

The Prospects and Challenges of the China-Australian Relations

-Extracts and Highlights of the NADS-ACRI Roundtable Workshop

Foreword

China and Australia have seen a broadening and deepening economic relationship in the past decade. China is now Australia's largest trade partner. Although resources still account for a majority of exports from Australia to China, other traded goods such as food and health products and services are growing very rapidly. Australia has been listed to be the Belt and Road Initiative's important relevant country. However, starting in early 2017, the Sino-Australia relationship experienced some downturns, mostly due to the domestic political environment changes in Australia. Notwithstanding this particular moment, on May 18, 2018, the delegation of the National Academy of Development and Strategy (NADS) at Renmin University of China (RUC) visited The Australia-China Relations Institute (ACRI), with a goal of promoting mutual trust and understanding, as well as pushing forward further the Sino-Australia relationship.

ACRI is a well-known Australian think tank specialized in devoting to advance the Australia-China relations. Bob Carr, the Director of ACRI and Professor in International Relations at the University of Technology Sydney (UTS) received the delegates. Professor James Laurenceson, Deputy Director of ACRI and Xunpeng Shi, Principal Research Fellow at ACRI and the President of the Chinese Economics Society Australia (CESA), also attended the event. The RUC delegation was led by Deputy Dean of NADS Prof. Qinhua Xu at School of International Studies, and its member included NADS's 5 research fellows, Lu Song from NADS, Liang Ma and Changgui Dong from the School of Public Administration and Policy, Yazhen Gong and Ke Wang from the School of Environment. Both parties exchanged views about four major issues crucial to future development of the Sino-Australia relationship and arrived at some common conclusions.

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1. Foundations and challenges of China-Australia relations

With a small population on a wide continent, Australia is West-oriented in seeking its political ally. Nevertheless, with Trump presidency in the United States and his upheld "American

First” principle, Australia is now re-concerned about his biggest world ally.

China is in a position and an option to become a new ally to Australia; however, major differences exist between two countries. First, although China has a long history of cultural exchange with Australia, there are language barriers between these two countries. Second, China holds political values very different from Australia (e.g., one-party system), and there are also concerns about recent China’s constitutional changes.

Furthermore, Australia is highly concerned about China’s rapid rising as a superpower, particularly the potential impacts of China on the geopolitics of North Australia as well as of the Southeast Asia. The speed of China’s rising up has shocked many Australians; previously most Australians believed that China would rise in the future, but it happens right now. The withdraw from foreign affairs of the US under the Trump administration might give China a good opportunity to not only speed up domestic reform but also to take up a new leadership in regional and global matters (e.g., China is forced to start its national technological breakthrough, realizing its corner overtaking).

In all, Australia and China have good bilateral relationship, both economically and politically, but challenges affecting their future development are still faced by the two countries.

2. Benefits of free trade agreement between China and Australia

China and Australia signed a Free Trade Agreement (FTA) on December 20, 2015, which has been proved to be very successful. Laurenceson predicted that Australia government would not follow the steps of the US government and engage in a China-US trade dispute. Australia has a strong bilateral trade relation with China, and China has become Australia's biggest and most important trade partner, accounting for 40% of the total export by Australia. It is rational for Australia not to follow suit with the China-US trade dispute. Furthermore, both political parties in Australia are committed to free trade, which is something not going to change. Australia has a history of using the tariff rather than non-tariff instruments to solve trade issues with other countries, and trade wars would run against the spirit of FTA.

Under the FTA, Australian exports of natural resources and agricultural products to China have been doubled over the past

few years. Especially, Australian food and fiber exports to China have risen dramatically in recent years, and agriculture is one of sectors that benefit the most, particularly regarding beef and live cattle exports to China. As a result, the structure of trade has improved and become more diversified with the FTA. While the export of iron ore and coal to China still accounts for about 40% of the total export to China, the share of export of agricultural products such as fruits, food and wine products has been increasing even more quickly.

Before there were political debates about the potential immigration of immigrant workers from China to steal jobs from local Australians, it did not happen in reality. The impact of FTA on China's foreign investment in Australia is not substantial, either.

All of these suggest the great mutual benefits from free trade between China and Australia. Australia government would not follow the steps of the US government and engage in a China-US trade dispute.

3. Issues related to energy, environment, and climate change

Australia is on track to become the world largest LNG exporter and since the year 2015 China has become the 3rd largest LNG importer. Australian government thinks energy will be of priority for combining both countries to be the complementary partners.

