

Interrogating Chinese economic coercion: the Australian experience since 2017

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Abstract

This paper begins by critically reviewing the theoretical basis underpinning use of economic coercion to shift a target country's political positions, drawing attention to the likelihood of success being context-dependent. Six case studies are then documented where a coercive frame is evident in reporting and commentary to interpret Chinese actions taken against Australian exports since 2017. These show that trade impacts of Chinese actions have generally been modest in scale, short-lived and/or significantly mitigated. Canberra's political positions have also not become more aligned with Beijing's. The discussion informs assessment of coercive risks consequent to Australia's trade exposure to China.

1. Introduction

China's switch to being a large net importer of resources and energy products in the mid-2000s saw it rapidly rise up the rankings as an Australian trading partner. While this trade has been a boon for the Australian economy and the budgets of federal and state governments, it has also given rise to anxiety that China might use its position as a major buyer to exert coercive pressure. 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 suspicions were "overblown".¹ 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.

Fears did not dissipate, 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, Peter Jennings, the executive director of the Australian Strategic Policy Institute (ASPI), warned, "We've never had a greater dependency with any country...The risk that creates for us is if Beijing

¹ James Reilly, *China's economic statecraft: turning wealth into power*, Lowy Institute, Sydney, 27 November 2013, <<https://www.lowyinstitute.org/publications/chinas-economic-statecraft-turning-wealth-power>> [Accessed August 2020].

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".² The following year, Rory Medcalf, the director of the National Security College at the Australian National University, 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".³

Nonetheless, the period up until 2017 was one characterised by relatively few overt bilateral political disputes and a number of overt political celebrations, such as when Chinese President Xi Jinping addressed the Australian parliament in November 2014 and a free trade agreement was enacted in December 2015. Since 2017, the bilateral political relationship has been deteriorating. The last time an Australian Prime Minister visited China was in September 2016. It is in this environment that a prominent frame has emerged that marks a sharp departure from Medcalf's assessment that "Beijing hasn't directed economic pressure specifically at Australia". Instead, what has been emphasised in Australian and international media reporting and commentary in recent years is a Chinese state that is unleashing "punishment", "bans" and "boycotts" on Australian exports due to political disagreements.⁴

This paper begins by critically reviewing the theoretical basis underpinning use of economic coercion to shift a target country's political positions. This draws attention to the likelihood of success being context-dependent. Six case studies are then documented where a coercive frame is evident in reporting and commentary to interpret Chinese actions taken against Australian exports since 2017. Alternative interpretations are also noted but these do not rule out coercive action being undertaken with plausible deniability.⁵ The case studies show that trade impacts of Chinese actions to date have generally been modest in scale, short-lived and/or significantly mitigated. There is also little evidence to suggest that these actions have shifted Canberra's political positions towards closer alignment with Beijing's. Finally, the paper draws on the earlier theoretical exposition to understand why Chinese actions have been less successful than Beijing might have hoped.

2 Jonathan Barrett, and Sue-Lin Wong, 'China warns 'protectionist' Australia on investment after grid deal blocked', *Reuters*, 17 August 2016, <<https://www.reuters.com/article/us-australia-privatisation-ausgrid/china-warns-protectionist-australia-on-investment-after-grid-deal-blocked-idUSKCN10R2M1>> [Accessed August 2020].

3 Rory Medcalf, 'China's economic leverage: perception and reality', *National Security College policy options paper no.2*, Australian National University, Canberra, March 2017, <<https://nsc.crawford.anu.edu.au/publication/9971/chinas-economic-leverage-perception-and-reality>> [Accessed August 2020].

4 James Palmer, 'Why China is punishing Australia', *Foreign Policy*, 13 May 2020, <<https://foreignpolicy.com/2020/05/13/china-punishing-australia-coronavirus-pandemic-meat-imports-trade-diplomacy/>> [Accessed August 2020]; *The Economist*, 'China punishes Australia for promoting an inquiry into covid-19', 21 May 2020, <<https://www.economist.com/asia/2020/05/21/china-punishes-australia-for-promoting-an-inquiry-into-covid-19>> [Accessed August 2020]; Ashley Townshend, 'China's pandemic-fueled standoff with Australia', *War on the Rocks*, 20 May 2020, <<https://warontherocks.com/2020/05/chinas-pandemic-fueled-standoff-with-australia/>> [Accessed August 2020].

5 Darren Lim and Victor Ferguson, 'In beef over barley, Chinese economic coercion cuts against the grain', *The Interpreter*, Lowy Institute, Sydney, 13 May 2020, <<https://www.loyyinstitute.org/the-interpreter/barney-over-beef-chinese-economic-coercion-cuts-against-grain>> [Accessed August 2020].

2. The theoretical basis for economic coercion

The theoretical basis for using economic links as coercive tools was popularised by the political economist Albert Hirschman.⁶ Australia sells more to China than vice-versa, and Australia is the much smaller economy. Hirschman argued that such asymmetry gave rise to coercive leverage for the larger economy because gains derived from a country's exports—in this case, Australia's exports to China—could be turned into losses if trade flows were restricted. In this way restriction of Australian imports by China and the consequent losses inflicted on the Australian economy are a 'stick' that can be employed to punish political positions considered unfavourable by China. While Hirschman's ideas remain influential, particularly to a generalist audience, they have been subject to a vigorous critique in more specialist literature.

First, asymmetry does not remove the reality that the country employing economic coercion still suffers costs. Trade by definition is a mutually beneficial transaction, meaning that disrupting trade creates a lose-lose outcome.

Second, as Hirschman himself later conceded, focusing on an asymmetry of impacts downplays an asymmetry in awareness and incentives to employ mitigating behaviour, which favours the target country:⁷

[An] economic disparity generates a disparity of attention...and this disparity now favours the dependent country: that country is likely to pursue its escape from domination more actively and energetically than the dominant country will work on preventing this escape.

Third, as political economists such as R. Harrison Wagner have noted, bargaining theory posits that rather than the country considering employing coercion starting from a position of strength, the opposite is in fact the case. This is because it wishes to effect a change in a target country that the target country itself regards as being contrary to its interests. Accordingly, the target country would only contemplate such a change if the source country were to offer compensation. If this were the case then because "...both would be made better off by such an agreement, neither could be said to have been coerced".⁸ Alternatively, if the source country is unwilling to offer sufficient compensation, then the target country does not have incentive to yield. This balance of bargaining power reduces the attraction to the source country of employing coercive pressure in the first place.

Fourth, the extensive theoretical literature on sanctions efficacy is relevant. This is because the underlying logic—of a "threat to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand"—imply that factors influencing the success of sanctions are analogous to those for economic coercion.⁹ Studies in recent decades have aimed to identify the characteristics of successful sanctions by applying

6 Albert Hirschman, *National power and the structure of foreign trade* (Berkeley: University of California Press, 1945).

7 Albert Hirschman, 'Beyond asymmetry: critical notes on myself as a young man and on some other old friends', *International Organization*, vol. 32, no. 1 (1978), pp. 45-50.

8 R. Harrison Wagner, 'Economic interdependence, bargaining power, and political influence', *International Organization*, vol. 42, no. 3 (Summer 1988), pp. 461-483.

9 Daniel Drezner, 'The hidden hand of economic coercion', *International Organization*, vol. 57, no. 3 (2003), pp. 643-659.

statistical techniques to sanctions datasets.¹⁰ A recent review of sanctions literature by political scientist Dursun Peksen found that the likelihood of success is increased when: 1) sanctions are implemented multilaterally, reducing the ability of sanctions targets to evade sanctions by turning to alternative markets; 2) when sanctions targets are allies rather than rivals, meaning they are more invested in returning to strong political/strategic ties; 3) when policy objectives are specific and modest, since expansive demands are more difficult to accommodate; 4) when the political regime of targets are democratic, because it is more difficult to ignore pressure from affected constituents; 5) when the sanctions cause severe economic harm to the target, particularly before the target is able to adapt to sanctions; and 6) when sanctions strengthen the relative influence of interest groups that oppose the prevalent policy position.¹¹ In other words, the theory and associated empirical literature of sanctions efficacy does not point to the inevitability of coercive success but rather to it being context-dependent.

3. Trade actions taken by China since 2017

This section documents six of the most prominent Chinese actions taken against Australian exports since 2017. They derive from a mix of industry sectors including mining and energy, agriculture, value-added food and beverages and services.

3.1 Beef in July 2017

In the March 2017 visit to Australia by Chinese premier Li Keqiang, one of the major ‘announceables’ was a AUD\$400 million Joint Statement to expedite approval of an additional fifteen Australian frozen meat establishments to supply the Chinese market. In addition, chilled meat exports would be approved for “all establishments that meet the chilled meat standard as verified by the Department of Agriculture and Water Resources”.¹² Previously, sales of chilled beef to China had been limited to eleven authorised meat processors.

