

Australia's Strategic Responses to the US-China Rivalry and Implications to Korea¹

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I. Introduction

As former Prime Minister Tony Abbott once admitted, Australia's China policy has been driven by "fear and greed," implying that China is a source of both economic prosperity and security discomfort for Australia.² As in other Asia-Pacific countries, boosting trade with China has provided a growth engine for Australia's economy. Australia shared concerns over security threats posed by China's military expansion, but up until the mid-2010s hard balancing against China did not seem to be an option for Australia. Australia's recent moves against China, however, signal that Canberra has reset its China policy, with an

overhaul of its national security and defense strategy. The shift of Australia's China policy is an interesting case to explore how the regional order is likely to evolve in the growing US-China competition. Assessing Australia's recent foreign policy is also relevant to Korea, both in terms of navigating Korea's relations with the US and China and enhancing strategic ties between Australia and Korea. Against this backdrop, this study unravels Australia's strategic responses to the changing regional order, with a particular focus on its shift of China policy.

¹ This Brief is built upon Choi et al. (2022).

² McGregor (2019)

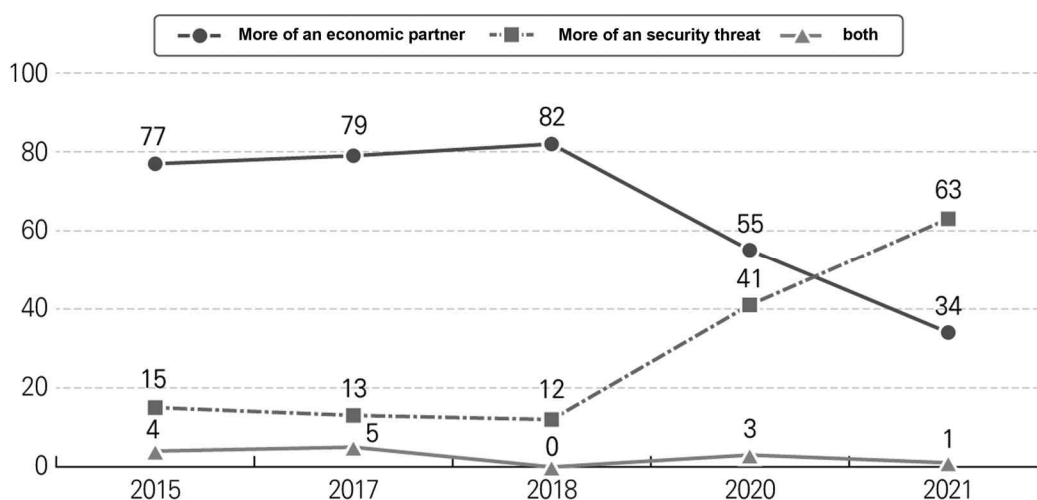
II. The Reset of Australia's China Policy

China's retaliatory measures in response to Australia's calls for inquiry into the origins of Covid-19 fueled the conflict between the two sides, but Australia-China tensions have loomed large over the past five years. Beijing's responses to the PCA ruling on the South China Sea and persistent gray zone activities have alarmed Canberra to advocate for rules-based order and closely align with the United States. Most importantly, high-profile scandals in 2017 over China's interference in Australia's politics led to a series of measures to counter Chinese influence in the country.

For instance, in June 2018, the Australian parliament passed the Foreign Influence Transparency Scheme Act, a law aimed at preventing foreign interference in domestic affairs.³ In August 2018, Australia took the initiative in banning Chinese vendors including Huawei from its 5G network over national security concerns.⁴

Notably, China's economic sanctions against Australia in 2020 reinforced anti-Chinese public sentiment. According to the Lowy Institute Poll 2021, Australians now increasingly view China as a security threat while there is a substantial decrease on the view of China as a more of an economic partner.

Figure 1. Australians' Views on China



Source: Kassim (2021), p. 12.

The increasing threat perception of China has allowed the voices of hardliners, particularly

the military, to gain strength. For instance, the Defense Strategic Update 2020 suggests that

³ Cave and Williams (2018).

