Australia-China relations through the frame of trade

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1. Privileging politics

By the end of 2019, former Australian ambassador to China (2007-2011), Geoff Raby was being widely quoted in his assessment that “The [Australia-China] relationship is at the lowest ebb it’s been in the 47 years since diplomatic relations were established” (Hall 2019). It is a stark observation that an Australian Prime Minister has not visited China since September 2016 (Turnbull 2016), while a Chinese leader has not stepped foot on Australian shores since March 2017 (Turnbull 2017). Ministerial-level visits have also been few and far between. When former foreign minister Julie Bishop resigned from the role in August 2018, she had not been to China in two and a half years (Bishop 2016). Her successor Marise Payne went in November 2018 but has not returned since (Payne 2018a).

Interventions seen as potentially signalling a thaw, such as an upbeat speech on the China relationship delivered by then-Prime Minister Malcolm Turnbull at the University of New South Wales on 7 August 2018, were quickly overtaken by other events (Turnbull 2018). On 24 August 2018, Turnbull was deposed as leader. A day earlier, amidst the domestic political chaos the man who would replace him, Scott Morrison, took the opportunity as acting Home Affairs minister to inform the Australian public that Chinese technology companies, notably Huawei and ZTE, would be excluded from involvement in Australia’s 5G rollout (Fifield and Morrison 2018). It later emerged that five days before the Australian public were told, Turnbull had called Donald Trump to inform the US president of Canberra’s decision (Uhlmann and Grigg 2018). In another report based on interviews with “more than two dozen current and former Western officials”, Australia was said to have led a global campaign pressing for action against Huawei (Bryan-Low and Packham 2019). For

Beijing, this was a betrayal of the terms of the bilateral relationship that Prime Minister John Howard had struck with then-Chinese president, Jiang Zemin in 1996 (White 2018). This involved a promise that while Australia's security alliance with the United States (US) was not negotiable from Canberra's perspective, nothing Australia did as a US ally would be directed at China (Howard 2011).

To be sure, Australia too has felt betrayed. To provide just one example, on 21 April 2017 at the Australia-China High-Level Security Dialogue the two countries had agreed "not to conduct or support cyber-enabled theft of intellectual property, trade secrets or confidential business information with the intent of obtaining competitive advantage" (Australian Government Department of Foreign Affairs and Trade 2017). Yet despite Canberra's long-standing reticence in assigning attribution to cyber-attacks, on 21 December 2018 Foreign Minister Payne felt compelled to issue a statement expressing "serious concern about a global campaign of cyber-enabled commercial intellectual property theft by a group known as APT10, acting on behalf of the Chinese Ministry of State Security" (Payne 2018b).

Ties between the two capitals managed to plumb even deeper depths in 2020 following Minister Payne's call on 19 April for an "independent review mechanism to examine the development of this [COVID-19] epidemic" (Payne 2020). When pressed on what she wanted to know from China, she cited "transparency" about "the genesis of the virus" and "the openness with which information was shared". Just two days earlier and freshly returned from a visit to Washington, Home Affairs Minister Peter Dutton was asked by an interlocutor, "The US wants China to come clean over the virus outbreak, do you agree?" (Dutton 2020). He replied, "I do think there will be a reset in the way the world interacts with China. We do want more transparency…when you've got a Communist Party that doesn't have the transparency that other comparable economies have, then that is a problem. And when you see their involvement in foreign interference, when you see their involvement in cyber, all of these aspects need to be looked at again". On April 22 Prime Minister Morrison appeared to endorse the World Health Organization having powers to enter a country and undertake investigations put by his interviewer as being akin to “weapons inspectors” (Morrison 2020a). The same day he touted a phone call with President Trump tweeting that they had “talked about the World Health Organisation and working together to improve the transparency and effectiveness of international responses to pandemics. Australia and the US are the best of mates and we’ll continue to align our efforts…” (Morrison 2020b). This sequence was again enough for Beijing to surmise that Australia was working in partnership with the US to attack China. On 13 May, the most optimism recently-retired senior Department of Foreign Affairs and Trade official, Richard Maude could muster was that “If it can be achieved, a workable relationship with China remains in Australia’s interests…Such a relationship would be neither warm nor trouble-free. But it would better serve Australia’s national interests than a permanent slide into outright hostility” (Maude 2020).

