

# Australia-China monthly wrap-up

October 2021



This edition features:

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

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As Australia draws closer to a federal election, both major parties have swung into campaign mode. While foreign policy doesn't tend to determine election outcomes, Australia's stance on the People's Republic of China (PRC) is likely to feature in some respect on the campaign trails. A staying of Australia's harder line on the PRC is therefore likely, with the potential for a ramping up of rhetoric. The next few months will make for an interesting period in this regard.

Off the back of the Australia-UK-US (AUKUS) trilateral partnership announcement last month, October saw the Australian government make yet another major strategic move in its financing of the acquisition of mobile phone carrier Digicel Pacific in an endeavour to counter PRC influence in the South Pacific region. This month also highlighted a disconnect between how the Australian government wants AUKUS to be perceived in the region versus how the region has received it.

Trade developments featured prominently, including the targeting of more Australian export products by Beijing. This month also saw the quiet departure of PRC Ambassador to Australia Cheng Jingye following the end of his five year tour of duty. The PRC is expected to appoint another head of mission soon.

## Acquisition of Digicel Pacific

On October 25 it was [announced](#) that, with the [support](#) of the Australian government, Telstra would acquire Digicel Pacific, the largest mobile phone carrier in the South Pacific region, operating in Papua New Guinea, Fiji, Samoa and Vanuatu. The deal, priced at US\$1.6 billion, was mostly financed by the Australian government, which contributed US\$1.33 billion through Export Finance Australia. Telstra contributed the rest.

The deal, despite the Australian government's claims to the contrary, is viewed as a means by which to counter PRC influence in the region. [Rumours](#) had been rife since last year that PRC state-owned company China Mobile was interested in purchasing the operator.

Trade Minister Dan Tehan has [insisted](#) that '[t]his was a deal which ultimately was a commercial decision that was made by Telstra' and that the Australian government 'saw it as an ability for us to be able to help and support quality investment in the Pacific', although he did allude to the fact that the government did not 'want to see...investment that ultimately leads to debt traps'.

But this is contradicted by Home Affairs Minister Karen Andrews' indication in July that the matter was wrapped up in national security considerations. Asked 'how willing is the Australian Government to help bankroll Telstra to buy Digicel in Papua New Guinea', the Home Affairs Minister [declined](#) to comment as the matter 'relate[d] to our national security'. It was also [reported](#) in July that the government had been 'in private talks' with the Biden administration 'about working together to stop China buying Digicel's mobile phone networks in the Pacific and Caribbean'.

The move seems to herald the start of a shift towards more Australian government involvement in the activities of Australian companies, an interesting parallel with the PRC in light of widespread concern about Beijing directing the activities of PRC companies. Whether the move ultimately means better ties between Australia and the Pacific and more goodwill from the general public in the region, a boon for Australia's strategic positioning, or has the opposite intended effect and ultimately creates resentment, will depend on Telstra's management of the carrier.

## AUKUS

The ripples from the sudden [announcement](#) of the AUKUS trilateral partnership continue to spread outward this month, with the fracas between Australia and France intensifying following the [leak](#) of a text from French President Macron to Prime Minister Scott Morrison and [barbs](#) between the leaders [traded](#) through media.

The partnership has had a mixed reception in the region, especially among the ASEAN nations – a forum that has shaped up to be another area in which Australia and the PRC are jostling for support. Australia has been at pains to assure ASEAN countries that, as Prime Minister Morrison said in a [speech](#), 'AUKUS does not change Australia's commitment to ASEAN or the ASEAN Outlook on the Indo-Pacific. Indeed, it reinforces it. It reinforces the backing that we have for an ASEAN-led regional architecture.'

But not all are convinced. Indonesia and Malaysia reiterated concerns about Australia's acquisition of nuclear submarines under the partnership following talks between Malaysian Foreign Minister Saifuddin Abdullah and Indonesian Foreign Minister Retno Marsudi. The Malaysian Foreign Minister [said](#), 'Although [Australia] stated that these are nuclear-powered submarines, not nuclear-armed ones, both our governments expressed concern and disturbance. This could attract more power rivalry in the ASEAN region and the South China Sea.' And while the Philippine Foreign Minister has [backed](#) the deal, President Rodrigo Duterte has [expressed](#) reservations.

