

# Australia-China monthly wrap-up

August 2021



This edition features:

- Summary and analysis of major developments in August 2021
- Key trade indicators

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Over four years on from Australia's [shift in policy approach](#) towards the People's Republic of China (PRC), precipitated as it was by a number of factors including an increasingly pugnacious approach adopted by Beijing, Australian strategy for managing relations with the PRC remains unclear. While Foreign Minister Marise Payne this month asserted that Australia followed a 'clear strategy', what precisely that meant in substance was not elaborated upon. The Australian government this month also continued its work towards strengthening regional relationships, the Quad as a regional counterweight to the PRC and bolstering the ANZUS alliance, with mixed receptivity. It also announced its intent to introduce legislative reforms allowing for the use of targeted sanctions, which are likely to be applied to entities and individuals from the PRC. August also saw further confirmation that Australia's education sector was being targeted by Beijing, and marked the passing of a year since Australian citizen Cheng Lei was first detained in the PRC. Reasons for her detention continue to be withheld by Beijing.

## Australia's PRC strategy

On August 5 Foreign Minister Payne during an [address](#) to the Australia China Business Council seemed to attempt to address criticisms, levelled at the government from a number of quarters, including the Opposition Labor Party, that Australia lacked a PRC strategy:

Australia is following a clear strategy informed by clear objectives and principles. In working with China, we seek a relationship that serves the interests of both countries in which each respects the other's interests, consistent with our values and our sovereignty. Our relationship with China will continue to be based on four key principles: a commitment to open markets with trade relationships based on rules; protecting our sovereignty, strengthening democratic institutions and processes, and building resilience to coercion; respect for international law and the peaceful resolution of disputes; supporting a strong and resilient regional architecture.

Yet observers are left to guess the plan for overcoming obstacles, which represents the crux of any effective strategy.

## The road ahead

At the same address, the Foreign Minister pressed the point that Australia stood ready to engage in dialogue with the PRC to navigate a way out of current tensions, but that PRC demands were rendering this impossible:

We've been advised by China that they will only engage in high-level dialogue if we meet certain conditions. Australia places no conditions on dialogue. We can't meet the conditions such as the now well-known list of 14 grievances raised in the media last year. As the Prime Minister has said, indeed, no country would do that.

While she noted that 'dialogue is not an end unto itself...And so we will continue to look for a constructive path forward,' the messaging was clear: the current political impasse is not for any lack of trying on the Australian side.

The Foreign Minister also reiterated the other key government message that 'China's external engagement both in our region and globally has changed'.

The PRC Embassy in Australia the next day [rejected](#) the Foreign Minister's remarks, repeating that 'the difficult situation in bilateral ties is the result of Australia's actions against China', and indicating again that the onus was on Australia to improve the relationship.

With Canberra effectively stating that concessions on the Australian side which are not in the national interest are currently the only circuit-breaker available and, as such, government hands are tied, and Beijing refusing to materially engage or themselves take any kind of initiative, the stalemate continues.

## Strengthening the US alliance and regional relationships

The Australian government continues to work towards strengthening regional relationships, both on a bilateral level and through groupings such as the Quad and the Association of Southeast Asian Nations (ASEAN), and bolstering the ANZUS alliance, with a view to improving its strategic situation and mitigating the economic disruption levelled upon the country by Beijing.

Trade Minister Dan Tehan confirmed, for example, in an August 3 [interview](#), that a key objective of his trip last month around Southeast Asia and to the US was to increase support for Australia in the face of economic punishment by Beijing. He said:

The last thing we want to see is economic coercion being used...and that's the message that the Australian Government has been giving to all the countries that I've been visiting.

This month's undertakings builds on efforts over the past year or so. While inroads are being made, progress is, and will likely continue to be, slow.

## The US alliance

Prime Minister Scott Morrison during an August 11 [address](#) to the Australian American Leadership Dialogue sought to highlight Australia's commitment to the alliance and US-led global order, saying, 'In Australia, the US has no stronger partner today in defending the values and its institutional pillars of what was created by, and indeed, a remarkable generation of American leaders.'

