial supply chains have been central to Asian economic integration and growth, and their reconstruction will also be important to regional recovery from the COVID-19 crisis. Supply chain resilience is a shared agenda regionally.

There is also an opportunity for Australia and China to work together with Asian countries to improve transparency of foreign debt arrangements in vulnerable emerging economies. Australia can work with China in international (IMF and World Bank, G20) and regional settings (ASEAN and APEC) to improve the transparency of emerging economies' debt obligations.

The pandemic has accelerated adjustment in many sectors and a shift to business models that leverage digital infrastructure for production, supply chain management and the delivery of goods and services. Digital transformation can be harnessed as a driver



In the aftermath of COVID-19, Australia and China share strong interests in ensuring public health and safety, financial stability and an open, rules-based trade in the region. Both governments can contribute towards these goals most effectively by working actively together in multilateral settings such as the ASEAN+6 group, the East Asia Summit, APEC and the G20.

of economic recovery and social development in Asia only if it is more effectively governed through multilateral agreements.

It is important that China, as the biggest economy in Asia and a leader in digital technology and innovation, work with Australia and other countries in APEC and elsewhere to encourage regional integration and the development of the governance of digital infrastructure.

Australia and China may find it helpful to look to Asian cooperation centred on ASEAN for the circuit-breaker needed to begin repair in their bilateral relationship.

Peter Drysdale is Emeritus Professor and Head of the East Asian Bureau of Economic Research at the Crawford School of Public Policy, the Australian National University.

Yongjun Zhang is senior economist at the China Centre for International Economic Exchanges (CCIEE), Beijing.

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PUSHING BACK AGAINST THE CHINESE COMMUNIST PARTY'S COERCIVE DIPLOMACY

Fergus Hanson, Emilia Currey and Tracy Beattie review an [Australian Strategic Policy Institute](#) report which argues that coordinated multilateral and unilateral push-back is key to forcing the CCP to wind back its increasing use of coercion

Norwegian salmon, South Korean celebrities, Canadian pork and, most recently, Australian wine – the Chinese Communist Party's coercive diplomacy over the past few years has spanned commodities and continents. However, countries' responses have remained largely short-sighted and unilateral.

To bring some data to this debate, ASPI's International Cyber Policy Centre's latest report compiles a dataset of 152 cases of coercive diplomacy between 2010 and 2020. The data shows a sharp escalation of the CCP's use of economic and non-economic coercion since 2018. Yet the response of victim governments has so far been mostly flat-footed. The report aims to assist policymakers to develop a data-driven response that can push back effectively against the CCP's increasing use of this practice.

The report looks at the CCP's methods of coercive diplomacy under eight categories: arbitrary detention, restrictions on official travel, investment restrictions, trade restrictions, tourism restrictions, popular boycotts, pressure on specific companies, and state-issued threats.

The most common method used by the CCP against foreign governments has been state-issued threats. Warnings of 'countermeasures', 'retaliation', 'pain' and 'the right to further react' made by Chinese diplomats, embassies, ministries and state-run media have become all too familiar. The issuing of such threats is the quickest and most cost-effective form of coercive diplomacy and carries the lowest risk to the CCP's own interests, making it ideal to deploy immediately to address state conduct it wants to stop.

Trade and tourism restrictions are the second and third most recorded methods of coercive diplomacy, respectively. Contrary to some of the sensational media reporting that has been sparked by these coercive measures, it's clear from the report's dataset that the CCP is highly selective in the commodities it targets. Its aim is to minimise the impact on its own interests while sending a powerful message to the target state.

A prominent example is the CCP's selection of salmon for a ban in retaliation for the Norwegian Nobel Committee's awarding of the Nobel Peace Prize to Chinese dissident Liu Xiaobo in 2010. Beyond any financial impact, the biggest driver was the power of the message sent by targeting a commodity that many Norwegians consider a 'national symbol'. The same has been said of the CCP's banning of South Korean celebrities in 2016 after South Korea decided to install the THAAD missile-defence system; the choice was intended to maximise the 'symbolic and psychological

impact of the sanctions'.

There are external constraints on the CCP's use of economic coercion, as demonstrated in the measures taken against South Korea, Canada and Australia. In South Korea, exports to China actually increased in 2017 despite the widely publicised boycotts and tourism restrictions enacted by the CCP to punish South Korea over the THAAD decision. This was driven by China's reliance on South Korean semiconductors.

In Canada, the CCP retracted its ban on Canadian meat imports – which was originally put in place in retaliation for the arrest of Huawei executive Meng Wanzhou – after an outbreak of swine fever severely diminished China's domestic stocks of pork, despite the unresolved tensions over Huawei.

Similarly, Australia-China trade increased by 4% in the first six months of 2020, despite the widely publicised restrictions on barley and beef in response to Australia's call for a COVID-19 investigation.

The dataset also revealed some noticeable geopolitical trends. Australia and New Zealand, Europe, North America, and East Asia (South Korea, Japan, Taiwan) experienced the highest number of coercive diplomacy cases. Countries in Africa, South America, the Pacific islands and the remaining parts of Asia recorded the smallest number of cases. This divide bears many similarities to the divide between high-income and middle- to low-income countries as defined by the World Bank. The most likely reason for this is that the political backers of China are predominantly in the developing world.

The standard reaction by states subjected to coercive diplomacy by the CCP was a bilateral one, which plays into the CCP's hands by allowing it to retain its comparative strength. Repeatedly, states are failing to connect the dots and see the widespread use of the same tactics against allies and friends, who could be ready partners in a more effective, coordinated push-back.

The report argues that coordinated multilateral and unilateral push-back is key to forcing the CCP to wind back its increasing use of coercion. More controversially, it also recommends that the Five Eyes countries (Australia, Canada, New Zealand, the UK and the US) adopt a collective economic security measure, analogous to Article 5 of the NATO treaty. Such a pact would enable them to use their collective intelligence arrangements to make authoritative joint attributions of coercive measures levied against any one member and facilitate collective economic and diplomatic responses.

Fergus Hanson is the head of ASPI's International Cyber Policy Centre, **Emilia Currey** is a researcher at ASPI's ICPC, and **Tracy Beattie** is a research intern at ASPI.

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Australia-China ties are at their lowest point in history, former ambassador says

China is set to become the world's dominant superpower in coming decades. According to former ambassador Geoff Raby, Australia has to find a way of working with China in this world to influence its behaviour and also to continue to protect our economic interests. An [ABC News](#) report by Michael Walsh and Alan Weedon

A former Australian ambassador to China has called on the Federal Government to rethink its relationship with Beijing amid what he calls “the greatest power shift that has occurred in modern history”. Former ambassador Geoff Raby, who currently runs a Beijing-based business advisory firm, has this week released a book on Australia-China relations titled *China's Grand Strategy and Australia's Future in the New Global Order*.

Dr Raby, who served as Australia's top diplomat in China from 2007 to 2011, told the ABC relations between Australia and China were at their lowest point since ties were established in 1972. He attributed that decline in the diplomatic relationship to Australia's decision to join with the United States in resisting China's economic and political rise.

“It's quite normal and natural for the dominant power to do that – push back against the ascendant power, that's the nature of power shifts historically and always has been,” said Dr Raby, who is also a board member of Yancoal, a resources company that is listed on the Australian Securities Exchange but majority-owned by a Chinese state-owned enterprise.