These reactions sit at odds with Defence Minister Peter Dutton's [claim](#) in an interview that '[t]here has been a universal acceptance of the plan, the logic, and the vision of AUKUS.'

## The WTO's eighth periodic review of PRC trade

The World Trade Organisation (WTO) conducted its [eighth periodic review](#) of the trade policies and practices of the PRC on October 20 and 22. The Australian [statement](#) walked a diplomatic tightrope, commending the PRC for its economic achievements and the positive impact these achievements have had globally while robustly taking it to task for the trade disruptions Australia has been subject to.

The statement 'welcomed China's growth for the better economic outcomes and standard of living it delivers to the people of China, across the Indo-Pacific and around the globe', recognising the PRC's 'efforts to engage actively in WTO rule-making' in addition to other contributions to WTO initiatives. At the same time, Australia's statement noted that 'since its last Review (2018), China has increasingly tested global trade rules and norms by engaging in practices that are inconsistent with its WTO commitments. Australia is one of numerous WTO Members that has experienced this first-hand', outlining the trade disruptive measures which have targeted Australian products.

The statement said that 'there is a growing body of information that demonstrates China's actions are motivated by political considerations', offering the example of comments by a PRC Foreign Ministry spokesperson, who in July [said](#), 'We will not allow any country to reap benefits from doing business with China

whilst groundlessly accusing and smearing China.’ It also observed that ‘there is a growing gap between China’s rhetoric and its actions.’

Statements by the [US](#), the [European Union](#), the UK, Canada, Japan, India and South Korea, amongst others, also [expressed](#) concern about elements of the PRC’s trade policies and practices.

The number of statements levelling criticisms towards the PRC causes some reputational damage for Beijing. It would be prudent to exercise some caution, however, in the interpretation of this alignment as a powerful demonstration of support for Australia as for the moment, the support reflects more of an alignment of interests and zero or very low cost actions.

The concerns articulated by WTO member countries were rejected by the PRC, with its Vice-Minister for Commerce, Wang Shouwen, [describing](#) them as a ‘wish list’, rather than a fair assessment of existing policies. He said, ‘It is unfair, unreasonable and unacceptable to make China fulfil obligations beyond the WTO under the remit of the WTO.’

### **WTO to adjudicate wine dispute**

Australia’s second request to the WTO’s Dispute Settlement Body (DSB) for the establishment of a panel to examine the PRC’s imposition of anti-dumping and countervailing duties on imported wine from Australia was [agreed](#) to by the DSB on October 26. In response, the PRC stated it would ‘vigorously defend its legitimate measures in the proceedings and is confident they are consistent with relevant WTO rules.’

Every inch in the process has been painfully gained, with a likely wait now of one to three years for the examination of the case. That said, some industry sources have [expressed](#) optimism about the progress of the dispute. Australia’s Head of Australian Grape and Wine observed the latest development might provide an ‘exit ramp’ in terms of ‘giv[ing] everyone the opportunity to shake hands, make up and move on’ and ‘show our customers that we don’t subsidise our production’, while acknowledging it was unlikely to be a ‘silver bullet’.

### **More Australian exports targeted**

On October 18 Brisbane-based meatworks company Australian Country Choice (ACC) was [alerted](#) by the Department of Agriculture Water and Environment (DAWE) that its trade to the PRC would be suspended. It is the ninth Australian abattoir to be suspended from trading with the PRC, and the first since December last year.

According to a [statement](#) made by ACC, PRC authorities had claimed that ‘frozen product received in China...failed a random sampling test for chloramphenicol on beef products inspected at the entry port of Ningbo.’ Yet, as the ACC noted, random product testing for the drug at other ports of entry in the EU, South Korea, Japan, among other countries, had not made any detections.

On October 21 Hong Kong’s new Commissioner of Customs and Excise characterised the smuggling of Australian lobsters to mainland China via Hong Kong as a threat to national security. She [told](#) the press:

[T]hese smuggling activities would undermine the country’s trade restrictions on Australia. Therefore, tackling lobster smuggling activities is an important task in safeguarding national security.

