

Australia-China monthly wrap-up

January 2020



This edition features:

- Summary and analysis of major developments December 20 2019 – January 2020
- Key trade indicators
- Perspectives: 'Australia-China: the year ahead' by Dr Geoff Raby AO. *Perspectives* is UTS:ACRI's new bimonthly commentary series, featuring a piece on a topical subject in the Australia-China relationship from an invited expert contributor.

Elena Collinson and James Laurenceson

With the December monthly wrap-up released early due to the holiday season, covering developments to December 19 2019, this edition covers the period December 20 to January 31 2020.



Between December and January, the 2019 novel coronavirus rapidly fanned outward from Wuhan, the epicentre of the outbreak, prompting the World Health Organization to [declare](#) a global health emergency on January 30. In recent years, much discussion has centred around the potentially dire economic risk of Australia being cut off from the supply of mainland Chinese tourists and students – a risk primarily associated with the government of the People's Republic of China (PRC) choosing to punish Australia over political disagreements. Yet now the risk has materialised, it has been at the Australian government's instigation in an understandable prioritisation of public health. Although to be sure, the risk could be short-lived.

Within Australia's debate on how best to formulate policy with respect to the PRC, 2019 ended as it started, with discussions continuing apace. Liberal MP Dave Sharma on December 30 penned an [opinion piece](#) that made the case for Australia to prepare to engage in 'political warfare' to protect against authoritarian regimes seeking to undermine national sovereignty. This call for political warfare [echoed](#) a similar appeal earlier that month by Liberal backbencher Andrew Hastie, a vocal critic of Beijing. Mr Sharma recommended 'exploiting

points of vulnerability in those that seek to undermine our political system or those of our allies', albeit 'in a way that is consistent with our values'.

The new year saw Australian and PRC representatives come together for the sixth annual Australia-China High Level Dialogue, [held](#) in Sydney on January 20 and co-chaired by former Australian Prime Minister John Howard and former PRC Minister of Foreign Affairs Li Zhaoxing. While there was no particular fanfare around the Dialogue in public fora, it is useful that it continues to operate as a channel of communication, indicating that despite political frostiness between the two countries, some architecture for regular dialogue remains in place.

2020 also opened with a continued, concerted push by Australia to further diversify its international economic engagement, with [reports](#) in January on plans to rejig its 20-year plan, first released in 2015, to develop northern Australia. The original plan placed significant focus on the opportunities that might arise from PRC investment, but according to then-Northern Australia Minister Matt Canavan, '[T]he more volatile environment is a totally different playing field than what we had five years ago', prompting the government to reorient its gaze to India, Southeast Asia and the Pacific Island nations. Senator Canavan said, 'We shouldn't hitch our star to one country because that elevates risk, not just from a political perspective but from an economic one, too.'

Australia also continues to court India in the hopes of elevating the bilateral relationship, as well as securing an invitation to participate in the Malabar naval exercises it conducts with the US and Japan. There is some [optimism](#) that an invitation may be issued this year. One sticking point that Indian decision-makers might be contemplating is the signal this might send to the PRC – namely that expanding the Malabar participant list could be construed as the introduction of a military dimension to the Quadrilateral strategic dialogue. Anticipating this interpretation, Australia's outgoing High Commissioner in a recent interview [noted](#) that it 'should not be construed as Quadrilateral military formation'.

The UK towards the end of January [decided](#) to allow Huawei to participate in 'non-core' sections of its 5G network, with a market share cap of 35 percent. The UK Foreign Secretary told the House of Commons that the move would not adversely affect the Five Eyes intelligence sharing partnership, a sentiment [expressed](#) by the head of MI5 earlier in the month. This generated a [flurry](#) of criticism from security commentators in Australia, including from a former director of the Australian Signals Directorate, Simeon Gilding, who [opined](#) that the UK had done 'the wrong thing' on Huawei, [stating](#) unequivocally that 'there is no distinction between core and edge'. Four Australian backbenchers – the Liberal Party's Andrew Hastie, James Paterson and Tim Wilson; and the Labor Party's Kimberley Kitching – had [attempted](#) to weigh into the UK's Huawei debate in the days leading up to the decision, making the case for the Australian approach to be followed.

The UK's decision is unlikely to have material bearing on Australian policy at any point in time soon. On January 31 Attorney-General Christian Porter said Australia's decision on Huawei was 'incredibly unlikely to be revisited' and that Australia had 'moved on from that decision'.¹ It is likely, however, that the different path taken by the UK will further inflame questioning from the PRC around the Australian decision.

The year ahead will see Australia continue to grapple with how best to address human rights concerns in its relationship with the PRC. January marked one year since Australian author Yang Hengjun's arrest – no details as yet have emerged regarding the charges against him. Foreign Minister Marise Payne consistently criticised the persecution of the PRC's Turkic minority in Xinjiang throughout 2019, and in December facilitated the opening of an [inquiry](#) into the use of targeted sanctions to address human rights abuses, looking to the United States' Magnitsky Act as a possible model. Should Australia introduce and pass the legislation, it would join the UK and Canada, among others, in doing so.