Yet all of this gloomy analysis privileges a political frame and an examination of the Australia-China relationship through the eyes of the two countries’ capitals. This is, however, far from the totality of bilateral ties. This chapter switches the frame to a trade one in which Australia-China engagement is not measured by the frequency of leaders meetings or ministerial visits but rather by the intensity with which thousands of Australian and Chinese businesses and millions of consumers interact in decentralised markets. This is not to say that political tensions cannot sometimes come crashing through to disrupt the activities of these actors but for the most part these take a back seat to other concerns, such as consumer preferences, production complementarities and the geographical distribution of purchasing power. In light of the different priorities involved, it is perhaps not surprising that this chapter shows developments in the Australia-China trade relationship bearing little resemblance to those in the political relationship. In fact, far from being at the “lowest ebb”, by some metrics the bilateral trade relationship is at, or close to, record highs.

Economics triumphing over politics

In 2011, then-governor of the Reserve Bank of Australia (RBA), Glenn Stevens memorably told a business audience, “The proverbial pet-shop galah can by now recite the facts on Australia's trade with China and our terms of trade, which are at a level not seen in over a century” (Stevens 2011). China’s switch in the mid-2000s to becoming a large net importer of mining and energy products saw it eclipse Japan in 2007 as Australia’s largest trading partner (Australian Government Department of Foreign Affairs and Trade 2020a). Yet when iron ore prices began falling sharply in 2014, the durability of the Australia-China trade relationship was called into question by a number of well-placed commentators. Economist and former Australia ambassador to China (1985-1988), Ross Garnaut wrote in 2013 that, “Australia’s resources boom was a China boom” but now China was shifting its growth model away from iron ore and coking coal-hungry investment towards consumption (Garnaut 2013). Garnaut assessed this meant that “dog days” were on the way for Australia. The following year, former HSBC chief economist and RBA board member John Edwards mooted that, “Within a few years it is possible that Japan will once again be Australia’s biggest export market, displacing China” (Edwards 2014).

What unfolded was vastly different. The total value of Australia’s exports to China eased modestly in 2014 and 2015 but remained, at a minimum, 83 percent higher than to Japan (Australian Government Department of Foreign Affairs and Trade 2020b). By 2016, the value of exports had eclipsed that in 2013 (Table 1). Then, rather than politics pulling down trade, data show record highs being set in each year from 2017 to 2019. In 2019, the value of Australia’s exports to China had grown to be 179 percent higher than to Japan. This reflected a number of factors.

First, iron ore volumes and prices proved resilient. It is debateable whether this should be considered surprising: resources companies themselves have consistently been bullish about the long-run prospects of China’s iron ore demand (Laurenceson 2015). The view of resources companies was also supported by long-run modelling undertaken by the Commonwealth Treasury in

2014 that pointed to the world iron ore price falling from the historic highs of 2011, but remaining well above historical averages out to 2030 (Bullen et al. 2014).

Second, within the minerals and fuels sector, China added other Australian goods to its shopping basket, including liquefied natural gas (LNG), coal and gold. By 2019, LNG had grown to become Australia's second largest export to China, worth $16.1 billion (Pantle 2020).

Third, Chinese demand extended into Australia's agriculture, forestry and fisheries sector, as well as the services sector. In 2019, total exports from these two sectors amounted to $16.8 billion and $19.3 billion, respectively. Australia's export structure has traditionally been "deep but narrow", concentrated in minerals and fuels (Wilson 2020). Nowadays however, Australia's export bundle to China is more diversified than to other major customers such as Japan and India (Laurenceson and Zhou 2020a).

The expansion of Chinese demand across sectors of the Australian economy can be seen not only in aggregate trade values, but also by the number of actors participating in the corridor. According to the Australian Bureau of Statistics, in 2013-14 there were 5,893 Australia exporters involved in sending 144,818 consignments to China (Australian Bureau of Statistics 2020). By 2018-19 this had grown to 8,184 exporters and 461,027 consignments.

