

# Australia-China monthly wrap-up

July 2020



This edition features:

- Summary and analysis of major developments in July 2020
- Key trade indicators
- Perspectives: 'On being 'very different countries': AUSMIN and China's rise' by Professor James Curran

## Elena Collinson and James Laurenceson

Australia continues to cautiously navigate US-China tensions while attempting to make plain its pursuit of its own interests.

At the beginning of this month, Prime Minister Scott Morrison signalled a shift in Australian strategic priorities during the launch of the 2020 Defence Strategic Update, committing \$270 billion over the next decade on Australian defence capabilities. Our [previous monthly wrap-up](#) discusses the Prime Minister's remarks, which clearly indicate fundamental anxieties about the rise of the PRC and its intentions despite diplomatically refraining from explicitly naming the country. Defence Minister Linda Reynolds continued to reinforce the diplomatic messaging. Asked whether the PRC 'alone [is] driving this shift [towards a much more forward leaning posture for Australia]', she [responded](#), 'No, it's not. The Strategic Guidance Update...is not about any one particular nation'.

The Australian government's commitment to boosting defence capabilities was [endorsed](#) by Opposition Leader Anthony Albanese who said, 'We are broadly supportive of the direction that the government is going'. For its part, the PRC responded to Australia's Defence Strategic Update in a fairly muted fashion with a Foreign Ministry spokesperson [stating](#) simply, 'I'll leave that to Australia. All countries should avoid an arms race and refrain from purchasing unnecessary military equipment'.

At the end of the month Foreign Minister Marise Payne and Defence Minister Reynolds met with their American counterparts, Secretary of State Mike Pompeo and Secretary of Defense Mark Esper, for the 30th Australia-US Ministerial Consultations (AUSMIN). The [AUSMIN joint statement](#) was pointed in terms of articulating mutual concerns about the People's Republic of China (PRC) – emphasising, for example, the erosion of Hong Kong's autonomy and freedoms, the repression of Turkic Muslims in Xinjiang, actions in the South China Sea, disinformation and foreign interference, and cyberattacks; reaffirming exclusion of 'high-risk vendors that are subject to extrajudicial directions from a foreign government' from 5G networks, and commitment to the Quad; and enunciating support for Taiwan. Prior to their departure for Washington on July 26, the Australian foreign and defence ministers had also issued a fairly strongly worded [statement](#) which touched on some of these points, but which refrained from mentioning the PRC directly.

About one week before AUSMIN Australia had also sent a [note verbale](#) to the United Nations laying out in starker fashion the legal position which the country believed applied in the South China Sea. While Australia has long articulated support for the application of the UN Convention for the Law of the Sea (UNCLOS) specifically which provisions it relied upon and which it believed the PRC had contravened has not been particularly clear, up until now. Deliberate diplomatic messaging was also evident in the filing of the note one week before AUSMIN.

But statements and interviews from the Australian side flowing from AUSMIN also confirmed an unwillingness on Australia's part to unquestioningly take up the cudgels on behalf of the US in the arena of strategic competition with the PRC. Despite hardening messaging on the South China Sea, Australia emerged from AUSMIN continuing to abstain from engaging in US-style freedom of navigation operations despite [exhortation](#) from Washington. And as US-PRC tensions ratcheted up yet another notch in July, with the US ordering the closure of the PRC consulate in [Houston](#) and the PRC's retaliatory closure of the US consulate in [Chengdu](#), Australian ministers refrained from endorsing robust commentary on the PRC by Trump administration officials, including a particularly hairy-chested [speech](#) by State Secretary Pompeo calling for the triumph of 'the free world' over the 'new tyranny' embodied by President Xi's PRC. Secretary Pompeo asserted that 'if the free world doesn't change Communist China, Communist China will change us'. Foreign Minister Payne during the AUSMIN press conference [said](#), '[W]e make our own decisions, our own judgments in the Australian national interest and about upholding our security, our prosperity, and our values'. Defence Minister Linda Reynolds in a subsequent interview [said](#), '[W]e have our own policy on China and we were very clear in articulating that during AUSMIN'. Prime Minister Scott Morrison had also earlier in the month differentiated Australia's approach to that of the US, [underlining](#) the fact that Australia undertakes 'our own actions and our own initiatives and our own statements'. He also categorically [rejected](#) the notion that Australia viewed the PRC as 'a potential threat and as untrustworthy'.

Australia-China high-level channels of communication continue to stagnate. Trade Minister Simon Birmingham's requests for a phone call with his PRC counterpart are still being [refused](#), with the Trade Minister noting that the last time he had spoken directly to the PRC Commerce Minister was 'late last year'. Similarly, Prime Minister Morrison stated that the last time he had [communicated](#) with President Xi was on the sidelines of the G20 last year. There has been as yet no formal meeting between the two leaders since Scott Morrison assumed the prime ministership.

