

Australia-China monthly wrap-up

September 2021



This edition features:

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

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The biggest news out of this month was Australia's [announcement](#) on September 16 of a trilateral security partnership with the US and the UK – 'AUKUS' – with its first major initiative being the Australian acquisition of eight nuclear-powered submarines using US and UK technology. While the countries have maintained that the pact is not directed at any one country, the People's Republic of China (PRC) features prominently in the partnership's thinking. The decision in substance may ultimately turn out to be strategically beneficial for Australia, but it was executed in a manner that has caused consternation in parts of Europe and Asia at a time when Australia can ill-afford to lose friends.

In a slight deviation from the generally fractious tone of Australia-PRC relations, the Ambassador to the PRC in Australia in a statement marking the 72nd anniversary of the founding of the PRC made it a point to [highlight](#) the 50th anniversary of Gough Whitlam's visit to the PRC. And one of the PRC's vaccines, Sinovac, was [recognised](#) by Australia's Therapeutic Goods Administration as an approved vaccine for incoming international travellers.

But with Taiwan as a growing point of concern and a decision on the Port of Darwin looming, Australia-PRC relations are likely to only get rockier.

AUKUS and nuclear submarines

In expounding on the announcement, Prime Minister Scott Morrison [labelled](#) the partnership 'the single greatest initiative to achieve [the protection of Australia's national security interests] since the ANZUS alliance itself'. The same formulation was used by the Prime Minister in March this year to [describe](#) the elevation of the Quad to leader-level talks. While his pronouncement may prove to be the case, more questions than answers remain with respect to whether the AUKUS gambit will enhance Australia's ability to effectively deal with the PRC. It also remains to be seen how the decision, in terms of both its substance and execution, will affect Australia's regional relationships – the announcement debuted to a [mixed reception](#) – and the flow-on effect it might have on initiatives further afield, such as free trade agreement negotiations with the [European Union](#). Foreign Minister Payne has effectively [acknowledged](#) that it may have some adverse impact on the latter. (See Elena Collinson, '[AUKUS and nuclear submarines: More questions than answers](#)' for a more detailed discussion).

While the decision is [supported](#) overall by the Opposition Australian Labor Party,¹ they have put forward some criticism of the lack of investment in better diplomacy, with Shadow Foreign Minister Penny Wong [noting](#) the lack of information provided by the government on a number of key issues.

Beijing's immediate [response](#) to the announcement was robust, but measured, relatively speaking, criticising the move as 'extremely irresponsible' and having 'seriously undermined regional peace and stability, intensified the arms race and undermined international non-proliferation efforts.'

Mixed messaging

The Prime Minister in an interview reverted to [maintaining](#) that 'we don't want to choose...a future in the Indo-Pacific which is binary...There shouldn't be sides', which seems to sit uncomfortably with the us-versus-them-style rhetoric – 'liberal democracies versus authoritarian regimes' – that has [suffused](#) his set-piece foreign policy [speeches](#) over the past year. The Prime Minister also [told](#) Indian media that Australia was 'not in the containment club when it comes to China'.

Yet actions seem to suggest otherwise. And when Defence Minister Peter Dutton was [asked](#) whether, in his estimation, Australia was already 'in a cold war with the PRC at the moment', a rebuttal was not forthcoming. Muscular words on Beijing were also [used](#) by the Defence Minister in a September 8 address to the American Chamber of Commerce in Australia. His remarks prompted a strongly worded [statement](#) by the PRC Ministry of National Defence.

The Defence Minister also [indicated](#) in a subsequent interview that should conflict between the PRC and the US arise with respect to Taiwan, Australia would likely join, supporting the US: 'As to whether [the Communist Party of China] decide to do something in regard to Taiwan, in that case what is the American response and we obviously have an alliance with the US...so we need to be realistic about that'.

Regional relationships

The Defence Minister and Foreign Minister Marise Payne travelled to Indonesia, South Korea and India to meet with counterparts for 2+2 meetings. While the meetings yielded solid lists of shared commitments and concerns, with an interest in deepening cooperation pledged across the board, they also highlighted stark differences in approach with respect to managing relations with the PRC. A few key points highlighted below.

