

Australia-China monthly wrap-up

August 2020



This edition features:

- Summary and analysis of major developments in August 2020
- Key trade indicators

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Australia's relationship with the People's Republic of China (PRC) continued to swiftly deteriorate this month. While this was punctuated by what seemed to be a slight shift away from aggressive 'wolf warrior' PRC diplomatic posturing towards an attempt at more cooperative, if not conciliatory, rhetoric during a speech by the PRC's deputy head of mission in Australia, as well as continued emphasis on the two countries' 'comprehensive strategic partnership' by Prime Minister Scott Morrison, substantive actions by the two countries have heralded what is perhaps a new low in relations, at least since tensions ratcheted up in 2017. The Australian government this month launched several initiatives which elided specific reference to the PRC, to be sure, but were clearly directed towards addressing PRC-related concerns. The PRC, for its part, appeared to opt to match each perceived slight with a retaliatory measure of its own. While both countries' governments have been careful not to link these moves to political tensions, this is unlikely to be the reality of the situation. Lines of engagement are clearly being re-drawn.

Australia continued its criticism, within a diplomatic framework, of Hong Kong's controversial national security legislation and articulated '[grave concern at] the Hong Kong government's unjust disqualification of candidates and disproportionate postponement of Legislative Council elections' via a [joint statement](#) issued with Five Eyes members on August 10.

On August 18 the PRC Commerce Ministry [commenced](#) an anti-dumping investigation into Australian wine exports. Trade Minister Simon Birmingham [termed](#) the claim 'deeply troubling', rejecting it outright: 'We stand by our winemakers at this time, we dismiss these perplexing allegations that somehow Australian wine is dumped onto the Chinese market or sold below market rates or cost rates'. The Trade Minister also [flagged](#) that the PRC had additionally advised they were considering a second investigation into whether Australian wine was propped up by government subsidies, a consideration that was [actioned](#) on August 31. Adverse findings by the PRC on these fronts would have significant consequences for the Australian wine industry – according to Wine Australia, in 2019 the PRC [purchased](#) \$1.2 billion worth of Australian wine, over a third of total Australian wine exports by value. While the PRC's Ministry of Foreign Affairs [dismissed](#) the notion that the wine investigation was politically motivated, observers in both Australia and the PRC harbour doubts. One winemaker in mainland China [told](#) *The Australian Financial Review*, 'This is a political action. Our winery has not complained about any Australian anti-dumping behaviour. We are surprised by this'. Commentators recall, too, PRC Ambassador to Australia Cheng Jingye in April [warning](#) that Australian wine and beef exports could be impacted as a consequence of Australian political decisions. Indeed, Trade Minister Birmingham referred to the Ambassador's remarks while discussing the moves on wine, [describing](#) them as 'intemperate

and inappropriate'. This language, for the Trade Minister, is sharper than terminology adhered to in the past, perhaps highlighting a growing Australian frustration and impatience across the board with the PRC.

In a move further reflective of the Australian political mood on the PRC, Treasurer Josh Frydenberg [labelled](#) a proposed \$600 million acquisition by Chinese-owned Mengniu Dairy company of the Japanese-owned, Australia-based Lion Dairy and Drinks, the second largest milk processor in Australia, 'contrary to the national interest'. Despite having gained approval from the [Australian Competition and Consumer Commission](#) and the Foreign Investment Review Board, the Treasurer opted to reject this advice, reportedly privately [flagging](#) this with Mengniu. On August 25 Lion issued the following [statement](#): 'Given this approval is unlikely to be forthcoming at this time, Lion and Mengniu Dairy have mutually agreed to cease the current sale process'. Mengniu's biggest shareholder is a PRC state-owned enterprise, a factor which undoubtedly had some bearing on the Treasurer's decision.

On August 28 PRC customs authorities suspended imports from a fifth major Australian abattoir, alleging contamination by chloramphenicol, a banned chemical. The PRC had announced a similar ban on four other Australian abattoirs in May, pointing to alleged breaches of labelling and certification requirements. Agriculture Minister David Littleproud sought to distance the move from political tensions, [saying](#), 'It's quite legitimate what China has raised...It hasn't been a malicious act by anybody'. But the timing of the sudden suspension is a curious one, coming as it did one day after an [announcement](#) by Prime Minister Scott Morrison signalling intentions to introduce new legislation to review – and potentially terminate or prevent – any existing and prospective arrangements between states, territories, local councils and universities and all foreign governments.



The Morrison government's proposed new foreign relations powers are likely to have in their crosshairs Victoria's memoranda of understanding on the Belt and Road Initiative (BRI), arrangements that have been [heavily criticised](#) by the Coalition since their inking. (For further analysis of this legislation, James Laurenceson provides extended thoughts [here](#)).

