

Australia-China Trade Relationship

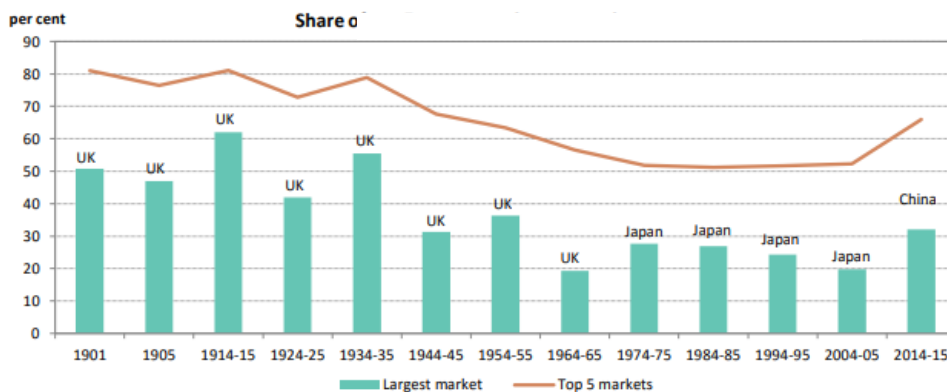
Notes by Thomas Tod

V1 15 Nov 2020. Comments welcome at thebrisbanedialogues@gmail.com.

Background

A brief history of Australian trade: For most of Australia's history the UK has been Australia's main export market. Only in the early 1960s, when Japan replaced the UK as Australia's top trading partner, did Asia become a major export destination (Figure 1). However, China remained a comparatively minor export destination until the early 2000s, when rapid growth in the Chinese economy fuelled demand for Australian exports. By 2007, China had supplanted Japan as Australia's main trading partner. In December 2015, the Australian Government signed the China Australia Free Trade Agreement (ChAFTA).

Figure 1: Top Export Markets as a Share of Total Trade¹



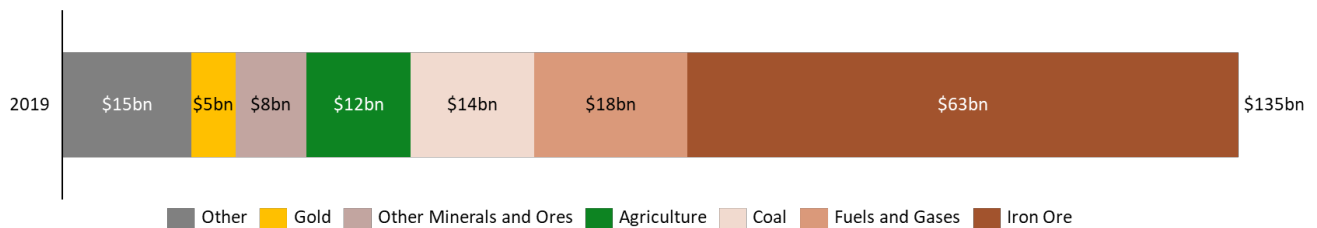
The size of Australia-China trade: China is Australia's main trading partner, with two-way trade worth more than \$230bn AUD. Australia has a trade surplus with China, with the value of Australian exports to China almost double the value of imports from China (see Table 1). Australia accounts for 2% of China's exports.² Australian trade with China in 2020 is down by 26%, due to COVID-19 and ongoing tensions.³

Table 1: Top 5 Australian Trading Partners - 2018/19⁴

#	Top 5 Exporter Nation	Value of Exports (AU\$m)	Percentage of Total Exports	Value of Imports (AU\$m)	Percentage of Total Imports
1	China	153,177	30.6%	81,777	19.4%
2	Japan	61,728	13.1%	26,802	6.4%
3	South Korea	27,771	5.9%	13,623	3.2%
4	United States	24,748	5.3%	51,638	12.3%
5	India	22,836	4.9%	7,505	1.8%

The composition of Australia-China trade: Mineral resources are Australia's main export to China by value. Since the late 2000s, there has been a significant increase in the export of consumer goods, e.g. meat, dairy and wine, driven by growth in the Chinese middle class. Export of services such as education have also increased.

Figure 2: Composition of Australian Goods Exports to China⁵



Challenges and Contentions

Australia's 'exposure' to the China's export market: Many Australian export industries are highly exposed to China, including meat (25%),⁶ iron ore (approx. 30%), higher education (40%),⁷ barley (60-70%),⁸ and lobster (94%). Exposure creates risk: either from rapid market changes, i.e. a sharp reduction in international students due to COVID-19, or from Chinese Government policy changes. Australia's export market exposure to China is comparable to South Korea and New Zealand.

Anti-dumping battles: After the USA and India, Australia is the third largest user of anti-dumping measures, or the imposition of tariffs on imports that have an unfair trade advantage. Most Australian anti-dumping measures are used against China, sometimes in contravention of the terms of ChAFTA. This has led to China increasing its use of anti-dumping measures on Australian imports.

Coercive diplomacy: The Chinese Government is increasingly using overt and covert trade restrictions to achieve diplomatic ends ('coercive diplomacy').⁹ In 2020 alone, the Chinese Government has applied restrictions or sought to reduce trade in several major export categories, including beef, barley, lobster and higher education. There is a strong correlation between acts of coercive diplomacy and Australian Government statements that are not complimentary of China's policy positions. For example, the Chinese Government introduced tariffs on Australian barley soon after the Australian Government called for an investigation into the origin of COVID-19.

Dual circulation: In 2020 the Chinese Government announced a new policy of 'dual circulation' to hedge its dependence on overseas export markets. This strategy will promote domestic consumption and innovation as the primary means for economic growth, with international exports complementing internal growth. A reduction in Chinese mercantilism would significantly reduce the volume of global trade flows. However, questions about the efficacy and impact of the strategy remain, including:

- How this new strategy will impact key Australian imports, e.g. Australian coal and iron ore, which are not easily substituted?
- How the Chinese Government will continue to increase household income to grow domestic demand without exports?
- How this strategy will differ from the Government's previous (and unsuccessful attempts) to increase domestic consumption?

Trade competition: Australia's trade relationship with China is subject to influence and 'collateral damage' from the policy positions of major trade competitors. For example, China's agreement with the USA to spend an additional US\$200bn on American goods and services over the next two years is likely to reduce Chinese demand for Australian agricultural imports.

¹ <https://www.dfat.gov.au/sites/default/files/australias-trade-since-federation.pdf>

² <https://oec.world/en/profile/country/chn>

³ <https://www.aspistrategist.org.au/chinas-new-economic-strategy-may-not-sit-well-with-its-people/>

⁴ DFAT, 2020

⁵ <https://www.dfat.gov.au/sites/default/files/cot-2018-19.pdf>

⁶ <https://www.afr.com/world/asia/australian-beef-exports-threatened-as-chinese-buyers-look-to-us-20200619-p554bn#:~:text=China%20purchased%2025%20per%20cent,6%20billion.>

⁷ Austrade

⁸ <https://www.smh.com.au/national/carefully-laid-trap-why-is-china-imposing-tariffs-on-our-barley-and-what-s-a-tariff-20200519-p54uf7.html>

⁹ <https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>