

Australia-China monthly wrap-up

May 2021



This edition features:

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

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This month appeared to more firmly signal the start of a new phase in Australia's triangular relationship with the US and the People's Republic of China (PRC). Senior Australian ministers made it a point to more pronouncedly elevate ties with the US and commitments to the alliance in their rhetoric, while moving away from referring to Australia's comprehensive strategic partnership with the PRC. This month also saw the Opposition Labor Party start to engage once again with the Australia-PRC debate, contesting method, if not substance, Beijing's suspension of the China-Australia Strategic Economic Dialogue, the trial of detained Australian citizen Yang Hengjun, charged with espionage, the progression of Australia's appeal on the PRC's barley tariffs in the World Trade Organisation (WTO), and indications by Beijing that they would be seeking to reduce iron ore dependence on Australia.

That Australia has 'a different lens' than the US in its strategic approach to China was a stance that had been assumed until at least the latter half of 2020. Prime Minister Scott Morrison had [emphasised](#) in a security forum in August that Australia and the US had different approaches to the PRC 'because our economic relationships with China are different...[The Australia-PRC economic relationship is] mutually beneficial. And it does go broader into a strategic partnership...[T]o assume Australia and the United States have an identical outlook on China would be false because the circumstances are completely different.' It seems this position is now being shifted away from.

Australia has not gone so far as to label the PRC a 'strategic competitor', in line with Washington's characterisation. And there remains some commitment to engagement with the PRC, with the Prime Minister on May 12 [saying](#), '[W]e want to have a very positive trading relationship with China and work closely with China...I remain optimistic and willing to engage'. Foreign Minister Marise Payne during a May 27 [interview](#) said that 'Australia remains strongly committed to engaging with China. We certainly acknowledge that it's a complex relationship, but it is comprehensive and it's important and it benefits both of us.'

But the descriptor 'comprehensive strategic partner' to describe the PRC has effectively been shelved. The Foreign Minister during the same May 27 [interview](#) said, 'Certainly, the outlook of China, the nature of their external engagement has changed since our Comprehensive Strategic Partnership was signed in 2014,' a repetition of a narrative first laid out by the Prime Minister during a [speech](#) on February 1. Both the Prime Minister and Foreign Minister pointed to the need 'to adapt to those new realities'.

The Foreign Minister's [comments](#) during a press conference that followed her meeting with Secretary of State Antony Blinken in Washington on May 13 revolved notably more around Australia-US alignment, predicated on shared values ('we are so frequently in alignment, because our foreign policies are rooted in the hearts of our nations that are, in many ways, so fundamentally similar'), than the more cautious remarks delivered during her last visit to Washington for [Australia-United States Ministerial Consultations](#) meeting in July last year. She welcomed 'the clear expressions of support from Washington' following the State Secretary's pledge that 'the United States will not leave Australia alone on the field...in the face of economic coercion by China', a repetition of a sentiment [expressed](#) during high-level US-PRC talks in Anchorage in March. It remains to be seen how this will be effected, although there has been general [discussion](#) of Australia and the US 'working together to find new approaches to economic diversification, supply chain security...and being able to overcome efforts at economic coercion'.

The Foreign Minister also [praised](#) the US for 'giving strength' to countries who might 'feel reluctant to engage' with the PRC on issues such as the treatment of Uyghurs in Xinjiang.

[Asked](#) whether Australia 'stand[s] with' Taiwan after Taiwanese Foreign Minister Joseph Wu [told](#) *The Australian Financial Review* that the territory was 'preparing for a possible assault by China militarily', the Prime Minister made it a point to allude to alliance commitments: '[W]e've always honoured all of our arrangements in the Indo-Pacific, particularly our alliance with the United States'. What this might mean in substance, then, for the Taiwan matter was left deliberately ambiguous.

This follows last month's [comments](#) from Defence Minister Peter Dutton that he did not think a military conflict over Taiwan 'should be discounted' and a [missive](#) written by Department of Home Affairs Secretary Michael Pezzullo saying 'the drums of war beat'. While the Prime Minister has [asserted](#) that the 'drums of war' message had not been authorised by the Home Affairs Minister, and [stated](#) that 'that's not what I've been saying', the government has not particularly sought to damp down discussion of war.