On August 30 Home Affairs Minister Peter Dutton [reportedly](#) set in motion an inquiry into foreign interference in Australian universities, an issue which has come under increasing scrutiny in recent years. While the PRC was not directly named, it is likely to be a primary focus. Propelled, perhaps, by recent events including the University of New South Wales' [removal](#) of an article from their website and Twitter feed that featured comments critical of Beijing's crackdown in Hong Kong, the Home Affairs Minister asked Liberal backbencher and head of the Parliamentary Joint Committee on Intelligence and Security, Andrew Hastie, to examine 'the nature and extent to which foreign actors are interfering in Australian universities, including staff and student bodies, publicly funded research agencies and competitive research grant agencies'. The tenor of the inquiry

appears to have been established from the outset, with Mr Hastie the week prior [asserting](#) that ‘national research and intellectual property is being plundered by the [Chinese Communist Party]’.

Among concerning developments this month is the detention of a second Australian citizen by PRC authorities. On August 31 Foreign Minister Marise Payne released a [statement](#) detailing that an Australian journalist working as an anchor for state TV network CGTN, Cheng Lei, had been detained by PRC authorities on August 14. It has been [reported](#) that she is being held under ‘residential surveillance at a designated location’, allowing PRC investigators to ‘imprison and question a suspect for up to six months while cutting them off from lawyers and the outside world – all before they have even been formally arrested’. While no detail has been provided as to the cause of the arrest, as former China correspondent Rowan Callick [observed](#), this sort of treatment is usually reserved for those accused of ‘endangering national security’. Asked whether he thought ‘Cheng Lei is a pawn in a worsening relationship between China and Australia’, Trade Minister Birmingham [replied](#), ‘Nothing would be particularly helpful to try and draw that link’. However, the timing of the arrest and its seeming parallels with Yang Hengjun’s case, an Australian detained by PRC authorities in January 2019, seem to point to a worrying trend of arbitrary detention to communicate political dissatisfaction.

While the Opposition Australian Labor Party (ALP) has been, for the most part, supportive of the government’s anti-foreign interference efforts, some of its representatives have raised [concerns](#) about some aspects of the Morrison government’s recent push, especially as they pertain to Australian universities. Of the proposed new foreign relations powers, Shadow Assistant Minister for Education and Training Graham Perrett said that there was ‘a lot of cheap politics in this...with a little soupçon of xenophobia thrown in’, while Labor Senator and former Science and Research Minister Kim Carr stated the move was ‘a half-baked campaign against our scientists and researchers for partisan political reasons’, recommending against the Labor Party signing up wholesale to participate in a ‘McCarthyist campaign, part of culture wars to attack the university system’. Opposition Deputy Leader and Shadow Defence Minister Richard Marles in an August 4 [speech](#) also criticised ‘muscular language used by Morrison Government MPs about Australia’s relationship with China. It has not helped our relationship with China. It has done nothing to improve Australia’s strategic circumstances’.

That said, there has also been a clear hardening of Opposition policy towards the PRC. For example, despite the ALP having expressed some openness to engaging with the BRI in the past, Shadow Defence Minister Marles on August 28 emphatically [ruled out](#) Australian participation were the party to win the next election: ‘If Labor were in power federally we would not be doing a BRI agreement with China’.

The Australian government this month also highlighted efforts to target foreign interference in communities in Australia. In an August 28 [speech](#) Immigration Minister Alan Tudge said, ‘Members of our diverse communities have been both victims of interference and used as vectors to engage in foreign interference. Despite now being proud Australians, some communities are still seen by their former home countries as ‘their diaspora’ – to be harassed or exploited to further the national cause’. While the Immigration Minister did not name specific countries responsible, the PRC would certainly be a major focal point given President Xi Jinping and senior PRC officials have frequently spoken of harnessing the PRC diaspora – defined broadly – to further PRC interests. The Immigration Minister spoke of adopting measures geared toward emphasising and promulgating Australian values as a means to combat interference, including ‘a stronger focus on Australian values in citizenship testing’. While foreign interference and pressures on Australian communities need to be addressed, traversing the path favoured by the Immigration Minister has high potential to ingrain an ‘us versus them’ attitude in the general public, encouraging social division. Avoiding this will require deft manoeuvring and sensitive, careful messaging by the government.

