

# Australia-China monthly wrap-up

January 2021



This edition features:

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

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The new year opened with a slight shift in rhetorical approach from Australia with respect to the People's Republic of China (PRC). But while tone is being smoothed again following the ructions of 2020, policy substance remains sharp-edged, and the PRC continues to reject overtures for high-level ministerial dialogue whilst maintaining that Australia bears the lion's share of responsibility to create a situation in which the relationship can be improved.

PRC Foreign Minister Wang Yi had on December 31 [stated](#), 'We hope that the relationship can come back to the right track as early as possible...If Australia sees China not as a threat, but a partner, then for the issues between us there are better chances that we find solutions. So I would kick the ball to Australia'.

Prime Minister Scott Morrison on January 1 [told](#) a press conference that he 'would certainly welcome [a better relationship between Australia and the People's Republic of China (PRC)]' and that he was 'always optimistic... always hopeful...always positive' on that front. And during another [media appearance](#) later in the month he deliberately took the opportunity to weave in and elevate positive aspects of Australia-PRC relations as well as areas of future cooperation. Asked about the [recent arrest](#) of alleged drug importer Tse Chi Lop following an Australian-led operation, the Prime Minister tacked onto his response:

[I]t's a good example...of the areas in which Australia and China cooperate. Whether it's on issues of organised criminal gangs, counter-terrorism, biosecurity issues, these types of things. Australia has had a very good working relationship with China on those very important global matters. And we would look forward to having increasing good relations with them on issues of environmental management as well, not just around matters of climate, but particularly around energy technology. But I'd also say in terms of the health of our oceans and plastics and these matters as well. So there are many areas where we work together and cooperate.

New Trade Minister Dan Tehan, who assumed the portfolio in December 22 last year, when asked during a January 27 interview what his approach to the Australia-PRC relationship would be, [said](#), 'I'll be just making sure that I continue, at every opportunity, to point out how mutually beneficial our trading relationship is', pointing out that 'there is a lot of complementarity between our two nations when it comes to commerce, when it comes to trade, and when it comes to investment.'

The Trade Minister also elected to home in on the ‘positives’ of PRC President Xi Jinping’s Davos [address](#), delivered on January 25. When asked whether he saw ‘a bit of irony in [Xi’s comments regarding building circles or starting a new Cold War]’,<sup>1</sup> the Trade Minister responded: ‘Well, he also spoke about the importance of trade liberalisation and investment liberalisation. And, I think what we’ve got to do is look at the positives from messages like that.’

The Trade Minister had this month also [written](#) to the PRC’s newly appointed Commerce Minister Wang Wentao ‘saying that we’d like to constructively engage’ and that ‘there are many ways that we can constructively engage across the trade and investment liberalisation path.’ A response is yet to be received.

But while there seems to be a renewed push by Australia to proactively highlight the pursuit of areas of cooperation with the PRC, policy with respect to the PRC continues to get harder, despite a reluctance to publicly acknowledge it. Some decisions in the arena of foreign investment appear to highlight this.

On January 11 PRC state-owned China State Construction Engineering Corporation [withdrew](#) its \$300 million bid to buy an 88 percent stake in the Australian construction firm Probuild. The following day, Probuild’s parent company, South African infrastructure company Wilson Bayly Holmes-Ovcon (WBHO), [stated](#) that they had been ‘advised by the potential acquirer of Probuild that it has withdrawn its proposed investment application in Probuild lodged with the Australian Foreign Investment Review Board following advice that its application would be rejected by the Federal Government on the grounds of national security.’ Reasons for the rejection, in keeping with past precedent, were not expounded upon by the Treasurer, Josh Frydenberg, who [said](#), ‘The government does not comment on the application of the foreign investment screening arrangements as they apply or could apply to particular cases’.

Off the back of the decision on the acquisition of Probuild, *The Australian Financial Review* [reported](#) that the Australian government has ‘secretly rejected several other Chinese takeovers in the past six months, beyond traditional critical infrastructure sectors, including in the construction and technology industries’. The media outlet [provided](#) a theretofore unpublicised example of the Australian government ‘privately rejecting other Chinese engineering, procurement and construction (EPC) contractors from local infrastructure and energy projects’: the Australian government had recently advised a consortium which included a PRC state-owned entity that had partnered with Australian entities to construct an Energy Australia gas plant in New South Wales ‘it did not intend to approve the deal’.

The Treasurer has [refused](#), however, to characterise the ongoing economic turbulence between Australia and the PRC as a ‘trade war’ and attempted to assuage business community concerns by [pointing out](#), ‘Over the last six months around 20 percent of approved foreign investment applications have at least one Chinese party. So that means more than 250 Chinese-related foreign investment applications have been approved. Less than a handful haven’t proceeded’.

The parlous state of the Australia-PRC relationship invited interventions this month from Opposition Leader Anthony Albanese and the former head of the Department of Foreign Affairs and Trade (DFAT) and the Office of National Assessments (ONA), Philip Flood.