Shortly before the Chinese premier’s visit, Australia had begun embarking upon what some observers described as a “tilt on China”.¹³ In a 12 March 2017 speech in Singapore, then-foreign minister Julie Bishop had called on the United States (US) to enhance its security presence in Asia in the face of a rising China. In the same speech, Minister Bishop expressed the view that “[h]istory also shows democracy and democratic institutions are essential for nations if they are to reach their economic potential”.¹⁴

10 See e.g., *Ibid.*, p19; T. Clifton Morgan, Navin Bapat and Yoshiharu Kobayoshi, ‘Threat and imposition of economic sanctions 1945-2005: Updating the TIES dataset’, *Conflict Management and Peace Science*, vol. 31, no. 5 (2014), pp. 541-558.

11 Dursun Peksen, ‘When Do Imposed Economic Sanctions Work? A Critical Review of the Sanctions Effectiveness Literature’, *Defence and Peace Economics*, vol. 30, no. 6 (2019), pp. 635-647.

12 Laura Tingle, ‘China trade deal adds \$400 million to beef exports’, *The Australian Financial Review*, 24 March 2017, <<https://www.afr.com/politics/china-trade-deal-adds-400-million-to-beef-exports-20170324-gv5qzl>> [Accessed August 2020].

13 Elena Collinson, ‘Australia’s tilt on China’, Australia-China Relations Institute, University of Technology Sydney, 4 July 2017, <<https://www.australiachinarelations.org/content/australias-tilt-china>> [Accessed August 2020].

14 *Ibid.*, p. 4

It was against this backdrop that on 25 July 2017, then-trade minister Steve Ciobo received notice from China's quarantine agency that the certification to supply the Chinese market would be suspended for six Australian meat processing plants, allegedly due to labelling and non-compliance issues. Together, these processors accounted for approximately thirty percent of total Australian beef exports to China.¹⁵

Multiple explanations for China's actions were present. Some news reports pointed to the disruption being a 'tit-for-tat' retaliation to a recent ban that Australia had imposed on prawn imports, which had hurt Chinese producers.¹⁶ Others pointed to coercion, with *The Weekly Times* on 27 July 2017 referring to unnamed "meat processor sources" who were said to "claim the bans are in retaliation to Foreign Minister Julie Bishop's comments...over freedom of navigation in the South China Sea".¹⁷

A factor that helped to ameliorate the costs to Australian producers was that Chinese authorities allowed shipments in transit when the suspension was announced to enter the Chinese market.¹⁸ Further, the suspension of the six plants was soon lifted on 30 October 2017. One Chief Executive Officer of an affected Australian processor told ABC News that "it's nothing different to what we saw in Korea and Japan in the 80s and early 90s, similar issues".¹⁹

Turning to trade data to assess the scale of the impact, the volume of Australian beef exports to mainland China fell by 25.3 percent in August 2017 compared to a month earlier (Figure 1).²⁰ However, this loss was quickly recovered. In September and October—while the suspension affecting the six meat processors were still in place—the total volume of Australian beef exports to China was actually higher than before the measures had been introduced. When compared to the previous year, a decline is again only observable in the month of August, whilst all other months experienced positive growth. By 2018, any disruption due to the partial suspension of certification in 2017 had been well and truly overcome. The period of July through to October in 2018 saw growth in the value of Australia's beef exports to China of 76 percent over the same period the year before.²¹

15 Australian Associated Press and 9Finance, 'China lifts import ban on Australian beef', 30 October 2017, <<https://finance.nine.com.au/business-news/china-lifts-import-ban-on-australian-beef/0e567007-af44-4d09-935a-5ff473593d47>> [Accessed August 2020].

16 Andy Coyne, 'Australian meat firms banned from China', *just-food*, 31 July 2017, <https://www.just-food.com/news/australian-meat-firms-banned-from-china_id137343.aspx> [Accessed August 2020].

17 Jamie-Lee Oldfield, Peter Hemphill and Natalie Kotsios, 'Beef processors hit by China ban', *The Weekly Times*, 27 July 2017, <<https://www.weeklytimesnow.com.au/news/national/australian-beef-processors-hit-by-temporary-china-export-ban/news-story/acd84a500ff33e4941ca8f3540f526e8>> [Accessed August 2020].

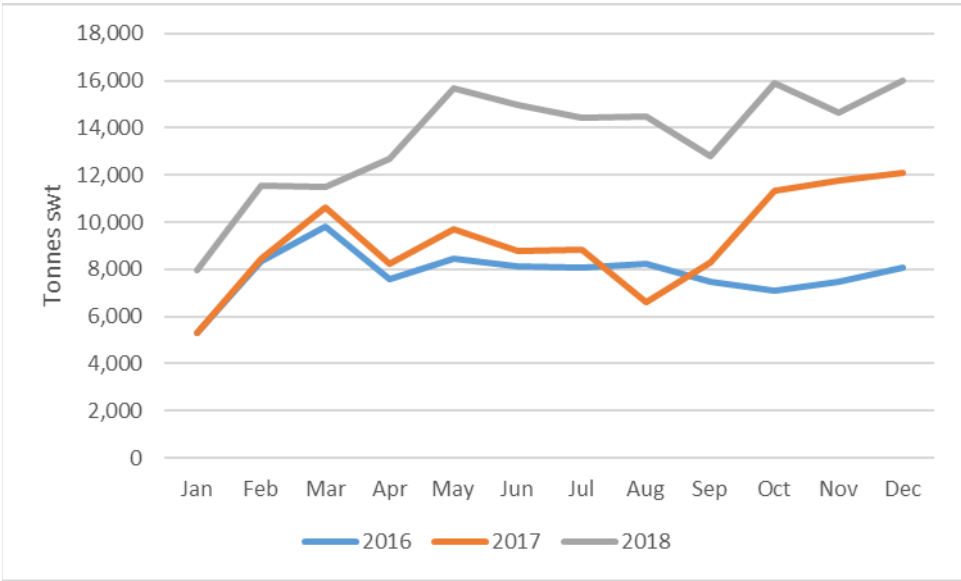
18 Oscar Rousseau, 'Six Australian meat outfits hit by China ban', *FoodNavigator-Asia*, 26 July 2017, <<https://www.foodnavigator-asia.com/Article/2017/07/27/Six-Australian-meat-outfits-hit-by-China-ban>> [Accessed August 2020].

19 ABC News, 'China lifts Australian beef import suspension from six major firms', 31 October 2017, <<https://www.abc.net.au/news/rural/2017-10-31/china-lifts-australian-beef-import-suspension-on-six-firms/9103682?section=business>> [Accessed August 2020].

20 Meat and Livestock Australia, 'Statistics database', 2020, <<http://statistics.mla.com.au/Report/RunReport/3cf814d1-603d-49d6-ae37-7e598b3aac0a>> [Accessed August 2020].

21 Australian Bureau of Statistics, 'Exports by SITC—(\$—thousands)', 2020, <<http://stat.data.abs.gov.au/#>> [Accessed August 2020].

Figure 1: Australian beef exports to China, 2016-2018 (tons, shipping weight (swt))



Source: Meat and Livestock Australia

In terms of Australia’s market share of Chinese beef imports—a useful metric of whether coercive pressure might have been directed specifically at Australia—UN Comtrade data show there was only a marginal decline from 23.6 percent in July to 19.4 percent in August and 19.7 percent in September.²² By October this had bounced back to 22.2 percent, above the monthly average for 2017 of 21.4 percent.

3.2 Students in December 2017

On 18 December 2017, the Chinese Embassy in Australia posted a notice on its website stating that “recently, in different parts of Australia, there have been increased cases of verbal and physical attacks against Chinese students” and reminding Chinese students to “be mindful of safety risks they may encounter during their stay in Australia”.²³ On 20 December 2017, the ABC News outlined earlier incidences of verbal and physical abuse affecting Chinese students, observing that “[s]tudent safety has been a growing concern among...Chinese students”.²⁴ The report also stated that the notice came “amidst a period of worsening ties between Australia and China over public discussion of Chinese Communist Party interference in Australia”.

22 United Nations Statistics Division, ‘UN Comtrade’, 2020, <<https://comtrade.un.org/data>> [Accessed August 2020].

23 Embassy of the People’s Republic of China in the Commonwealth of Australia, ‘提醒赴澳中国留学人员近期加强安全防范 (Reminder to Chinese students in Australia to strengthen safety measures)’, 18 December 2017, <<http://au.china-embassy.org/chn/lsfw/lxdt/f5/t1520390.htm>> [Accessed August 2020].

24 Bill Birtles, ‘China’s embassy in Canberra issues safety warning for Chinese nationals in Australia’, ABC News, 20 December 2017, <<https://www.abc.net.au/news/2017-12-20/chinese-embassy-issues-safety-warning-for-australia/9277202>> [Accessed August 2020].

