

Australia and Lithuania: Limits of Chinese trade coercion

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As the geopolitical distance between Beijing and Western capitals widens, privately-owned companies headquartered in the latter are being warned they might find themselves as collateral damage.

One group with exposure is those with investments in the People's Republic of China (PRC).

Another is those that have trade exposure to Chinese customers and suppliers. And for this group, the recent experiences of Australia and Lithuania are often cited as being seminal for the warning they provide.

In May 2020, Beijing launched a [campaign of disruption](#) that by the year's end saw Australian exporters of around a dozen goods, such as coal, wine and lobsters, having had their access to the Chinese market curtailed or cut off altogether. As of this month, none of the sanctions have been removed.

In March last year, Graham Fletcher, Australia's ambassador to the PRC, [told](#) a business forum that: 'You've just got to imagine that, unexpectedly, you may lose your China market for no good reason other than that Beijing has decided to send a message to Canberra'.

Then in December 2021, it was [reported](#) that the PRC's customs agencies had removed Lithuania from its register of origin countries, the practical effect of which was a complete import ban. While Lithuania's entry was restored a few days later, the total value of the PRC's imports from Lithuania between December 2021 and April 2022 was 83 percent less than the same period a year later. In February 2022, the PRC [officially halted](#) imports of Lithuanian beer, dairy and beef imports, citing alleged shortcomings in documentation.

Certainly, individual companies and specific industries would do well to be across their vulnerability to contingencies of the type Australia's ambassador flagged.

But in updating assessments of geopolitical risk, there is nothing to be gained from a narrow and parochial reading of the evidentiary base. And the reality is that the Australian and Lithuanian examples serve as much to qualify geopolitical risk as draw attention to it.

First, despite some suggestions [otherwise](#), they demonstrate that Beijing has not adopted trade disruption as a hair-trigger response to political disagreements.

After all, there are plenty of Indo-Pacific capitals that have had to deal with deteriorating political relations with Beijing. For some, such as Tokyo and New Delhi, these tensions stem from issues like territorial disputes that are far more burning and intractable than those that Canberra must manage. And yet none are experiencing the same depth and breadth of trade disruption that Australia is.

To be clear, the PRC does have a long track-record of engaging in trade disruption to send a political message. The past experience of the Philippines with bananas, Korea with tourism, and so on, are all part of a well-known rap sheet. But in each of these cases, the disruption was highly targeted, and often short-lived.

And indeed, Australia's [own experience](#) was that despite the political relationship turning sour in 2017, these tensions did not spill over into the trade realm until more than three years later.

Overseas observers of the Australian experience would do well to apply considerable scepticism to the convenient Canberra line that Beijing began disrupting trade simply because the government had the temerity in April 2020 to call for an independent, international inquiry into the Covid-19 pandemic.

The fact is that the recently-dumped Australian government led by Scott Morrison, the former Prime Minister, was an outlier in the region for its provocative handling of relations with the PRC.

In just one example, in the month prior to trade being disrupted, Morrison [advocated](#) for foreign health officials to be given powers akin to 'weapons inspectors' that would allow them to forcibly enter a country and conduct investigations.

This coincided with other statements by Morrison and some of his senior ministers that conveyed to Beijing the strong [impression](#) his government was coordinating with the Trump administration in Washington to launch a political attack over the pandemic.

Reflecting on the 'weapons inspector' calls in early 2021, Martin Parkinson, the former Secretary of Morrison's own department, Prime Minister and Cabinet, [remarked](#): 'What whizz kid who dreamed up those talking points, what did they think they were going to achieve with that?'

Penny Wong, the opposition Labor party's foreign affairs spokesperson at the time – now Foreign Minister – said Morrison's [handling](#) of the matter had meant Australia had 'isolated itself'.

For some pundits however, the Lithuanian experience hot on the heels of Australia's served as confirmation that Beijing had acquired a newfound penchant for disrupting trade.

Yet the trigger in this case was an unprecedented decision by Vilnius to allow Taiwanese authorities to open a representative office using the name 'Taiwan' rather than 'Taipei'. The Taiwan naming issue is one which Beijing has been pedantic about for more than 70 years. And since establishing formal diplomatic ties with the PRC, no other country, including the United Kingdom (UK), the United States (US) and Australia, have agreed to adopt a similar naming convention.

An argument can be made that third countries ought to be able to deal with Taiwan however they wish. But those making this argument should at least be up-front and acknowledge that, with the sole exception of Lithuania, every other country that recognises Beijing has accommodated its sensitivities to date.

In assessing Beijing's penchant for trade disruption, it is also analytically appropriate to compare its behaviour with the world's other economic and strategic superpower, the US.

One Australian commentator [claimed](#) that Beijing had a particular inclination for engaging in economic coercion because 'as an authoritarian state... China... tends to link its commercial and political demands on other countries'.

Yet the Washington-based Center for New American Security has [assessed](#) the fact that 'Coercive economic measures have been a longstanding tool of American foreign policy'. The authors then emphasised that more recently they had become 'a central tool'.

And since 2018 the PRC has emerged as a major target. This is, of course, not to argue that US actions against the PRC justify the PRC's actions against Australia and Lithuania. Rather, US behaviour sets a norm for other major powers, and many smaller and middle-powers looking on will see little out of the ordinary in the PRC exerting political pressure via trade.

When re-visiting geopolitical risk assessments, the second key observation from the experience of Australia and Lithuania is how ineffectual Beijing's trade disruption has been.

In Lithuania's case, this largely stemmed from its miniscule exposure to begin with. In 2020, the PRC only accounted for 1 percent of Lithuania's total goods exports.

But even in Australia's case, with 41 percent of total goods exports going to the PRC in the same year, the fallout from Beijing's actions have been limited.

This is first and foremost because the nature of trade is a win-win exchange, with the corollary being that disrupted trade is lose-lose. And while perhaps wishing to punish Australia, Beijing has demonstrated a [reluctance](#) for punishing itself too severely in the process. This has meant, for example, that iron ore, the backbone of Australian exports to the PRC, has continued to flow unimpeded.

In fact, owing to a fortuitous increase in global commodity prices, the total value of Australian goods exports to the PRC last year hit a record high – \$US116 billion (£95 billion), up from \$US89 billion (£73 billion) the year before the trade strikes began.

Even at a more [disaggregated industry level](#) the damage has mostly been modest because Australian exporters have had ready access to effective mitigation mechanisms. The most important of these has been competitive, global markets, which in turn are supported by the rules-based, multilateral trade system overseen by the World Trade Organization.

Consider the case of cotton. In September 2020 three-quarters of Australia's cotton exports went to the PRC. The next month local producers lost access to the Chinese market almost entirely. Yet rather than being a catastrophe, global markets swiftly re-directed Australian cotton to customers elsewhere and with an imperceptible hit to the unit prices earned.

It turns out that rather than being dupes in thrall to the Chinese market, many Australian businesses were well ahead of Canberra in understanding their exposure and capacity to manage risk. This shouldn't, in fact, be surprising: the private owners of these businesses were the ones who had skin in the game.

In taking the actions it has against Australia and Lithuania, the PRC has done its reputation as a reliable trading partner that plays by the rules no favours. Accordingly, Beijing only has itself to blame if some overseas businesses now assess their interests are best-served by reducing their exposure or investing more in risk mitigation.

But the Australian and Lithuanian experiences fall short of justifying a sweeping narrative that trade connections with the PRC now come with sharply elevated geopolitical risk. Western capitals and commentators that imagine the experiences of these two countries will prompt a general and significant diversification away from the PRC, let alone a 'decoupling', will likely find themselves disappointed.

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