In what might be an indication of a perception that Australia is at an inflection point with respect to PRC policy, three former Liberal Party prime ministers forcefully weighed in on the Australia-China relationship this month. Tony Abbott [wrote](#) that Australia was 'strategically compromised', pointing to the '[deep integration of] Chinese components into almost every Western supply chain' and to 'China's efforts to redirect its resource-buying away from countries like us'. Malcolm Turnbull, during an event hosted by Washington-based think tank Center for Strategic and International Studies, [reprimanded](#) the Australian business and academic community for criticising Australian government policy:

The one thing the Australian business community and academic community have got to learn is that if you want to encourage more bullying from China continue behaving in the way they do, because every time they do that and criticise the Australian government over its China relations reflexively, Beijing says: 'wow, gee that works, that's terrific – let's do a bit more of that'.

John Howard noted that President Xi's predecessors 'didn't bully anywhere near to the same degree as does their successor', [saying](#) that Hu Jintao and Jiang Zemin had 'looked for co-operation, and you saw the possibility of building, pragmatically albeit, building a close relationship between the two countries and the West'. This was a blunter repetition of his [observation](#) last year that '[t]he regime in China now is a lot more authoritarian than the one that was in power only 10 years ago'. Howard, however, added the caveats: 'It's very important we don't give up a [practical relationship](#) with China'; 'We must remember the [endgame](#), and the endgame is to maintain, to the maximum extent consistent with our values, a good economic relationship with China'.

Substantive decisions on Australian China policy have typically enjoyed broad bipartisan support. But in what might be some [foreshadowing](#) of how Australia's China policy might play into a federal election, Shadow Foreign Minister Penny Wong in an interview on July 14 remarked, 'It's unfortunate that the government's language, tough language on China has not necessarily been reflected in its policy. In fact, under Scott Morrison we've become more dependent on China for our trade than we had ever before'.

Soon after the enactment of national security legislation on June 30 giving Beijing further control over Hong Kong residents, Australia on July 9 [suspended](#) its extradition treaty with Hong Kong, updated its travel advisory and [announced](#) it would offer five-year visa extensions for skilled and graduate visa holders, with a pathway to permanent residency at the end of those five years. This elicited a fiery [response](#) from the PRC's Ministry of Foreign Affairs:

We express strong condemnation and reserve the right to make further reaction, and Australia should bear all the consequences.

There was some attempt on the Australian side during the interview rounds after the announcements to soften the impact – Immigration Minister Alan Tudge, for example, went to some length [repeatedly steering discussion](#) towards the strong trading relationship between Australia and the PRC and 'good people to people links' in numerous interviews on the matter.

In the granting of visa extensions Australia exhibited some willingness to take substantive action to supplement rhetoric on the importance of upholding values although, as Senator Wong has [pointed out](#), this action falls quite short of the government's preliminary indication of an openness to offering 'safe haven' visas to Hong Kong residents.

Trade in goods between Australia and the PRC continued to show overall resilience through to the end of May. Mining products are driving the total export value but some categories of non-mining products are also surprising on the upside. In spite of the COVID-19 demand shock and high-profile trade restrictions measures put in place by the Chinese government targeting Australian barley and beef, the annual value of Australia's food, live animals and beverages exports to the PRC are up 6.8 percent on six months ago. To be sure, idiosyncratic factors are also sometimes at play, such as the devastation African Swine Fever has wrought on the PRC's domestic pork suppliers likely providing a temporary boost to Australian beef growers.

Still, as has been foreshadowed in recent UTS:ACRI monthly briefings, COVID-19 is having the overall effect of increasing, not decreasing, Australia's trade exposure to the PRC. Preliminary trade figures from the Australian Bureau of Statistics (ABS) [show](#) the share of the PRC in Australia's total goods exports leaping to an extraordinary 46.1 percent for the month of June.

New services trade data were released this month covering the full 2019 calendar year. The value of exports to the PRC grew by 7.9 percent to hit \$19.3 billion, nearly double that to the US in second place. Of course, these numbers will now take a battering owing to the Australian government closing the border to stem the COVID-19 pandemic, albeit this is true of all of Australia's trade partners.

A new report commissioned by the US State Department and the US Chamber of Commerce was released on July 21. It [estimated](#) that Australian exports to the US and the income generated by US investment in Australia were worth a combined \$131 billion to Australia in 2019. In launching the research, the US ambassador, Arthur B. Culvahouse Jr., [said](#) it provided 'independent confirmation' that the US was Australia's 'largest and most important economic partner'. Yet the new ABS data [released](#) this month put last year's value of exports alone to the PRC at \$169.1 billion. Such instances illustrate how even Australia's mutually beneficial economic relationships with both the US and the PRC are now being presented in a way intended to generate geopolitical advantage by overseas capitals.