He also sought to secure more support from the US for Australia in the face of PRC economic punishment, seeking an upgrade of the trading relationship between the two countries, with a 'regular Strategic Economic Dialogue between our most senior key economic and trade officials', and calling for both countries to work together on reform of the World Trade Organization (WTO).

Days later in Washington, the Friends of Australia Caucus, which counts 98 Democrats and Republicans as members, [introduced](#) a resolution highlighting the ANZUS alliance in the lead-up to the treaty's 70<sup>th</sup> anniversary, with one articulated ambition being support for 'new opportunities to deepen and broaden military and security relations...and economic ties'. *The Australian Financial Review* [reported](#) that Australia's

Ambassador to the US, Arthur Sinodinos, said ‘the resolution was an indication of just how high a priority Australia was for US lawmakers, and how the US pivot to the Pacific region had been ‘sharpened.’

Yet the US has continued to demur when it comes to offering substantive support for Australia. It was [reported](#), for example, that when Trade Minister Tehan put the proposal of an Annual Strategic Economic Dialogue to American officials, they were ‘non-committal’.

## Southeast Asia

On August 7 Foreign Minister Payne [announced](#) a series of smaller-scale initiatives geared towards ‘strengthening our partnership with the region to address the current and future challenges in the Indo-Pacific.’ These come on top of a \$500 million aid package [announced](#) by the Prime Minister at the ASEAN-Australia Summit in November 2020. The Foreign Minister noted that these recent investments ‘comprise Australia’s largest package of support for Southeast Asia since the 2004 Indian Ocean tsunami.’

Australian initiatives in partnership with Southeast Asian nations remain focused on establishing goodwill and forging constructive ties as countries continue to hedge as great power competition intensifies.

## The Quad

Senior officials from countries in the Quad, an informal strategic forum comprising Australia, the US, Japan and India, [met](#) on August 12 ‘to progress initiatives agreed by Quad leaders at their inaugural Summit in March and by Foreign Ministers at their third meeting in February’. Discussions concentrated on vaccine distributions, the crisis in Myanmar, climate change, critical technologies and maritime and cyber security.

While the elevation of the Quad this year was significant, with its first leader-level talks held on March 13, and [described](#) at the time by Prime Minister Morrison as ‘a seriously big deal’ and ‘the most significant thing to have occurred to protect Australia’s security and sovereignty since ANZUS’, what it will ultimately be able to deliver on this latter point remains to be seen.

The expansion of India’s Malabar naval exercises with the US and Japan last year to include Australia may be seen as the start of the addition of a military dimension to the Quad. The four countries on August 26 participated in phase one of the two-month long exercises in the Western Pacific. And on August 18, the chiefs of the Australian and Indian navies had [signed](#) a new Joint Guidance for the Australia-India Navy to Navy Relationship to develop ‘mutual understanding, cooperate for regional security, collaborate in mutually beneficial activities and to develop interoperability’, a previous guidance document having been signed in 2007. The seriousness of this closer defence cooperation and appetite to militarise the Quad may be further illuminated by whether or not India accepts Australia’s invitation to participate in its Talisman Sabre military drills with the US, an invitation that Defence Minister Peter Dutton is [reportedly](#) likely to extend again during a trip to India in September for the countries’ first [2+2 ministerial dialogue](#).

How effective the Quad will be as a counterweight to the PRC may also be dependent on the buy-in of other countries in the region, such as South Korea, which remains generally ambivalent about joining. While South Korean Ambassador to Australia, Jeong-Sik Kang, this month [described](#) the Quad as an ‘important anchor for stability’, Seoul continues to [prefer](#) to keep engagement with the Quad at an arm’s length.

## Reformation of Australia’s sanctions laws

On August 5, Foreign Minister Payne [announced](#) the Australian government’s intent to introduce amendments to the Autonomous Sanctions Act 2011 by the end of the year to ‘enable the imposition of targeted financial sanctions and travel bans against the perpetrators of egregious acts of international concern’. This follows the [recommendation](#) of a parliamentary committee in December 2020 to introduce Magnitsky-style legislation in the vein of that in place in the US and the UK, which allows for the retrospective sanctioning of individuals and associated entities accused of violating human rights.