The crackdown on Australian lobster in Hong Kong will deal a blow to Australian exporters. Trade data have [shown](#) that since the PRC started [delaying](#) imports of Australian lobster in November last year, Australian lobster exporters had been able to send their produce to Hong Kong, which then made its way to the PRC mainland. Australian lobster exports to Hong Kong had grown from about 18,000 kilograms in October to about 1.1 million kilograms in June this year. The Commissioner’s remarks also appear to be the first explicit acknowledgement that Beijing has imposed a ban on Australian lobster, with PRC officials in November [maintaining](#) that delays were due to inspection requirements.

## PRC power cuts and Australian coal

Power shortages in the PRC appear to have [compelled](#) the PRC to blunt the edges of its unofficial ban on Australian coal this month, with officials allowing about 450,000 tonnes of coal to be unloaded at PRC ports. An industry source [estimated](#) that one million tonnes of Australian coal ‘had stayed in bonded warehouses along China’s coast, uncleared by customs, since Beijing’s unofficial ban was imposed’.

## Detained Australian citizens

Following the [release](#) of Canadian citizens Michael Spavor and Michael Kovrig in September, Foreign Minister Marise Payne during an [interview](#) on October 1 provided a brief update on the plight of Australian citizens Yang Hengjun and Cheng Lei who remain in detention in the PRC. She made it a point to differentiate the Australian cases from the Canadian cases saying, ‘I’m not sure that our cases and those can be directly compared.’ She also noted that Beijing continues to refuse to provide any meaningful detail on the charges and the nature of the investigation, lending weight to the proposition that the cases are those of arbitrary detention.

Cheng Lei was first detained in August 2020, and Yang Hengjun in January 2019.

## Complications for Australian diplomacy in the PRC

On October 29, during an address to The Daily Telegraph’s [Bush Summit](#), Australian Ambassador to the PRC Graham Fletcher gave an upfront description of the difficulties being faced by Australian diplomatic representatives in the PRC:

To be honest, things are not great in the trading relationship with China on the whole. There are a lot of people who I would normally expect to see that I’ve got an instruction that they shouldn’t communicate with us at an ambassadorial level. The kind of informal and more casual access that ambassadors would normally expect to have across the system is very difficult in China at the moment.

He pointed to the potential for further deterioration of the trade relationship, saying, ‘I think everyone else is on notice that there are potential problems in the relationship that could affect our trading future.’

As tensions with the PRC have worsened, the Ambassador’s [comments](#) have gotten noticeably more frank in parallel. In March this year he took the unusual step of commenting that the PRC had been ‘exposed as quite unreliable as a trading partner and even vindictive.’

## Foreign investment

### *Diversification*

In tandem with its ‘[China plus](#)’ strategy for Australian exporters, the Australian government flagged that it is also making an active effort to diversify foreign direct investment. It was [reported](#) this month that the Australian Department of Foreign Affairs and Trade had commenced work on a plan ‘to compensate for a rapid decline in foreign investment [FDI] from China’, with a focus on Japan, South Korea, Singapore, Germany, Spain and France. Trade Minister Tehan stated that FDI needed to be diversified the ‘same way that we’ve been seeking to do so with our trade, goods and services.’

[According](#) to the Australian Bureau of Statistics, in 2020, the US and the UK accounted for 23.4 and 18.5 percent of FDI respectively, while the PRC accounted for two percent. Within this context, the plan appears to be more of a signalling, statement-making exercise than a significant shift in policy.

### *A ‘non-discriminatory investment policy’*

In a bid to address the now commonly made observation in the business community that Australia is effectively closed to PRC investors, Foreign Investment Review Board head David Irvine [told](#) a business conference on October 14 that about 20 percent of approved applications over the past year had some form

of involvement by a PRC participant. He said that while Australia was ‘taking greater account of national security issues in its investment regimes, it ran a ‘non-discriminatory investment policy’ and ‘is...not alone in taking greater account of national security issues in its investment regimes.’