Indonesia

With respect to the [Seventh Indonesia-Australia Foreign and Defence Ministers 2+2 Meeting](#) on September 9, neither the joint statement out of the meeting nor the following [press conference statements](#) made mention of the PRC.

India

During the inaugural [India-Australia 2+2 Ministerial Dialogue](#) on September 11, Defence Minister Dutton [invited](#) India to participate in the next Talisman Sabre military exercises held by Australia and the US in 2023. There was no indication whether the invitation would be accepted.

¹ The decision, government policy on the PRC and the Labor Party's stance was lambasted by former Labor prime minister Paul Keating who wrote, 'Morrison, a younger throwback to the Liberals' Anglosphere, shops Australia's sovereignty by locking the country and its military forces into the force structure of the United States by acquiring US submarines.' See Paul Keating, Morrison is making an enemy of China – and Labor is helping him', *Sydney Morning Herald*, September 22 2021 <<https://www.smh.com.au/world/asia/morrison-is-making-an-enemy-of-china-and-labor-is-helping-him-20210921-p58tek.html>>. Mr Keating had also written in an opinion piece earlier this month, 'The Morrison government is needlessly and irresponsibly pushing Australia towards a headlong confrontation with China – and doing it, in the main, to be seen in Washington as America's fawning acolyte.' See Paul Keating, 'The Morrison government is provoking China to please America', *The Australian Financial Review*, September 3 2021 <<https://www.afr.com/policy/foreign-affairs/the-morrison-government-is-provoking-china-to-please-america-20210902-p58o9i>>.

South Korea

During a press conference following the [Fifth Australia/Korea Foreign and Defence Ministers 2+2 Meeting](#) on September 13 a Korean journalist put to the ministers that the ‘Korean government is...trying to seek a balance between the US and China, whereas Australia is more standing against China’. The characterisation of the Korean approach was not rejected by the Korean Foreign Minister, Chung Eui-Yong, as the characterisation of the Australian approach was by Foreign Minister Payne. The Korean Foreign Minister also indicated a coolness on joining the Quad, stating that ‘whether to join [the Quad] or not’ is a ‘black or white approach, and we’d like to be more flexible.’

An Australian journalist put to Defence Minister Dutton that he used ‘notably more strident language than [his] South Korean counterpart to describe China’s behaviour in the region, including accusing it of coercion and aggression.’ The Minister attributed it to Australia’s ‘direct experience’ of PRC actions, a justification which appeared to neglect South Korea’s own ordeals, such as the PRC’s [sanctions](#) on Lotte and its [banning](#) of travel agencies from selling package tours to South Korea in response to the greenlighting of a US missile defence system.

The Quad

The first in-person meeting of the Quad at the leaders’ level was held this month, with its [communiqué](#) underlining a commitment to ‘a free and open Indo-Pacific, which is also inclusive and resilient.’ The Quad’s focus on largely uncontroversial endeavours may reflect India’s continuing caution about the nature of the grouping, with Indian External Affairs Minister Subrahmanyam Jaishankar having earlier firmly [rejected](#) the notion that the Quad was analogous to a NATO-style grouping:

...if you look at the kind of issues Quad is focused on today – vaccines, supply chains, education, connectivity – I can’t see any relationship between such issues and NATO or any other kind of organisations like that. So I think it’s important not to misrepresent what is the reality of that.

The US alliance

This month marked the 70th anniversary of the ANZUS Treaty and the [31st Australia-US Ministerial Consultations](#) (AUSMIN). The [press conference](#) following AUSMIN saw Australian and American ministers in lockstep on the PRC, a far cry from AUSMIN 2020 which saw Foreign Minister Payne make it a point to [differentiate](#) between the Australian and American approach.

CPTPP

On September 16, after having [flagged](#) interest in November 2020, the PRC [formally applied](#) to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The PRC Embassy in Australia had lobbied Canberra to join via a September 10 [submission](#) to an Australian parliamentary inquiry into expanding CPTPP membership.