“But we have aligned ourselves so closely with the dominant power in that process, and made a number of diplomatic blunders, which have basically brought us to where we are today.”

The release of the former ambassador's book comes

KEY POINTS

- Geoff Raby says Australia needs to find a way of working with China.
- China this week placed additional restrictions on Australian exports.
- Dr Raby says China is “not Australia's strategic enemy”.

as Australian exporters brace for further trade strikes, with China this week holding up a large shipment of Australian seafood and banning Queensland timber imports. Some Chinese wine importers have also this week been told to stop shipments of Australian wine, according to industry sources. China has already disrupted a number of key Australian export industries this year including beef, wine, barley and coal – moves that have been interpreted widely as a response to souring ties between Canberra and Beijing.

Australia facing a 'dystopian future'

Dr Raby was plain about what he thought Australia's future would look like in an increasingly less democratic world.

“We face a dystopian future – the future for Australia is very unpleasant as we sit today and contemplate it,” he said.

“We have an ascendant power [China] that doesn't share our values. It's an authoritarian state and certainly doesn't agree with us on our approach to human rights and these sorts of issues.”

He said this was compounded by Washington's decision to step away from global leadership, a trend he said was likely to continue regardless of the results of today's presidential election.

Australia would need to learn to operate in that sort



of world, and develop an independent foreign policy that reflected its new reality, he said.

“We have to find a way of working with China in this world to influence its behaviour and also to continue to protect our economic interests,” Dr Raby said.

At the moment though, Australia appears to be failing to find a way to get along with China – besides the trade strikes, high-level official contacts have also been frozen for years.

This came after a series of actions by the Australian Government, including the decision to ban Huawei from Australia’s 5G network over security concerns, and more recently Canberra’s call for an investigation into the origins of the COVID-19 pandemic.

Dr Raby said the issue was not necessarily the substance of the decisions Australia made, which may have been fully justified, but how they were made.

“We made such a fuss about [Huawei], and we were the first for many years to do a fully comprehensive ban on Huawei,” he said.

“If you’re going to do those things ... then massage the message, it’s the same with the Prime Minister’s call for an independent inquiry into the origin of COVID-19.

“Nothing wrong with that, perfectly reasonable: but the way we did it was just calculated to make China lose face, and to basically align us with Trump’s blistering attacks on China at the time over COVID-19.”

“China is not Australia’s strategic enemy and we have no outstanding historical issues with China. We need to get this out of our heads, that China is somehow a military or existential threat to Australia.”

China a ‘constrained superpower’

Dr Raby also said that for all the security concerns around China’s rise, he does not believe the country actually poses an existential threat to Australia. He describes China as being a “constrained superpower” – the country’s history, geography and dependence on international markets for resources and energy all place limits on its ability to project power.

The nation neighbours 14 other countries, forcing it to defend a more than 22,000-kilometre-long border; it’s also “an empire with unresolved territorial issues”, Dr Raby said, referring to tensions over Xinjiang, Tibet, Hong Kong and Taiwan.

It’s also hugely reliant on both importing and exporting goods through the Straits of Malacca and the South China Sea, which the US could easily take control of in the event of a conflict. Dr Raby said these factors made it unlikely that China would enter into conflict with Australia, and that failing to understand the limits on China’s power would lead to “strategic miscalculation”.

He said the decision to “[align] so closely with the US in treating China as a strategic competitor” was an example of such a miscalculation. The Federal

Government has previously said its policies in this area were its own, and that it makes foreign policy decisions “in Australia’s national interest”.

“China is not Australia’s strategic enemy and we have no outstanding historical issues with China,” Dr Raby said.

“We need to get this out of our heads, that China is somehow a military or existential threat to Australia.”

Engagement with China ‘unfashionable’

Dr Raby argues for a return to strategic cooperation, instead of strategic competition, with the soon-to-be dominant power in Asia. However, he writes in the conclusion of his book that calling for more engagement with China is “unfashionable” at the moment. He told the ABC the debate around China policy in Australia had “gone completely off the rails” and “become binary”.

“You’re either against China and therefore somehow standing up for Australia’s interests, or you’re wanting to have a relationship of engagement with China, and by which you’re somehow supine and rolling over to the Chinese bullies,” Dr Raby said.

“It is an extraordinary state that we’ve found ourselves in.”

Professor Jane Golley, an economist and director of the Australian Centre on China in the World at the Australian National University (ANU), said this issue was “one of the biggest areas of misconception” when it came to discussions on Australia-China relations.

“The distinction shouldn’t be about being pro or anti-China – it should be about being pro-engagement or pro-containment,” she said.

“I see the latter as both futile and unwise, given China’s current and likely future position in the world power order, and the costs that containment would impose on our people and theirs, if it somehow succeeded.”

Yun Jiang, editor of the ANU’s *China Story* blog, said this was an issue she was also concerned about. Without commenting directly on Dr Raby’s book, Ms Jiang said she felt debates on the bilateral relationship had “become almost like a moral crusade”.

“The debate about China in Australia has become so polarised, there is a lot of insinuation of people’s different motivations,” she said.

“When we talk about what Australia’s relationship with China should be, pretty much everyone is starting from the point of advancing your sort of national interest, we just disagree on whether ... more economic engagement is better or worse for Australia’s national interest.”

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OUR IGNORANCE OF CHINA IS A DISGRACE

Colin Mackerras believes that Australia must study China, its language, people, history and culture – not only because they are also worth study and appreciation, but because they matter more and more in our contemporary world

It's a disgrace that after half a century or so of multiculturalism, it is still possible that Australian Chinese can be made to feel disloyal merely on the basis of their ethnic background. That's exactly what happened when right-wing Senator Eric Abetz asked three Chinese-heritage Australians before a Senate committee whether they were willing unconditionally to condemn the Chinese Communist Party.

The three took Abetz's interrogation as questioning their loyalty to Australia, which it was. Prime Minister Scott Morrison has on occasion stated that he distinguishes between the Chinese Communist Party and Chinese Australians, praising the latter. However, when asked on 16 October about his attitude to Senator Abetz's performance he refused to criticize it directly, in effect contributing to anxiety among concerned Australians that being Chinese means your loyalty is under suspicion.

There is plenty of evidence that anti-Chinese racism has increased along with the rising tensions in Australia-China relations. One survey with results published in *The Sydney Morning Herald* (7 June 2020) "documented 386 racist incidents, including abuse, physical intimidation and spitting" against Chinese in Australia and the situation has probably worsened since then. Chinese authorities used this racism to argue against sending

Chinese to Australia. It's all very well to sneer at this attitude, as many have done. However, it is reasonable if you look at the situation from China's point of view.

Surveys tell us that images of China have worsened greatly. A recent Pew Research Center poll found 81 per cent of Australians viewed China unfavourably, a 24 per cent increase in a year. And the Lowy Institute poll of 2020 found trust in China (23 per cent) at the lowest in history.