⁴ Knaus (2018).

China's military expansion poses a direct threat to Australia's national security, calling for an increase of military capabilities.⁵ Along with an unprecedented large-scale investment in military forces, Canberra took a step further to initiate the launch of the AUKUS pact in September 2021 which enabled Australia to build nuclear-powered submarines.

In the past Australia has tended to be more cautious about potentially provoking its largest trading partner, but a series of recent moves against Beijing make it clear that security concerns have overridden economic considerations in Canberra. Furthermore, the trade spat with China did not significantly harm the Australian economy, giving Australia more confidence in its choices.

III. The Impact of Australia-China Trade Disputes

China is Australia's largest export destination. Using this economic reliance as a leverage, the Chinese government increased trade barriers for Australians, hoping to influence Canberra's attitude towards Beijing. China banned imports of the largest Australian beef packers and imposed over 80% tariffs on Australian barley in May 2020. In October 2020, China unofficially but effectively discouraged Chinese firms from using Australian cotton. In November 2020, China imposed the largest

trade restrictions by far, on products such as lobsters, sugar, copper, coal, wine, and barley. Despite this series of restrictions, however, our analysis finds that China could not effectively change Australia's behavior. In fact, Australia's total export to China increased during the trade dispute compared to the pre-dispute era.

Table 1 presents the percent change of Australia's exports to China compared to the same month of the previous year. For instance, total Australian exports to China increased by 6.1% in April 2020 compared to April 2019. As mentioned earlier, May and November are the peak months of the trade restrictions. In May, we see that agriculture and manufacturing exports to China decline by 8.8% and 1.5%, respectively. Restricting imports of Australian beef contributed to the large decline in agricultural exports. In November, agriculture and manufacturing exports to China decline by 14.2% and 51.1%, respectively. Restrictions on lobsters, sugar, wine, and barley all contributed to the large decline in agricultural exports. All evidence suggests that China's restrictions on Australian imports were effective in reducing Australia's total exports to China. Australian wine and lobster exporters were complaining to the Australian government regarding such a downfall and demanded an easier stance towards Beijing to ease the trade tension. In this sense, some may assess that China's efforts to influence the Australian government through commerce was effective.

⁵ Australian Department of Defence (2020).

Table 1. YoY % Change of Australia's Exports to China

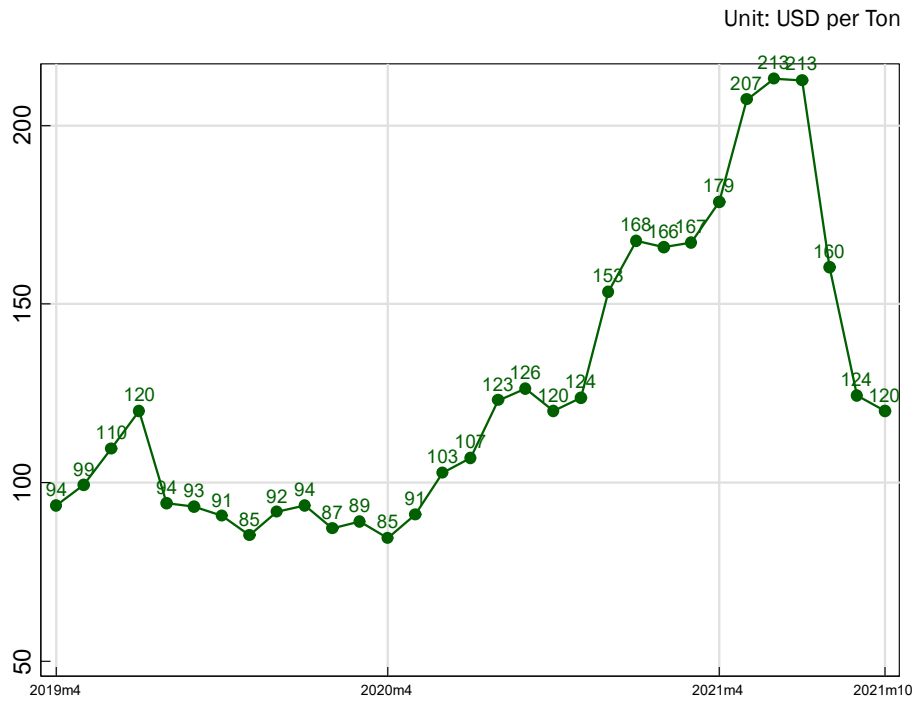
Month	Total	Natural Resources	Agriculture	Manufacturing
'20.4	6.1	13.2	-26.7	3.1
'20.5	0.8	6.2	-8.8	-1.5
'20.6	-3.6	3.3	-10.1	-21.2
'20.7	-21.2	-16.3	-10.2	-39.7
'20.8	-13.9	-3.6	10.7	-33.4
'20.9	-7.2	4	4.3	-20.9
'20.10	9.4	22.4	-1.7	-26.2
'20.11	-11.4	-0.7	-14.2	-51.1
'20.12	1.9	15.5	-12.2	-41.1
'21.1	10.4	24	26.1	-77.4
'21.2	17.7	28.8	-25.6	-29.2
'21.3	7.1	14.6	-16.9	-30.8
'21.4	10.6	19.2	-12.9	-37.3
Average	0.5	10.0	-7.6	-31.3

