

Australia-China monthly wrap-up

July 2021



This edition features:

- Summary and analysis of major developments in July 2021
- Key trade indicators

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Australia is settling in for the long-haul with respect to a frosty relationship with the People's Republic of China (PRC). Senior ministers continue to make mention of the PRC as an important economic partner, and of the desire to resume dialogue, but even these largely pro forma utterances are growing fewer. Energies have instead been focused on strengthening relationships with allies, friends and partners. While Australia has received verbal support from a number of these nations with respect to challenges it faces with the PRC, such support has, at least for the moment, been confined to the rhetorical.

Rhetorical support for Australia

White House coordinator for the Indo-Pacific, Kurt Campbell, on July 7 [expressed](#) the view that any kind of reset between Australia and the PRC was, for the foreseeable future, unlikely:

I see a harshness in their approach that appears unyielding...I'm not sure that [China has] the strategic thinking to go back to a different kind of diplomacy towards Australia right now.

He stated that Beijing was attempting to 'cut Australia out of the herd, and to try to see if they can effect Australia to completely change how it both sees itself and sees the world', pointing out that this had led to 'a deepening, intensifying relationship between Canberra and Washington' over the last six to eight months.

Expression of solidarity with Australia was at play in statements issued by other American officials this month. During the Washington leg of Trade Minister Dan Tehan's [travels](#) to Singapore, Vietnam, South Korea, Japan and the US as part of Australia's trade diversification efforts, US Trade Representative Katherine Tai on July 21 [said](#) the US 'stands with Australia' and 'reiterated the United States' commitment to engaging our allies, including Australia, to address China's state-led, non-market practices'. This was [welcomed](#) by the Trade Minister: 'The US will stand shoulder to shoulder with us when it comes to their engagement in the Indo-Pacific and when it comes to dealing with economic coercion and other issues that are of mutual interest'. A [readout](#) of a July 26 meeting between Deputy Secretary of State Wendy Sherman and PRC Foreign Minister Wang Yi noted that '[t]he Deputy Secretary raised concerns in private – as we have in public – about a range of PRC actions that run counter to our values and interests and those of our allies and partners'.

Prime Minister Scott Morrison in an interview on July 14 [referred](#) to his attendance at the 47th G7 summit in Cornwall last month, highlighting the fact that G7 leaders ‘were very interested in how Australia was faring under the pressures that have been applied to Australia.’ And, he stated, ‘they were very, very congratulatory about the strong stand we’ve taken for our sovereignty’.

But while there is some comfort that might be drawn from these articulations, there remains a significant disconnect between words and action. As yet there is little in the way of substantive assistance for Australia as it navigates PRC trade punishment. For example, the US has increased its share of the PRC’s imported coal market since the locking out of Australian coal, with a similar trend in beef, cotton, timber and wine, and continues to block the appointment of new judges to the World Trade Organization, in which Australia has sought to seek relief for the PRC’s sanctions on its [barley](#) and [wine](#).¹

Japan has also continued to dial up its verbal backing of Australia, although how this will translate into action remains to be seen. A [statement](#) out of the Japan-Australia Ministerial Economic Dialogue on July 15 said both countries were ‘committed to working together and with other partners to address non-market practices and unfair and coercive use of economic measures’. And during a [speech](#) at the National Press Club on July 21 Japanese Ambassador to Australia Shingo Yamagami stated, ‘Australia is not walking alone.’ The Ambassador rejected the assessment from some quarters ‘that Japan is doing far better than Australia’ in managing its relationship with China, saying, ‘My simpler answer is ‘no way’’. He drew parallels with a 2010 dispute between Japan and the PRC which led to Beijing [unofficially](#) banning rare earth exports to Japan and purporting to [suspend](#) ministerial and provincial level contacts. Yet high-level dialogue [continued](#) to some extent between the countries during this fraught period. As does Japan-PRC dialogue at the present time, with, for example, both countries participating in high-level consultations on maritime affairs in [January](#) and [June](#) this year, and agreeing to launch a [dialogue on climate change](#) in November last year.

A different PRC

On July 7 Treasurer Josh Frydenberg [told](#) a press conference:

We are definitely living with a different China than what we have seen in previous years prior. The China under Xi Jinping is very different to the China that Scott Morrison is dealing with – is very different to the China under Hu Jintao that John Howard dealt with...there is a lot more strategic competition in the world and China has been a lot more assertive, in not just its diplomacy but also in other positions. We have seen across a range of issues the consequences of that assertiveness.

In terms of how this challenge had manifested in his portfolio, the Treasurer said that he had ‘increasingly seen foreign investment applications that are being pursued not necessarily for commercial objectives but strategic objectives’ and as such has rejected applications ‘that in the past may have been approved.’