I'm not denying that the situation in China itself contributes to how Australians (or anybody else) view it. But politics in the West itself is also crucial. The mainstream media rarely has anything good to say about China. The Murdoch media is generally hostile (and to judge from the blogs on articles about China, most of its readers obsessively so), while the Fairfax stable is not much better. Even the ABC tends to focus on the bad things, and a couple of *Four Corners* programmes have done quite a lot to stoke negative views.

While aware that knowing a lot about a country doesn't necessarily mean a positive view, it's my strong impression that ignorance means less wish to engage. As one involved for decades in trying to promote Asian and especially China studies, I find it alarming and horrifying that knowledge and appreciation of China, its people, its language and its culture are so low.



As early as 1994 the federal, state and territory governments set up a body with some decent funding to promote Asian languages and studies in Australian schools. There have been various iterations of this work, though none as well funded or carried out with such enthusiasm as that early attempt. These programmes made a difference, and Asian languages and studies are more prevalent in the Australian education system than they were in the old days.

Yet I have to say that the results are overall disappointing in the extreme. I never imagined that in 2020 Australia would be back to the situation where for an Australian to be Chinese could make their loyalty suspect. Have people like Eric Abetz remained so immune to multiculturalism, at least as it concerns Chinese?

In a report by Anne McLaren of 22 November 2019 and published by the Association of Asian Studies of Australia the next year, one unnamed “seasoned” academic was reported to have said the following: “We have seen the gradual hollowing out of the deep language and cultural expertise on China in Australia. Increasingly those Australians who speak to us about China don’t know the language, nor have they spent extended time studying its history, culture

The deterioration of Australia-China relations and the decline of China literacy in Australia are both unfortunate trends that reinforce each other.



and politics” (<http://asaa.asn.au/chinese-studies-in-australian-universities-a-problem-of-balance/>).

That comment accords with my own impressions. Just at the time of China’s rise when we need expertise most, the country doesn’t have the will to invest in knowledge of our biggest trading partner. That is not only stupid but verging on suicidal.

As for the sub-tertiary level, the situation is mixed. In Victoria, which has long been the main centre for Chinese language learning at primary and secondary level, there has been a rise in the number of schools offering the language and the number of students taking it.

Obviously, that is positive. Most of the students, however, are themselves background speakers of Chinese. Of course, it is good that they learn their own language. But it is very unfortunate that so few whose background language is not Chinese want to learn the language. One 2016 report found “an overall drop over the past eight years of some 20% in the number of [students] taking Chinese as a second language” (www.crikey.com.au/2019/06/25/fact-check-mandarin-speakers-china/). If young people think there are no jobs in Chinese, obviously they are not going to learn it.

The number of second-language learners who can use Chinese at a really professional level is extremely small. This impacts on mutual trust. I regard this as very important, because trust has now completely disappeared in Australia-China relations and that is a disaster. Trust takes years to build, but can be destroyed in minutes.

The deterioration of Australia-China relations and the decline of China literacy in Australia are both unfortunate trends that reinforce each other. Our government is focusing less on China and allowing reactionary trends in the United States and elsewhere to undermine not only relations with China but even understanding and knowledge about it. Just when China is most important, we are least in a position to deal with it.

I remain an advocate and lover of Western culture, especially music. However, I also believe passionately that Australia must study China, its language, people, history and culture not only because they are also worth study and appreciation, but because they matter more and more in our contemporary world. The cost of ignorance of China could be high.

COLIN MACKERRAS, AO, FAHA is Professor Emeritus at Griffith University, Queensland.

He has visited and worked in China many times, first working as a teacher of English from 1964 to 1966 at the Beijing Foreign Studies University. He is a specialist in Chinese history, theatre, minority nationalities, Western images of China and Australia-China relations and has written widely on all topics. His many books include *Western Perspectives on the People’s Republic of China, Politics, Economy and Society*, World Scientific Publishing, Singapore, 2015.

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CUT TRADE WITH CHINA? IT'S NOT THAT EASY

Treat with care the claims that Australia can readily diversify its trade and investment, cautions **Adam Triggs** in this article first published by Inside Story

Whether it's Australia's exports, imports, tourists, migrants, international students or investment, it seems like all roads lead to China. China accounts for a whopping 8 per cent of Australia's GDP based on merchandise exports alone, more than our entire construction sector. It accounts for 40 per cent of our merchandise exports and 28 per cent of our imports. It is our largest source of tourists and international students, and is of growing importance in services trade and investment.

But all is not well. Toxic Australia-China relations threaten to kill the golden goose, dragging down countless Australian businesses and households in the process. Repairing such an important relationship and working through our differences should be parliament's top priority. But federal MPs seem oblivious to the problem, with the recent attack on Chinese Australians at a Senate hearing just the latest example of a parliament that appears determined to keep the Australia-China relationship weak, if not to weaken it further.

Why would politicians pursue such a strategy? One reason is that there is an increasingly popular belief that Australia could scale back its relationship with China without suffering a substantial economic cost. How? The argument can be summarised in a single word: *diversification*. By shifting its trade and investment away from China towards other countries, Australia could kill two birds with one stone: not only would we be less reliant on a troublesome China, we could do so without the cost to the economy.

It's an argument that gets repeated almost daily by journalists, commentators and security experts – there's even a joint parliamentary committee exploring the issue as we speak. But despite the argument's popularity, it's not credible.

The first problem is scale. At least sixteen of Australia's export industries get more demand from China than from the rest of the world combined. To put it another way: for the rest of the world to replace the demand coming from China in those industries, every country in the world that buys from Australia would need to double their Australian imports for us to merely break even from the loss of China.

These aren't insignificant industries, either. One of them is Australia's iron ore mining industry. The only way demand from the rest of the world could fill a gap as large as 83 per cent (for iron ore) or 79 per cent (for wool) would be if prices collapsed catastrophically, sending Australian producers into bankruptcy and Australian workers to JobSeeker. For these industries, diversification is synonymous with liquidation.

The argument that the rest of the world could fill the

China gap forgets to ask another important question: does the rest of the world want what we are selling? Korea, Indonesia and Japan are regularly touted as alternatives to China. But does Japan want 800 million tonnes of iron ore each year? It's easy to ignore those countries' industrial structures and domestic demands, which drive the comparative advantages that make trade happen. To be a substitute, they need to want what we are selling, and want it at the same scale as China.

Location is similarly ignored. Claims that Australia should focus its economic relationships on intelligence-sharing countries like Canada and Britain ignore not only the fact that these countries generally don't want what we sell, but they also that they are inconveniently located on the other side of the planet. Much of trade is dictated by geography. Australia's cost advantages don't tend to survive 15,000 kilometre journeys.

Even if it was good idea, how would we achieve more diversification? Advocates usually wave their hand and mention signing more trade agreements. But Australia has countless free trade agreements around the world, particularly in Asia, along with regional and global agreements through the World Trade Organization. On average, most-favoured-nation tariffs have been reduced by more than two-thirds among Asia-Pacific Economic Cooperation countries since 1990. There's always more to be done, but if international demand for Australia's exports exceeded China's demand then it would have revealed itself by now.

The final retort in the diversification argument is that Australia is simply making the wrong things. Australia should stop making what China wants and start making what the rest of the world wants. This is a recipe for a much poorer Australia. Australia's businesses and households made China our major trading partner. They did so because that's where the money and the demand is for the things they make. Using subsidies, tariffs or any other measure to make Australian businesses and households switch their production in favour of the products preferred by politicians and bureaucrats would be economically catastrophic.