Source: Australian Bureau of Statistics (Accessed on 24 June 2021)

However, this is only one side of the entire picture. Australia's total exports to China related to natural resource products significantly increased during the trade dispute period. China probably expected that iron ore, which is the main natural resource product for Australia, would play an important role in this conflict. Beijing did not include iron ore among the restricted products, even though Australia supplies a tremendous amount of iron ore to China. If iron ore were to be included in the restricted list, this would have put immense pressure on Canberra as its economy heavily relies on exporting natural resources to China. However, it turns out that China also heavily

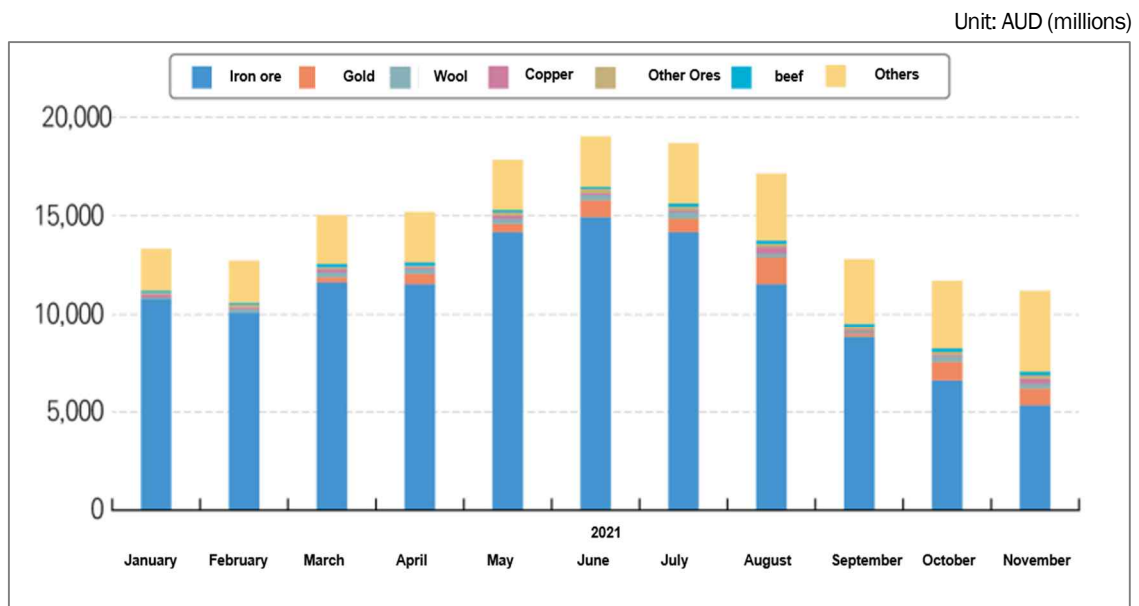
relies on Australia for the primary sector. That is, China imports over 60% of iron ore from Australia. Other alternative supply sources are Brazil and Russia, but their productions were undergoing trouble because of natural disasters and the pandemic. As the supply of global iron ore decreased, the price of iron ore spiked for consequent months during the trade conflict. A sharp rise in iron ore prices put pressure on the Chinese economy as the average price of iron ore per ton rose from around \$85 in April 2020 to \$179 in April 2021, as shown in Figure 2. Consequently, we see that Australia's natural resource exports to China continued to increase, in line with the price of iron ore (Figure 2 & 3).