While no country was singled out during the government’s announcement of sanctions legislation reform, the PRC likely looms large in considerations. A major focus of submissions to the parliamentary committee

inquiry centred on PRC authorities' actions in Xinjiang and Hong Kong. And on March 22 this year, Australia and New Zealand issued a [joint statement](#) of support for [sanctions](#) on PRC officials and entities involved in the internment of Uyghur Muslims in Xinjiang applied in tandem by the US, UK, Canada and the European Union.

The sanctions legislation amendments, and any moves to apply them against the PRC will likely receive support from the Opposition Labor Party. On April 20 this year Shadow Foreign Minister Wong, during a [lecture](#) on human rights in foreign policy, called on the government 'to consider targeted sanctions on foreign companies officials and other entities...directly profiting from Uyghur forced labour' and outlined a Labor pledge to introduce Magnitsky-style sanctions legislation.

The use of targeted sanctions are likely to cause further strain in the Australia-PRC relationship and result in some form of retaliatory measure by Beijing. This much had been flagged by PRC Ambassador to Australia Cheng Jingye in April. He [stated](#):

Any people, any country, should not have any illusion that China would swallow the bitter pill of interfering in China's internal affairs...We will not provoke but if we are provoked, we will respond in kind.

### **PRC moves against the Australian education sector**

The PRC Ministry of Education has [reportedly](#) not approved any Australian university to set up a joint course with a PRC university counterpart since 2019, while partnerships proceed with the US, the UK, Canada, France Germany and New Zealand. As [The Australian notes](#), joint courses 'are very popular and used by universities in many countries to build their student market in China'.

A representative of a group which helps universities establish joint courses in the PRC said, 'We had no choice but to ally with institutional partners in North America and Europe. By contrast [with Australia], our US programs do not have any problem in gaining approval.'

### **Detention of Cheng Lei**

August 13 marked a year since Australian citizen and TV presenter Cheng Lei was detained in the PRC. A [statement](#) timed to coincide with this sombre anniversary by Foreign Minister Payne expressed serious concern about her detention and welfare, and the continuing 'lack of transparency about the reasons for Ms Cheng's detention. More than 50 Australian journalists have signed an [open letter](#) in her support and calling for her release.

### **Former prime ministers on Australia-PRC relations**

Former prime ministers from both major parties at various points this month weighed in with their views on the Australia-PRC relationship. All in broad agreement, they stressed the need for cautious management of relations and the employment of careful language, while acknowledging the challenge the PRC presented to Australia, each assessing that the PRC under President Xi Jinping's leadership had become significantly different. Malcolm Turnbull [pronounced](#) President Xi's leadership style as 'a much more assertive, aggressive, belligerent approach' than his predecessors, with John Howard using much the [same terminology](#), and Kevin Rudd [described](#) 'a changed dynamic' in the PRC that 'has become more intense' since he left office in 2013.

While Mr Howard [termed](#) relations with the PRC 'the biggest foreign policy and economic issue that we have faced in living memory,' he also noted, too, 'we must never forget how important China is to us economically. We would be crazy to forget that.' He also observed the economic relationship was also a symbiotic one, with limits to Beijing's capacity to mete out trade punishment:

They want our coal still. They want our iron ore. And, I think, some of the trade diversion in the non-fossil fuel area that's occurred over the last year indicates that they cannot be too cavalier. They have chosen fairly strategically.

Mr Rudd and Mr Turnbull were critical of Beijing's heavyhandedness, with the latter apportioning most of the blame for current tensions to the PRC government, but both also pointed to the need for Australian officials to modulate rhetoric on the PRC, especially with respect to talking up the possibility of war over Taiwan and the exploitation of the PRC challenge for domestic political gain. Mr Howard similarly pointed to the need 'to be careful with words'.