With unanimous support of the pact’s members required for admission, the path towards accession will be a tricky one for the PRC. Politics will likely play a large role in discussions, with Australia, Canada and Japan mired in differing degrees of tension with Beijing.

Australian Trade Minister Dan Tehan stated in an [interview](#) that for the PRC to join the CPTPP, a series of conditions would have to be met, including the resumption of ministerial engagement between the countries.

The Opposition has [articulated](#) support for this stance, noting that the ‘first priority’ with respect to the CPTPP ‘is for the US to engage.’

Behind the scenes discussions and manoeuvring will inevitably be made more complex by Taiwan’s formal [application](#) to join the CPTPP on September 22. Trade Minister Tehan made the studiously neutral comment on September 24 that ‘Australia will work with the CPTPP membership to consider Taiwan’s application on

a consensus basis'. But there appears to be notional Australian support for Taiwan's accession, with *The Australian reporting* that 'a senior diplomatic source involved in the process [said] that Australia, Japan and Canada...had been in discussions exploring a path for Taiwan's entry.'

A PRC Foreign Ministry spokesperson [stated](#) during a press conference that the PRC 'firmly opposes official interactions between any country and the Taiwan region, and firmly rejects Taiwan's accession to any agreement or organisation of official nature'.

A 'China plus' strategy

Australian Treasurer Josh Frydenberg in a September 6 [keynote speech](#), while highlighting Australia's economic resilience, encouraged businesses to adopt a 'China plus' strategy in order to 'prepare for and manage' heightened strategic competition, especially in light of the '[economic coercion] we have been subjected to'. While acknowledging that '[m]any [Australian businesses] have worked hard to access the lucrative Chinese market', that '[t]his has brought great benefits to them and Australia overall', and noting that 'they should continue to pursue these opportunities where they can', the Treasurer also warned 'there will be times when we must pay a 'premium' to protect our economy and ensure our long-term economic resilience'.

In response, a PRC Foreign Ministry spokesperson [stated](#) that 'the label of so-called 'economic coercion' can never be pinned onto China', contradicting a contemporary's [admission](#) of the PRC's engagement in trade punishment in July.

Wine and barley disputes in the WTO

Some progress in the sluggish World Trade Organisation (WTO) dispute settlement process was made this month, with the [appointment](#) on September 3 of a three-person panel to address Australia and the PRC's dispute over barley subsidies. With the two countries unable to agree on the panel makeup, the Australian government had submitted a request to the Director-General to determine the composition of the panel on August 25 2021.

On September 16 Trade Minister Tehan [announced](#) that Canberra had requested the WTO establish a dispute settlement panel to adjudicate PRC anti-dumping duties imposed on Australian wine.

Foreign interference on university campuses

It was reported at the end of August that one element of proposed updates to guidelines introduced by the [University Foreign Interference Taskforce](#) (UFIT), a body set up in 2019, [involves](#) the training of students and academics to recognise and report threats of foreign interference on campus.

PRC government influence and interference in universities are a legitimate concern, with a Human Rights Watch report in June [detailing](#) international students from the PRC and Hong Kong's experiences of surveillance and harassment, and the panopticon effect on other such students.

But UFIT's proposed measure, should it come to pass, will need to be balanced against the need to preserve freedom of academic speech and protect against discrimination. Given the climate (see, e.g., results of the [UTS:ACRI/BIDA Poll 2020](#)),² the measure will likely disproportionately negatively affect Australian and other international students with Chinese or other Asian backgrounds.

² The UTS:ACRI/BIDA Poll 2020 found that 72 percent of Australians already believe that 'Foreign interference in Australia stemming from China is a major problem'; 46 percent believe that 'Australian values and traditions are being undermined by Chinese government influence in Australia'; and 39 percent that 'Australians of Chinese origin can be mobilised by the Chinese government to undermine Australia's interests and social cohesion.' See Elena Collinson and Paul Burke, *UTS:ACRI/BIDA Poll 2020: Australian views on the Australia-China relationship*, June 16 2021 <<https://www.australiachinarelations.org/content/utsacribida-poll-2021-australian-views-australia-china-relationship>>.