## Key trade indicators - July 2020

	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>	150.5	0.1 (0.7)	2.8	15.5	59.6	101.5
<b>Mining (\$ billion)<sup>2</sup></b>	106.8	0.5 (6.6)	7.4	29.7	58.2	91.9
<b>Non-mining (\$ billion)<sup>3</sup></b>	23.8	-1.1 (-12.8)	-8.4	-12.2	26.0	64.9
<b>Confidential/not classified (\$ billion)<sup>4</sup></b>	19.8	-1.0 (-11.5)	-4.0	-4.6	152.1	334.5
<b>Iron ore (\$ billion)<sup>5</sup></b>	83.9	0.4 (4.5)	9.5	40.9	62.6	97.6
<b>Iron ore (kilo tonnes)<sup>6</sup></b>	683.6	0.4 (4.6)	4.0	4.0	4.3	17.9
<b>Coal (\$ billion)<sup>7</sup></b>	14.1	2.9 (40.1)	0.9	-2.0	30.9	87.1
<b>Liquefied gas (\$US billion)<sup>8</sup></b>	12.5	-1.3 (-14.4)	-6.5	-7.2	181.5	1164.2
<b>Food, live animals, beverages (\$ billion)<sup>9</sup></b>	10.7	1.2 (15.8)	6.8	29.3	120.3	260.6
<b>Services exports (\$ billion)<sup>10</sup></b>	19.3	-	-	7.9	44.2	120.7
<b>Tourist arrivals (million)<sup>11</sup></b>	0.98	-8.8 (-66.9)	-32.0	-31.4	-21.5	5.8
<b>Commencing students<sup>12</sup></b>	45,839	-	-	-29.3	-24.6	4.2
<b>PRC stock of direct investment in Australia (\$ billion)<sup>13</sup></b>	46.0			10.1	18.9	44.3
<b>Total good imports (\$ billion)<sup>14</sup></b>	79.1	1.6 (21.5)	-0.9	1.6	31.3	43.6
<b>Services imports (\$ billion)<sup>15</sup></b>	3.4			-0.8	20.5	42.7
<b>Australian stock of direct investment in the PRC (\$ billions)<sup>16</sup></b>	15.5			11.6	16.0	23.4

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<sup>1</sup> 12 months to May 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>2</sup> Ibid.

<sup>3</sup> 12 months to May 2020. 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 May 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>5</sup> Ibid.

<sup>6</sup> 12 months to May 2020. CEIC database.

<sup>7</sup> 12 months to May 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>8</sup> 12 months to May 2020. CEIC database.

<sup>9</sup> 12 months to May 2020. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

<sup>10</sup> The latest available figure is for 2019. Australian Government Department of Foreign Affairs and Trade, 'Trade time series data', July 2020 <<https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data>>.

<sup>11</sup> 12 months to May 2020. ABS <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3401.0>>.

<sup>12</sup> Year-to-date May 2020. 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 2019. ABS <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.

<sup>14</sup> 12 months to May 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>15</sup> The latest available figure is for 2019. Australian Government Department of Foreign Affairs and Trade, 'Trade time series data', July 2020 <<https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data>>.

<sup>16</sup> The latest available figure is for 2019. ABS <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.

# On being 'very different countries': AUSMIN and China's rise



**Professor James Curran**

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During discussions with American thinkers, analysts and officials in New York and Washington DC in late 2017, one particular conversation gave a chilling insight into how some see the ultimate strategic calculations in US-China relations.

In a wide-ranging reflection on the steps that President Trump had already taken to re-establish the credibility of US deterrence, one interlocutor, now an adviser to Secretary of State Mike Pompeo, evidenced the bombing of Syria, the sending of US bombers over the Korean peninsula and the push for tougher UN sanctions on North Korea. When asked how the administration's institution of regular freedom of navigation operations in the South China Sea could overturn the unilateral Chinese facts on the water there, the reply was blunt. China's possession of islands was simply of no consequence, I was told, since they would be easily 'obliterated in a war'.

One of the abiding legacies of Trump's term in office has been his radicalisation of the elite American tone towards China. Across the political spectrum, with the occasional exception – some of those advising Biden are rejecting the 'new Cold War' moniker – China is now seen as an existential strategic and ideological rival. Notwithstanding that Chinese actions have themselves played the major part in prompting this reflex, American exceptionalism has once more found its requisite nemesis.