The juxtaposition of the notice and the broader context of the Australia-China relationship was replicated in subsequent News Ltd media reporting, which on 22 December 2017 described the notice as “extraordinary” and “the latest fault line between China and Australia after Malcolm Turnbull’s pointed declaration he would “stand up” against Chinese interference in Australian politics by announcing tougher espionage laws”.²⁵

On 14 February 2018, the Chinese Ministry of Education posted an almost-identical notice warning that there had been increased cases of “infringement of Chinese students’ personal and property safety”.²⁶ This notice received more media coverage primarily framed around coercion. On 15 February 2018, the *Financial Times* reported that the notice was “heightening fears in Canberra of economic retaliation after a spike in political tensions between the countries”. The report cited La Trobe University academic James Leibold, who claimed that “[t]his is clearly an act of retaliation to the introduction of new foreign interference laws in Australia and the ongoing debate about Chinese Communist party interference”. The report observed that the notice came after “an attack on a Chinese student in October” but also “concerns from the Chinese embassy in Australia about new laws targeting foreign influence, as well as an uptick in anti-Chinese sentiment in the media”.²⁷

On 16 February 2018, the *Australian Financial Review* (AFR) followed with a report headlined, “Unis fear fallout from hard line on China”.²⁸ The report stated that “[i]ntelligence sources have advised...that the broad nature of the alerts and the fact they overstate the safety situation without providing any detail make it likely they are acts of political and financial retaliation”. It also noted that “[a] very similar statement was issued in mid-December last year at the same time there were reports that Beijing was extending its infiltration and repression activities on Australia’s university campuses”, but did not mention the incidents threatening Chinese student safety in 2017. On 20 February 2018, *The Australian* similarly published a report with the headline, “China pressures Australia through higher education sector”.²⁹ The report noted “it remains unclear exactly what has caused the friction — it could be disagreements over the South China Sea, or Australia’s criticism of Chinese efforts to influence Australian universities”, and also made no mention of the incidents involving Chinese students in 2017.

25 James Law, ‘China warns students in Australia of ‘rising insulting incidents’’, *news.com.au*, 21 December 2017, <<https://www.news.com.au/world/asia/china-warns-students-in-australia-of-rising-insulting-incidents/news-story/9aff773e6b8a5689d1de1444266c5886>> [Accessed August 2020].

26 Embassy of the People’s Republic of China in the Commonwealth of Australia, ‘教育部发布2018年第1号留学预警 赴澳大利亚留学应注意安全风险 (The Ministry of Education issued the 2018 overseas students early warning no. 1—students in Australia should be mindful of safety risks)’, 14 February 2018, <<http://au.china-embassy.org/chn/lsfw/lxdt/f4/t1535317.htm>> [Accessed August 2020].

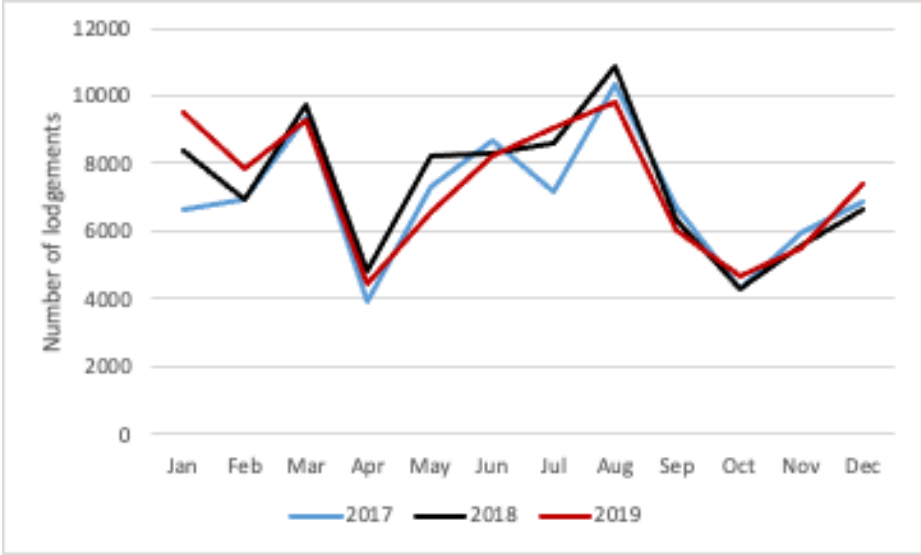
27 Jamie Smyth and Thomas Hancock, ‘Chinese students warned over Australia safety’, *Financial Times*, 15 February 2018 <<https://www.ft.com/content/e1f92b40-11f9-11e8-8cb6-b9ccc4c4dbbb>> [Accessed August 2020].

28 Phillip Coorey, ‘Universities fear payback as anti-China rhetoric escalates’, *The Australian Financial Review*, 15 February 2018, <<https://www.afr.com/politics/universities-fear-payback-as-antichina-rhetoric-escalates-20180215-h0w3yv>> [Accessed August 2020].

29 Sian Powell, ‘China pressures Australia through higher education sector’, *The Australian*, 20 February 2018, <<https://www.theaustralian.com.au/higher-education/china-pressure-australia-through-higher-education-sector/news-story/17344b0df8b59a560ff48431a5fcd2a3>> [Accessed August 2020].

Data from the Australian Government Department of Home Affairs show that there was little year-on-year change in monthly visa lodgements by Chinese students in each of the twelve months of 2018 and 2019 (Figure 2).³⁰ Data for new student enrolments indicates that the number of commencing Chinese students in 2018 reached 129,103—up 3.0 percent from 125,305 in 2017.³¹

Figure 2. Monthly visa lodgements by Chinese students, 2017–2019



Source: Australian Government Department of Home Affairs

3.3 Wine in May 2018

On 17 May 2018, Treasury Wine Estates Ltd (TWE) announced to the Australian Stock Exchange that it was “experiencing delays for some of its Australian Country of Origin shipments being cleared by the General Administration of Customs China (GACC)”. It cited “new and additional verification requirements” that “seemingly appear to only apply to Australian Country of Origin wines, and to Australian exporters operating ‘warehouse models’”.³²

The news prompted an *AFR* report headlined: “Political tension blamed on Treasury’s China Customs headache”.³³ The report noted that “Executives working for Australian

30 Australian Government Department of Home Affairs, ‘Student visa program’, data.gov.au, 31 July 2020, <<https://data.gov.au/dataset/ds-dga-324aa4f7-46bb-4d56-bc2d-772333a2317e/details>> [Accessed August 2020].

31 Australian Government Department of Education, Skills and Employment, ‘International student data’, 2020, <<https://internationaleducation.gov.au/research/international-student-data/pages/default.aspx>> [Accessed August 2020].

32 Treasury Wine Estates, ‘Treasury Wine Estates responds to market commentary’, 17 May 2018, <<https://www.tweglobal.com/-/media/Files/Global/ASX-Announcements/2018/Treasury-Wine-Estates-responds-to-market-commentary-17-May-2018.ashx>> [Accessed August 2020].

33 Michael Smith, ‘Political tension blamed on Treasury’s China Customs headache’, *The Australian Financial Review*, 17 May 2018, <<https://www.afr.com/companies/retail/political-tension-blamed-on-treasurys-china-customs-headache-20180517-h1068g>> [Accessed August 2020].

exporters on the ground in China and local analysts blamed tension in the bilateral relationship for the heightened scrutiny”. That said, it was also acknowledged that “[o]fficially, the Chinese authorities will say they are stepping up paperwork checks to weed out fake products, which are rife in China”. That Australian winemakers have struggled against counterfeit product in China has been widely documented.³⁴ The report referenced then-trade minister Steve Ciobo, who stated that the challenges Australian winemakers were facing were “not inconsistent with the sporadic nature of issues businesses have raised with me over the past three years and I would stress are not purely confined to China either”. It further added that there were “conflicting reports about the extent of Customs’ delays impacting TWE” and cited other China-based sources contending that the company’s distribution model might be “a big part of the problem”.³⁵

In subsequent coverage however, much of this context was absent. On 28 May 2018, a news piece in *The Wall Street Journal* opted for a lede stating “A deepening spat over allegations of Chinese meddling in Australian politics has led to cases of wine piling up at Chinese ports and nationalists calling for tougher trade retaliations. The episode shows how China is willing to use its economic leverage to force foreign governments to reverse positions it views as antagonistic”.³⁶ It also cited the fact that Canberra was considering a “series of bills that would strengthen the country’s espionage laws, outlaw foreign political donations and criminalise efforts to interfere in Australian democracy”. On 13 June 2018, *Reuters* wrote of a French company with operations in Australia that was also experiencing port delays. It began by stating matter-of-factly that it was “the first foreign company to be harmed by a deterioration in relations between Australia and China”.³⁷

Any trade actions taken turned out to be extremely short-lived. On 5 June 2018, just three weeks after TWE had issued its statement to the markets, the *AFR* was reporting that “more than two-thirds” of the Australian wine that had been affected had been released for sale.³⁸

Turning to trade data, the value of Australia’s wine exports to China (including Hong Kong SAR and Macao SAR) reached AUD\$1.14 billion in 2018. This was up eighteen percent on a year earlier. In volume terms, Australian wine exports to China had increased by seven percent.³⁹ As a share of China’s total wine import volume, the Australian product increased its market share against its competitors during 2018.⁴⁰

34 Cara Waters, “The perfect crime’: Aussie business battles counterfeit wine in China’, *The Sydney Morning Herald*, 30 December 2018, <<https://www.smh.com.au/business/small-business/the-perfect-crime-aussie-business-battles-counterfeit-wine-in-china-20181217-p50mok.html>> [Accessed August 2020].