Foreign interference will also remain a primary focus. A [report](#) in *The Australian* on December 21 said 'a new specialist team of investigators [within the Australian Federal Police] was preparing to move against suspected foreign agents in the first half of [2020]'. While particulars regarding country of origin for attempts

¹ Lanai Scarr, 'Porter: It is our way or Huawei', *The West Australian*, January 31 2020, p11.

at foreign interference were not provided, the PRC had recently been [nominated](#) by the former head of ASIO, Duncan Lewis, as the state which has "overwhelmingly" preoccupied Australian authorities'.

The value of trade between Australia and China continued to rise through November 2019 with two-way total now worth an annual \$247.7 billion. Mining exports are the standout, eclipsing \$100 billion and up 36.8 percent over the past year. Food, live animals and beverages is another category experiencing rapid growth, up 39.6 percent. In contrast, China's demand for the services exports of tourism and education has plateaued.



Last month's [brief](#) observed that China now buys 38 percent of Australia's good exports. But even this massive share downplays the position that China has assumed in driving Australia's trade growth. Over the past year, the annual value of Australia's total goods exports has increased by \$49.4 billion. Of that, \$31.3 billion, or nearly two-thirds (63.4 percent), is owed exclusively to China.

Generally resilient Chinese demand through November may appear particularly surprising given the country's just-released GDP growth figures. At 6.1 percent in 2019, the almost inevitable headline accompanying the new figures was that China is now expanding at its [slowest pace](#) in 30 years. But once this growth in percentage terms is converted to absolute changes in purchasing power (i.e., RMB being added to the economy), what is revealed is the second largest increase ever. In fact, if growth had been just 0.1 percentage points higher at 6.2 percent, the increment in purchasing power would have hit a record high. All of this stems from the fact that today's Chinese economy is much larger than previously, more than double the size it was in 2011.

That said, the short-term trade outlook has softened markedly with the outbreak of novel coronavirus. Australia's services exports to China, already slipping back, now face a further hit as arrivals of tourists and students are cut off entirely while the current border controls are in place. And food exports like beef and wine, previously performing strongly, will come under pressure as more Chinese choose to stay at home rather than eat out. It is possible that in response to the health crisis the Chinese government will launch stimulus measures, which typically involve a good deal of infrastructure building, and this might actually lead to increased demand for Australian iron ore. But while this could limit the damage in terms of the overall dollar value of Australia's exports to China, the reality is that outside of mining many sectors will be suffering.

Key trade indicators - January 2020

	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)²	147.2	0.9 (11.7)	13.3	27.1	91.0	73.2
Mining (\$ billion)³	100.5	2.5 (34.3)	22.9	36.8	88.0	49.5
Non-mining (\$ billion)⁴	26.1	-3.3 (-33.2)	-3.8	1.9	45.6	97.1
Confidential/not classified (\$ billion)⁵	20.6	-0.9 (-10.7)	-0.9	22.8	261.3	353.5
Iron ore (\$ billion)⁶	77.5	2.8 (40.1)	31.8	51.8	88.2	47.6
Iron ore (kilo tonnes)⁷	657,214	-0.3 (-3.5)	0.0	-3.1	2.5	23.2
Coal (\$ billion)⁸	14.2	-0.8 (-9.1)	-1.9	0.5	99.7	62.7
Liquefied gas (\$US billion)⁹	13.9	-2.8 (-29.0)	0.9	25.5	288.3	1644.1
Food, live animals, beverages (\$ billion)¹⁰	10.0	4.1 (62.6)	22.1	39.6	130.6	243.4
Services exports (\$ billion)¹¹	18.5	-	-	8.2	47.9	129.6
Tourist arrivals (million)¹²	1.44	-0.1 (-1.2)	0.9	1.0	19.9	72.7
Commencing students¹³	119,222	-	-	-2.2	19.0	52.0
Chinese stock of direct investment in Australia (\$ billion)¹⁴	40.1			4.5	12.3	71.7
Total good imports (\$ billion)¹⁵	78.5	0.0 (-0.3)	0.3	5.3	31.6	53.7
Services imports (\$ billion)¹⁶	3.5			7.0	26.5	39.3
Australian stock of direct investment in China (\$ billions)¹⁷	13.5			1.9	-2.5	-

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² 12 months to November 2019. Australian Bureau of Statistics (ABS) <<http://stat.abs.gov.au/>>.

³ Ibid.

⁴ 12 months to November 2019. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

⁵ 12 months to November 2019. ABS <<http://stat.abs.gov.au/>>.

⁶ Ibid.

⁷ 12 months to November 2019 2018. CEIC database.

⁸ 12 months to November 2019. ABS <<http://stat.abs.gov.au/>>.

⁹ 12 months to November 2019. CEIC database.

¹⁰ 12 months to November 2019. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

¹¹ The latest available figure is for 2018-19. ABS <<https://www.abs.gov.au/ausstats/abs@nsf/mf/5368.0.55.004>>.