No matter how you cut it, diversifying away from China is far from costless, and suggesting otherwise is dishonest. When so many Australian jobs, businesses and livelihoods are on the line, Australians deserve better.

Adam Triggs is Director of Research at the Asian Bureau of Economic Research at Australian National University and a Non-Resident Fellow at the Brookings Institution.

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STRONG ALLIANCES AND DEFENCE WILL KEEP THE PEACE WITH CHINA

According to **Peter Jennings**, Australia's biggest strategic challenge is to do everything we can to keep America active in the Indo-Pacific and the Chinese military as far away from us as possible. That means keeping the alliance active and future-focused, including advancing our weapons development

Here are some positive outcomes from the Chinese Communist Party's descent into North Korean-style insult and abuse: Australians get to see first-hand the entity we are dealing with, and Beijing's collection of local useful idiots are tested to see how far they will defend the indefensible behaviour of their patron.

Leaders in New Zealand, the United Kingdom, the United States, Taiwan and elsewhere have supported Australia unbidden. They realise that the communist party's treatment of Australia will be meted out to

Our biggest strategic challenge is to do everything we can to keep America active in the Indo-Pacific and the Chinese military as far away from us as possible. That means keeping the alliance active and future-focused.



them if, like us, they refuse to accept a silenced, subordinate status.

There is now a consensus that Australia must diversify its trade markets, a view shared by many exporters who are reassessing the risk of doing business with China. Even a year ago, that reality was rejected by many.

Prime Minister Scott Morrison saw that a line had been crossed, necessitating a strong response. That nixes a disposition of many Canberra mandarins that masterful inactivity and saying nothing is somehow a clever way to deal with Beijing.

Decades of diplomatic nuance in our China relationship have delivered nothing. Saying what is authentically Australian and defending our national values might just work.

There will be senior communist party officials viewing the arrival of 'wolf warrior' diplomacy as a disaster for China's position in the world.

Over the last year we have seen some remarkable leaks from China, exposing document troves about the mistreatment of ethnic minorities and the botched early response to COVID-19. There are many in China appalled at the party's behaviour.

Regrettably, Beijing is not about to change direction. Our government knows that and so does the opposition. Australia is well placed to drive a coherent, bipartisan response to China's bullying and is likely to get popular support and international backing for it.

Can China be peacefully persuaded to behave as a responsible member of the global community? The government's July defence strategic update tactfully says that conventional war 'while still unlikely, is less remote than in the past'. The strategy unveiled a major new effort to increase the range and hitting power of the Australian Defence Force.

On Tuesday, Defence Minister Linda Reynolds announced Australia has agreed with the United States to develop and test a 'hypersonic cruise missile prototype'. On any day not dominated by China's foreign ministry tweeting a fake image of an Australian soldier slitting a child's throat, the announcement would have received more attention.

Hypersonic cruise missiles fly at speeds above Mach 5 – that is, five times the speed of sound. Air-breathing cruise missiles, which fly like aircraft, have been tested to speeds of Mach 9.6. Russia, China and the United States want to field these weapons, and quickly.

The speed of these weapons means they have vast ranges. As Reynolds said, hypersonic missiles are potentially a game-changer, adding more deterrence weight to our defence force and ensuring that an adversary will have to deal with that risk thousands of kilometres from our shores.

The force structure plan released alongside the

defence strategic update allocated \$9.3 billion to 'high-speed long-range strike and missile defence'. It is a fundamental reset to Australian defence thinking and central to it is a joint effort with the United States.

Our biggest strategic challenge is to do everything we can to keep America active in the Indo-Pacific and the Chinese military as far away from us as possible. That means keeping the alliance active and future-focused.

Australian researchers have been working on hypersonic vehicles for 15 years. Canberra and Washington should fast-track this collaboration. The right question to ask is what can be delivered in two to five years, not in a decade.

People can be a bit squeamish when it comes to talking about weapons development. Surely one lesson from the Brereton investigation into the special forces is that we need to be clear-sighted about what we are doing. Defence is not there for parades.

Potentially linked to the hypersonic cruise missile plan is the idea that Australia will look to domestically produce 'complex munitions' – code for missiles.

The fastest way to do that would be to team with a US or possibly a European manufacturer. The lesson from COVID-19 is that we need to make our military supply chains more secure. In modern conflict the first item to fall into short supply (after trained people) is missiles. The government needs to look at radical options to get things moving quickly rather than plod through a decade's worth of development and procurement.

There are two footnotes to add: first, there is a view that China thinks Australia is acquiring the wrong defence equipment and that Chinese (and indeed Russian) aircraft are superior.

This is wrong. I have met quite a number of People's Liberation Army generals over the years. They envy the military capability we extract from the US alliance and a force of 90,000 regulars and reserves. If China didn't rate our military, their officials wouldn't so relentlessly demand that we abandon the US alliance.

Chinese combat aircraft are improving but suffer from critical capability deficiencies in engine and stealth technology, among others, and are no match yet for the F-35 joint strike fighter and the linked systems of the wider ADF. This is one reason Beijing so actively spies on our Defence and industry base.

Footnote two: Last financial year ASPI received 3% of its funding from the Australian defence industry. Some of our critics seem as opposed to a strong Australian military as much as they are prepared to forgive Beijing's aggressive posturing. The funding has no impact on our analysis any more than substantial Defence and industry funding does to most of Australia's universities. ASPI would have no value to government, parliament or Defence if it did not provide a strong element of policy contestability.

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If China didn't rate our military, their officials wouldn't so relentlessly demand that we abandon the US alliance.

One test of credibility is that shutting ASPI down is demand number 10 on the Chinese embassy's 14-point grievance list. The truth hurts the Chinese Communist Party. In these difficult times, independently-minded policy research matters now more than ever.

Peter Jennings is the executive director of ASPI and a former deputy secretary for strategy in the Department of Defence. A version of this article was published in *The Australian*.

Jennings, P (3 December 2020). *Strong alliances and defence will keep the peace with China*. Retrieved from www.aspistrategist.org.au on 3 December 2020.

Avoiding military conflict and restoring Australia-PRC relations: a pragmatic way forward



The current strain in bilateral relations and growing distrust between Beijing and Canberra are deeply worrisome and could negatively affect otherwise healthy and mutually beneficial economic ties, notes [Jingdong Yuan](#)

Never have ties between Australia and the People's Republic of China (PRC) been so estranged in the nearly five decades since Canberra and Beijing established diplomatic relations. As Geoff Raby, a former Australian ambassador to the PRC, remarked at the end of last year, the bilateral relationship is at its 'lowest ebb'.

Beijing and Canberra often tout their 'comprehensive strategic partnership' but their political leaders have stopped meeting one another – although, it seems, not for a lack of trying on Australia's part.

Australian politicians have reached out to their PRC counterparts to open dialogue but have thus far received no response. At the same time, the Morrison government continues to publicly express its concerns and criticisms of issues ranging from the mistreatment of the PRC's Turkic Muslim population in Xinjiang and the enactment of the controversial national security legislation in Hong Kong. Last month it stepped up its rhetoric on the South China Sea, declaring as 'invalid' PRC claims.