## **Trade update**

Falling world iron ore prices in recent months have yet to start pulling down annual total export values. In the year to August, Australia’s goods exports to the PRC reached another record high of \$180.3 billion. At the end of 2020, 40.3 percent of goods exports went to the PRC. Yet for all the talk about diversification this year, the proportion of total goods exports going to the PRC currently stands at 42.4 percent. The turnaround in the value of non-mining goods exports to the PRC, identified in last month’s brief, also continued at pace. The annual value of non-mining exports is now up 14.5 percent on six months ago, albeit it remains down 1.6 percent on a year ago. Still, given the loss of the \$1.2 billion wine trade, amongst other goods whose access to the PRC market has been disrupted, the resilience of non-mining goods in aggregate is impressive.

## Key trade indicators – October 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
<b>Total goods exports (\$ billion)<sup>1</sup></b>	180.3	3.8 (55.7)	18.6	23.5	66.2	141.9
<b>Mining (\$ billion)<sup>2</sup></b>	142.4	2.9 (40.2)	21.2	35.1	99.7	180.9
<b>Non-mining (\$ billion)<sup>3</sup></b>	21.4	7.6 (141.3)	14.5	-1.6	-7.8	14.6
<b>Confidential/not classified (\$ billion)<sup>4</sup></b>	16.5	6.9 (122.5)	4.1	-12.2	18.1	218.3
<b>Iron ore (\$ billion)<sup>5</sup></b>	131.9	6.0 (101.1)	32.9	56.6	163.6	237.9
<b>Iron ore (kilo tonnes)<sup>6</sup></b>	697.4	0.8 (9.5)	-2.0	-0.6	1.2	10.6
<b>Coal (\$ billion)<sup>7</sup></b>	1.4	-34.7 (-99.4)	-82.1	-89.2	-89.4	-75.1
<b>Liquefied gas (\$US billion)<sup>8</sup></b>	11.5	7.8 (145.6)	13.9	-1.4	28.1	329.3
<b>Food, live animals, beverages (\$ billion)<sup>9</sup></b>	7.9	0.8 (9.6)	-7.4	-21.3	14.4	83.2
<b>Services exports (\$ billion)<sup>10</sup></b>	12.4	-	-	-35.7	-21.5	12.9
<b>Tourist arrivals (million)<sup>11</sup></b>	3.6	2.8 (39.7)	-88.0	-99.4	-99.7	-99.7
<b>Commencing students<sup>12</sup></b>	63,272	-	-	-20.6	-41.6	-26.7
<b>PRC stock of direct investment in Australia (\$ billion)<sup>13</sup></b>	44.4			-5.4	15.5	24.1
<b>Total good imports (\$ billion)<sup>14</sup></b>	86.7	0.1 (1.7)	0.1	5.1	24.1	42.4
<b>Services imports (\$ billion)<sup>15</sup></b>	1.5			-54.6	-49.4	-42.8
<b>Australian stock of direct investment in the PRC (\$ billions)<sup>16</sup></b>	6.8			-56.4	-50.2	-51.3

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<sup>1</sup> 12 months to August 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>2</sup> Ibid.

<sup>3</sup> 12 months to August 2021. The figures include agriculture, forestry and fishing, manufacturing and information media and telecommunications. ABS <<http://stat.abs.gov.au/>>.

<sup>4</sup> 12 months to August 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>5</sup> Ibid.

<sup>6</sup> 12 months to August 2021. CEIC database.

<sup>7</sup> 12 months to August 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>8</sup> 12 months to August 2021. CEIC database.

<sup>9</sup> 12 months to August 2021. The figures exclude barley. ABS <<http://stat.abs.gov.au/>>.

<sup>10</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

<sup>11</sup> 12 months to August 2021. ABS <<http://www.abs.gov.au/ausstats/abs@nsf/mf/3401.0>>.

<sup>12</sup> Year-to-date August 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>>.

<sup>13</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>>.

<sup>14</sup> 12 months to August 2021. ABS <<http://stat.abs.gov.au/>>.

<sup>15</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release>>.

<sup>16</sup> The latest available figure is for 2020 <<https://www.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5352.02019?OpenDocument>>.