Table 1. Australia's trade with China, selected years

	2013		**2016**		**2019**	
Exports	$	% total	$	% total	$	% total
Total	94.1	29.1	95.7	28.4	168.6	34.2
Agriculture, forestry and fisheries	9.2	22.1	10.3	21.7	16.8	31.9
Minerals and fuels	69.3	43.6	62.3	43.9	118.1	46.6
Manufactures	4.6	11.2	4.9	11.1	6.1	11.0
Other goods	3.5	17.0	4.8	19.1	8.3	28.3
Services	7.5	12.5	13.4	17.2	19.3	18.9
Imports						
Total	49.6	14.8	62.3	17.8	82.8	19.5

Agriculture, forestry and fisheries	1.0	6.8	1.3	6.8	1.6	6.7
Minerals and fuels	0.2	0.4	1.4	5.5	3.8	9.5
Manufactures	45.3	26.1	55.8	28.0	73.2	31.4
Other goods	0.8	8.4	1.0	9.7	0.9	8.3
Services	2.3	3.0	2.8	3.4	3.4	3.2

Source – Australian Government Department of Foreign Affairs and Trade

While Australia's trade with China continued to grow even amidst political tensions, some commentators have downplayed its importance. In 2017, the Chief Executive Officer of the United States Studies Centre (USSC), Simon Jackman argued that because Australia's exports to China were "tilted heavily towards resources, agricultural products, undergraduate commerce degrees and inbound tourism" they should not "be equated with US sourced investments in technology-rich sectors that continue to grow Australia's stock of human capital and technological capacity" (Jackman 2017). Yet this characterisation of Australia's economic relationship with China is challenged by research documenting rapidly expanding cooperation in scientific discovery too. According to a report published by the Australia-China Relations Institute in July 2020, more Australian scientific and research publications now include a co-author affiliated with a Chinese institution (16.2 percent of the total) than an American one (15.5 percent of the total) (Laurenceson and Zhou 2020b). In some subject areas like Materials Science, Chemical Engineering, Energy, Chemistry, Engineering, Physics and Astronomy and Computer Science, more than one quarter of all Australian publications involved collaboration with China.

Mutual trade dependence

China's economy is now more than 10 times the size of Australia's in $US terms (World Bank 2020a). When cost differences are factored into the equation and economic size is measured on the basis of purchasing power, the difference increases to more than 17 times (World Bank 2020b). Such scale contrasts inevitably produce an asymmetry in the Australia-China trade relationship. China accounted for 38.2 percent of Australia's goods exports in 2019. Meanwhile, Australia's share of China's goods imports stood at 5.8 percent (Laurenceson and Pantle 2020). That said, it would be a misreading of the trade relationship to conclude that growing dependence was one-way. In 2012, Australia's share of China's goods imports stood at 4.7 percent. The increase in Australia's share of Chinese imports of 1.1 percentage points over a seven year period may appear modest but given the size of China's economy and total imports, this amounted to an extra $US36.8 billion injection of Chinese demand into the Australian economy in 2019 compared with 2012. Australia's growing market share also saw it overtake Germany to become China's fifth largest source of goods imports by value and only fractionally behind the US in fourth place.

At a more disaggregated product level, over the period 2012-2019, 25 of China's top 30 goods imports from Australia increased in value, while 19 increased their market share. In 2019, 61.1 percent of China's iron ore imports came from Australia, up from 22.9 percent in 2012. For wool, the most recent figure was 74.2 percent, while for beef it was 19.5 percent.

Strategic nerves versus economic realities

The worry that a large exposure to a single trading partner could be a source of risk for Australia's own economic growth prospects is not new. Owing to extensive financial links and not insignificant trade ones, in the 1970s through to the 1990s it was common to hear the phrase that "when the US sneezes, Australia catches a cold" (Crosby and Bodman 2005). In the case of China however, fears around standard economic shock transmission are exacerbated by differences in the two countries' political systems and values. Almost as soon as China overtook Japan to become Australia's largest trading partner, nervousness within Australia's strategic community began to spike. In 2013, the Lowy Institute commissioned University of Sydney academic, James Reilly, to provide an assessment of the risk "that the Chinese government will manipulate its trade and investment to undermine Australian autonomy or security". Reilly concluded that these fears were "overblown" (Reilly 2013).