## Trade update

This month iron ore prices finally fell from historic highs but the latest trade data, which emerges with a two month lag, is flush with the effects of prices in June and July being above US\$200/tonne. This caused the total value of Australia's goods exports to the PRC to continue to hit records high, up 13.1 percent on just six months ago. At the same time however, the sectors that once benefited the most from the China-Australia Free Trade Agreement continued their decline. Food and beverage exports are down by 26.6 percent over the past year. Beijing is also showing no signs of allowing Australian coal producers to resume access to the PRC market and the disputes involving barley and wine are set for an extended period of investigation and adjudication at the WTO. A rare positive on this front was that both Canberra and Beijing have [agreed](#) to use the multi-party interim appeal arrangement (MPIA) in the event that the barley dispute adjudication goes to appeal. The WTO's regular appellate body is now defunct owing to the US continuing to block the appointment of new judges. Fortunately, both Australia and the PRC are signatories of the stop-gap MPIA and have put their faith in the outcome of this rules-based process.

## Key trade indicators – August 2021

	Latest available figure	Percent change one month ago (annualised in brackets)	Percent change six months ago	Percent change one year ago	Percent change three years ago	Percent change five years ago
<b>Total goods exports (\$ billion)<sup>1</sup></b>	165.7	3.3 (48.0)	13.1	10.2	56.9	121.4
<b>Mining (\$ billion)<sup>2</sup></b>	131.8	3.8 (56.8)	19.1	22.8	85.7	162.8
<b>Non-mining (\$ billion)<sup>3</sup></b>	19.1	3.6 (52.5)	-2.5	-17.0	-14.5	-1.5
<b>Confidential/not classified (\$ billion)<sup>4</sup></b>	14.9	-1.2 (-13.6)	-9.0	-25.9	20.2	177.8
<b>Iron ore (\$ billion)<sup>5</sup></b>	124.3	5.5 (90.4)	31.3	46.6	148.0	220.5
<b>Iron ore (kilo tonnes)<sup>6</sup></b>	708.4	-1.2 (-13.1)	-0.6	2.1	4.3	13.5
<b>Coal (\$ billion)<sup>7</sup></b>	2.2	-38.5 (-99.7)	-75.9	-84.3	-83.6	-61.6
<b>Liquefied gas (\$US billion)<sup>8</sup></b>	10.6	2.5 (35.1)	2.4	-13.5	31.1	343.7
<b>Food, live animals, beverages (\$ billion)<sup>9</sup></b>	7.8	-0.6 (-6.9)	-13.9	-26.6	13.7	73.7
<b>Services exports (\$ billion)<sup>10</sup></b>	12.4	-	-	-35.7	-21.5	12.9
<b>Tourist arrivals (million)<sup>11</sup></b>	3.4	5.6 (91.7)	-98.4	-99.6	-99.8	-99.7
<b>Commencing students<sup>12</sup></b>	44,183	-	-	-11.4	-36.6	-20.1
<b>PRC stock of direct investment in Australia (\$ billion)<sup>13</sup></b>	44.4			-5.4	15.5	24.1
<b>Total good imports (\$ billion)<sup>14</sup></b>	87.1	-0.8 (-8.8)	3.1	7.7	28.5	41.9
<b>Services imports (\$ billion)<sup>15</sup></b>	1.5			-54.6	-49.4	-42.8
<b>Australian stock of direct investment in the PRC (\$ billions)<sup>16</sup></b>	6.8			-56.4	-50.2	-51.3

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<sup>1</sup> 12 months to June 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>2</sup> Ibid.

<sup>3</sup> 12 months to June 2021. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

<sup>4</sup> 12 months to June 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>5</sup> Ibid.

<sup>6</sup> 12 months to June 2021. CEIC database.

<sup>7</sup> 12 months to June 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>8</sup> 12 months to June 2021. CEIC database.

<sup>9</sup> 12 months to June 2021. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

<sup>10</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

<sup>11</sup> 12 months to June 2021. ABS <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3401.0>>.

<sup>12</sup> Year-to-date June 2021. Includes all sectors – ELICOS, Higher Education, Non-award, Schools and VET. Australian Government Department of Education <<https://internationaleducation.gov.au/research/International-Student-Data/Pages/default.aspx>>.

<sup>13</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

<sup>14</sup> 12 months to June 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>15</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

<sup>16</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.