Unsurprisingly, Beijing has lashed out against Australia's criticisms, accusing Canberra of 'interfering' in the PRC's internal affairs. The PRC government was particularly rankled by the Morrison government's call for an independent, international inquiry into the origins and spread of COVID-19 earlier this year.

The PRC ambassador to Australia warned Australia

at the time it could pay a heavy economic price for adopting this position. Beijing has imposed tariffs on Australian barley, suspended imports of Australian beef, and launched an anti-dumping probe into Australian wine.

That Australia continues to walk a fine line in balancing its relationships between the PRC and the US is obvious. And while disputes between Washington and Beijing over trade and who is to blame for the spread of the COVID-19 pandemic have drawn international attention to this intensifying great-power rivalry, an equally and perhaps even more dangerous tussle has been on full display in recent months: increasing US and Chinese naval/maritime rivalry in the South China Sea and near the Taiwan Strait. As a close US ally, there is a real possibility that Australia could become entangled in an US-PRC conflict.

The US has ramped up its military activities in the region in recent months, despite (and perhaps because of) the COVID-19 pandemic, which earlier had paralysed a number of US surface ships, including two aircraft carriers.

The Pentagon is sending a clear message to Beijing that the US is determined to maintain a free and open Indo-Pacific and will support its allies and friends, an aim that is clearly spelled out in the 2019 Pentagon *Indo-Pacific Strategy Report*.

The US conducted more freedom of navigation operations (FONOPs) in the South China Sea in 2019 than since it started assertively contesting the PRC's claims in 2015. Beijing has been pushing back, staging



multiple military exercises, the frequency and scale of which have been unprecedented in recent years.

The ratcheting up of military activities by the US and the PRC in the South China Sea have serious security implications. One is the risk of inadvertent escalation.

In 2001, a US Navy EP-3 reconnaissance plane collided with a People's Liberation Army (PLA) Air Force fighter aircraft. Since then, several more incidents have occurred over the airspace and at sea in the Western Pacific. These have resulted in serious bilateral military consultations, producing several memoranda of understanding (MoUs) aimed at preventing future similar incidents. Yet despite these MoUs, the US and PRC militaries have continued to engage in close encounters as both step up their activities.

With the Trump administration increasingly showing a willingness to test the PRC's red line vis-à-vis Taiwan with sales of more advanced weapons systems and cabinet-level official visits, and since the re-election of Taiwanese President Tsai Ing-wen in January, Beijing has resorted to undertaking more coercive and intimidating measures against the island. The PLA has been conducting military exercises in the vicinity of the Taiwan Strait that include night-time manoeuvres and mock landing drills in a show of force and resolve to deter the island's independence.

Australia clearly has a significant stake in the outcome of Sino-US relations. In the short to medium-term, any major disputes or disruptions in the South China Sea will likely affect Australia's economic interests.

More serious is the real possibility of Australia being called upon to support its American ally in the event of a military showdown with the PRC, directly or indirectly, especially where the US military plans and actually makes use of its assets in Australia-based depots, joint facilities and bases – including those in the country's Northern Territory and Western Australia – as these will be seen by the PRC as an essential part of US military operations.

At the recent Australia-US Ministerial Consultations (AUSMIN), Canberra and Washington agreed to strengthen defence cooperation, including military exercises and the construction of a US-funded strategic fuel reserve in Darwin. These developments will not be viewed in a favourable light by Beijing, which is quite upset by what it views as Australia's growing animosity toward the PRC and its closer security cooperation with the US and other regional partners.

With relations between Canberra and Beijing experiencing significant deterioration since 2017, it is imperative that some sort of stability be restored. How might Australia mitigate the risks of being caught in US-PRC crossfire, metaphorical or otherwise?

Canberra should seek, and be seen as seeking, to uphold its independent foreign policy, sometimes against US wishes and pressure. Likewise for Beijing, it is critical that it accepts and indeed appreciates, that Canberra, despite occasionally carried away by its own rhetoric, has, by and large, sought to maintain its autonomy in

formulating and executing its PRC policy.

Australian policies do not always follow in lockstep with those the Trump administration wants its ally to adopt. The recent statements by Australian foreign and defence ministers at AUSMIN are clearly reflective of Canberra's determination to follow its own script, for example on issues such as economic decoupling, and FONOPs.

Australia needs to recognise that the regional order has undergone a fundamental change and should be more actively engaged in middle-power diplomacy, promoting an emerging new order based on multilateralism and regional institutions, with binding norms and rules on all players, including both the US and the PRC.

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The current deep freeze in bilateral relations should not preclude exchanges at the non-governmental level; far from it, the latter should be introduced, developed and promoted. Unfortunately, non-governmental dialogues between Australia and the PRC are few and far between.

The few voices in Australia's business community calling for the stabilisation of bilateral relations have been criticised as being driven by self-interest; they are advised against stepping into the foreign policy debate. Academic and think tank discussions exploring areas of common interests and cooperation are also liable to criticism that they may be susceptible to PRC political influence. Serious dialogues are therefore rare and inconsequential in their impact on government policies. This is unhelpful and should change.

The current strain in bilateral relations and growing distrust between Beijing and Canberra are deeply worrisome and could negatively affect otherwise healthy and mutually beneficial economic ties.

Clear-headed and pragmatic approaches based on national interests, a changing regional order, and non-governmental engagements between the two countries may help pave the way toward restoration of Australia-PRC relations.

Dr Jingdong Yuan is an Adjunct Associate Professor at the Australia-China Relations Institute, University of Technology Sydney. Dr Yuan is also an Associate Professor at the Department of Government and International Relations, University of Sydney.

Yuan, J (2 September 2020). *Avoiding military conflict and restoring Australia-PRC relations: a pragmatic way forward*. Retrieved from www.australiachinarelations.org on 3 December 2020.

WHAT SHOULD AUSTRALIA DO TO MANAGE RISK IN ITS RELATIONSHIP WITH THE PRC?

This **China Matters** policy brief by Peter Varghese is published in the interests of advancing a mature discussion on how Australia should manage risk in its relationship with the People's Republic of China

The biggest challenge facing Australia's strategic policy is to help craft a new strategic equilibrium in the Indo-Pacific. It must reflect the reality of the People's Republic of China's (PRC) economic and strategic weight. But it must also be organised around the principle that coercive behaviour will be collectively opposed by a core group of states which, for differing reasons, do not wish to see the PRC become the predominant Indo-Pacific power.

Australia's China policy cannot be written on a blank page. It must reflect not just our interests and ambitions but also the world as it is. International relations form a complex ecosystem. Not even superpowers can bend them to their will.

There is no quick fix for our challenges with the PRC. But clarity of objectives, holding firm when it matters, discipline in messaging and a clear-eyed sense of the national interest will help stabilise the relationship. "Engage and constrain" should be the two guide rails of our approach.

There should be four starting points of our China policy:

- For the foreseeable future, the PRC will retain its authoritarian political system, will be a leading power in the Indo-Pacific and beyond, and is likely to remain our largest trading partner.
- The PRC's strategic ambition to become the predominant power in our region is not in Australia's interests. This is not because the PRC is our enemy but because it is not in our interests for an authoritarian state to dominate the region, set its rules or shape its strategic culture.
- The United States (US) will stay deeply engaged in our region and is determined to remain the predominant strategic power. That is in Australia's interests but not if it is pursued through a full-throated containment policy.
- Australia's interests are best served by engaging the PRC bilaterally and multilaterally but also by supporting arrangements to constrain the destabilising aspects of its behaviour.