The intensification of talk of conflict over Taiwan prompted the Opposition, heretofore supportive of most government decisions on the PRC and electing to mostly refrain from commenting at any length on Australian PRC policy over the last year, to contest some aspects of the government's tactics. Shadow Foreign Minister Penny Wong laid out these points of difference in detail during a [speech](#) on May 19, which said talk of 'drums of war' was 'reckless'; that 'too much of the discussion on China is frenzied, afraid and lacking context'; and that domestic politics was disproportionately driving the treatment of issues. These points were [reiterated](#) by the Opposition Leader, Anthony Albanese, in a June 2 address. The apparent re-energisation of the Labor Party on the PRC does not necessarily point to support for change in any policy substance – indeed, the Shadow Foreign Minister made it a point to state that 'Labor will continue to do everything we can to maintain bipartisanship' on structural differences between Australia and the PRC – but an intent to grapple with some of the subtleties of approach.

The PRC continues to insist – via its [Foreign Ministry](#) and the [National Development Reform Commission](#) (NDRC) – that Australia 'must take all responsibility' for the breakdown in relations. On May 6 the NDRC indefinitely [suspended](#) the China-Australia Strategic Economic Dialogue, a high-level forum for bilateral exchange on economic issues, stating:

Recently, some Australian Commonwealth Government officials launched a series of measures to disrupt the normal exchanges and cooperation between China and Australia out of Cold War mindset and ideological discrimination. Based on the current attitude of the Australian Commonwealth Government toward China-Australia cooperation, the National Development and Reform Commission of the People's Republic of China decides to indefinitely suspend all activities under the framework of the China-Australia Strategic Economic Dialogue.

The decision to suspend the forum, which was [last held](#) in September 2017, was described by the *Global Times* as [representing](#) 'a substantial and resolute response from China to a major shot fired by the Australian government in scrapping the Belt and Road Initiative deal signed with China', a [decision](#) made under Australia's Foreign Arrangements Scheme on April 21. Trade Minister Dan Tehan [maintained](#) on May 7 that the decision had been 'country agnostic'. In formally suspending the dialogue, Beijing appears to be signalling its

preparedness to suspend talks not just between politicians but also bureaucrats, further closing the door on the means by which meaningful bilateral negotiation can be conducted.

Another potential point of friction which looms between Canberra and Beijing is the Department of Defence's review of the Northern Territory government's 99-year lease of the Port of Darwin to the privately-owned mainland Chinese company Landbridge, entered into in October 2015 for \$506 million. While the Prime Minister on May 6 [acknowledged](#) that the deal had not previously given rise to national security implications, with the then-Secretary of Defence Dennis Richardson 'somewhat supportive' when asked about it during a Senate Estimates hearing in November 2015, he stated that 'a lot has changed between now and then'. While the Opposition have stopped short of saying the deal should be reversed, Shadow Foreign Minister Penny Wong has [pointed to](#) longstanding concerns the party has had with the arrangement. Opposition Leader Anthony Albanese [said](#) on May 3, 'I can't think of a more strategic national asset'.

The Australian government was [notified](#) on May 21 that Australian author Yang Hengjun, detained in the PRC for more than two years, would be facing trial for espionage on May 27. Australia's request for its ambassador to observe proceedings was [denied](#) despite a bilateral consular pact allowing for such diplomatic attendance, with the one-day trial held in secret at the Beijing No.2 Intermediate People's Court. The verdict was deferred. [Asked](#) on May 28 why the Australian ambassador was barred from attending, a PRC Foreign Ministry spokesperson said, 'because it involves national secrets'. In her strongest statement on the matter yet, the Foreign Minister said on the same day, 'We consider this to be an instance of arbitrary detention of an Australian citizen'. Department of Foreign Affairs and Trade officials told a Senate Estimates hearing on June 3 that the Australian government had made at least 117 representations to the PRC to date about the case. Given the conviction rate in PRC criminal trials prosecuted by the state, it appears a conviction is likely, although the severity of sentencing remains uncertain.