For one, Reilly noted that iron ore featured prominently in Australia's exports to China and in this trade, China was as dependent on Australia as a supplier as Australia was on China as a customer.

Strategic nerves did not abate, however. In part this reflected that China was by then also emerging as a major customer for Australian agricultural products such as beef and wine, as well as services – notably education and tourism. Unlike iron ore, China has access to a number of alternative suppliers for these other goods and services, potentially undercutting Australian resilience in the face of coercive pressure. In 2016, the executive director of the Australian Strategic Policy Institute (ASPI), Peter Jennings warned, "We've never had a greater dependency with any country…The risk that creates for us is if Beijing wants to adopt politically coercive policies, it's in a fairly strong position to do so with us because of that level of trade dependence" (Barrett and Wong 2016). The following year, the director of the National Security College (NSC) at the Australian National University, Rory Medcalf wrote that the reason Australia needed to be concerned about China was because its authoritarian political system, "tends to link its commercial and political demands on other countries". That said, Medcalf also conceded that in practice, "Even where Canberra has seriously annoyed Beijing, such as by supporting legal rulings on the South China Sea [in July 2016], Beijing hasn't directed economic pressure specifically at Australia" (Medcalf 2017).

Nonetheless, after bilateral political relations began to deteriorate in 2017, a prominent perspective emerged in Australian and international media reporting and commentary that marked a sharp departure from Medcalf's assessment that "Beijing hasn't directed economic pressure specifically at Australia". Instead, what began to be emphasised was a Chinese state unleashing "punishment", "bans" and "boycotts" on Australian exports due to political disagreements (Palmer 2020; Townshend 2020; The Economist 2020). An ASPI report published in September 2020 documented 152 alleged instances of coercive diplomacy by China globally over the past 10 years, with a sharp increase since 2018. It found that "[o]f the 27 countries found to have been affected, Australia was subjected to the highest number of recorded cases (17 cases)" (Hanson et al. 2020).

Assessing these claims is made challenging by evidence pointing to Chinese economic statecraft frequently operating in the “greyzone” and with “plausible deniability” (Harrell et al. 2018). For example, when on 19 November 2018 China’s Ministry of Finance and Commerce (MOFCOM) launched an investigation into whether Australia barley was being dumped in the Chinese market and benefiting from subsidies, many Australian commentators interpreted the action as a coercive one triggered by political disagreements. However, while others agreed it was likely a retaliatory measure, they pointed to explanations other than politics. The University of New South Wales (UNSW) law academic Weihuan Zhou wrote, “China’s main concern isn’t barley, and it isn’t the dumping of Australian products. It’s Australia’s use of anti-dumping against China”. Zhou explained that of the thirty anti-dumping measures that Australia had in force at the time, eighteen were directed at China (Zhou 2018).

There is also sometimes a disjoint between the prominence accorded to allegations of Chinese coercive actions and their impact on trade flows. ACRI research published in September 2020 examined four high-profile instances of Chinese actions directed at Australian exports covering beef, education, wine and coal over the period 2017-2019 (Laurenceson et al. 2020). In the case of education, the impact on trade was imperceptible, while for the others it was modest and/or short-lived.

Nonetheless, as Australia’s trade exposure to China has continued to grow, and particularly as the political relationship has deteriorated, calls from the strategic community to mitigate risk by reducing dependence on the Chinese market have grown louder. For its part, the Australian government has enthusiastically adopted the Indo-Pacific construct of the international environment for its foreign policy. In strategic terms, the Indo-Pacific encompasses significant powers such as the United States, Japan, India and Indonesia, with the intent to build a multipolar region that is resistant to the emergence of a new and potentially unfavourable hegemon, with eyes firmly on China. There is an economic dimension too with a vision of more diversified trade throughout the region rather than being concentrated on China. Canberra has also put considerable diplomatic resources into expanding the number of countries with which Australia has concessional trade agreements. These include Japan, Korea, Singapore, Malaysia, Thailand and, most recently, Indonesia. Particularly high hopes have been placed on India with the Australian government releasing in 2018 an India Economic Strategy to 2035, albeit a bilateral trade agreement with India has proven elusive to date (Varghese 2018).