Figure 2. Global Iron Ore Price Trend



Source: Australian Bureau of Statistics (Accessed on 20 July 2022)

Figure 3. Australia's Exports to China by Key Commodities (January – November 2021)



Source: Trade statistical pivot tables, DFAT <https://www.dfat.gov.au/about-us/publications/trade-statistical-pivot-tables> (Accessed on 6 February 2022)

Combining this sharp increase in natural resource exports with the declines in agriculture and manufacturing exports, the net total exports to China increased during China’s import restrictions on Australian products.

As shown in Figure 4, the share of China in total Australian exports does not change much during the year of the trade dispute. The share values are 38%, 40%, and 39% in 2019, 2020, and 2021, respectively, which are only minimal variations.

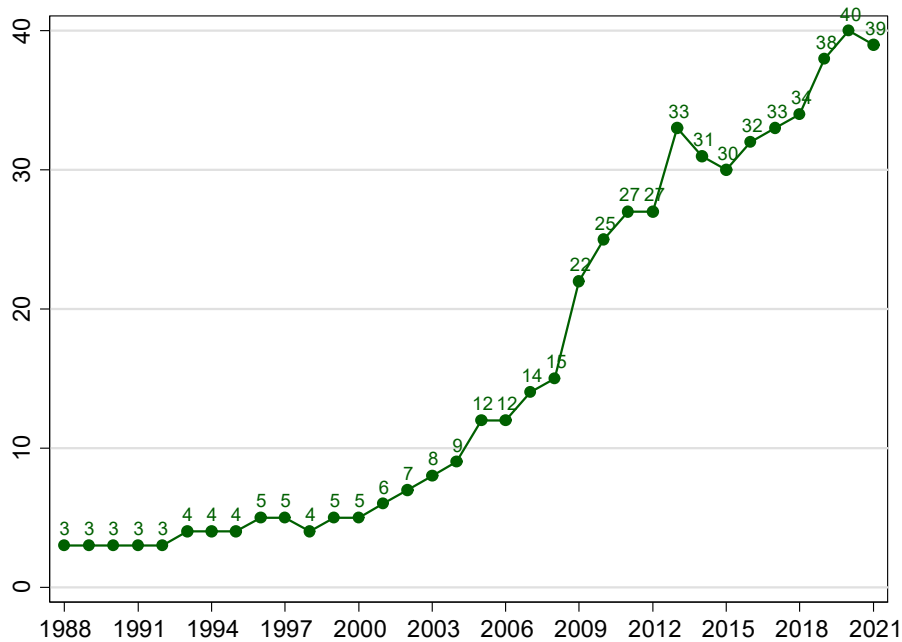
Table 2. Australia’s Total Exports to China

Unit: million Australian dollars

2019	2020	2021
148,374	146,579	177,936

Source: Australian Bureau of Statistics (Accessed on 20 July 2022)

Figure 4. Share of China in Total Australian Exports (%)



Source: Australian Bureau of Statistics (Accessed on 20 July 2022)

The overall results show that the trade dispute had a negative impact on Australia’s agriculture and manufacturing sectors, but the boom of the iron ore exporters offset it. Hence, the

series of trade restrictions eventually became an ineffective approach to influence Canberra’s stance towards Beijing. Our finding implies that having a leverage – in this case,

iron ore – enabled Australia to counteract China’s trade restrictions. This experience is unique to Australia as other countries rarely possess such strong leverage against the Chinese economy.