This stance was given its clearest articulation yet in Secretary of State Pompeo's speech at the Nixon presidential library in the week leading up to the recent AUSMIN meetings, in which he called on the 'free world' to 'triumph over this tyranny'. Pompeo's appeal to 'empowering' the Chinese people, as opposed to the Chinese Communist party, echoed similar remarks by Deputy National Security Adviser Matt Pottinger in May. And as Pompeo remarked, his purpose in Yorba Linda was to put the capstone on a series of speeches on US China policy by National Security Adviser Robert O'Brien, Attorney General Bill Barr, Defence Secretary Mark Esper and FBI Director Christopher Wray. Even if Trump himself is not a true believer in regime change there can be little doubt that the 'mission' of which Pompeo spoke – that 'we must induce China to change' – has broad backing across the administration.

But just as it shows an America gearing up for the long haul in its rivalry with China, just as it trumpets that it will not easily cede its primacy in Asia, the missionary zeal upon which such a declaration is based is likely to alienate the very allies it seeks to assuage. No hint is there in these speeches of any attempt to find a geopolitical *modus vivendi* with China, a position that makes this White House's approach more susceptible to disruptive discontinuity.

It is surely telling that no senior Australian minister, and certainly not the prime minister, publicly backed this suite of American statements. What is becoming clearer now is that the Morrison government is not going to endorse the consensus in Washington that US-China strategic and ideological rivalry amounts to a new Cold War. Time and again the prime minister has refused to characterise the relationship or the current strategic



circumstances in this way. Australia certainly pushes ahead with ever deepening alliance cooperation – the AUSMIN communiqué was notable for its sharper language on China in terms of the South China Sea, Taiwan, cyber-warfare, foreign interference, Hong Kong, Xinjiang, 5G, non-proliferation and force posture, among other issues – but Canberra held its nose – and its nerve – and looked the other way at the prospect of getting too close to an American ideological crusade against China.

This is why the markers laid down by Australian ministers in Washington are important. Foreign Minister Marise Payne said pointedly that ‘the Secretary’s speeches are his own’, that ‘Australia’s positions are our own’, and, perhaps even more crucially, that Australia and America ‘are very different countries’. Furthermore, she stressed that Canberra had no intention of ‘injuring’ its relations with China. Likewise, Defence Minister Linda Reynolds emphasised in a press interview following the meeting that the two governments are ‘not completely aligned’, which, she added, ‘is as it should be’. This is not the first time Australia has distanced itself from the Trump administration, but it is surely the most emphatic.

No doubt these comments would have surprised some in Washington – especially since the orthodoxy there is that Australia constitutes an exemplar of how to ‘push back’ against the China challenge. But what it meant, too, was that the language of ‘mateship’ suddenly looked more of an habitual adornment than it did an argument in its own right.

The statements by Payne and Reynolds are significant for two key reasons. The first is that it now appears that the Australian government, without directly saying so, has rejected the idea of regime change in China. The second is that if indeed that is the case, it represents a significant departure in how Australian governments approach alliance management.

In the Vietnam era for example Australian leaders were as ideologically gung-ho as their American counterparts in expressing their commitment to the cause in the crudest ideological terms. Similarly, in the Iraq War, even though the ambition of turning Iraq into a bastion of democracy at the heart of the Middle East did not necessarily lead the arguments used to justify Australian participation, values-based rhetoric gained more prominence as the putative weapons of mass destruction failed to materialise.

Of course, when it comes to China’s recent aggression and assertiveness, the Australian government has quite properly demonstrated time and again that it will act to defend its values and principles. But it has now shown, even if without explication or justification, that there are limits to the kind of US position they will line up alongside. That surely, too, indicates a level of discomfort in Canberra with the way American intent is being conveyed.

Rarely has it been Australian diplomatic practice, save perhaps for the Whitlam-Nixon tensions over the alliance in 1972, or the initial Australian reactions to Britain’s European Economic Community (EEC) application in the early 1960s, to air in public the dirty laundry of its relations with great power protectors. But if indeed this eschewing of Pompeo’s ideological fervour is the Australian position it would be better for the government to articulate the reasons why. A region that is at times prone to question the authenticity of Australia’s diplomacy would no doubt pay attention. Key US allies undoubtedly share Canberra’s concern about the increasing bifurcation in this part of the world.

It might also be said that by not endorsing this American moral mission the government may be implicitly sending the message that it does not wish to see its ally embrace the folly of signing up to a long, drawn-out struggle with China, a struggle in which it may not prevail.

This is why the foreign minister’s emphasis on Australia and the US being ‘very different countries’ is so crucial. For the tendency of each country to misread or misunderstand the other remains. For Americans, there remains an unwillingness to recognise or accept Australia’s particular circumstances when it comes to dealing with China’s rise. For Australians, particularly those advocating a more hawkish position on China, it pays to be reminded of just how elemental remains the American exceptionalist impulse. It is precisely when ideological fervour outstrips capability and rationality that allies should really begin to worry.

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