

## FOCUS



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## No easy end to ongoing China-Australia tensions

The China-Australia bilateral relationship deteriorated sharply over 2020, with China imposing both formal and informal trade restrictions on a number of Australian exports, including coal, barley, beef, wine, cotton among others. However, despite China's trade action, the Australian economy continued a solid recovery from the pandemic, registering two consecutive quarterly GDP growth in the second half of 2020 as business conditions move towards normality following an easing of containment measures. We expect Australia's GDP to be back to 2019 level as soon as this year. Chinese trade restrictions so far have a muted impact on the broader Australian economy due to two main factors: first, the ability of some affected sectors to find alternative markets, such as Saudi Arabia for barley, and Southeast Asian countries for cotton, and second, top exports such as iron ore and natural gas were not targeted by China. But there are growing concerns that an escalation of bilateral tensions will see China hardening its stance towards Australia and possibly start targeting Australian services exports, particularly in tourism and education which could see 2% of Australia's GDP at risk. With both sides interpreting the dispute through the lens of national sovereignty, the situation is unlikely to improve any time soon. Future development of China-Australia tensions will be closely monitored by Asian countries for guidance as to the extent of economic damage potentially suffered should they be caught in a similar situation.

### Bilateral relations may worsen further

Bilateral relations between China and Australia were at a high point six years ago when Chinese President Xi Jinping made a state visit and addressed the Australian parliament in November 2014. Both countries agreed to elevate the relationship to a 'Comprehensive Strategic Partnership', and also later concluded a free trade agreement in June 2015.

The turning point in the bilateral relationship was in December 2017 when then-Australian Prime Minister Malcolm Turnbull warned about foreign interference in Australian politics, commissioned a classified report into

the issue and, soon after, announced new legislation in mid-2018. Several months later, Australia announced that it would exclude Huawei from the development of its 5G network.

Trade relations between China and Australia deteriorated when Australia's Anti-Dumping Commission extended anti-dumping duties on Chinese stainless steel sinks on 28 February 2020 following an investigation into Chinese aluminium extrusions. Between March and July last year, there were a further eight anti-dumping actions against Chinese products, such as steel<sup>1</sup>. On 19 April 2020, Australia pushed for a call for an investigation into the origins of coronavirus, adding to pressure on China over its handling of the Covid-19 outbreak.