35 Smith, ‘Political tension blamed on Treasury’s China Customs headache’, p. 9.

36 Rob Taylor, ‘Wine trade corked as China retaliates in spat over meddling’, *The Australian*, 28 May 2018, <<https://www.theaustralian.com.au/news/wine-trade-corked-as-china-retaliates-in-spat-over-meddling/news-story/2c1631180dbdfda9e575ccf790b15df3>> [Accessed August 2020].

37 Colin Packham, ‘Exclusive: Pernod Ricard wines delayed at Chinese ports amid strained ties with Australia—sources’, *Reuters*, 13 June 2018, <<https://www.reuters.com/article/us-australia-china-wine-pernod-ricard-ex/exclusive-pernod-ricard-wines-delayed-at-chinese-ports-amid-strained-ties-with-australia-sources-idUSKBN1J915E>> [Accessed August 2020].

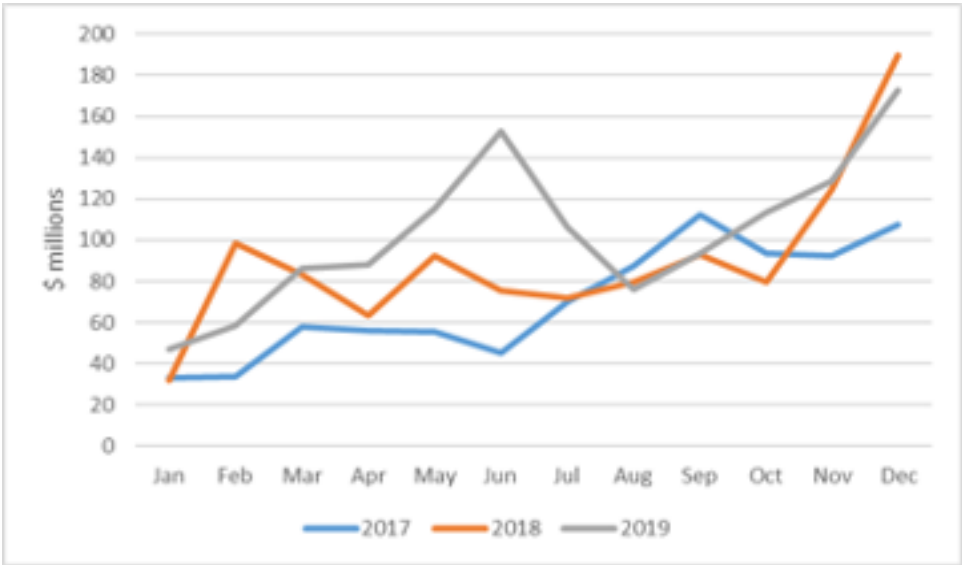
38 Andrew Tillett, ‘Winemakers demand Malcolm Turnbull step in to ease China wine woes’, *The Australian Financial Review*, 5 June 2018, <<https://www.afr.com/politics/winemakers-demand-malcolm-turnbull-step-in-to-ease-china-wine-woes-20180604-h10yi9>> [Accessed August 2020].

39 Wine Australia, ‘2018: an impressive year for Australian wine exports’, *Market Bulletin Issue 140*, 22 January 2019, <<https://www.wineaustralia.com/news/market-bulletin/issue-140>> [Accessed August 2020].

40 Wine Australia, ‘Increasing demand for quality wines in China’, *Market Bulletin Issue 141*, 22 January 2019, <<https://www.wineaustralia.com/news/market-bulletin/issue-140>> [Accessed August 2020].

When trade data from the Australian Bureau of Statistics are examined on a monthly basis, there is little sign of a mid-2018 slump—export values were higher than the corresponding period in 2017 (Figure 3). The monthly value of Australia’s alcoholic beverage exports to China—almost exclusively wine—generally fluctuated between AUD\$70-AUD\$100 million during 2018, before accelerating sharply to AUD\$190 million in December. The values in 2019 were mostly higher again. Unfortunately, monthly Chinese import data for wine from Australia and the rest of the world via the UN Comtrade database are unavailable, preventing market share analysis.

Figure 3: Australia’s monthly alcoholic beverage exports to China, 2017–2019 (\$ millions)



Source: Australian Bureau of Statistics

3.4 Coal in February 2019

On 21 February 2019, *Reuters* reported that “Customs at China’s northern port of Dalian has banned imports of Australian coal” and that “[c]oal imports from Russia and Indonesia will not be affected”, citing an official from Dalian Port Group.⁴¹ The report noted the official had not been given an official reason for the alleged ban but went on to observe “it follows simmering tensions between Beijing and Canberra”. On 21 February 2019, an *ABC News* report with a headline including the statement, “Chinese officials ban Australian coal imports” cited “industry sources” who said “similar delays are now occurring at other Chinese ports”.⁴²

41 Meng Meng, Mui Xu, Dominique Patton, Michael Martina, Tom Westbrook, Melanie Burton, Richard Pullin, Christian Schmollinger and Tom Hogue, ‘Exclusive: China’s Dalian port bans Australian coal imports, sets 2019 quota—source’, *Reuters*, 21 February 2019, <<https://www.reuters.com/article/us-china-australia-coal-exclusive/exclusive-chinas-dalian-port-bans-australian-coal-imports-sets-2019-quota-source-idUSKCN1QAOF1>> [Accessed August 2020].

42 Stephen Letts, ‘Dollar tumbles as Chinese officials ban Australian coal imports; analysts say move ‘crystallises fears’ about possible crackdown’, *ABC News*, 22 February 2019, <<https://www.abc.net.au/news/2019-02-21/china-bans-coal-import-and-send-dollar-tumbling/10835136>> [Accessed August 2020].

On 22 February 2019, a Chinese Ministry of Foreign Affairs (MFA) spokesperson explicitly denied the existence of a ban, saying “the relevant *Reuters* reports are not true” and that “all ports of the Chinese customs allow the declaration of coal imported from Australia and other countries”.⁴³ Some commentators, however, noted that this wording did not necessarily preclude the possibility that while short of an outright ban, Chinese authorities could still apply arbitrary import restrictions on Australian coal. On 22 February 2019, a Credit Suisse analyst told *The Australian* that regardless of whether the restrictions were an outright ban or delayed customs clearance, “the effect is the same: Chinese traders are not buying Aussie thermal coal”.⁴⁴

In quotes given to *The Sydney Morning Herald (SMH)* on 21 February 2019, ASPI’s Peter Jennings contended that the alleged ban was “a deliberate shot across the bows... designed to keep Australia on edge about our decision concerning Chinese investment or its inclusion in our 5G network”.⁴⁵ The *AFR* on 22 February 2019 said a “commodity analyst in China” and a “second analyst” both “linked the move to politics”.⁴⁶ On the same day, *The Australian* referenced another such source, who said “without political interference, Australian coal will be doubtlessly No 1 choice to import”.⁴⁷

Some reporting also pointed to domestic considerations within China as possible factors behind import restrictions. An alternative explanation the 21 February *Reuters* report provided was that “Beijing has been trying to restrict imports of coal more generally to support domestic prices”, having also “slowed customs clearance to curb imports” the year before.⁴⁸ On 24 February 2019, Minister Birmingham commented that “there are commentators and analysts who love to try to jump to conclusions that are based upon conspiracy theories. But...the facts demonstrate that those conclusions are frequently invalid and incorrect”.⁴⁹

The coercion frame remained prominent, however. On 25 February 2019, Ian Verrender, business editor of *ABC News*, remarked that “[I]ast week, Australian coal reportedly was banned by Dalian port authorities in what would appear to be retaliation for statements in Parliament that alluded to cyber attacks emanating from China”. On 25 February 2019, Peter Hartcher, the political and international editor of *SMH*, made the argument that China was “playing mind games” and using “the constant possibility of unannounced sanctions”

43 Embassy of the People’s Republic of China in the Commonwealth of Australia, ‘Foreign Ministry spokesperson Geng Shuang’s regular press conference on February 22, 2019’, 22 February 2019 <<http://au.china-embassy.org/eng/fyrth/t1640284.htm>> [Accessed August 2020].

44 Perry Williams, ‘Oversupply blamed for Beijing’s ban on Australian coal’, *The Australian*, 22 February 2019, <<https://www.theaustralian.com.au/business/mining-energy/oversupply-blamed-for-beijings-ban-on-australian-coal/news-story/33afe6f9a9446f41435c9d4e323345fb>> [Accessed August 2020].

45 Kirsty Needham and Cole Latimer, ‘A big Chinese port bans Australian coal and the dollar falls’, *The Sydney Morning Herald*, 21 February 2019, <<https://www.smh.com.au/world/asia/a-big-chinese-port-bans-australian-coal-and-the-dollar-falls-20190221-p50zfu.html>> [Accessed August 2020].

46 Michael Smith, ‘Australian coal import delays linked to row with Beijing’, *The Australian Financial Review*, 21 February 2019, <<https://www.afr.com/world/asia/australian-coal-import-delays-linked-to-row-with-beijing-20190218-h1bew5>> [Accessed August 2020].