STOP DEBATING WHETHER THE PRC WILL OVERTAKE THE US

Too much of our public debate is focused on whether or not the PRC will overtake the US in strategic and economic weight. The narrative is distorted by assertions of the PRC's inevitable rise and the terminal decline of the US. Neither is assured. The PRC may or may not overtake the US. The more important point is to be

prepared for either contingency.

The US has been written off before. Its political dysfunction seems to be getting worse, but the US economy retains great depth and flexibility. It is a powerhouse of innovation and higher education. Although the PRC is catching up militarily, especially in East Asia, the US's firepower and reach are unmatched.

The law of large numbers, on the other hand, suggests that the scale of the PRC will ultimately prevail. But we should be cautious about projecting past growth long into the future. And even if the PRC overtakes the US, it will predominate with few allies and in a different world with many more major powers than the US ever had to contend with.

Nevertheless, let us assume that the PRC's leadership is smart enough to keep the bicycle upright and that the PRC continues to shift relative strategic weight in its favour. Moreover, we should assume that Beijing's instinct to leverage economic power (real or imagined) for strategic gain continues to fuel a more assertive and coercive foreign policy.

The US is determined to retain its strategic predominance of the Indo-Pacific because remaining number one is now deep in its DNA. But what if this determination fails or takes the US down the wrong policy path? Is there a better way of ensuring that the PRC does not have a clear run?

To break through the dead-end debate on whether the PRC will overtake the US, why not start from a different and far less contentious position? Namely, there is no way that the PRC can be stronger than the aggregate weight of the US, Japan, India and Australia (the so-called "Quad") plus any other country – such as Indonesia and South Korea – that judges that the PRC's strategic predominance is not in its interest and is prepared to act accordingly.

The last requirement will probably exclude most South East Asian countries, which do not want to be associated with a constraining strategy but are nevertheless uncomfortable about the PRC's behaviour.

BUILDING A NEW STRATEGIC EQUILIBRIUM: CONSTRAIN NOT CONTAIN

Constraining the PRC is not a call for a grand anti-PRC military alliance. Indeed, some of the members of this group are allergic to the very idea of alliances. Rather, it is a means of managing the PRC's ambitions in a way that puts constraints on how far Beijing is prepared and allowed to go. It signals that leverage is a two-way street.

It is also a rejection of "hope for the best" engage-

ment. It is saying to Beijing that we want a relationship of mutual benefit, but we also want the PRC to pursue its interests in a way that respects the sovereignty of others and avoids coercion. And if the PRC behaves otherwise, there will be collective pushback from countries that are capable of effectively doing so.

Beijing may well portray this as containment by another name, but we should not give it a veto over our strategic policy. Besides, constraining the PRC differs from containment – the ultimate logic of which is a rejection of engagement. Containment seeks to thwart and weaken the PRC. Constraining seeks to manage a powerful PRC.

Constraining the PRC will require a new strategic equilibrium in the Indo-Pacific. It will take time to construct. It will operate in the space between alliances and consultation. Collective pushback – when needed – could take many forms such as coordinated but separate freedom of navigation exercises, joint statements on breaches of international law or gross human rights violations, closer strategic partnerships, and more joint training exercises.

The Quad currently has neither the unity of approach nor the will for serious collective action. But the PRC's behaviour is shifting perceptions as more countries watch with unease what an assertive PRC looks like. This will increase the appetite for collective action.

Unilaterally resisting PRC pressure is hard and unilaterally constraining the PRC is impossible, except possibly for the US. It is better to do it collectively and certainly a better option than the unilateral US containment of the PRC. I say unilateral because I cannot see Japan, India or Indonesia supporting containment and I hope Australia will have more sense than to embrace it.

Although containment may currently look like a straw man, it is gaining traction in the US and it even has its cheerleaders in Australia. We should not underestimate the policy momentum that it might develop.

It is not easy to contain a country as integrated into the global economy as the PRC, unless of course the strategy is to dismantle that global system and the supply chains that support it, which is precisely what some advocate.

KEEP THE GLOBAL ECONOMY OPEN

For most countries, the costs of decoupling the PRC from the global economy would be obvious. For Australia, decoupling our largest trading partner would be sheer folly, irrespective of the legitimate complaints levelled at the PRC's trade and economic behaviour.

Even before COVID-19, there were signs of deglobalisation. That trend may now accelerate. Some deglobalisation makes sense, including diversifying supply lines for critical goods. Technology may also make it easier to onshore what has up to now been offshored. There will even be times when we choose to make things at home which may be made more cheaply

abroad because we put social or political objectives ahead of efficiency.

But at the heart of globalisation sits comparative advantage in trade and the efficient allocation of resources – and we abandon these concepts at our economic peril. Australia has been a beneficiary of globalisation and we have managed its politics and the equitable distribution of its benefits better than most. Donald Trump is US president largely because the US did not.

Our wealth as a nation and the living standards of our citizens are best served by an open economy, rising levels of productivity and a liberalising trade system. COVID-19 does not change that and neither do Beijing's strategic ambitions nor its economic behaviour.

Are we too dependent on the PRC? The answer will not be found only in percentages. While the PRC takes more than one-third of Australia's exports – more than the next five export destinations combined – in an earlier age the United Kingdom took an even larger

There is no quick fix for our challenges with the PRC. But clarity of objectives, holding firm when it matters, discipline in messaging and a clear-eyed sense of the national interest will help stabilise the relationship. "Engage and constrain" should be the two guide rails of our approach.



share of our exports.

The difference now is the political character of the PRC. It is an authoritarian system prone to threatening trade consequences if we do or say something that Beijing does not like. Usually this is bluster designed to make enough nervous business leaders go running to the Government to warn that we need to be nicer to the PRC. But it would be unwise to assume that it will remain bluster. So, it makes sense for Australia to diversify its trade connections: not by deliberately slowing trade with the PRC, which would not be in our interests, but by growing trade with other countries such as the US, Japan, South Korea, India, Indonesia, Vietnam and a post-Brexit UK.

Trade diversification is a worthy national objective, but it is markets, not governments, that drive trade. Some products would struggle to find alternative markets, including iron ore which is by far our largest export to the PRC.

It is also unrealistic to expect individual Australian businesses to turn their back on profitable trade opportunities with the PRC, but the Government can help businesses to expand to other markets through pushing for trade liberalisation, negotiating free trade agreements and, most importantly, putting in place domestic economic settings that make Australian firms more internationally competitive.

