

Perspectives

A resilience response to the PRC's economic coercion

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Since May 2020, Australia has been subjected to an intensifying barrage of trade restrictions from the People's Republic of China (PRC).

Tariffs, duties, technical regulatory restrictions, and informal trade barriers are being levelled in some form against at least eight Australian exports and show [little sign of abating](#) this year.

The question of what Canberra can do to stop Beijing's economic coercion is now no longer the preserve of businesspeople, politicians and policy wonks. It has cut through to the mainstream and is on the minds of many Australians as they scroll through the morning news.

So, what should the Australian government do to respond?

In the short-term, there is a strong case for Canberra to focus its efforts on building its own economic and political resilience by supporting the Australian victims of the PRC's economic coercion.

As well as having a deterrent effect against Beijing's coercive practices, such domestic policy responses would help the Australian government act on Prime Minister Scott Morrison's [commitment](#) in November 2020 to get 'our producers through this difficult time.'

The costs of Beijing's economic coercion are unequally spread. Select Australian exporters feel the brunt of the economic fallout from Beijing's frustration with Canberra, while most of Australia's export industries and the Australian public-at-large remain largely unaffected.

Testament to this, the Australia-PRC economic relationship seemed to shrug off the impact of Beijing's trade restrictions at the aggregate level in 2020, with overall goods exports only [down two percent](#) by value compared to the record high of 2019.

But as well as being driven in large part by the [massive spike](#) in iron ore prices in 2020, these macro numbers are cold comfort for select [hard-hit exporters](#) and the thousands of Australians they employ and communities they sustain.

To support those exporters that are disproportionately shouldering the costs of the deteriorating Australia-PRC relationship, the Australian government could expand [Export Finance Australia's](#) remit to assist the Australian victims of the PRC's economic coercion.

These new functions could include emergency loans and political risk insurance in cases of economic coercion. Such measures would complement Export Finance Australia's current role of providing loans, guarantees, bonds and insurance options to Australian small and medium-sized enterprises (SMEs), corporates, and governments to pursue export-related opportunities.

Export Finance Australia could offer emergency loans to all Australian exporters that experience market loss due to the coercive trade restrictions enacted by another country.

To minimise the financial burden of such assistance, these loans could be capped and preferential access given to more vulnerable SMEs. Preferential access could likewise be offered to services exporters, who are likely to find it harder than goods exporters to quickly redirect to alternative markets.

These emergency loans would cushion Australian businesses from the blow of the initial loss of an export market due to economic coercion and would help absorb the costs associated with redirecting exports to alternative markets.

Such loans would also aid the difficult long-term task of [export market diversification](#) by assisting Australian firms to increase their presence in alternative markets to the PRC, which they could still capitalise on even if Beijing's economic coercion ends and the lucrative Chinese market opens up again.

A deferred repayment option could be offered to allow businesses to not make repayments until they are able to offset the loss of market access by diversifying into new markets or until the coercive market restrictions are lifted.

To further mitigate the impact of economic coercion, Export Finance Australia could also consider working with insurance providers to develop a government-backed political risk insurance facility specifically designed for SMEs.

Such a facility would provide insurance coverage to Australia's SMEs against the risk of economic coercion. In instances of economic coercion, exporters could make claims to be paid out to the value of the net loss they experience due to such coercion.

As well as ensuring that vulnerable Australian exporters are not disproportionately impacted by the deteriorating Australia-PRC relationship, such a scheme would raise awareness of the impact of economic coercion by incentivising Australian businesses to calculate its net costs.

The viability of these export finance and political risk insurance facilities would depend on the complex question of determining precisely when economic coercion has occurred.

As is clear from Australia's recent experience with PRC trade restrictions, apparent cases of economic coercion are often by design ambiguous. Beijing seeks to utilise tools of economic statecraft in such a way that the coercive intent is [plausibly deniable](#).

For example, even though the Chinese Ambassador to Australia explicitly mentioned [wine and beef exports](#) as potential casualties of the worsening Australia-PRC relationship in April 2020, the Chinese Government [denied](#) any coercive intent behind the subsequent trade restrictions.

Although determinations of economic coercion will be politically contentious and analytically complex, such determinations could feasibly be made by an expert panel established within Export Finance Australia. Such a panel could draw on whole-of-government expertise from a range of departments and agencies to inform its determinations and ensure analytical rigour.

Beijing would likely object to such formal determinations, but they would probably not spur a further significant decline in the Australia-PRC relationship given the criticisms of the PRC's economic coercion already made by [senior Australian ministers](#) and the [Prime Minister](#).

As well as benefitting vulnerable Australian exporters, both the export finance and political risk insurance facilities would provide the added benefit of incremental additional deterrent against economic coercion.

Would-be users of economic coercion against Australia are likely to at least reappraise the effectiveness of such tools if they know that any impacted Australian industries will be protected from the brunt of the coercive force.

Such protection would reduce the incentive for Australian private sector interests to push the government to concede in the face of economic coercion, thereby blunting one of the coercing state's probable rationales for engaging in economic coercion in the first place.

Moreover, the diplomatic discomfort of being formally labelled a user of economic coercion by an Australian government body may have an extra deterrent effect.

Another advantage of such resilience initiatives is that they are good policies for Australia regardless of the trajectory of the Australia-PRC relationship.

Compensating industries that are adversely impacted by politically motivated trade restrictions and thereby building Australia's economic and political resilience to economic coercion are likely to emerge as national strategic imperatives as the tools of economic statecraft become [more widely used globally](#).

The PRC's economic coercion against Australia has further fuelled already [deep distrust](#) of Beijing's motives and actions among the Australian government and public alike. Graham Fletcher, Australia's Ambassador to the PRC, captured this mood recently when he [candidly observed](#) that the PRC has 'been exposed as quite unreliable as a trading partner and even vindictive.'

But although the PRC's economic coercion might be painful and unpalatable, there is little reason to believe that Beijing's behaviour will change in the short-term.

So, with economic coercion the new normal of the Australia-PRC relationship, the time is ripe for the Australian government to develop domestic policies that can make Australia's economy and political system more resilient.

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