Yet in another indication of trade mostly being driven by factors other than the preferences of politicians, bureaucrats and strategic analysts, economic reality has refused to bend to the Indo-Pacific vision. In 2012 when the Indo-Pacific started making a regular appearance in official government documents, China was the destination for 24.4 percent of Australia's exports. Other Indo-Pacific destinations accounted for 48.1 percent (Australian Government Department of Foreign Affairs and Trade 2020a). By 2019, China's share had increased to 34.2 percent, while the rest of the Indo-Pacific had fallen to 42.1 percent.

For a medium-sized open economy like Australia's, trade patterns are overwhelmingly determined by "exogenous" factors, that is, those beyond Australia's control. That Chinese demand has expanded beyond iron ore to other Australian mining and energy products, as well as agriculture and services, points to a broadening of economic complementarities between the two countries. Put simply: Chinese households and companies want what Australian producers excel in supplying, and they have the purchasing power to pay for it. This matching of Australia's competitive advantages with China's wants and material wealth is not present to the same extent for other trading partners, at least not to date. A light-hearted illustration of this came in June 2014 when then-US Secretary of State, Hillary Clinton warned Australia against putting "all its eggs in the one [China] basket" (McGeough 2014). Then-Communications Minister, Malcolm Turnbull responded, "I'm sure that we'd love to export vast quantities of iron ore to the United States but they've never shown any enthusiasm in buying them" (Turnbull 2014).

Over the past decade, the annual value of Australia's exports has increased by $180 billion. However, this has relied on China to provide 60 percent of the jump (Laurenceson and Zhou 2020a). Looking forward, the Australian government's *2017 Foreign Policy White Paper* contained a baseline forecast showing China's economy out to 2030 adding more new purchasing power than the US, Japan, India and Indonesia combined (Australian Government Department of Foreign Affairs 2017). These are the economic realities of which Australian businesses are acutely aware.

The age of COVID-19: politics strikes back?

In late January 2020, shortly after the COVID-19 virus led to the metropolis of Wuhan and other major Chinese population centres being locked down to manage the public health crisis, some Australian commentators were again quick to elevate an agenda of reducing trade reliance on China. On 28 February 2020, a program director at ASPI, Michael Shoebridge wrote that the implications of COVID-19 for the Australian economy were "profound" (Shoebridge 2020a). On 27 April 2020 he argued that '[w]ith COVID-19, the Chinese state has created unacceptable risks for the rest of us and it will continue to do so… until we reduce our dependence on activities within its jurisdiction' (Shoebridge 2020b). On 3 March 2020, the NSC's Rory Medcalf contended that, "Diversification is now a necessity, not just strategic aspiration" (Medcalf 2020). On 2 May 2020, ASPI's Peter Jennings claimed that "a view is hardening that economic dependence on China is dangerous and steps must be taken to reduce that dependence" (Jennings 2020).

In April, former American diplomat Paula Dobriansky suggested that the time was ripe for the US and partners like Australia to create "an international economic order that is less dependent on China", one in which trading ties "better align … with political and security relationships" (Dobriansky 2020). The following month, Charles Edel of the USSC similarly espoused the view that "our existing alliances now have the opportunity to move beyond the military realm and into the economic arena" (Edel 2020).

While the Australian government sees opportunities to work with the US and other partners like Japan in specific areas, such as around the supply chain for rare earth metals, there are few signs pointing to Canberra being willing or able to use public policy settings to force an alteration in the pattern of Australia's trade away from China. On 26 May 2020, Prime Minister Morrison insisted that decisions about whether to engage with China "are not decisions that governments make for businesses" (Morrison 2020c). This suggests that whatever level of discomfort there might be in Canberra regarding Australia's trade exposure to China, there remains a recognition that households and businesses are the actors best placed to weigh up the risks and opportunities. Even if the Australian government were inclined to be more interventionist, it is not clear how precisely it might do so given that World Trade Organization rules generally require member countries to apply trade policy measures on a non-discriminatory basis. That said, the Australian government has also made clear that it does not intend on shying away from making decisions that it considers to be in the national interest with both economic and strategic considerations factoring into that assessment. Some of these decisions may draw ire from China and so Australian businesses have been put on notice that they could potentially become targets of coercive pressure and this needs to be incorporated into their risk management plans.