IV. Australia’s Responses to China’s Growing Influence in the Indo-Pacific Region

1. Diversification of Australia’s Economy

Australia managed to weather China’s economic sanctions, but the trade dispute with China caused Australia to revisit the potential consequences of overreliance on China. Given the volatility of commodity prices, Canberra is also aware of the limits of relying on natural resources as the main safeguard against Beijing’s retaliatory actions. In this regard, the Australian government and businesses have explored ways to reduce economic reliance on China, mostly via trade and investment diversification.

As a case in point, the Joint Standing Committee on Trade and Investment Growth of Australia suggests some recommendations: 1) a “China Plus” or “China And” type approach to open new export markets; 2) market liberalization via bilateral or multilateral FTAs; 3)

upgrading manufacturing processes; 4) prioritizing national security in trade policies; and 5) strengthening support for export industries and their associated businesses.⁶ As evidence of these trade diversification efforts, Australian barley exporters found a new destination in Saudi Arabia, away from massive Chinese tariffs (Table 3).

When it comes to investment policy, recommendations from the parliament include: 1) establishing national security guidelines against the influx of Chinese investment into Australia’s mining and real estate industries; 2) increasing the number of foreign investments subject to a review for national interests (i.e., Foreign Acquisitions and Takeovers Amendment Regulations 2020); 3) providing incentives for domestic investment; and 4) supporting domestic manufacturing industries. Similarly, Australia’s Modern Manufacturing Strategy intends to create competitive and resilient domestic industries.⁷

Bilateral and multilateral FTAs are at the forefront of achieving the aforementioned initiatives to diversify trade and investment, away from China’s influence. Australia aims to conduct over 80% of global trade via FTAs, while actively participating in Indo-Pacific-centric multilateral FTAs.

⁶ Joint Standing Committee on Trade and Investment Growth (2021).

⁷ *Ibid.*

Table 3. Australia's Barley Exports by Country (2019–2021 Nov)

Unit: million Australian dollars

Country	2019		Country	2020		Country	2021 (Jan-Nov)	
	Total Exports	%		Total Exports	%		Total Exports	%
China	590.7	56.7	China	505.0	38.4	Saudi Arabia	853.4	36.9
Japan	209.1	20.1	Thailand	244.5	18.6	Japan	334.4	14.5
Thailand	122.5	11.7	Japan	209.9	15.9	Vietnam	187.2	8.1
Vietnam	51.5	4.9	Saudi Arabia	124.8	9.5	Thailand	183.7	7.9
Qatar	19.4	1.9	Vietnam	88.3	6.7	Kuwait	141.9	6.1
Kuwait	14.9	1.4	Qatar	58.8	4.5	Philippines	118.0	5.1
UAE	13.1	1.3	UAE	33.0	2.5	UAE	98.8	4.3
Taiwan	10.6	1.0	Kuwait	20.6	1.6	Qatar	84.7	3.7
Korea	3.0	0.3	Taiwan	10.4	0.8	Mexico	81.1	3.5
Philippines	2.7	0.3	China	5.7	0.4	Iran	59.7	2.6
Others	5.0	0.5	Others	15.4	1.2	Others	170.7	7.4
Total	1,042.6	100.0	Total	1,316.5	100.0	Total	2,313.7	100.0

Source: Trade statistical pivot tables, DFAT <https://www.dfat.gov.au/about-us/publications/trade-statistical-pivot-tables> (Accessed on 6 February 2022)

2. Regional Cooperation on Countering China's Regional Expansion

In response to the growing regional security threat from China, Australia has embarked on its largest military build-up for decades. Based on a new defense strategy outlined in the 2020 Defense Strategy Update, the Australian government resolved to accelerate military transformation to enhance its self-defense capability. Australia has also strengthened defense ties with US allies and strategic partners, play-

ing a part in consolidating the US-led security cooperation network. Apart from the Quadrilateral Security Dialogue (Quad), Canberra managed to conclude the AUKUS agreement, which allows it to acquire a variety of advanced weapon technologies including nuclear-powered submarines. The AUKUS partnership has also enhanced security commitments by the US and the UK to the Indo-Pacific region, which suits the interest of Australia.

