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Opinion

Australia could be the big loser in a US-China trade deal, not that Donald Trump seems to care

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'Let's keep our fingers crossed'. That was the response of US President Donald Trump's ambassador, Arthur B. Culvahouse Jnr, to a question vital for Australia: what happens if the US and China strike a trade deal that boosts Chinese purchases of American goods by cutting back on imports from Australia?

Vital because China soaks up one-third of Australian exports. The Australian budget released last week was replete with tax cuts; the nation has gone more than 25 years without a recession. Australia would not be boasting this without access to China's growth.

The US ambassador's response confirms that the Trump administration wants to close the US$400 billion trade gap with China and, in a settlement between the world's biggest economies, Australia's interests won't count.

Indeed, Australia's ambassador to Washington, Joe Hockey, seems to have missed the point of his very mission. He was quoted on February 3 urging America not to settle for a 'pyrrhic victory' against China, implying that the US should go all out in its trade war. That a deeper trade war might hurt Australia didn't seem to figure in his understanding of diplomatic duties.

Liquefied natural gas (LNG) underlines Australian vulnerability. It's widely assumed that, as part of a deal with the US, China will commit to buying more American LNG.

In January, China announced plans to increase its intake of LNG fourfold over the next 20 years, using 34 coastal terminals with a combined annual import capacity of 247 million tonnes by 2035. The world total of LNG trade in 2017 was only 289 million tonnes. A trade deal might see China allocating to the US its 20-year growth in LNG imports, punishing Australia.

Right now, that's happening with Australian coking coal. In February, exports from Australia to China fell 21 per cent year on year while imports of Mongolian coking coal rose 47 per cent. This has wiped billions off Australian mining stocks.

China seems to be sending a message. *The Australian Financial Review* quoted a Chinese analyst saying that China is cutting back on coal imports anyway 'so why not start with the country you don't like'.

The climax of a year of hostile Australian messages towards China came in December 2017 when then prime minister Malcolm Turnbull, in a speech to the House of Representatives, said, 'the Australian people stand up'.

Turnbull's reference to a saying popularly attributed to Chairman Mao – 'the Chinese people have stood up' – was a weak attempt at parliamentary wit.

The rebuke of a friendly country that had signed a beneficial free-trade agreement in 2015 was breathtakingly undiplomatic. Before his departure as prime minister, Turnbull was forced to mend his rhetorical excess, declaring in a speech on June 19 that he was 'filled with optimism' about the Australia-China relationship.

His replacement, Scott Morrison, has returned to the work-a-day rhetoric about China that all prime ministers from 1972, apart from Turnbull, used in talking up the relationship.

Given Morrison's softer rhetoric, the decision to exclude Huawei from supplying equipment to the country's 5G network stands as the obvious reason China is now discriminating against Australian coal.

The ban on Huawei was made during Turnbull's last days as prime minister. Australia handled the decision – so fraught for the Chinese, for whom Huawei is an iconic enterprise – as provocatively as possible.

The Sydney Morning Herald reported on December 13 that Western intelligence agencies had plotted to gang up on Huawei, and to include Japan and Germany in the conversation, at a dinner in Canada in July 2018 over Nova Scotia lobster. Turnbull then rang the US president to report he was locking Huawei out.

Meanwhile, Britain is still mulling the advice of MI6 chief Alex Younger that a blanket ban may be too simple and New Zealand and Canada aren't elevating the issue. Germany is resisting bullying about Huawei from Trump's ambassador. Australia, however, formalised a blanket ban on Huawei's involvement in the roll-out of 5G even before the US.

As a former foreign minister, I am neutral on Huawei, not having been briefed by our security services. As foreign minister, I defended our government's decision to exclude Huawei from supplying equipment to the national broadband network. All countries are entitled to protect the security of their communications and it's better to be safe than sorry.

The issue is how the decision was made and that Canberra presented it as a matter of alliance loyalty, not Australian national interest.

Either way, a more subtle diplomacy might have been practised. For example, Japan quietly let slip its negative decision on Huawei in December. There has been no speculation it will rupture the past year's China-Japan rapprochement.

All polls point to a change of government in the Australian election, likely to be held on May 18. Chances are the Labour Party would have gravitated towards some form of exclusion when it came to Huawei equipment. They could have done it by moving with other American allies, not ahead of them, and by handling the issue with diplomatic finesse.

Back to trade. US wine currently faces a Chinese tariff of nearly 40 per cent. In contrast, from January 1, Australian wine entered China tariff-free because of the free trade deal. If the US and China strike a trade deal, the advantage Australia enjoys could fall to zero.

'Our interests are different from those of a great power,' a head of my department told me when I was foreign minister.

Former prime minister Malcolm Fraser put it to me like this: 'The US is capable of going to war with China, losing and then withdrawing from Asia.' I assume he meant an armed conflict. But his words might imply a trade war, which China and the US might settle without thinking tenderly about Australian concerns.

'Let's keep our fingers crossed' is as good an assurance as Washington is likely to give.

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