As COVID-19 became a global pandemic, what also soon became apparent was that China was the first major country to get the public health crisis under control, allowing the restart of its economy. By October 2020, the International Monetary Fund was forecasting GDP growth of 1.9 percent in China for the year, followed by 8.2 percent in 2021 (International Monetary Fund 2020). This contrasted with -4.3 percent and 3.1 percent for the US, and -8.3 percent and 5.2 percent in the Euro Area. Accordingly, Australia's trade exposure to China has proven fortuitous with the relatively quick rebound in Chinese production and demand reflected in Australia's trade statistics. In the first nine months of 2020 the value of Australia's goods exports to China had only fallen by 2.9 percent from the same period a year earlier, which was a record high (Australian Government Department of Foreign Affairs and Trade 2020b). Meanwhile, exports to all other destinations had fallen by 11.8

percent. This meant that Australia has only become more reliant on China as a customer. In 2019, China's share of Australia's goods exports stood at 38.2 percent. In the first nine months of 2020, this increased to 40.5 percent.

The same pattern is evident on the import side of the equation and around supply chains. In the first nine months, goods imports from China rose by 5.2 percent compared with a slump of 9.7 percent from elsewhere. This led to China's share of Australia's imports increasing from 25.8 percent in 2019 to 27.9 percent in 2020 through to September.

While this points to ongoing resilience in the Australia-China trade relationship at the aggregate level amidst political tensions, there is nonetheless growing evidence that the seeming firewall that existed in the past has finally begun to show signs of strain. After an 18-month investigation, on 19 May 2020 MOFCOM ruled that Australian barley producers had dumped their output in the Chinese market and been unfairly subsidised, imposing an 80.5 percent tariff in response (Cao and Greenville 2020). Both the Australian government and analysts rejected this assessment, describing it using terms such as "ridiculous" and "spurious" (Coorey and Kehoe 2020; Waldron 2020). Unlike previous episodes of alleged Chinese economic coercion, the impact of these tariffs on the barley trade will likely be sizeable and prolonged. In August, Chinese authorities announced a similar investigation into Australian wine (Birtles 2020). In May, MOFCOM also suspended certification of four meat processors in Australia to supply the Chinese market, albeit this still left another seven plants continuing to sell chilled beef to China as normal (Tingle 2017). A further 20 or so are also able to sell the frozen product, which accounts for around 85 percent of all Australian beef exports to China by volume (Sullivan and Gunders 2020; Meat and Livestock Australia 2020). In October, reports emerged of Chinese actions targeting Australia coal and cotton (ABC News 2020; Sullivan and Barbour 2020). The extent to which these materialise and impact trade flows remains to be determined.

Still, what is also apparent is that China could be punishing Australian exports to a greater extent than it currently is. Rather than benevolence, a more probable explanation is that Beijing has its own self-interested reasons to exercise some level of restraint.

First, there is a pure economic cost in disrupting trade. Trade is by definition a mutually beneficial exchange, meaning that less trade costs both sides. China's leaders might have lost some of their enthusiasm for dealing with Australia but for the most part Chinese businesses and consumers have not. The latter groups would not appreciate their choices being circumscribed by the former.

Second, Beijing likely realises that economic coercion has little prospect of success in shifting Canberra's foreign policy positions into closer alignment with its own. As Australian exports have been targeted more frequently, the backlash in public opinion towards China has intensified and nowadays even the voices of groups with interests in urging moderation in government rhetoric and policies, such as the business sector, have grown quieter (Kasssam 2020; Power 2020). Rather than undermining support for Australian government positions on China, making Australian businesses the target of coercion feeds into domestic politics to incentivise even stronger pushback.