In addition, sharing concerns about China's hegemonic role in the region, Australia is actively participating in regional efforts to counterbalance China's Belt and Road Initiative (BRI). Australia is particularly wary of China's growing influence in the South Pacific and Southeast Asia, where Australia's most direct strategic interests lie. Accordingly, in close cooperation with the US and Japan, Australia has sought to support infrastructure development in the Pacific Islands and enhanced its bilateral engagement with Pacific states through the Pacific Step Up initiative. In regard to ASEAN, Australia newly launched the ASEAN Future Initiative in 2021 with an emphasis on maritime security, connectivity, SDGs and economic cooperation with Southeast Asia. In consideration of the strategic value of the Mekong region, Canberra has also launched a new partnership with the Mekong region called the ASEAN-Mekong Program (MAP).

V. Implications to Korea

Australia's recent moves to respond to the changing regional architectures have several implications for Korea's foreign policy. First, Korea needs a preemptive strategy to ease the negative effects of China's potential economic sanctions. Australia could fight through the negative effects via its irreplaceable commodities and trade diversification efforts for replaceable products. Analogous to Australia, Korea needs to secure leverage over critical products and technologies and explore alternative export markets, all along with the support

of the government. Faced with China's heavy tariffs, Australian barley farmers found new export destinations, which the Australian government followed through with additional support. This example showcases how the Korean government can also support businesses to expand export networks.

Second, as Australia searches for new economic partners, Korea should seize the opportunity to renew economic relationships with Australia. Namely, the most workable area for the Korea-Australia cooperation is the supply of rare earth minerals. For instance, Korean companies can increase investment in Australia's natural resources sector, while Australian companies can build an integrated rare earths refinery in Korea. As Australia develops future battery and critical minerals industries strategies, the Korea-Australia cooperation can extend to operations in the downstream sector, which would contribute to diversification of value chains for critical technologies.

Third, given Australia's commitments to regional development in the Indo-Pacific, Korea needs to enhance its partnership with Australia for the prosperity of the Indo-Pacific region, particularly in Southeast Asia, where the two countries' strategic needs converge. At the country level, Indonesia can be prioritized in pursuing bilateral partnership since both countries have enjoyed deep bilateral cooperation with Indonesia. At the ASEAN level, Seoul and Canberra need to jointly support the implementation of the Master Plan on ASEAN

Connectivity (MPAC 2025) and strengthen cooperation on cyber, digital and technology standards in which both countries have a competitive edge. In addition, as both countries closely work together with the US in promoting peace and prosperity of the region, more active trilateral dialogue between Korea, Australia and the US should be carried out on a regular basis to enable effective collaboration.

In December 2021, Australia and Korea upgraded their relations to a “comprehensive strategic partnership,” providing momentum to further strengthen their bilateral ties. What is noteworthy is that the two countries agreed to explore new horizons of cooperation beyond the traditional bilateral linkages. The new partnership involves: 1) cyber and critical technologies; 2) space and defense industry; 3) clean energy including hydrogen cooperation; 4) critical mineral supply chains; and 5) development cooperation in Indo-Pacific, including the supply of vaccines and infrastructure cooperation.⁸ Recently, the new leaders of the two countries have also indicated their commitments to expanding the AUS-Korea partnership.⁹ As the new administration of Korea is seeking to take a more active role in the Indo-Pacific region, Korea should capitalize on the AUS-ROK partnership to enhance its presence in Indo-Pacific regional cooperation.^{KIEP}

⁸ Ministry of Foreign Affairs (2021).

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