EXPLORING AUSTRALIA'S POLICY OPTIONS REGARDING TRADE TENSIONS WITH CHINA

POLICY BRIEF - CALLUM IRVING

EXECUTIVE SUMMARY

Since May 2020, the PRC has imposed increasing sanctions effectively blocking imports of numerous Australian products including coal, cotton, barley, wine, seafood, and beef. [1] These sanctions have come at an increasingly fractious time for the Sino-Australian relationship. Statements from Chinese officials indicate that these sanctions represent an effort to coercively influence Australian policy on key strategic issues. [2] The effects of these sanctions have differed across affected industries, with some experiencing loss of revenue and jobs. [3]

It is recommended that the Federal Government responded to these escalated trade tensions by;

1. Maintaining a respectful but firm foreign policy towards the PRC

2. Continuing to arbitrate their grievances formally with PRC sanctions through the World Trade Organisation (WTO).

3. Taking action to diversify trade and secure alternative markets with a particular focus on India and Indonesia.

BACKGROUND

The PRC's sanctions on Australian goods occurred at a time of rapidly worsening Sino-Australian relations; in 2020 the PRC engaged in "obstruction to Australian imports amounting to effective bans" on various Australian goods. [4] Key issues behind the fractured Sino-Australian relationship include the Federal Government's introduction of Foreign Interference Legislation, banning Huawei from Australia's 5G networks, and international criticism of China regarding Taiwan, Hong Kong, and Xinjiang. Tensions were further exacerbated following Australia's push for an "independent international inquiry" into the origins of COVID-19. [5]

THE PROBLEM

The effect of these measures has varied across different industries. Some were able to quickly secure alternative markets, minimising the impact of PRC sanctions. For example, barley exporters have found new opportunities in Saudi Arabia, Mexico, Thailand and Vietnam [6], while cotton growers have had similar success in some Asian markets. [7] However, other exports (such as wine [8] and lobster [9]) have been unable to secure alternative markets, causing loss of revenue and therefore loss of jobs.

Calculations by the Lowy Institute indicate that the total value of these exports dropped from roughly $25 billion in 2019 (1.3 per cent of GDP) to just under $5 billion in 2021. [10] However, Australia's two largest exports to China – iron ore and natural gas – have thus far remained unaffected by sanctions, likely due to a lack of competitive alternative markets for these resources. [11] These exports are of substantial value to the Australian economy, totalling AU$84,683 billion and $15,772 billion respectively in the 2019-2020 financial year. [12] Furthermore, a boom in iron ore prices last year offset Australia's losses suffered from the rejection of other Australian exports. [13] Therefore, Australia's overall economic position is stable in the short term, but PRC economic sanctions have left several industries exposed and vulnerable. Moreover, the PRC is reportedly investing in alternative sources of iron ore, which could impact its dependence on Australian exports and grant it more leverage over the Australian economy as a further means of economic coercion. [14]

POLICY RECOMMENDATIONS

1 MAINTAIN A RESPECTFUL BUT FIRM FOREIGN POLICY TOWARDS CHINA

The actions of the PRC in effectively blocking certain Australian imports have been understood by the Australian Government to be a form of economic coercion with the objective of forcing Australia to reconsider its policy in key strategic areas. As has been clearly expressed by treasurer Josh Frydenberg, Australia will not place our "economic interests" above our "broader national interest", meaning that it will not allow its policy autonomy to be compromised by foreign economic coercion. [15] It is recommended that Australia maintains this course of action and avoids any attempts to negotiate these "grievances" for the sake of re-establishing certain exports to China, as this could undermine Australia's policy autonomy.

2 CONTINUE TO PURSUE CURRENT WTO ARBITRATED ACTION AGAINST THE PRC

Australia has now launched dual challenges against the PRC with the WTO. The first action was launched in December 2020 in relation to barley tariffs, while the second occurred in June 2021 in relation to restrictions put on wine. [16] While the dispute resolution process may take several years to be resolved, a favourable ruling is not guaranteed [17] and has resulted in China launching retaliatory WTO action against Australia. [18] Australia's action of taking China to the WTO is an important step for two reasons. Firstly, it signifies to China that Australia will not give in to economic coercion and is willing to utilise WTO mechanisms to advocate for their interests. Secondly, it signifies to Australians in affected industries that the Federal Government takes is taking the issue seriously.

3 SECURE ALTERNATIVE TRADE PARTNERS FOR AUSTRALIAN EXPORTS

While some industries affected by PRC sanctions have already been securing alternative trading partners, the Federal Government should play a proactive role in securing alternative markets to reduce the effects of potential further PRC sanctions. This is already being advocated by a growing number of corporate leaders from the Australian Chamber of Commerce and Industry and Australian Industry Group. [19] Furthermore, the latest Lowy Poll indicate that this is a policy direction which the vast majority (94 per cent) of Australians would support. [20] While the Australian Government should take a broad approach to securing alternative markets, India and Indonesia present particularly strong potential as growing trade partners.

India is a rapidly expanding market which presents significant opportunities for Australian wine, coal and other resources. The Australian Trade and Investment Commission notes that India presents a “fast growing and increasingly affluent consumer market” in which “median income per household is expected to reach A$13,867 by 2025” and consumer expenditure could grow by a factor of four up to 2030. [21] While protectionist policies and tariffs have impaired trade in the past [22], the Federal Government should pursue negotiations with the Indian government to secure more trade agreements.

Despite the size and proximity of Indonesia’s economy, they currently represent only 1.6 per cent of Australia’s total trade. [23] According to the Department of Foreign Affairs and Trade, Indonesia has a growing demand for consumer goods and services, and its “ambitious infrastructure investment agenda” present opportunities which “align well with Australian industry capabilities”. [24]

CONCLUSION

Diplomatic tensions between the PRC and Australia have resulted in Beijing effectively blocking Australian imports of coal, cotton, barley, wine, timber, beef, and seafood. Some of the exports affected by PRC sanctions have already been able to secure alternative markets. However, other exports have not yet been able to find adequate alternative markets, which may threaten businesses and jobs in these industries. It is recommended that Australia pursue a respectful yet firm policy position towards the PRC and persists in its current challenges against the PRC through the WTO. Furthermore, it is recommended that the Federal Government secures alternative markets for Australian exports, and India and Indonesia are suggested as markets which present particular potential.

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