47 Glenda Korporaal and Ben Packham, ‘Beijing denies coal ban, steel source disagrees’, *The Australian*, 22 February 2019, <<https://www.theaustralian.com.au/nation/foreign-affairs/beijing-denies-coal-ban-steel-source-disagrees/news-story/95a697c453f260e01e3a9e36a21c36a0>> [Accessed August 2020].

48 Meng, Xu, Patton, Martina, Westbrook, Burton, Pullin, Schmollinger and Hogue, ‘Exclusive: China’s Dalian port bans Australian coal imports, sets 2019 quota—source’, p. 11

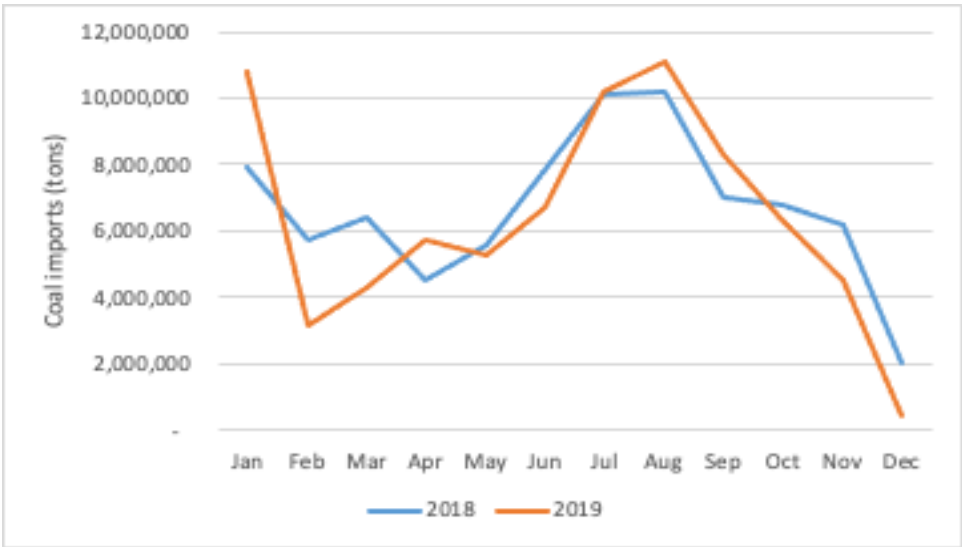
49 Simon Birmingham, ‘Interview on Sky News with David Speers’, transcript, 24 February 2019, <<https://www.trademinister.gov.au/minister/simon-birmingham/transcript/interview-sky-news-david-speers-0>> [Accessed August 2020].

to “keep other countries bowing low in a pre-emptive kowtow”.⁵⁰ A month after the initial *Reuters* report, on 22 March 2019 *The Guardian Australia*, while acknowledging “It remains unclear why Australian imports have been targeted for the hold-ups at customs” and alternative explanations such as “market-centred reasons”, also said “few doubt that there is a considerable political dimension”.⁵¹

Figure 4 shows that China imported 3.2 million tons of Australian coal in February 2019—a forty-five percent decrease from February 2018. Import volumes then quickly recovered in following months, increasing to 4.3 million tons in March 2019 and peaking at 11.1 million tons in August 2019, before declining again in subsequent months. All of these subsequent monthly movements were broadly in line with the outcomes of 2018. The total annual volume of Australian coal imports in 2019 was 77.0 million tons, down just four percent from 2018.

Turning to whether import restrictions affected Australia specifically, market share data exhibits a similar pattern to the quantity data in that Australia’s market share in China decreased markedly to thirty-one percent in February 2019 compared to forty-three percent in February 2018. However, the following month, March 2019, Australia’s market share was on par with that in March 2018, while in April 2019 it exceeded that of the previous year. For 2019 as a whole, Australia’s market share declined modestly to forty percent from forty-three percent in 2018.⁵²

Figure 4: Chinese imports of Australian coal, 2018–2019 (tons)



Source: CEIC Data

50 Peter Hartcher, ‘China’s playing mind games, here’s how we deal with it’, *The Sydney Morning Herald*, 26 February 2019, <<https://www.smh.com.au/national/china-s-playing-mind-games-here-s-how-we-deal-with-it-20190225-p51012.html>> [Accessed August 2020].

51 Martin Farrer and Ben Smees, ‘Australia’s coal bonanza at risk as Chinese import ‘ban’ spreads’, *The Guardian Australia*, 22 March 2019, <<https://www.theguardian.com/environment/2019/mar/22/chinese-ports-restricting-australian-coal-on-the-rise-as-export-bonanza-in-danger>> [Accessed August 2020].

52 CEIC Data, ‘China premium database’, 2020, [Accessed August 2020].

3.5 Barley in May 2020

On 9 October 2018, the Chinese Ministry of Finance and Commerce (MOFCOM) received an application by the China Chamber of International Commerce (CCIC) that alleged Australian barley had been dumped in the Chinese market. After an initial MOFCOM review, on 19 November 2018 an investigation was launched to determine whether the imposition of anti-dumping duties were necessary.⁵³ A further probe was launched on 21 December 2018 into whether Australian barley entering China was subsidised, raising the prospect that countervailing duties could also be applied.⁵⁴

A 19 November 2018 article in the *AFR* referenced Australian grain producers contending that the moves were politically motivated, drawing attention to security and infrastructure deals that Canberra had signed as a perceived counter Beijing's influence in the southwest Pacific. These deals included a US agreement to join Australia in developing a Papua New Guinea naval base. Grain Producers Australia chairman Andrew Weidermann stated that "China is a highly politically driven country and there is no doubt that when you mix business and politics there is a cocktail of disaster".⁵⁵ However, Trade Minister Birmingham played down the possibility, remarking that "[i]t's not unusual for countries to investigate dumping allegations made by industry groups".⁵⁶

Other commentators pointed to retaliation for Australian trade policy rather than political decisions. Writing in *The Conversation* on 23 November 2018, University of New South Wales (UNSW) law academic Weihuan Zhou said, "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.⁵⁷

On 19 May 2020, MOFCOM ruled that both dumping and subsidisation had occurred, justifying a combined 80.5 percent tariff on Australian barley (a 73.6 percent anti-dumping duty and 6.9 percent countervailing duty).⁵⁸ Both the Australian government and analysts rejected this assessment, describing it using terms such as "ridiculous" and "spurious".⁵⁹

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- 53 Ministry of Commerce People's Republic of China, 'MOFCOM Announcement No.89 of 2018 on Filing of Anti-dumping Investigation against Imports of Barley Originating in Australia', 20 November 2018, <<http://english.mofcom.gov.cn/article/policyrelease/buwei/201811/20181102809633.shtml>> [Accessed August 2020].
- 54 Hallie Gu and Colin Packham, 'China begins anti-subsidy probe on Australian barley', *Reuters*, 21 December 2018, <<https://www.reuters.com/article/us-china-australia-barley/china-begins-anti-subsidy-probe-on-australian-barley-idUSKCN1OK03Q>> [Accessed August 2020].
- 55 Michael Smith, 'China launches anti-dumping probe into Australian barley imports', *The Australian Financial Review*, 19 November 2018, <<https://www.afr.com/world/asia/china-launches-antidumping-probe-into-australian-barley-imports-20181119-h181zp>> [Accessed August 2020].
- 56 *Ibid.*, p. 14
- 57 Weihuan Zhou, 'Barley is not a random choice—here's the real reason China is taking on Australia over dumping', *The Conversation*, 23 November 2018, <<https://theconversation.com/barley-is-not-a-random-choice-heres-the-real-reason-china-is-taking-on-australia-over-dumping-107271>> [Accessed August 2020].
- 58 Liangyue Cao and Jared Greenville, *Understanding how China's tariff on Australian barley exports will affect the agricultural sector*, Australian Bureau of Agricultural and Resource Economics and Sciences, Australian Government Department of Agriculture, Water and the Environment, June 2020, <<https://www.agriculture.gov.au/abares/research-topics/trade/understanding-chinas-tariff-on-australian-barley>> [Accessed August 2020].
- 59 Phillip Coorey and John Kehoe, 'Steel duties no excuse for China's barley tariffs: Birmingham', *The Australian Financial Review*, 14 May 2020, <<https://www.afr.com/politics/federal/steel-duties-no-excuse-for-china-s-barley-tariffs-birmingham-20200510-p54ri0>> [Accessed August 2020]; Scott Waldron, 'The exposure of Australian agriculture to risks from China: the cases of barley and beef', *Asian Cattle and Beef Trade Working Papers No. 4*, University of Queensland, June 2020, <<http://www.asiabeefnetwork.com/wp-content/uploads/2020/06/200610-China-barley-beef.docx.pdf>> [Accessed August 2020].