However, recent news suggests that eastern Australia is likely to face gas supply shortfalls. When asked about potential supply shortage and high price in the Australian natural gas market, Shi explained that there were multiple reasons behind this phenomenon. First, ever since Australia's LNG exports started in 2015, domestic gas price was directly linked to the internationally traded gas price, and the latter effectively set up a "floor" for the former. Second, production cost of natural gas has been increasing since now much of the gas is extracted from unconventional sources now (i.e. coal-seam gas), and the environment impact posed by such extraction technology has resulted in state gas supply impediments. Third, market power by gas producers, pipeline owners and large retailers, as well as lack of market transparency in price-setting have also contributed to higher domestic gas price. As such, Australian government has taken multiple initiatives to tackle the gas supply shortfall problem, including a new gas pipeline in the northern area, incentives to

increase domestic gas supply, and measures to curb market power and promote price transparency.

Regarding energy policy in China, Shi noted that tremendous changes had taken place in China in past five years in terms of economic restructuring and environmental regulations. In particular, since early 2016, China have introduced capacity cut policies to rebalance supply and demand in the coal market and tightened environmental regulations. However, the heterogeneous nature of the Chinese coal market and policy compliance across regions resulted in an unintended consequence of coal price bouncing back too fast. The research by Shi suggested that the capacity cut policy should better be differentiated across both regions and types of coal mines, and policy distortions causing excess capacity should be removed. In his view, market-based instruments are preferable to the command-and-control instrument that has been traditionally used in China for environmental regulations.

Ironically, with China's strong regulations on coal and steel production, a new opportunity for the export of Australia's coal, which is thought to be "cleaner" than coal produced in China, has

emerged.

For climate change issues, although Australia has enjoyed a clean and green environment in its continent, it is not very active in dealing with climate change and controlling greenhouse gas emissions. Australia's greenhouse gas emissions continue to rise since the Coalition was in government. Australia has been ranked 57 out of 60 countries in Climate Change Performance Index (CCPI) 2018 by Germanwatch. Specifically, Australia was rated as one of the “very low” performing countries in three of the index’s categories: for efforts to reduce emissions, to improve energy efficiency and to develop a decent climate policy.

During the meeting, Laurenceson introduced recent progress of Australian domestic climate policy. He believed that Australia’s climate policy and actions were mainly influenced by domestic political factors. Globally, Trump’s decision to withdraw from the Paris Agreement still has some negative impacts on whether Australia takes a more proactive attitude towards climate change policies or not.

Although facing many challenges, ACRI and the Renmin

University team believe that coping with climate change is an important bilateral cooperation area between Australia and China. Australia and China have the great potential to strengthen cooperation in climate change including joint R&D on renewable energy and CCS technologies, as well as policy dialogue on carbon pricing etc.

4. The Belt and Road Initiative from the perspective of Australia

Australia has not officially joined in the BRI and is lukewarm in pursuing that either. According to researchers at ACRI, this is mainly due to the branding, negotiation and project assessment of BRI. First of all, BRI is often considered as an infrastructure mega-project that focusses on ports, roads, and airports. While all these are important to less developed countries, Australia never had a problem with infrastructure capacity, regardless of capital requirement or construction technologies needed. Actually, Australia had developed a few big infra-projects in Singapore and other countries.

Second, previous negotiations of BRI projects have mainly been bilateral, and one of the two parties is always China. As such, Australia and other developed countries failed to see big

opportunities to play a role. From Australia's perspective, an open tendering and bidding process is more familiar. However, this has not been the case with most BRI projects. Laurenceson pointed out that the Asian Infrastructure Investment Bank (AIIB) has been a tremendous success, because it is a rule-based multilateral institution dedicated to build world-class infrastructures, and it has already created transparent governance.

Third, assessment of BRI projects has not been transparent, resulting in various wild guesses from outsiders about the strategic considerations of China. Currently there has been no public websites for BRI projects, no cost-benefit analysis done by the government, and people are often confused about the motivations of those projects. From Australia's perspective, China should not only inform potential partners about the number of ports that need to be built, but also specific proposal guidelines for interested partners to follow, as well as necessary information-sharing for them to calculate revenue flows.

In responding to the above issues, researchers at ACRI recommend that China should talk more about the five connectivities by BRI, promote multi-lateral discussions among potential partners and

use AIIB as an example to strengthen its rule-based decision-making in BRI.

The Chinese delegation holds the view that with BRI, China could help less-developed countries like herself along the Belt & Road through infrastructure development, capital provision, and clean technology diffusion, among others. All these projects could provide broad social benefits to those BRI-along countries, sharing much safer regional security of common interests i.e. common good such as energy security, economic security etc. With BRI a green development path could be pursued not only for China, but for every body involved.

Both sides agree that China should talk more about the five connectivities by BRI, promote multi-lateral discussions among potential partners including the developed countries and use AIIB as an example to strengthen its rule-based decision-making in BRI.

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