That Australia is dealing with a fundamentally different PRC under President Xi has become over the past few months a major talking point for senior Australian government ministers, effective not only in that it is grounded in truth but also in that it dissuades potential calls for more self-reflection in Australian policymaking.

The point has been vocally supported by former prime minister and UK Board of Trade adviser Tony Abbott who late this month [told](#) a British think tank, ‘I don’t think [Australia has] changed, I think the Chinese government and its actions have changed.’ He went on to say, ‘I can’t imagine that China and Australia would contemplate concluding a trade deal today...because it is hard to trust a country that uses spurious pretexts to block our exports to punish policy positions it doesn’t like’. The former prime minister also notably made reference to the turn Australia had taken in meeting the challenge presented by the PRC:

¹ For a more detailed discussion see James Laurenceson, ‘No evidence the US has Australia’s back in its dispute with China, despite all the rhetoric’, *South China Morning Post*, July 23 2021 <<https://www.scmp.com/comment/opinion/article/3142080/no-evidence-us-has-australias-back-its-dispute-china-despite-all>>

In retrospect, it looks like wishful thinking but at the time we were confident that there would be slowly, not just economic, but political liberalisation in China...and that China, in a sense, would become more like us. Perhaps we've become more like them in fact, in some ways.

Economic coercion acknowledged

That the economic relationship with Australia is being wielded by Beijing as a tool to communicate political dissatisfaction was explicitly [acknowledged](#) by a PRC Foreign Ministry spokesperson on July 7:

We will not allow any country to reap benefits from doing business with China while groundlessly accusing and smearing China and undermining China's core interests based on ideology.

Beijing has previously tended to leave political motivations fuelling decisions on trade vis-à-vis Australia unexpressed, relying on technical justifications. Labelling Australia 'a cat's paw' for the US, the spokesperson stated that 'it is the people that pay for misguided government policies.'

FIRB approves Grosvenor Place acquisition; PRC investment trends

Australia's Foreign Investment Review Board [approved](#) the acquisition of an additional stake in Sydney office tower Grosvenor Place by China Investment Corporation, a PRC sovereign wealth fund, for \$925 million, bringing its ownership of the building to 75 percent. But PRC investment in Australia continues its downward trend, with a KPMG/University of Sydney [report](#) released this month showing that PRC investment in Australia had fallen to a 14-year low in 2020, decreasing by 26.8 percent when compared to 2019 levels. The number of completed deals had more than halved, from 42 in 2019 down to 20.

Cyber attacks

On July 19, the Australian government, in coordination with about 38 other countries, including the US, the UK, the EU, Canada, Japan and New Zealand, released a [statement](#) 'expressing serious concerns about malicious cyber activities by China's Ministry of State Security...[and] reports from our international partners that China's Ministry of State Security is engaging contract hackers who have carried out cyber-enabled intellectual property theft for personal gain and to provide commercial advantage to the Chinese Government'. The statement cited specifically the '[exploitation of] vulnerabilities in Microsoft Exchange software' that began in January.

The attribution of the cyber attacks to a state actor was significant, especially given Australia has generally refrained from doing so in the past – for example, ASIO head Mike Burgess in March [told](#) a hearing into foreign interference in Australian universities that he knew which actor was behind a cyber attack on the Australian National University's systems but 'would not say so publicly, because I don't believe that's my role to do so.' The coordinated effort with other nations in this instance was likely a major motivator, in addition to, as Defence Minister Karen Andrews [stated](#), 'educating the Australian public about what the extent of some of these attacks are'.

This may pave the way for the swifter passing of a bill proposed by the Australian government which would [compel](#) companies in sectors such as water, health, energy and transport to work with government agencies such as the Australian Signals Directorate during a 'major incident', on top of other regulatory requirements on their digital systems.

The government's chosen course of action with respect to 'calling out' the PRC was [supported](#) by Opposition Leader Anthony Albanese. The PRC Embassy in Australia [rejected](#) what they described as 'groundless accusations', alleging Australia was 'following the steps and parroting the rhetoric of the US'.

United Nations human rights record review

Australia [fronted](#) the United Nations Human Rights Council on July 8 as part of the five-yearly Universal Periodic Review, in which the human rights record of each UN member state is considered. The strongest

[reproach](#) came from the PRC's representative to the UN, Jiang Duan, who criticised alleged war crimes committed by Australian troops in Afghanistan, offshore detention and 'long-lasting and systemic discrimination and hate crimes against African, Asian and other minority groups', accusing the Australian government of 'spreading misinformation out of political motivation.' These criticisms of Australia's human rights record, while with some substance, appear to also be part a broader tactic by the PRC to reverse any criticism of the PRC in any realm back onto the alleging entity, whether it be arbitrary detention, human rights, economic coercion, or military aggression.