The suggestion by China's ambassador in Canberra, Jingye Cheng, a month earlier that because of the deteriorating political relationship "[m]aybe also the ordinary people will say why should we drink Australian wine or eat Australian beef", led some news outlets such as ABC News and AFR to report the imposition of tariffs as a coercive step.⁶⁰ Commenting on this, Minister Birmingham stated that he "can understand why people draw those links, particularly given the comments of the Chinese ambassador to Australia".⁶¹

On the other hand, as UNSW's Weihuan Zhou had done eighteen months earlier, others pointed to retaliation for Australian trade policy measures directed at China. Stephen Kirchner of the United States Studies Centre (USSC) stated that, "We slap massive anti-dumping duties on steel and aluminium, it's retaliation for that".⁶² Minister Birmingham conceded that Australia "had representations in the past from China in relation to our anti-dumping system", but went on to argue that, "[a]nti-dumping disputes shouldn't be resolved by scorecard".⁶³

Yet other commentators have attributed the moves to more domestic motivations within China. The University of Queensland's Scott Waldron argued that political irritants in the Australia-China relationship "are really just triggers for a measure that China wanted to take anyway", while "the underlying driver is food security". Waldron cited data pointing to China's domestic barley production averaging just twenty percent of the country's total barley supply during 2014-2018.⁶⁴

In terms of the trade impact, during 2019 the average monthly value of Australia's barley exports to China was AUD\$59.1 million, while in June 2019 specifically it was AUD\$19.0 million. In June 2020, the first month after China imposed the tariffs, the value collapsed to just AUD\$1.1 million.⁶⁵ This indicates the impact of the barley move will be different to previous instances of trade actions that resulted in limited disruption. That said, the value rebounded to AUD\$33.1 million in July 2020, raising the possibility that barley exports might be more resilient to tariffs than first expected.

In any case, the impact on barley growers and agricultural trade in aggregate is less than worst-case trade numbers with China suggest. The Australian Bureau of Agricultural and Resources Economics (ABARES) explained that Australian farmers had mitigation

60 Georgia Hitch and Jordan Hayne, 'Federal Government calls Chinese ambassador about comments on trade boycott over coronavirus inquiry', ABC News, 28 April 2020, <<https://www.abc.net.au/news/2020-04-28/government-calls-chinese-ambassador-boycott-coronavirus-inquiry/12191984>> [Accessed August 2020]; Dan Conifer, 'China imposes 80pc tariff on Australian barley for next five years amid global push for coronavirus investigation', ABC News, 19 May 2020, <<https://www.abc.net.au/news/2020-05-18/china-to-impose-tariffs-on-australian-barley/12261108>> [Accessed August 2020]; Andrew Tillett and Ben Thompson, 'No evidence': China knew barley dumping claims were false', *The Australian Financial Review*, 19 May 2020, <<https://www.afr.com/politics/federal/no-evidence-china-knew-barley-dumping-claims-were-false-20200519-p54uap>> [Accessed August 2020].

61 Simon Birmingham, 'Doorstop, Adelaide', transcript, 19 May 2020 <<https://www.trademinister.gov.au/minister/simon-birmingham/transcript/doorstop-adelaide-1>> [Accessed October 2020].

62 Jessica Irvine, 'Carefully laid trap'? Why is China imposing tariffs on our barley (and what's a tariff)?', *The Sydney Morning Herald*, 20 May 2020, <<https://www.smh.com.au/national/carefully-laid-trap-why-is-china-imposing-tariffs-on-our-barley-and-what-s-a-tariff-20200519-p54uf7.html>> [Accessed August 2020].

63 *Australian Associated Press*, 'Australia 'deeply disappointed' after China imposes 80% tariff on barley imports', *The Guardian Australia*, 19 May 2020, <<https://www.theguardian.com/australia-news/2020/may/19/australia-deeply-disappointed-after-china-imposes-80-tariff-on-barley-imports>> [Accessed August 2020].

64 Waldron, 'The exposure of Australian agriculture to risks from China: the cases of barley and beef', p. 14.

65 Australian Bureau of Statistics, 'Exports by SITC—(\$—thousands)', 2020, <<http://stat.data.abs.gov.au/#>> [Accessed August 2020].

options, noting that “Altered planting decisions by producers and changes in the markets to which Australia exports barley will lessen the negative impact of China’s punitive tariff”. ABARES modelling pointed to an AUD\$330 million cost to total Australian agricultural exports.⁶⁶ Waldron elaborated that, “[t]he many farmers that had not planted when the tariffs were announced have more options. With a fifteen to twenty percent reduction in barley prices relative to wheat prices, these farmers can switch their winter crop into wheat (including for Indonesia) and other crops (including canola, oats, or pulses for India)”. ABARES also concluded that in the short-term “barley production is expected to remain profitable since it is a relatively low input crop and has agronomic value as part of crop rotations”.⁶⁷

3.6 Beef in 2020

On 11 May 2020, MOFCOM notified the Australian government of the suspension of imports from four meat processors in Australia, which jointly accounted for a reported thirty-five percent of Australian beef exports to China. As in 2017, labelling and health certificate requirements were again the reason given by Chinese authorities. On 12 May 2020, an ABC News report on the suspensions featured a lede stating “China has imposed an import ban on four Australian abattoirs in an apparent escalation of Beijing’s trade war tactics”.⁶⁸ However, similar to the 2017 action affecting beef, exports from the affected processors that were in transit were not affected.⁶⁹

On 12 May 2020, a report in the AFR cited “private concerns inside the government linking the sanctions to the Prime Minister’s calls for an international investigation in the COVID-19 virus”.⁷⁰ A report in SMH on the same day similarly observed that the suspension was “fuelling concern of a campaign by Beijing against Australian producers in response to Prime Minister Scott Morrison’s push for an independent coronavirus inquiry”.⁷¹ Jeffrey Wilson of the Perth USAsia Centre (PUSAC), in comments for *The Australian* on 12 May 2020, said “[t]his is unquestionably political retribution...This is not about technical issues and arguments over trade policy. This is about diplomatic signalling and making a point”.⁷² Michael Shoebridge, director of the defence, strategy and national security program at ASPI wrote on 16 May 2020 that the suspensions

66 Cao and Greenville, *Understanding how China’s tariff on Australian barley exports will affect the agricultural sector*, p. 14.

67 Waldron, ‘The exposure of Australian agriculture to risks from China: the cases of barley and beef’, p. 14.

68 Kath Sullivan and Jodie Gunders, ‘Red-meat processors have beef sales to China suspended as trade barriers escalate’, ABC News, 12 May 2020, <<https://www.abc.net.au/news/rural/2020-05-12/china-trade-escalation-as-beef-farmers-are-targeted/12237468>> [Accessed August 2020].

69 Meat and Livestock Australia, ‘Australia’s beef trade with China’, 14 May 2020, <<https://www.mla.com.au/news-and-events/industry-news/australias-beef-trade-with-china/>> [Accessed August 2020].

70 Ben Thompson, Angus Grigg and John Kehoe, ‘China asked to explain beef bans as trade row grows’, *The Australian Financial Review*, 12 May 2020, <<https://www.afr.com/companies/agriculture/china-asked-to-explain-beef-bans-as-trade-row-grows-20200512-p54s5c>> [Accessed August 2020].

71 Mike Foley and Eryk Bagshaw, ‘China suspends Australian beef imports from four abattoirs’, *The Sydney Morning Herald*, 12 May 2020, <<https://www.smh.com.au/politics/federal/china-suspends-australian-beef-imports-from-four-abattoirs-20200512-p54s4k.html>> [Accessed August 2020].

72 Ben Packham, Richard Ferguson and Geoff Chambers, ‘China bans imports from 4 Australian abattoirs as trade tension rises’, *The Australian*, 12 May 2020, <<https://www.theaustralian.com.au/business/economics/china-bans-imports-from-4-australian-abattoirs-as-trade-tension-rises/news-story/fed07d75e89e9af3371636052ebe1cc6>> [Accessed August 2020].

were “coercion disguised as arcane technical difficulties around...beef exports”.⁷³ On 20 May 2020, the USSC’s Ashley Townshend similarly listed the suspensions as among “threats and acts of economic coercion” which he considered “striking” for being “overt”, “credible” and combined with “a targeted disinformation campaign against Australia”.⁷⁴ A 21 June 2020 *AFR* report described the suspensions “as part of a campaign the Morrison government believes is punishment for its call for an international coronavirus inquiry”.⁷⁵

Some media coverage cited possible explanations for the suspensions other than coercion. The 12 May *AFR* report, for instance, alluded to suggestions that the suspensions were retaliation for Australia’s “liberal use of anti-dumping duties on Chinese products”.⁷⁶ There was also speculation that the suspensions “help China seize the opportunity to buy more from the US instead, thereby fulfilling its commitments under the phase one [trade] deal” with the US.⁷⁷

The effect of the suspensions on Australia’s beef exports to China were not immediately obvious. On 2 July 2020, *ABC News* reported that the Chinese government had withdrawn the preferential tariff rate applied to Australian beef imports under the China-Australia Free Trade Agreement (ChAFTA), because the Special Agricultural Safeguard of 179,687 tonnes had been reached. The report quoted an Australian government Department of Agriculture spokesperson as saying that “June [2020] was the earliest that preferential tariffs have been dropped since ChAFTA was established in 2015”.⁷⁸ This was because there had been “unprecedented growth of Australian beef meat exports to China in the year to date...”. Caveating this, *Beef Central* noted that “a large “carryover” quota volume from [2019]” was a significant contributor.⁷⁹

Figure 5 shows that the volume of beef exports to China declined in February 2020—coinciding with the impact of COVID-19 on Chinese demand.⁸⁰ Exports rose in March, April and May 2020, with the volume of exports in April and May 2020 exceeding that in April and May 2019. Volumes then dropped in June and July 2020 compared to both the preceding months and the same period in 2019. The year-to-date total volume of beef exports by July 2020 was a relatively modest 8.6 percent lower than in 2019.