¹² 12 months to November 2019. ABS <<http://www.abs.gov.au/ausstats/abs@nsf/mf/3401.0>>.

¹³ Year-to-date October 2019. 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>>.

¹⁴ The latest available figure is for 2018. ABS <<https://www.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5352.02018?OpenDocument>>.

¹⁵ 12 months to November 2019. ABS <<http://stat.abs.gov.au/>>.

¹⁶ The latest available figure is for 2018-19. ABS <<https://www.abs.gov.au/ausstats/abs@nsf/mf/5368.0.55.004>>.

¹⁷ The latest available figure is for 2018. ABS <<https://www.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5352.02018?OpenDocument>>.

Australia-China: the year ahead



Dr Geoff Raby AO

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Civil emergencies have marked the start of the New Year for both Canberra and Beijing. Each in its own way is likely to have some implications for foreign policy and how the bilateral relationship is managed.

The challenge for both sides in 2020 is whether some concrete progress will be made back towards a more normal relationship. At the start of the year, the prospects are not encouraging.

The terrible fire situation in Australia has already had a foreign policy dimension, with the Prime Minister properly cancelling his Tokyo and New Delhi official trips in January and staying at home.

From a foreign policy perspective, the Tokyo-New Delhi trip may have been too clever by half. While intended primarily to send a message to China that Australia has other strategic options in the region, and progress discussions on the Quad arrangement intended to balance, if not contain, China it would also have highlighted the fact that these days Australia has a very big hole at the centre of its foreign policy.

It would be unprecedented since diplomatic relations with China began for an Australian Prime Minister to fly over China without making an official visit to Beijing.

Had the visit gone ahead, the Prime Minister would have acknowledged that he could visit lesser partners in the region, but could not visit Australia's largest market, the biggest economy by far in the region, and the dominate regional power.

Without being able to engage directly with China, it would have demonstrated, if further evidence were needed, that Australia is now playing at second division diplomacy. No doubt the Prime Minister would have been all ears hearing second-hand from Prime Minister Abe about his recent visit to Beijing, and about the Chinese leadership's thinking on key regional and global issues.

As Australia enters its fourth year of official estrangement from China, without a senior bilateral visit in either direction, the prospects of one occurring this year remain dim. From a purely transactional perspective it may not matter much as Australia's goods and services exports continue to go from strength to strength and, in normal circumstances, could be expected to do so again this year.

As long as China continues to make an oversize contribution to a healthy balance of payments for Australia, Canberra evinces no interest in working towards restoring the high-level relationship. As the junior partner in the relationship, Canberra still quixotically seeks to reset the terms of our engagement (whatever that may mean) with China. Beijing also seems to feel little need to do anything to improve matters, presumably having judged that, trade aside, Australia is of little relevance these days to regional and global issues that bear on its interests.

The Trade Minister will most likely visit Shanghai in May for the AFL game. This has become an annual event attended by the Trade Minister. This will be spun on the Australian side as a return to more normal bilateral relations. It is unlikely he will be invited to visit Beijing, despite feverish behind-the-scenes work by the Embassy to secure an invitation.

However, it is increasingly likely that the visit may not occur at all because of the coronavirus outbreak. The virus may well develop into a pandemic, if it hasn't already done so. SARS ran on for some eight months in 2003 before gradually coming under control, harming economic activity in China and Hong Kong.

Coronavirus may well be the single biggest challenge for the Chinese leadership to manage this year. It has both economic and political dimensions.

It could cause China's economic growth to slow markedly, especially if internal movement of people and goods is restricted for an extended period. This is looking increasingly likely. It would of course impact directly on the Australian economy at a time when Australia is itself dealing with the effects of the fires. Travel from China to Australia (and definitely the other way) will also be reduced.

It is also a potential political problem for the Chinese leadership, and Xi Jinping in particular. If the Government is felt to have been covering up, tardy to respond, careful with the truth, or incompetent in responding, it carries the risk of attracting widespread public ire.

Already the population has little trust in the Government when it comes to food and safety standards, public health, looking after people to have suffered ill health because of regulatory failures. Coronavirus is likely to be seen as more of the same and as such could quickly feed public cynicism and anger at the Government. China's middle classes are also much more numerous and aware of their rights than they were in 2003.

Although China achieved something of a temporary victory in the trade war, if it implements the terms of the settlement faithfully, President Trump is unlikely to continue targeting China in the run up to the election in November. Nonetheless, as has become usual practice, China will remain a hot subject for both the Republican and Democrats' campaigns. Believing, perhaps correctly, that they have his measure, China may also favour a Trump victory.

Xi Jinping finished 2019 on a high note, having secured a truce in the trade war, the protest movement in Hong Kong becoming depleted, and the domestic economy still growing strongly. These are all substantial achievements which will carry the leadership forward, but an external shock like coronavirus could see both Xi's economic and thus political fortunes change quickly.

These major civil emergencies in both Australia and China will deflect high-level attention away from the nuanced and careful diplomacy required to move towards re-engagement in 2020. In any event, Canberra is unlikely to feel it needs to do more to move out of the current impasse.

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