August saw, too, a rare public [address](#) delivered by deputy head of the PRC embassy in Australia, Wang Xining, at the National Press Club. The tone of his set-piece speech erred towards the measured. Particularly notable was his remark, ‘We don’t see Australia as a strategic threat. There is no fundamental conflict of interest or historical irritants to be healed’. In the question and answer section following, however, the restraint was loosened, with barbs directed at Australia’s ‘constitutional fragility’ and ‘intellectual vulnerability’ and a criticisms of the country’s emphasis on democracy: ‘[D]emocracy is a word and empty political slogan and a very outworn political cliché’. While one journalist has [asserted](#) that ‘Wang had no message for the Australian

government - he is too junior to be given that task', it is probably useful not to dismiss his speech out of hand, if only as some indication that there remains a willingness - even if slight - on the PRC's part for continued discussion.

The total value of Australia's goods exports to the PRC expanded further in June with the annual figure hitting \$151.0 billion. Once again this was entirely attributable to mining; the annual value of non-mining goods fell by 2.9 percent compared with May.

Preliminary [trade data](#) for July point to the run of record-setting total export values ending. That said, these data still point to the PRC's share of Australia's total goods exports remaining at 40.4 percent of all exports in July, up from 38.1 percent in 2019. This is consistent with a PRC economy that is struggling to recover from the COVID-19 but nonetheless performing relatively better than other major Australian trading partners.

Australia's services exports have felt the economic shock of COVID-19 most acutely. There have also been concerns that political tensions between Australia and the PRC might deter mainland Chinese tourists and students from coming once the borders have re-opened. PRC government officials issuing 'safety warnings' to their citizens considering travel to Australia exemplify this. As an indicator of what might lie ahead in the education space, [student visa lodgements](#) from applicants currently abroad make for an interesting data point. In the first six months of 2020, those from the PRC are down 35.0 percent compared with the same period last year. This might sound dramatic were it not also observed that those from all countries are down 55.6 percent and those from India, Australia's second biggest education market, have fallen 65.2 percent. In short, despite the obvious challenges, the deep economic complementarities between Australia and the PRC are still in evidence.

Key trade indicators - August 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)¹	151.0	0.2 (2.0)	1.8	12.6	59.0	101.9
Mining (\$ billion)²	107.9	0.9 (10.8)	6.3	25.6	59.4	95.6
Non-mining (\$ billion)³	23.1	-2.9 (-29.6)	-11.9	-15.2	21.0	53.8
Confidential/not classified (\$ billion)⁴	20.1	0.1 (0.9)	-2.5	-4.6	143.2	331.4
Iron ore (\$ billion)⁵	84.9	0.9 (11.5)	7.6	33.7	64.7	101.6
Iron ore (kilo tonnes)⁶	693.8	1.5 (19.4)	4.4	5.5	4.3	18.9
Coal (\$ billion)⁷	14.2	0.7 (9.1)	3.9	0.9	27.7	89.7
Liquefied gas (\$US billion)⁸	12.3	-1.8 (-19.1)	-6.7	-10.1	158.1	999.7
Food, live animals, beverages (\$ billion)⁹	10.6	-0.3 (-3.9)	3.2	24.3	114.7	225.7
Services exports (\$ billion)¹⁰	19.3	-	-	7.9	44.2	120.7
Tourist arrivals (million)¹¹	0.90	-8.2 (-64.2)	-37.4	-37.2	-28.5	-3.9
Commencing students¹²	50,423	-	-	-25.9	-22.0	6.6
PRC stock of direct investment in Australia (\$ billion)¹³	46.0			10.1	18.9	44.3
Total good imports (\$ billion)¹⁴	80.5	1.8 (24.4)	0.1	3.4	33.6	46.1
Services imports (\$ billion)¹⁵	3.4			-0.8	20.5	42.7
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 June 2020. ABS <<http://stat.abs.gov.au/>>.

² Ibid.

³ 12 months to June 2020. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

⁴ 12 months to June 2020. ABS <<http://stat.abs.gov.au/>>.

⁵ Ibid.

⁶ 12 months to June 2020. CEIC database.

⁷ 12 months to June 2020. ABS <<http://stat.abs.gov.au/>>.

⁸ 12 months to June 2020. CEIC database.

⁹ 12 months to June 2020. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

¹⁰ The latest available figure is for 2019. Australian Government Department of Foreign Affairs and Trade, 'Trade time series data', August 2020 <<https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data>>.

¹¹ 12 months to June 2020. ABS <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3401.0>>.

¹² Year-to-date June 2020. 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 2019. Australian Government Department of Foreign Affairs and Trade, 'Trade time series data', August 2020 <<https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data>>.

¹⁴ 12 months to June 2020. ABS <<http://stat.abs.gov.au/>>.

¹⁵ The latest available figure is for 2019. ABS <<https://www.abs.gov.au/ausstats/abs@.nsf/mf/5368.0.55.004>>.

¹⁶ The latest available figure is for 2019. ABS <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.02019?OpenDocument>>.