73 Michael Shoebridge, ‘How to deal with the increasing risk of doing business with China’, *The Strategist*, Australian Strategic Policy Institute, 16 May 2020, <<https://www.aspistrategist.org.au/how-to-deal-with-the-increasing-risk-of-doing-business-with-china/>> [Accessed August 2020].

74 Townshend, ‘China’s pandemic-fueled standoff with Australia’, p. 3.

75 Michael Smith, ‘Australian beef exports threatened as Chinese buyers look to US’, *The Australian Financial Review*, 21 June 2020, <<https://www.afr.com/world/asia/australian-beef-exports-threatened-as-chinese-buyers-look-to-us-20200619-p554bn>> [Accessed August 2020].

76 Thompson, Grigg and Kehoe, ‘China asked to explain beef bans as trade row grows’, p. 16.

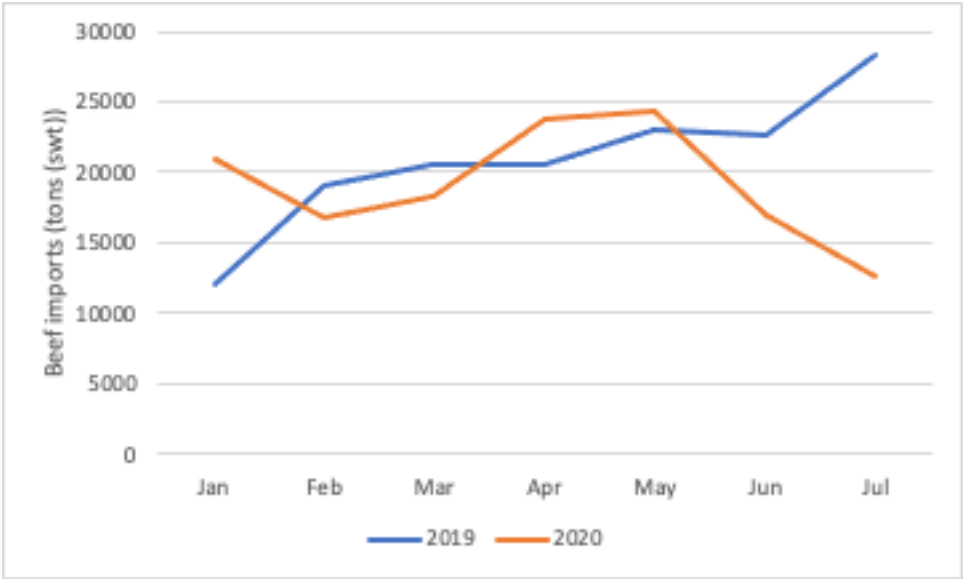
77 Su-Lin Tan, ‘China’s restrictions on Australian beef, barley seen as retaliation for support of coronavirus investigation’, *South China Morning Post*, 12 May 2020, <<https://www.scmp.com/economy/global-economy/article/3084062/chinas-restrictions-australian-beef-barley-seen-retaliation>> [Accessed August 2020].

78 Kath Sullivan, ‘China raises the cost of Australian beef as ChAFTA safeguard is triggered’, *ABC News*, 2 July 2020, <<https://www.abc.net.au/news/2020-07-02/china-increases-tariffs-australian-beef-milk-powder/12412612>> [Accessed August 2020].

79 Jon Condon, ‘Australian beef faces tariff hike in China market, as Safeguard triggers’, *Beef Central*, 2 July 2020, <<https://www.beefcentral.com/trade/australian-beef-faces-tariff-hike-in-china-market-as-safeguard-triggers/>> [Accessed August 2020].

80 Meat and Livestock Australia, ‘Statistics database’, p. 6.

Figure 5: Monthly Australian beef exports to China, January- July 2019–2020 (tons (swt))



Source: Meat and Livestock Australia

The extent to which this decline is owed to the processing facility suspensions is confounded by falling slaughter rates affecting Australian beef exports to all markets, increased tariffs on Australian beef in China as a result of reaching the ChAFTA safeguard in early July 2020, new regulations for COVID-19 testing of imported meat products and competition from beef producers in other markets.⁸¹ Year-on-year trends may also be affected by the 2019 African Swine Fever epidemic in China, which boosted demand for imported meat in 2019.

4. Understanding the impact and success of Chinese trade actions

The six case studies of claimed Chinese economic coercion highlight that, on the whole, actions taken to date have had only limited impact on trade flows and have not resulted in large costs to the Australian economy. This is not, however, to dismiss the greater incidence of costs inflicted on specific sectors or geographical regions. The bilateral political relationship between Canberra and Beijing also continued to deteriorate as these actions were taken, with the Australian government not shying away from criticising China on state-led, cyber-enabled intellectual property theft, human rights abuses in

81 Waldron, ‘The exposure of Australian agriculture to risks from China: the cases of barley and beef’, p. 14.

Xinjiang, the undermining of Hong Kong's autonomy, amongst other developments.⁸² In other words, the findings point to China being either unable or unwilling to inflict serious economic punishment on Australia, and even in cases where a trade impact has been perceptible, this has not had the effect of successfully shifting foreign policy positions in Canberra into closer alignment with those in Beijing. The theoretical discussion in section two helps to explain these findings.

First, trade actions result in an economic cost to both the exporter and importer. In the case of barley, for example, while China ultimately imposed tariffs on Australian barley in May 2020, the China Alcoholic Drinks Association warned the Chinese government via the formal investigation process that taking this course of action "would hurt the interests of the [Chinese] beer industry and might also push up corn prices and increase trade uncertainty".⁸³ Impact modelling undertaken by ABARES put the costs to China from barley tariffs at many multiples higher than to Australia.⁸⁴ There are also reputational costs to China not only in Australia but around the world as doubt is cast of its reputation as a reliable trade partner that plays by the rules.⁸⁵

Second, there is evidence that businesses and the country as a whole has actively mitigated coercive risk, a likelihood alluded to by Hirschman (1978). In the case of barley, some growers took the opportunity to mitigate the costs of tariffs potentially being applied by planting alternative crops or by focusing on other markets.⁸⁶ In the case of beef in 2020, while the Chinese market is important for earning Australian beef producers the highest possible margins, global demand for Australian meat protein is strong and by the middle of the year the US had quickly emerged as Australia's largest beef customer, with China falling to fourth place, also behind Japan and Korea.⁸⁷ In addition to the agency retained by individual Australian producers and sectors, the country as a whole has pursued strategic risk mitigation. As early as 2012, the University of Sydney's James Reilly observed that, "Australia has responded to deepening economic dependence upon China with classic balancing strategy: strengthening security ties with its Asian neighbours and the United

82 Marise Payne, 'Attribution of Chinese cyber-enabled commercial intellectual property theft', statement, 21 December 2018 <<https://www.foreignminister.gov.au/minister/marise-payne/media-release/attribution-chinese-cyber-enabled-commercial-intellectual-property-theft>> [Accessed October 2020]; Marise Payne, 'Statement on reports on Xinjiang', statement, 17 November 2019 <<https://www.foreignminister.gov.au/minister/marise-payne/media-release/statement-reports-xinjiang>> [Accessed October 2020]; Marise Payne, Francois-Philippe Champagne, Dominic Raab, Mike Pompeo, 'Joint statement on Hong Kong', statement, 28 May 2020 <<https://www.foreignminister.gov.au/minister/marise-payne/media-release/joint-statement-hong-kong>> [Accessed October 2020].

83 Michael Smith, 'China's beer brewers bitter at Australian barley tariff plan', *The Australian Financial Review*, 12 May 2020, <<https://www.afr.com/world/asia/china-s-beer-brewers-bitter-at-australian-barley-tariff-plan-20200512-p54s4i>> [Accessed August 2020].

84 Cao and Greenville, *Understanding how China's tariff on Australian barley exports will affect the agricultural sector*, p. 14.

85 James Laurenceson, Thomas Pantle, Michael Zhou, PRC economic coercion: the recent Australian experience, Australia-China Relations Institute, University of Technology Sydney, 14 September 2020 <<https://www.australiachinarelations.org/content/prc-economic-coercion-recent-australian-experience>> [Accessed October 2020].

86 Gabrielle Chan, 'We poked the bear: Australian farmers take the China trade stoush in their stride', *The Guardian Australia*, 31 May 2020, <https://www.theguardian.com/world/2020/may/31/we-poked-the-bear-australian-farmers-take-the-china-trade-stoush-in-their-stride> [Accessed October 2020].