This month also marked a year since the PRC's Ministry of Commerce (MOFCOM) [imposed](#) an 80.5 percent tariff on Australian barley exports. Australia's appeal to the WTO to review the PRC's action, launched last [December](#), progressed to the next stage following WTO [agreement](#) on May 28 to Australia's [request](#) to establish a dispute settlement panel. The Australian government is now also [considering](#) taking the PRC to the WTO over its decision in [March](#) to impose anti-dumping and anti-subsidy tariffs on Australian wine exports.

Potentially adding to future economic stresses is the PRC's recent undertaking to reduce its iron ore dependence on Australia. An NDRC spokesperson during a [press briefing](#) on May 18 stated that the agency would be concentrating on diversifying the PRC's iron ore import sources, strengthening domestic exploration of iron ore and increase production.

The narrowing of Australia's export basket to the PRC continues at pace. The total value of goods exports increased for the fifth straight month, reflecting ongoing robust PRC demand for iron ore. Meanwhile, the annual value of non-mining goods exports have fallen by a quarter from a year earlier.

Aside from contracting non-mining exports, new investment data also reveal a thinning of investment ties between Australia and the PRC is underway. The value of the PRC's stock of direct investment in Australia fell by 5.4 percent in 2020, while Australia's stock of direct investment in the PRC collapsed by more than half, albeit this was coming off a more modest base.

Key trade indicators – May 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
Total goods exports (\$ billion)¹	149.1	0.5 (5.8)	2.8	-0.6	49.8	100.3
Mining (\$ billion)²	115.2	1.1 (14.2)	8.9	9.4	71.0	134.9
Non-mining (\$ billion)³	18.4	-1.1 (-12.9)	-13.8	-25.6	-11.8	-8.5
Confidential/not classified (\$ billion)⁴	15.4	-2.3 (-24.1)	-13.5	-22.6	37.6	194.4
Iron ore (\$ billion)⁵	102.9	2.6 (35.4)	19.2	24.2	109.0	173.3
Iron ore (kilo tonnes)⁶	718.6	1.0 (12.5)	2.0	7.9	6.4	17.2
Coal (\$ billion)⁷	5.9	-14.2 (-84.1)	-48.3	-57.3	-48.4	2.0
Liquefied gas (\$US billion)⁸	10.3	2.2 (29.7)	-7.9	-19.2	44.9	424.4
Food, live animals, beverages (\$ billion)⁹	8.4	-2.0 (-21.2)	-15.5	-19.5	30.1	85.4
Services exports (\$ billion)¹⁰	16.2	-	-	-12.8	12.3	68.0
Tourist arrivals (million)¹¹	2.7	-91.1 (-100.0)	-99.5	-99.8	-99.8	-99.8
Commencing students¹²	37,748	-	-	-4.3	-33.6	-16.6
PRC stock of direct investment in Australia (\$ billion)¹³	44.4			-5.4	15.5	24.1
Total good imports (\$ billion)¹⁴	86.6	3.1 (44.1)	5.0	12.0	32.5	39.6
Services imports (\$ billion)¹⁵	2.4			-26.4	-11.8	0.6
Australian stock of direct investment in the PRC (\$ billions)¹⁶	15.5			11.6	16.0	23.4

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

² Ibid.

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

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

⁵ Ibid.

⁶ 12 months to March 2021. CEIC database.

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

⁸ 12 months to March 2021. CEIC database.

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

¹⁰ The latest available figure is for 2019-20. Australian Bureau of Statistics, 'International trade: supplementary information, financial year', November 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

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

¹² Year-to-date March 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>>.

¹³ The latest available figure is for 2020. Australian Bureau of Statistics, 'International investment position, Australia: supplementary statistics', May 2021 <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

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

¹⁵ The latest available figure is for 2019-20. Australian Bureau of Statistics, 'International trade: supplementary information, financial year', November 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

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