Cheng Lei

On July 9 Foreign Minister Marise Payne, [asked](#) in an interview about Australian citizen and TV presenter Cheng Lei, detained in the PRC since August last year, said 'We have been able to make consular visits... Again, we are very concerned about the circumstances of her detentions, and we have seen no evidence or information that...would indicate any reasons for her detention.' The Foreign Minister also noted that '[h]er circumstances are...very, very difficult'.

South China Sea

On July 12 the Foreign Minister issued a [statement](#) marking the fifth anniversary of the South China Sea Arbitral Tribunal decision which favoured the Philippines' case. This is in keeping with the more forward stance adopted by Australia on the PRC's claims in the disputed waters, with the country having last year sent a [note verbale](#) to the United Nations laying out in starker fashion the legal position which the country believed applied in the South China Sea. While Australia has long articulated support for the application of the UN Convention for the Law of the Sea (UNCLOS) specifically which provisions it relied upon and which it believed the PRC had contravened had not been particularly clear until then. The Foreign Minister's statement was [criticised](#) by the PRC Embassy in Australia, which characterised the 'award of the arbitration [as] illegal, null and void'.

Trade update

The total annual value of goods exports to the PRC hit a record high in June. At \$154.2 billion, the total is up 2.2 percent on a year ago, and more than double that of five years ago. The PRC continues to account for a 40 percent share of Australia's good exports.

Yet with coal, liquefied natural gas (LNG) and non-mining exports to the PRC falling by 74.6 percent, 17.2 percent and 21.9 percent, respectively, over the past year, the total value and the PRC's share will ratchet back down quickly once iron ore prices come off the boil.

Key trade indicators – July 2021

	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	154.2	1.9 (25.4)	6.4	2.2	50.3	105.5
Mining (\$ billion)³	120.8	2.5 (34.5)	12.2	12.9	74.9	140.9
Non-mining (\$ billion)⁴	18.5	0.7 (8.8)	-9.1	-21.9	-14.3	-5.4
Confidential/not classified (\$ billion)⁵	14.8	-1.4 (-15.1)	-11.6	-26.4	25.2	180.4
Iron ore (\$ billion)⁶	111.7	4.4 (67.4)	23.9	32.3	126.6	186.8
Iron ore (kilo tonnes)⁷	716.8	-0.2 (-2.2)	0.0	4.9	4.7	15.2
Coal (\$ billion)⁸	3.5	-29.4 (-98.5)	-65.0	-74.6	-71.6	-37.6
Liquefied gas (\$US billion)⁹	10.3	1.6 (21.4)	-1.8	-17.2	30.7	363.5
Food, live animals, beverages (\$ billion)¹⁰	7.9	-3.0 (-30.2)	-15.5	-25.9	17.6	72.1
Services exports (\$ billion)¹¹	12.4	-	-	-35.7	-21.5	12.9
Tourist arrivals (million)¹²	3.2	9.1 (185.1)	-99.0	-99.7	-99.8	-99.7
Commencing students¹³	42,600	-	-	-5.6	-35.0	-18.3
PRC stock of direct investment in Australia (\$ billion)¹⁴	44.4			-5.4	15.5	24.1
Total good imports (\$ billion)¹⁵	87.7	-0.6 (-6.7)	5.8	10.8	31.3	42.9
Services imports (\$ billion)¹⁶	1.5			-54.6	-49.4	-42.8
Australian stock of direct investment in the PRC (\$ billions)¹⁷	6.8			-56.4	-50.2	-51.3

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² 12 months to May 2021. ABS <<http://stat.abs.gov.au/>>.

³ Ibid.

⁴ 12 months to May 2021. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

⁵ 12 months to May 2021. ABS <<http://stat.abs.gov.au/>>.

⁶ Ibid.

⁷ 12 months to May 2021. CEIC database.

⁸ 12 months to May 2021. ABS <<http://stat.abs.gov.au/>>.

⁹ 12 months to May 2021. CEIC database.

¹⁰ 12 months to May 2021. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>. The figures exclude barley. <http://stat.abs.gov.au/>

¹¹ The latest available figure is for 2020. <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

¹² 12 months to May 2021. ABS <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3401.0>>.

¹³ Year-to-date May 2021. 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 2020. <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

¹⁵ 12 months to May 2021. ABS <<http://stat.abs.gov.au/>>.

¹⁶ The latest available figure is for 2020. <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>> <<https://www.abs.gov.au/ausstats/abs@.nsf/mf/5368.0.55.004>>.

¹⁷ The latest available figure is for 2020. ABS <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.