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## Australia put in limbo by US-China trade dispute

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Countries have long understood that they will [lose](#) if the US-China [trade dispute](#) turns into a fully-fledged trade war. But what has become apparent more recently is that even if the US and China settle on a deal, there's a strong prospect that they will still suffer. This is true even for stalwart allies of the US, like Australia.

The US and China have massive domestic economies. China's dependence on exports as an engine of growth came to an end more than a decade ago. These days its [trade to GDP ratio](#) is 37 percent, down sharply from 66 percent in 2006 and fast converging on the US level at 27 percent. What this means is that if the trade dispute worsens, aside from some industry specific exceptions, both the US and China have sources of expenditure and production within their borders to ride out the turbulence.

But while exports to China might only account for less than one percent of US GDP, the situation in Sydney or Melbourne is very different. Exports to China are [now worth](#) more than 6 percent of Australia's GDP, account for one-third of its total exports, and as the Reserve Bank of Australia governor, Philip Lowe, [remarked](#) last month, Chinese demand is a driving force right across the economy from minerals to tourism, energy, agriculture, and education.

Rapidly rising Chinese and regional purchasing power and a willingness to spend it on Australian goods and services has meant there is strong bipartisan political support for the view that the country's prosperity is tied to an open international trading system that is underpinned by rules.

It is a view in which Australia finds itself increasingly aligned with China.

At the G20 meeting in Argentina in May, Australia's foreign minister Julie Bishop [said](#) that on trade, Australia and China 'were very much on the same page.' Reiterating the point, she noted that China's concerns about economic nationalism and protectionism were 'very similar' to Australia's.

Australia was also one of the countries to [sign](#) a joint statement in Beijing in March last year to promote unimpeded trade ‘along the Belt and Road,’ a reference to President Xi Jinping’s signature foreign policy initiative aimed at boosting international connectedness. Australia’s trade minister, Steve Ciobo [said](#) the statement ‘aligns with Australia’s position on resisting protectionism and increasing trade liberalisation.’

At the same time, Australia is seeing distance open up between itself and the US.

When the Trump administration announced steel and aluminum tariffs in March, it became a major news story in Australia [despite](#) steel only being a minor export and the US buying just 0.8 percent of the country’s total steel export. The shock was that the US had [used](#) domestic legislation to launch the action and had sought to justify it on ‘national security’ grounds. It then argued this position was consistent with World Trade Organisation (WTO) rules due to a ‘[security exception](#)’ applicable ‘in time of war or other emergency in international relations.’ But how could trade with Australia, a country that has fought alongside the US in every major conflict over the past 100 years, possibly be considered a national security risk? Australia was eventually granted a reprieve, but other US allies including the European Union and Japan, have not been so lucky.

Australia has since watched as the US has taken further actions that haven’t even pretended to appeal to international trade rules.

In April, the Trump administration again used domestic law to [threaten](#) punishment on 1,300 separate tariff lines amounting to \$50 billion worth of Chinese imports. The final list of affected goods is due to be [released](#) next week with tariffs to be applied ‘shortly thereafter’ if an agreement cannot be reached.

The [announcement](#) by US Treasury Secretary Steven Mnuchin last month that a trade war with China was ‘on hold’ while a potential deal was being worked on might have been greeted as a positive development in Washington, and perhaps even in Beijing. The deal reportedly centers on China promising to buy more US agricultural and energy exports.

If negotiations were to cause China to more rapidly open its domestic markets to all countries it would be one thing. But the latest developments suggest this isn’t what the US has in mind. In the lead up to Secretary Ross’ Beijing visit last week, it was [reported](#) that up for discussion would be what products China currently sources from other countries it could instead buy from the US. The plan pushes for a ‘product-by-product’ approach, sealed with long-term contracts locking in US supply.

Following the visit, there were [reports](#) that China had offered to buy \$70 billion worth of US agriculture, energy, and manufacturing goods in the first year alone, a 50 percent jump on current levels.

Such a deal raises concerns in Australia because agricultural and energy goods are two of the country’s biggest exports to China, a market position it has earned by virtue of being the world’s most competitive producer.

Stephen Kirchner, an economist at the United States Studies Centre at the University of Sydney [has noted](#) the irony of the US ‘pushing China even further in the direction of managed trade.’ He observed that complaints about Chinese mercantilism ‘ring hollow when the US is pursuing a mercantilist policy of its own.’

Last month, US Commerce Secretary, Wilbur Ross, also [declared](#) that US trade policy was being ‘constrained by two sides of a WTO pincer.’ He was referring to basic WTO principles such as those that say a country cannot unilaterally renege on its own tariff commitments and that those commitments must be extended to all WTO members.

Such views are incompatible with the position [expressed](#) in an Australian government foreign policy white paper released in November last year that the ‘rules embodied in the WTO...are of fundamental importance to Australia’s interests.’

And within the WTO, the US has been blocking the appointment of new judges to the institution’s dispute resolution body, leading to the publication of evidence-based findings being slowly ground to a halt.

In May, the US ambassador to the WTO, Dennis Shea, justified the blocking by [insisting](#) that the dispute body had gone ‘terribly wrong.’

Yet the day before these comments, Australia joined 40 other countries at the WTO [issuing](#) a call that current and future positions on the body be filled ‘without delay.’ Last November’s white paper had urged major countries like the US and China ‘to accept the judgment of an independent umpire’ and to ‘settle trade disputes within the framework of WTO rules and processes.’

Australia has remained a staunch supporter of the US even as China has grown to become its most important economic partner. But it is a new calculus for its security ally to be actively taking steps that damage its interests. If China’s economy continues to grow as forecast and US positioning on international trade and investment rules remain unchanged, pursuing Australia’s national interest means that an adjustment to its strategic alignment can be expected.

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