The Opposition Leader [wrote](#) to Prime Minister Morrison on January 23 saying that the Australian government ‘should use all assets at its disposal to move the relationship in a more positive direction’. He suggested that ‘an offer of personal diplomacy by former Australian political leaders’ Kevin Rudd and John Howard ‘could assist the government to reset the relationship and to help secure our export markets’. He added in a [press conference](#), ‘To be clear, it is China that is to blame for breaking down that relationship. But you need to find a way through.’ Towards the end of the month former DFAT and ONA head Philip Flood [said](#) that ‘[b]oth sides

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<sup>1</sup> PRC President Xi Jinping during his January 25 address to the Davos Agenda at the World Economic Forum had said, ‘To build small circles or start a new Cold War, to reject, threaten or intimidate others, to wilfully impose decoupling, supply disruption or sanctions, and to create isolation or estrangement will only push the world into division and even confrontation.’ President Xi also asserted, ‘The strong should not bully the weak. Decisions should not be made by simply showing off strong muscles or waving a big fist.’ Australian Treasurer Josh Frydenberg had observed of the speech, ‘We agree with that sentiment, big nations should not bully small ones, but there seems to be a disconnect between the words and the actions. The reality is Australia has been on the receiving end of some pretty harsh actions when it comes to our trade.’

contributed to the impasse and both have interests in a return to greater cooperation' and urged 'somewhat more nuance' from Australia.

On January 5 Hong Kong police arrested 55 pro-democracy figures for alleged subversion under the National Security Law. Australia expressed concern at the mass arrest through a [statement](#) issued by Foreign Minister Marise Payne, as well as in a [joint statement](#) with the foreign ministers of Canada, the UK and the US. Foreign Minister Payne expressed 'serious concern' about the development. While the Australian government [announced](#) last year that visa holders from Hong Kong would be eligible for a five year extension of their stay, with a path to permanent residency, they have not allowed for the creation of a humanitarian intake.

The latest trade figures below show that November continued the run of strong mining exports underpinning resilience in the headline trade numbers. Nonetheless, it is worth noting that the annual value of non-mining goods exports to the PRC have fallen by 21.7 percent over the past year. When combined with the collapse of tourism and education services stemming from COVID-19 border closures, the breadth of trade with the PRC has narrowed markedly in a short space of time.

## Key trade indicators - January 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>2</sup></b>                                | 145.8                   | -0.5 (-6.2)   | -3.4                          | -0.4                        | 44.5                           | 92.6                          |
| <b>Mining (\$ billion)<sup>3</sup></b>   | 108.6                   | 0.3 (4.2)   | 1.4                           | 9.0                         | 53.1                           | 110.0                         |
| <b>Non-mining (\$ billion)<sup>4</sup></b>   | 20.4                    | -2.7 (-27.8)  | -13.8                         | -21.7                       | 3.6                            | 9.3                           |
| <b>Confidential/not classified (\$ billion)<sup>5</sup></b>                        | 16.8                    | -3.4 (-33.7)  | -16.7                         | -18.8                       | 63.8                           | 218.4                         |
| <b>Iron ore (\$ billion)<sup>6</sup></b>   | 90.9                    | 2.0 (27.3)  | 7.7                           | 18.4                        | 72.0                           | 127.9                         |
| <b>Iron ore (kilo tonnes)<sup>7</sup></b>  | 717.2                   | 0.8 (10.4)  | 4.9                           | 9.1                         | 6.5                            | 19.1                          |
| <b>Coal (\$ billion)<sup>8</sup></b>   | 10.1                    | -6.5 (-55.4)  | -27.1                         | -28.1                       | -17.7                          | 59.4                          |
| <b>Liquefied gas (\$US billion)<sup>9</sup></b>                                    | 10.5                    | -2.6 (-26.7)  | -15.6                         | -21.3                       | 79.3                           | 586.1                         |
| <b>Food, live animals, beverages (\$ billion)<sup>10</sup></b>                     | 9.3                     | -4.4 (-41.8)  | -12.0                         | -6.5                        | 59.3                           | 124.9                         |
| <b>Services exports (\$ billion)<sup>11</sup></b>                                  | 16.2                    | -   | -                             | -12.8                       | 12.3                           | 68.0                          |
| <b>Tourist arrivals (million)<sup>12</sup></b>                                     | 0.3                     | -24.0 (-96.3)   | -67.4                         | -77.9                       | -76.3                          | -68.4                         |
| <b>Commencing students<sup>13</sup></b>  | 91,818                  |   |                               | -25.8                       | -25.6                          | -0.1                          |
| <b>PRC stock of direct investment in Australia (\$ billion)<sup>14</sup></b>       | 46.0                    |   |                               | 10.1                        | 18.9                           | 44.3                          |
| <b>Total good imports (\$ billion)<sup>15</sup></b>                                | 82.9                    | 1.0 (13.3)  | 4.7                           | 5.6                         | 31.8                           | 34.8                          |
| <b>Services imports (\$ billion)<sup>16</sup></b>                                  | 2.4                     |   |                               | -26.4                       | -11.8                          | 0.6                           |
| <b>Australian stock of direct investment in the PRC (\$ billions)<sup>17</sup></b> | 15.5                    |   |                               | 11.6                        | 16.0                           | 23.4                          |

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<sup>2</sup> 12 months to November 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>3</sup> Ibid.

<sup>4</sup> 12 months to November 2020. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

<sup>5</sup> 12 months to November 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>6</sup> Ibid.

<sup>7</sup> 12 months to November 2020. CEIC database.

<sup>8</sup> 12 months to November 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>9</sup> 12 months to November 2020. CEIC database.

<sup>10</sup> 12 months to November 2020. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

<sup>11</sup> The latest available figure is for 2019-20. Australian Bureau of Statistics, 'International trade: supplementary information, financial year', January 2021 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

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

<sup>13</sup> Year-to-date November 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>14</sup> The latest available figure is for 2019. Australian Bureau of Statistics, 'International investment position, Australia: supplementary statistics', May 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

<sup>15</sup> 12 months to November 2020. ABS <<http://stat.abs.gov.au/>>.

<sup>16</sup> The latest available figure is for 2019-20. Australian Bureau of Statistics, 'International trade: supplementary information, financial year', January 2021 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

<sup>17</sup> The latest available figure is for 2019. ABS <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.