POLICY RECOMMENDATIONS

We cannot unilaterally set the terms of engagement with the PRC. But we can frame the relationship around

an “engage and constrain” strategy with domestic, bilateral and geopolitical components anchored in the following principles:

- Engage with the PRC where our mutual interests are served and over time look to expand areas of engagement and cooperation, including in regional and global organisations. The UN system, the G20, the East Asia Summit and APEC provide ready platforms to build on this multilateral engagement.
- Hold firm to our values and strengthen our national capacity to resist coercion, whatever the source. This should include increased investment in defence and diplomacy. Both are vital to our future but only defence is being resourced adequately.
- Do not treat the PRC as an enemy, but quietly abandon the notion that we can have a comprehensive strategic partnership with the PRC as long as it remains a one-party authoritarian state. Such a partnership assumes an alignment of strategic interests, which simply does not currently exist.
- Work with the US, Japan, India and others such as Indonesia and South Korea to construct a new strategic equilibrium in the Indo-Pacific with the capacity and commitment to collectively constrain coercive behaviour by the PRC and to impose costs for such behaviour.
- Make it clear in Washington that Australia will not support a policy of containing the PRC or decoupling the PRC from global supply chains, but that we will support greater diversification of those supply chains.
- Lower Australia’s trade dependence on the PRC by expanding access to other markets. Reject diversion away from the PRC but embrace diversification. This would be achieved through trade promotion and liberalisation in other markets and through domestic economic reforms that raise productivity, build national resilience and lift our international competitiveness.

Peter Varghese AO is Chancellor of The University of Queensland and a former Secretary of the Department of Foreign Affairs and Trade and Director-General of Australia’s peak intelligence agency, the Office of National Assessments.

China Matters does not have an institutional view; the views expressed here are the author’s. This policy brief is published in the interests of advancing a mature discussion on how Australia should manage risk in its relationship with the PRC. Our goal is to influence government and relevant business, educational and nongovernmental sectors on this and other critical policy issues.

Varghese, P (June 2020). *What should Australia do to ... manage risk in its relationship with the PRC?* Retrieved from <http://chinamatters.org.au> on 7 December 2020.



EXPLORING ISSUES

WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

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Brainstorm, individually or as a group, to find out what you know about Australia’s relations with China.

1. What is the China-Australia Free Trade Agreement (ChAFTA)?

2. What is China’s Belt and Road Initiative?

3. What is a ‘trade war’, and what part do trade sanctions play in them? Provide some examples in the context of the recent trade dispute between Australia and China.

4. What is ‘coercive diplomacy’, and how is China alleged to have used it in relation to Australia?



Complete the following activity on a separate sheet of paper if more space is required.

When the history of this latest low point in China-Australia relations is written both sides will be blamed for mistakes. Australia is not without fault. However, China is primarily responsible for the continuing deterioration in the relationship.

Tony Walker, *Timeline of a broken relationship: how China and Australia went from chilly to barely speaking.*

Consider the above statement and explain your understanding of the reasons for the current challenging bilateral relations between Australia and China. Outline what China’s specific grievances with Australia are, and explore the two nations’ cultural and political differences. What suggestions can you make which might improve trade relations between both sides?

Australia is perceived by the Communist Party as both an essential target for its close alliance with the US and a soft target for its economic dependence on China. In short, Beijing can attack Canberra without facing many repercussions – and set an example for the rest of the world.

Chongyi Feng, *What’s behind China’s bullying of Australia? It sees a soft target – and an essential one.*

Consider the above statement and explain how China’s emergence and expansion as a global superpower is changing the geopolitical and economic landscape of the Asia-Pacific region and Australia’s own place in it. What role should Australia’s longstanding alliance with the US play in relations going forward?

Australia has no ability to remake China into a completely different country. We need to live with it. This means both standing up to China and getting along – hardening our defences, while ensuring our economic prosperity. Without an economy, a country can’t pay to keep itself safe.

Melissa Conley Tyler, *Australia can repair its relationship with China, here are 3 ways to start.*

Consider the above statement and explain how Australia might be able to repair its relationship with China without ceding its own economic or strategic interests. Offer suggestions, with examples, on how both Australia and China could manage their disputes diplomatically and through international forums.



MULTIPLE CHOICE

Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of this page.

- China is Australia's largest two-way trading partner in goods and services, accounting for what percentage of Australia's trade with the world in 2019-20?
 - 9%
 - 19%
 - 25%
 - 29%
 - 45%
 - 50%
- List the following major Australian exports (goods and services) to China in order of size from highest to lowest (2019-20 figures):

a. Coal	1. _____
b. Education-related travel	2. _____
c. Personal travel excluding education	3. _____
d. Beef	4. _____
e. Iron ores and concentrates	5. _____
f. Natural gas	6. _____
- List the following major Chinese exports (goods and services) to Australia in order of size from highest to lowest (2019-20 figures):

a. Transport	1. _____
b. Computers	2. _____
c. Personal travel excluding education	3. _____
d. Furniture, mattresses and cushions	4. _____
e. Telecom equipment and parts	5. _____
f. Refined petroleum	6. _____
- The Chinese Communist Party was founded in 1921, and has been the founding and sole governing political party of the People's Republic of China since 1949. Who is the current leader (in 2021)?
 - Deng Xiaoping
 - Hu Jintao
 - Xi Jinping
 - Jiang Zemin
 - Mao Zedong
 - Zhao Ziyang
- List the following countries' economies in order, based on the size of their gross domestic output (GDP) from highest to lowest, according to the latest International Monetary Fund estimates (2021):

a. India	1. _____
b. China	2. _____
c. Japan	3. _____
d. United States	4. _____
e. United Kingdom	5. _____
f. Germany	6. _____

MULTIPLE CHOICE ANSWERS

1 = d; 2 = a; 3 = b; 4 = c; 5 = e; 6 = d; 7 = f; 8 = a; 9 = b; 10 = c; 11 = d; 12 = e; 13 = f; 14 = a; 15 = b; 16 = c; 17 = d; 18 = e; 19 = f; 20 = a.

