

EABER–CCIEE policy report

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On 6 June 2024, East Asian Bureau of Economic Research (EABER) at The Australian National University hosted a virtual dialogue with the China Center for International Economic Exchanges (CCIEE) to discuss EABER’s report on the Australia–China relationship. The report, *A Sustainable Economic Partnership for Australia and China*, was prepared as background to dialogues with CCIEE on the future of the relationship between Australia and China, the next of which will be held in Canberra in September 2024. The discussion focused on strengthening the economic and technological partnership between Australia and China and explored what practical steps might be taken in bilateral, regional and multilateral forums to promote economic cooperation and build upon the deep complementarity of Australia–China relations.

Australia–China bilateral relationship

As two major players in the Asia Pacific region, Australia and China share deep economic complementarities, making their partnership critical to regional stability and prosperity. A priority in the Australia–China partnership over coming decades will be cooperation to achieve sustainable economic development and respective climate change goals.

The depth of economic complementarity between Australia and China has been a cornerstone of the bilateral relationship and has allowed both countries to prosper. Forging a ‘comprehensive strategic partnership’ with China in 2014, Australia’s contemporary growth narrative has been inextricably linked to strong Chinese demand for Australian commodities. China is Australia’s largest bilateral trading partner, accounting for 27 per cent of Australia’s global trade and 32.5 per cent of total Australian

exports in 2023. China is heavily reliant on Australian raw materials for its energy, steel and other industries. This reflects the deep economic interdependencies between the Chinese and Australian economies.

Decarbonisation will have a profound impact on this bilateral relationship and require the evolution of a whole new structure of trade and investment. Given the established interdependence of Australia and China in carbon-based trade, there is opportunity for the two countries to collaborate in achieving their climate goals while safeguarding their national interests.

Sustainable economic partnership

EABER's report offers a set of 10 practical recommendations that serve the interests of both countries.

Amid heightened geopolitical tension, there has been more discussion in Australia about the Australia–China bilateral relationship in the context of broader US–China tensions. It is important for both countries to view the bilateral relationship in a multilateral context. The EABER report was framed from this perspective, not just asking what Australia and China can do bilaterally, but how the two countries can utilise frameworks such as the Asia–Pacific Economic Cooperation (APEC) forum, the Regional Comprehensive Economic Partnership (RCEP) and the relations with Association of Southeast Asian Nations (ASEAN) to promote their interests in regional economic development.

Though Australia and China have differences, it is a mistake to view these differences with a zero-sum mindset. The report reflects the Australian government's 'cooperate where we can' rhetoric, identifying areas of cooperation where there are mutual interests, while acknowledging

the breakdown of trust in some areas of the relationship over the past several years. The report proposes pragmatic steps that do not require either country to compromise its national interests and makes recommendations that can be implemented within three, six or 12 months.

The report was written in the context of track two dialogues hosted by CCIEE and the ANU on decarbonisation and its implications for the transformation of the relationship over the coming decades. There is no more important area for future cooperation than sustainable economic development, particularly the management of each country's decarbonisation agenda and their national climate goals.

It would defy economic gravity to assume that either country could meet their net zero and decarbonisation commitments at a reasonable cost without a high degree of interdependence and policy cooperation.

Although Australia has now embarked on its own process of developing the taxonomies to support sustainable investment, collaboration with international partners, including China, is essential for the facilitation of the international green investment that will be crucial to Australia's energy transition. Given the critical role of the private sector in driving investment for decarbonisation, it is also essential to collaborate with industry stakeholders to identify and address areas of friction, such as existing regulatory systems or investment frameworks. Insights from business dialogues will be invaluable for guiding policymakers to solutions that facilitate smoother flows of investment into green projects.

Realising climate goals also requires resetting the way in which Australia views technology from China. It is essential to move beyond the

outdated belief that China is merely a developing country borrowing technologies from the West — it is now a technological leader at the forefront of renewable energy innovation. Both Australia and China can benefit from identifying specific areas of technological collaboration and acknowledging China's significant global contributions to renewable energy technology.

The report also sets out practical recommendations beyond achieving climate objectives. It emphasises the importance of existing agreements and multilateral forums, such as APEC and RCEP, as vehicles for cooperation between the two countries. Initiatives it suggests include the promotion of paperless trade and the adoption of the United Nations Model Law on Electronic Transferable Records within APEC. The report also highlights the need to revisit and update the China–Australia Free Trade Agreement (ChAFTA), considering new opportunities for collaboration. Additionally, it suggests reviewing the role and effectiveness of financial institutions such as the Asian Infrastructure Investment Bank in promoting regional economic development in the Asia Pacific.

In addition to the two central areas of potential collaboration — decarbonisation and regional stability — the report points out that people-to-people exchanges form the bedrock of the Australia–China relationship. Strengthening these exchanges is important to the reinforcement of bilateral ties. Government dialogues on the renewal of the Memorandum of Understanding on Cooperation on Education and Research should be prioritised. Though there have been large flows of Chinese students coming to Australia, the reciprocal movement of Australian students and researchers to China has been far less, even when adjusted for the relative population size. Introducing a working-

holiday scheme for Australians in China would broaden the opportunity for young Australians to visit China, foster deeper cultural exchange and cultivate stronger relationships.

Additional perspectives on cooperation

CCIEE representatives noted a strong alignment with EABER on the potential for increased cooperation, especially around managing climate goals and the energy transition, and acknowledged the practicality of the 10 recommendations set out in the report. The starting point was the deep complementarity between Australia and China. The structure of the economic relationship between the two countries meant that bilateral cooperation was central to addressing global climate change concerns.