87 Condon, 'July beef exports continue to sag, in line with slide in slaughter rates', p17.

States while bolstering its military capacity”.⁸⁸ The *2017 Foreign Policy White Paper* and the *2020 Defence Strategic Update* have given further impetus to these endeavours.⁸⁹

Third, bargaining theory carries the implication that the potential target country can reduce the likelihood of coercive pressure being applied by emphasising the value it sees in its current political positions and the costs involved in shifting them. This insight also assists in explaining why the Australian government has drawn attention to the possibility that coercive pressure might be being applied even as China has for the most part retained plausible deniability. On 13 May 2020, Trade Minister Simon Birmingham affirmed “[w]e’ve been very clear, we’re not about to change our policy positions under any threats, suggestion, or otherwise of economic coercion”.⁹⁰ On 11 June 2020, Prime Minister Scott Morrison stated that “[w]e are an open-trade nation but I am never going to trade our values in response to coercion from wherever it comes”.⁹¹

Fourth, it is not apparent that the characteristics underpinning successful sanctions are present in the Australia-China context. Of the six conditions outlined in section two, only the fourth—the target country has a democratic political regime, making it more difficult to ignore pressure from affected constituents—is clearly applicable to Australia. By way of illustration, the manner in which China appears to prosecute coercion undermines the likelihood of success. The plausible deniability built into China’s trade actions entails low specificity in policy objectives, and as the list of diplomatic disputes has grown in successive years, the potential scope of—and consequently the difficulty of accommodating—desired policy changes has also grown, meaning condition three is not met. Condition six—when sanctions strengthen the relative influence of interest groups in the target country that oppose the prevalent policy position—may be of greater significance in light of contention that the threat of sanctions or intensified sanctions, rather than the actual imposition of sanctions, can be effective in inducing policy change. On 23 August 2020, PUSAC’s Jeffrey Wilson made the case that “the Chinese Government doesn’t care about barley, beef, wine, students, or whatever else comes next” and that the aim of trade restrictions was to “create societal splits that pressure the government to change foreign policy toward China” in comments to *ABC News*.⁹² In the Australian experience, however, there is little evidence that Chinese trade restrictions have strengthened the political influence of groups opposed to prevailing policy settings. Wilson additionally noted in his remarks to *ABC News* that Fiona Simson, President of the National Farmers Federation (NFF), said in an 18 August 2020 statement

88 James Reilly, ‘Counting on China? Australia’s strategic response to economic interdependence’, *The Chinese Journal of International Politics*, vol. 5, no. 4 (November 2012), pp. 369–394.

89 See e.g., Department of Foreign Affairs and Trade, *2017 Foreign Policy White Paper*, 22 November 2017, <<https://www.fpwhitepaper.gov.au/>> [Accessed August 2020]; Australian Government Department of Defence, *2020 Defence Strategic update*, 1 July 2020, <<https://www.defence.gov.au/strategicupdate-2020/>> [Accessed August 2020].

90 Simon Birmingham, ‘Interview on ABC Radio, AM with Sabra Lane’, transcript, 13 May 2020, <<https://www.trademinister.gov.au/minister/simon-birmingham/transcript/interview-abc-radio-am-sabra-lane>> [Accessed October 2020].

91 Stephanie Dalzell, ‘Scott Morrison says Australia won’t respond to Chinese ‘coercion’ over warning about universities’, *ABC News*, 11 June 2020, <<https://www.abc.net.au/news/2020-06-11/australia-morrison-china-respond-coercion-on-universities/12342924>> [Accessed August 2020].

92 Kath Sullivan, ‘Australian farmers, Chinese consumers and the political and trade tensions in between’, *ABC News*, 23 August 2020, <<https://www.abc.net.au/news/2020-08-23/australia-china-agriculture-trade-tensions-analysis/12585884>> [Accessed September 2020].

that the NFF would “support the Australian Government” rather than pressure it to change its policy positions.⁹³ Trevor Whittington, chief executive of the Western Australian Farmers’ Federation, told the *AFR* on 2 September 2020 that “the industry is getting better at not responding because that’s what China wants...Instead of giving China the response it wants, now everyone is much more considered in working their way through issues on a science basis rather than a political basis”.⁹⁴ These examples could indicate that repeated exposure to sanctions threats have in fact induced a ‘rally around the flag’ effect among some of those ostensibly most likely to oppose prevailing government policy settings. While there remain calls from some business voices for Canberra to adopt a more conciliatory approach to managing differences with China, overall domestic political pressure to do so has weakened as Australian public opinion towards China has also deteriorated sharply in recent years.⁹⁵

5. Conclusion

As political relations between Australia and China have worsened since 2017, this paper documented six case studies in which a coercive frame has been applied to interpret Chinese actions taken against Australian exports. These case studies pointed to a frequent apparent gap between the prominence afforded in reporting and commentary to the possibility that coercion is being employed on the one hand and the impact on trade flows on the other. This gap is consistent with the mixed record of effectiveness of the use of economic coercion, while also pointing to the likelihood of coercion success being context-dependent.

Despite the broader context mostly having reduced the effectiveness of Chinese coercive actions to date, ongoing Australian resilience is not predestined. By way of illustration, moves by China to develop alternative iron ore sources, such as the Simandou deposits in Guinea, could mean that in the future the fifth condition for successful sanctions—an ability to cause severe economic harm, which the target country is unable to mitigate—will become more supportive of Chinese coercive pressure.⁹⁶ Accordingly, there is a case for ongoing proactive risk mitigation by the Australian government and businesses. In the Australian discussion, much store is placed on trade diversification as a means of reducing vulnerability to coercive pressure. There are many reasons why there is merit in seeking to diversify Australia’s trade relationships. Quite apart from the possibility

93 Fiona Simson, ‘Statement on China’s anti-dumping investigation into Australian wine imports’, National Farmers’ Federation, 18 August 2020, <<https://nff.org.au/media-release/statement-on-chinas-anti-dumping-investigation-into-australian-wine-imports/>> [Accessed September 2020].

94 Andrew Tillett and Brad Thompson, ‘Canberra keeps wary eye on wheat after China’s latest trade strike’, *The Australian Financial Review*, 2 September 2020, <<https://www.afr.com/politics/federal/canberra-keeps-wary-eye-on-wheat-after-china-s-latest-trade-strike-20200902-p55rmk>> [Accessed September 2020].

95 John Power, ‘As China tensions mount, Australia’s dovish voices calling for engagement are fading away’, *South China Morning Post*, 12 June 2020 <<https://www.scmp.com/week-asia/politics/article/3088611/china-tensions-mount-australias-dovish-voices-calling-engagement>> [Accessed October 2020]; Andrew Tillett, ‘Australians’ trust in China slump, new poll finds’, *The Australian Financial Review*, 24 June 2020 <<https://www.afr.com/politics/federal/australians-trust-in-china-slumps-new-poll-finds-20200623-p5557n>> [Accessed October 2020].

96 *Bloomberg News*, ‘China to approve developing Guinea’s giant Simandou iron ore mine’, 5 March 2020 <<https://www.bloomberg.com/news/articles/2020-03-05/china-plans-to-approve-developing-giant-simandou-iron-ore-mine>> [Accessed October 2020].

of coercion, there is the challenge to Australia if China's economy were to experience a major, negative economic shock, perhaps stemming from a debt crisis.⁹⁷ At the same time, greater diversification can result in additional costs if public policy is used to create disincentives, or outright bans, in trading with China. Further, an optimal response necessitates that even as coercive risks increase, the merits of trade diversification need to be balanced against the opportunities afforded by alternative markets, or the lack thereof. Trade patterns are principally determined by production complementarities across countries and the global distribution of purchasing power. Over the past decade, the annual value of Australia's exports has increased by AUD\$180 billion.⁹⁸ However, China has been responsible for 60 percent of this jump. 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.⁹⁹ This suggests that in seeking to mitigate coercive pressure in the future, the Australian government and businesses will need to look beyond trade diversification to bolster resilience.

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97 Rochelle Guttman, Kate Hickie, Peter Rickards, Ivan Roberts, 'Spillovers to Australia from the Chinese economy', *Bulletin—June 2019*, Reserve Bank of Australia, Sydney, 20 June 2019, <<https://www.rba.gov.au/publications/bulletin/2019/jun/spillovers-to-australia-from-the-chinese-economy.html>> [Accessed August 2020].

98 James Laurenceson, Michael Zhou, *COVID-19 and the Australia-China relationship's zombie economic idea*, Australia-China Relations Institute, University of Technology Sydney, 7 May 2020 <<https://www.australiachinarelations.org/content/covid-19-and-australia-china-relationship%E2%80%99s-zombie-economic-idea>> [Accessed October 2020].

99 Australian Government Department of Foreign Affairs and Trade, *2017 Foreign Policy White Paper*, 22 November 2017 <<https://www.dfat.gov.au/publications/minisite/2017-foreign-policy-white-paper/fpwhitepaper/index.html>> [Accessed October 2020].