- After establishing diplomatic relations with the People's Republic of China in 1972, Australia established an embassy in Beijing in 1973. The Australia-China bilateral relationship is based on strong economic and trade complementarities, and covers a wide range of mutual interests (Department of Foreign Affairs and Trade, *Australia's bilateral relations with China*). (p.1)
- Australia's approach to managing differences on human rights in China aims to be constructive and is based on dialogue. Australia raises a wide range of issues with China including freedom of expression, freedom of religion, treatment of political prisoners and ethnic minorities (including in Xinjiang and Tibet), torture, the death penalty, and the rights of legal practitioners and civil rights activists. Where appropriate, we also raise our concerns at appropriate multilateral fora such as the Human Rights Council (*ibid*). (p.2)
- China is Australia's largest two-way trading partner in goods and services, accounting for 27.4 per cent of our trade with the world. Two-way trade reached a record \$252 billion in 2019 (up 17.3 per cent year on year). Our exports to China grew by 23.4 per cent to reach the highest level ever (\$169 billion), driven by demand for Australian iron ore, coal and LNG. China remained our biggest services export market, particularly in education (over 212,000 students in 2019, a 3 per cent increase year on year) and tourism (over 1.4 million Chinese visitors in 2019) (*ibid*). (p.2)
- Mainland China is the world's second largest economy, with official GDP growth forecast to be around 1.9 per cent in 2020 and 8.2 per cent in 2021. China's economy is recovering well from the impact of COVID-19 and is expected to be the only major economy to grow in 2020 (DFAT, *China market insights*). (p.4)
- The 2015 China-Australia Free Trade Agreement has built on Australia's large and successful commercial relationship with China, by securing markets and providing Australians with even better access to China across a range of our key business interests, including goods, services and investment (DFAT, *China-Australia Free Trade Agreement: outcomes at a glance*). (p.7)
- In recent months (mid-2021), China has imposed restrictions on an array of Australian imports including lobsters, beef and timber as part of a deteriorating relationship summarised in a list of grievances against Australia. This has hurt some Australian products, such as wine and barley, which have struggled to find equally lucrative markets. However, some others such as wheat have found new buyers relatively easily. Overall, Australia's total exports to China actually increased in December, mainly thanks to iron ore, which China needs too much to restrict (Melissa Conley Tyler/The Conversation, *It might look like China is winning the trade war, but its import bans are a diplomacy fail*). (p.16)
- On the global stage, China has long promoted its economic and political system as a legitimate alternative to the US-led, rules-based international order. As such, it has increasingly expanded its influence diplomatically and militarily in recent years and set up the Belt and Road Initiative to create a new global economic and infrastructure network with China at the centre. As part of this grand strategy, China has taken aim at countries like Australia that dare to challenge it to force their submission (Chongyi Feng/The Conversation, *What's behind China's bullying of Australia? It sees a soft target – and an essential one*). (p.19)
- Australia has made its fair share of blunders. Calling for an independent inquiry into the origins of COVID-19 ahead of any multilateral initiative looked like an assault on sovereignty from Beijing. Blocking yet another Chinese investment – from buying a Japanese dairy operation in Australia – on security grounds was another gratuitous affront to the Chinese (Shiro Armstrong/East Asia Forum, *Australia's trade war with China is unwinnable for both countries*). (p.20)
- Economic recovery from COVID-19 and the climate change and energy transition agenda are just two major issues that both countries will need to work on multi-laterally to resolve. Perhaps working constructively with others in the region can help Australia and China break out of their downward spiral and protect their deeply complementary economic relationship (*ibid*). (p.21)
- Australia and China have disputes that can and should be managed diplomatically. It is not inevitable we must have a bad relationship – and it's certainly not a sign of success if we do (Melissa Conley Tyler/The Conversation, *Australia can repair its relationship with China, here are 3 ways to start*). (p.23)
- With China's purchasing power over the next decade forecast to grow more than that of the US, Japan, India and Indonesia combined, expect Australian businesses to craft more sophisticated strategies to manage coercive risk, rather than just looking to sell more to other markets (James Laurenceson/The Conversation, *There's no need for panic over China's trade threats*). (p.37)
- Surveys tell us that images of China have worsened greatly. A recent Pew Research Center poll found 81% of Australians viewed China unfavourably, a 24% increase in a year. And the Lowy Institute poll of 2020 found trust in China (23%) at the lowest in history (Colin Mackerras/Pearls and Irritations, *Our ignorance of China is a disgrace*). (p.43)
- The biggest challenge facing Australia's strategic policy is to help craft a new strategic equilibrium in the Indo-Pacific. It must reflect the reality of the People's Republic of China's economic and strategic weight. But it must also be organised around the principle that coercive behaviour will be collectively opposed by a core group of states which, for differing reasons, do not wish to see the PRC become the predominant Indo-Pacific power (Peter Varghese/China Matters, *What should Australia do to manage risk in its relationship with the PRC?*). (p.50)

APEC

Asia-Pacific Economic Cooperation (APEC) is a forum with 21 members which was established in 1989 to facilitate economic growth and prosperity in the Asia-Pacific region, with the vision of creating a seamless regional economy.

Belt and Road Initiative

Global infrastructure development strategy adopted by the Chinese government in 2013 to invest in nearly 70 countries and international organisations.

Bilateral trade agreements

Agreements between two countries that regulate the terms of trade between them.

Bilateralism

Conduct of political, economic, or cultural relations between two sovereign states. When states recognise one another as sovereign states and agree to diplomatic relations, they create a bilateral relationship.

China-Australia Free Trade Agreement

Bilateral free trade agreement between Australia and China which came into force in December 2015.

Chinese Communist Party

The Communist Party of China (CPC) is the sole governing political party of the People's Republic of China (PRC).

Coercive diplomacy

The attempt to get a target, a state, a group (or groups) within a state, or a non-state actor, to change its objectionable behaviour through either the threat to use force or the actual use of limited force.

Diplomacy

Practice of influencing the decisions and conduct of foreign governments or organisations through dialogue, negotiation, and other non-violent means.

Dumping

The practice of exporting goods to a country at a price lower than their selling price in their country of origin.

Foreign direct investment

The acquisition or construction of physical capital by a firm from one (source) country in another (host) country.

Foreign policy

A state's objectives and activities in relation to its interactions with other states, whether bilaterally or through multilateral platforms.

Free trade

A situation where there are no artificial barriers to trade imposed by governments for the purpose of shielding domestic producers from foreign competitors.

Protectionism

Protection of domestic producers by impeding or limiting the importation of foreign goods and services through government policies that give domestic producers an artificial advantage over foreign competitors. The key methods of protection are: tariffs, subsidies, local content rules, quotas and export incentives.

Regional Comprehensive Economic Partnership

Free trade agreement between the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The 15 member countries account for about 30% of the world's population and 30% of global GDP.

Trade

Trade allows people to buy goods and services that are not produced in their own countries. The money countries receive from exports helps determine how much they can afford to spend on imports, and how much they can borrow from abroad. Trade can stimulate a country's development and economic growth, helping to create new jobs, raise living standards and economically empower people.

Trade agreements

A way of reducing barriers to trade between nations. Recent years have seen the growth of both multilateral and bilateral agreements.

Trade barriers

Government-induced restrictions on international trade. Trade barriers are generally considered to be detrimental and to decrease overall economic efficiency.

Trade dispute

Disagreement between nations involving trade or trade policies. Most disputes appear before the World Trade Organisation's dispute settlement mechanism.

Trade liberalisation

The movement towards removing barriers that restrict the importation and exportation of goods and services (flow of trade) between countries.

Trade sanctions

Laws passed to restrict or abolish trade with certain countries. The most common types of trade sanctions are quotas, tariffs, non-tariff barriers, asset freezes or seizures, and embargoes.

Trade war

An economic conflict resulting from extreme protectionism in which states raise or create tariffs or other trade barriers against each other in response to trade barriers created by the other party.

Wolf-warrior diplomacy

An aggressive style of diplomacy purported to be adopted by Chinese diplomats in the 21st century, under Chinese leader Xi Jinping's administration.

World Trade Organisation

Global organisation that enforces the existing WTO agreement, resolves trade disputes, and is the major forum for trade negotiations pursuing the goal of global free trade.

Websites with further information on the topic

Australia-China Relations Institute www.australiachinarelations.org
 Australian Institute of International Affairs www.internationalaffairs.org.au
 Australian Policy Online <http://apo.org.au>
 Australian Strategic Policy Institute www.aspi.org.au
 China Matters www.chinamatters.org.au
 Department of Foreign Affairs and Trade www.dfat.gov.au
 East Asia Forum www.eastasiaforum.org/category/countries/china/
 Lowy Interpreter www.loyyinstitute.org/the-interpreter
 Pearls and Irritations <https://johnmenadue.com>
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