Climate change presents a challenge but also an opportunity for sustained cooperation over the coming decades. Both Australia and China share the ambitious goal of carbon neutrality, a path that will be paved by investment in renewable technologies. Developing these technologies not only addresses environmental concerns but has the potential to enhance economic complementarity between the two countries, strengthening the future bilateral relationship.

From China's perspective, there are mutual benefits to be gained by expanding trade in areas related to energy transition and decarbonisation. Australia's rich resource endowments, coupled with China's expertise and technical capacity in renewable energy, can drive international competitiveness in this sector. As China transitions towards its target of a share of 25 per cent for renewable energy sources by 2030, its dependence on Australian fossil fuels will decline. As the trade mix evolves and shifts away from coal, iron ore and liquified natural gas,

there is potential for new complementarity, such as with processed iron and lithium. Currently, over 75 per cent of the world's lithium batteries are produced in China. Australia's ability to satiate this demand, paired with its commitment to deepen bilateral ties, lays a foundation for a sustainable Australia–China economic relationship. Managing this new trade relationship will require increased cooperation on de-risking supply chains so as not to compromise national security concerns.

The internal restructuring of the Chinese economy will also provide new opportunities to enhance economic synergy with Australia. The downward shift in real estate investment as a driver of growth in the Chinese economy will impact demand for products like steel. As this structural transformation takes place, Australia and China will need to build new avenues of trade. For instance, Chinese exports of new energy vehicles to Australia have surged since 2019, highlighting the potential for increased collaboration in such emerging industries. Both countries should identify and capitalise on these avenues to strengthen bilateral ties.

Addressing the carbon footprint of trade opens doors for deeper collaboration between China and Australia in their pursuit of a sustainable future. To overcome green barriers to trade that are being imposed in global markets, it will be necessary to identify ways to address the carbon footprint of Chinese exports, particularly in the steel industry. In 2023, Australia produced 38 per cent of the world's iron ore and supplied 85 per cent of its output directly to China, making Australia the dominant upstream source for China's steel producers. From a Chinese perspective, establishing a common understanding of carbon accounting practices is crucial to China's continued reliance on Australian commodities. Reaching an agreement on the mutual recognition of

carbon inputs presents an opportunity to deepen bilateral cooperation.

Personal exchanges are crucial for fostering mutual understanding between Australia and China. The elimination of barriers to people-to-people exchanges is vital for closer cooperation on sustainable development. While visa facilitation for both short-term and long-term visits should be welcomed, a large influx of Chinese tourists or students could strain Australia's capacity to accommodate large numbers. Hybrid arrangements, such as those that were trialled during the COVID-19 pandemic, may offer a solution to this potential challenge for educational exchanges. If Australian and Chinese tertiary institutions can collaborate to provide more hybrid educational opportunities, this would facilitate greater movement and exchange of people and ideas, strengthening cross-cultural understanding.

There is also scope for deepening collaboration between Australia and China through promoting open markets and sustainable economic development within regional and multilateral frameworks. The international order is experiencing a phase of deglobalisation, with growing risks to globalisation and free trade. Geopolitical conflicts, like those between Russia and Ukraine and Israel and Palestine, are impacting established free trade agreements and increasing scepticism about free trade. This shift raises questions about how countries like Australia and those in APEC, which have benefited from globalisation, can avoid these emerging risks, including the spread of green trade barriers.

Australia and China can leverage their existing ChAFTA and the multilateral frameworks to which they are both party. Updating ChAFTA to include standards on digital and green trade and to address barriers to paperless trade would be a significant step forward. As important trading

economies, China and Australia are well-positioned to drive change in multilateral frameworks, such as RCEP, and to enhance regional economic integration.

To address green trade barriers, Australia and China could extend the new standards included in an update of their ChAFTA to the Asia Pacific region by driving change in RCEP. Developing an agenda to strengthen regional sustainable economic outcomes will not only help to build trust in the relationship but also promote broader regional stability and cooperation.

China and Australia can also demonstrate leadership in regional and multilateral forums through collaboration on global governance, particularly on climate issues. In climate governance, the interests of developing countries, especially high-carbon economies, will have to be considered in international negotiations. Through initiatives involving Chinese artificial intelligence technology, China and Australia can help the global energy sector reduce carbon emissions and improve efficiency. This aligns with the shared goal of enhancing sustainable economic development, which will be a pillar of the bilateral relationship.

The finance sector also offers significant opportunities for expanding cooperation between China and Australia. With the development of new treaties and agreements, countries in the Asia Pacific have the capacity to provide new financial products, such as green lending and green finance, to support regional energy transition. China, a leader in financial technology, can work with Australia in leveraging digital currency to provide more innovative financial products and assist the Asia Pacific region in achieving financial stability. Given that many Asian countries have high savings, there is an opportunity to use these excess savings to

build a financial stability framework in Asia by enhancing infrastructure and improving the investment climate.

The evolution of the Australia–China relationship will be determined by the depth of cooperation between the two economies in facilitating flows of trade and investment to meet their decarbonisation goals. To manage the bilateral relationship, the fundamental economic synergy between Australia and China and the interdependence of their bilateral trade needs to be stressed again and again in official rhetoric, forums and dialogues. Retelling the story of the forces of economic gravity that bring the two economies together will diminish the potency of the impact of non-economic factors on the political relationship and enable increased collaboration between both countries towards achieving shared economic goals.