Trade update

At an annual value of \$173.9 billion, up 4.9 percent on last month, the total value of Australia's goods exports to the PRC has, or is very close to, peaking. Sharp falls in the iron ore price from the beginning of August will drag down aggregates in the months ahead. Fortunately for the Australian economy as a whole, the expected fall in value to the PRC will be offset by strong global demand for Australia's minerals and energy products more broadly: coal and liquefied natural gas (LNG) prices are soaring even as iron ore prices have fallen by around a half from their historical highs.

It is also noteworthy that the value of non-mining goods exports to the PRC has levelled off after the disruption of products like barley and wine worked their way through the trade data. At their peak, non-mining goods exports reached \$27.5 billion in July 2019. This fell to \$18.4 billion in April 2021 but has recovered slightly and now stands at \$19.9 billion.

Australia's export of education services to the PRC is also showing remarkable resilience. The number of commencing students from the PRC at Australian universities through July is only down 8.2 percent on the peak in 2019. This is despite COVID-19 border closures, as well as geopolitical tensions between the governments. In contrast, commencements from India, Australia's second largest market, have slumped by 34.1 percent. This is illustrative of Australia's trade diversification challenge: market forces can easily overwhelm even the best intentions and plans laid by governments and businesses.

Key trade indicators – September 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)³	173.9	4.9 (77.9)	16.8	17.7	62.5	132.6
Mining (\$ billion)⁴	138.6	5.1 (81.0)	21.7	31.0	94.1	175.2
Non-mining (\$ billion)⁵	19.9	4.8 (75.7)	4.5	-10.6	-11.5	3.1
Confidential/not classified (\$ billion)⁶	15.3	3.7 (55.2)	-3.5	-22.1	17.2	202.2
Iron ore (\$ billion)⁷	131.9	6.0 (101.1)	32.9	56.6	163.6	237.9
Iron ore (kilo tonnes)⁸	692.2	-2.3 (-24.3)	-2.6	-1.9	1.2	11.4
Coal (\$ billion)⁹	1.4	-34.7 (-99.4)	-82.1	-89.2	-89.4	-75.1
Liquefied gas (\$US billion)¹⁰	10.7	0.5 (6.1)	5.4	-11.1	27.1	344.3
Food, live animals, beverages (\$ billion)¹¹	7.7	0.2 (2.0)	-14.4	-26.8	11.4	70.1
Services exports (\$ billion)¹²	12.4	-	-	-35.7	-21.5	12.9
Tourist arrivals (million)¹³	3.5	3.8 (56.7)	-93.1	-99.5	-99.8	-99.7
Commencing students¹⁴	55,628	-	-	-14.6	-45.0	-30.5
PRC stock of direct investment in Australia (\$ billion)¹⁵	44.4			-5.4	15.5	24.1
Total good imports (\$ billion)¹⁶	86.6	-0.6 (-6.6)	3.1	5.8	25.9	42.6
Services imports (\$ billion)¹⁷	1.5			-54.6	-49.4	-42.8
Australian stock of direct investment in the PRC (\$ billions)¹⁸	6.8			-56.4	-50.2	-51.3

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³ 12 months to July 2021. ABS <<http://stat.abs.gov.au/>>.

⁴ Ibid.

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

⁶ 12 months to July 2021. ABS <<http://stat.abs.gov.au/>>.

⁷ Ibid.

⁸ 12 months to July 2021. CEIC database.

⁹ 12 months to July 2021. ABS <<http://stat.abs.gov.au/>>.

¹⁰ 12 months to July 2021. CEIC database.

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

¹² The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

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

¹⁴ Year-to-date July 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>>.

¹⁵ The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

¹⁶ 12 months to July 2021. ABS <<http://stat.abs.gov.au/>>.

¹⁷ The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

¹⁸ The latest available figure is for 2020 <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.