Third, Beijing does not always have ready access to policy levers to cut off trade. In the case of education and tourism, for example, indirect pressure can be exerted via disinformation campaigns in the China's state-owned media to exaggerate the threat of racism and physical attacks. However, Chinese consumers get their news from a range of sources and Australian governments and industry can respond with marketing campaigns of their own.

Fourth, coercive actions against Australia are carried in news reports around the world, costing China its reputation internationally and casting doubt on whether it is a reliable trading partner that plays by the rules.

Fifth, while in Australia a focus in placed on Chinese coercion, the bigger picture is that China is vulnerable to coercion too. US restrictions on exports of high tech goods to China are the most notable recent example but Geoff Raby also observes that it is also now “utterly dependent” on world markets for basic raw materials, including from Australia (Raby 2015).

Finally, Australian businesses and the country as a whole are not passive bystanders and can pursue risk mitigation measures. On 23 August 2020, Trade Minister Birmingham alluded to as much: “Some of the regulatory decisions that China has made this year will obviously increase the risk profile that businesses would see when it comes to trading with Chinese counterparts” (Putten and Durkin 2020). This means, as Senior Writer for the *Australian Financial Review* John Kehoe explained on 24 June 2020, “…if an exporter can get $110 for their product in China or $100 in South Korea, the risk-adjusted price may be more profitable in the more predictable liberal democracy” (Kehoe 2020). That said, the mitigation measures that businesses take will not always be in the form of customer diversification and nor would that necessarily be desirable. On 4 October 2018, Chancellor of The University of Queensland, Peter Varghese noted in the education services context, “While demand remains high it makes little sense for Australian universities to turn their back on the revenue stream offered by students from China and elsewhere.” However, this observation was quickly followed by a suggestion: “But it would be wise to invest the profit margin for the longer term not use it for current expenditure. Put it into a future fund or endowment which would give universities a measure of resilience in the event that the market abruptly shifts for reasons beyond the control of universities”. Even as risks in China engagement increase, businesses will also continue to be forced to weigh these against the available suite of opportunities. Consider again higher education services: in the first half of 2020, student visa lodgements from applicants in China fell by 29.5 percent on the same period a year earlier (Australian Government Department of Home Affairs 2020). Meanwhile, those from India – Australia’s second large education services customer – collapsed by 65.5 percent. At a country-level, as early as 2012 James Reilly noted that “Australia has responded to deepening economic dependence upon China with classic balancing strategy: strengthening security ties with its Asian neighbours and the United States while bolstering its military capacity” (Reilly 2012). The *2017 Foreign Policy White Paper* and the *2020 Defence Strategic Update* have given further impetus to these endeavours (Australian Government Department of Foreign Affairs 2017; Australian Government Department of Defence 2020).

Conclusion

This chapter began by noting that a political frame is frequently privileged in media reporting and commentary on the Australia-China relationship. Within this frame worsening bilateral relations are plainly evident in recent years. Yet much of the Australia-China relationship occurs outside the political frame and trade ties are one such example.

This is not to suggest that a stable political relationship does not bring trade benefits or that political disputes do not incur trade costs. Were the China-Australia Free Trade Agreement (ChAFTA) not struck at the end of 2015, it is inconceivable that it could be struck in 2020 and Australian producers would not be enjoying the advantageous access to the Chinese market they currently are. Similarly, nowadays there are trade costs quite apart from the actions China is taking against specific Australian goods. The ChAFTA contained review clauses with an eye on promoting further trade and investment liberalisation. However, the last time a meeting took place to discuss the upgrade of ChAFTA was on 9 November 2017 (Australian Government Department of Foreign Affairs and Trade).

Still, when the Australia-China relationship is examined through a trade frame what is readily apparent is that Canberra and Beijing are typically not the dominant actors and their priorities in large part take a back seat to those of consumers and businesses. This is confirmed by trade data pointing to engagement between Australian and China growing both in scale and breadth even as political relations have deteriorated.

The events of 2020 raise the prospect that there may be more regular and significant spill overs between the political and trade frames of the Australia-China relationship. Yet the drivers of trade to date – consumer preferences, production complementarities across countries and the geographical distribution of purchasing power – remain intact. This provides cause for optimism and the potential for trade to remain a source of ongoing stability and ballast in bilateral ties.

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