

Chinese perspectives on the Australia–China economic relationship

Patrick Xue

East Asian Bureau of Economic Research



This report is based on research undertaken by the East Asian Bureau of Economic Research (EABER) in cooperation with the Chinese Center for International Exchanges (CCIEE) under a grant from the National Foundation for Australia-China Relations (NFACR).

Chinese perspectives on the Australia–China economic relationship

In May 2024, EABER hosted a virtual workshop with the Shanghai Institute of International Study (SIIS). Building on the statement of joint outcomes agreed upon by Australian Prime Minister Anthony Albanese and Chinese President Xi Jinping on Albanese’s visit to China in November 2023, and in anticipation of Chinese Premier Li Qiang’s visit to Australia in June 2024, the workshop discussed the EABER’s latest report on the Australia–China economic relationship.¹ The workshop explored opportunities that the relationship offers to assist both countries in the transition to achieve their zero carbon emissions goals. The report develops practical recommendations for a sustainable economic partnership between Australia and China and describes how the transformation of the relationship over the next two to three decades is important to the governance of global sustainable development.

Background

Deep economic complementarities in raw materials, energy, goods and technologies shape the deep relationship between Australia and China and have been a foundation for China’s globalisation over the past three to four decades. These complementarities will be important to navigating the next phase of both countries’ development as they deal with global climate change challenges.

This mutually beneficial and complementary economic relationship remains unchanged, even in the face of growing geopolitical and strategic competition between Australia’s main security partner, the United States, and Australia’s principal economic partner, China.

¹ <https://eaber.org/document/a-sustainable-economic-partnership-for-australia-and-china/>

Australia's current Labor Government has adopted a 'cooperate where we can, disagree where we must and engage in the national interest' approach to the conduct of its relationship with China. This discussion explores what this might mean in practical terms for how the relationship is managed going forward.

The fundamental complementarity of the two countries' economies is the cornerstone of the Australia–China relationship and allows both sides to benefit from a stable economic relationship. Australia's long-term outperformance of other developed economies cannot be separated from the benefits it has derived from its relationship with China, Australia's largest two-way trading partner. In the 2022–2023 financial year, two-way trade between Australia and China amounted to AU\$317 billion, more than Australia's second, third and fourth largest trading partners combined², despite the disruption of major elements of Australia's export trade with China and Australia's attempts to protect its trade through diversification. The economic relationship has supported China on its path to become the world's largest trader and biggest industrial economy, with Australian raw material resources playing a crucial role.

Both countries have their own climate goals and global climate commitments. Cooperation between the two countries, especially through trade and economic relations, will facilitate the management of the transition to decarbonisation, allowing both countries to reach their climate goals faster and at lower cost.

The management of the bilateral relationship within the rules-based multilateral framework ensures confidence in mutual national benefit

² <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-15-partners-2022-23.pdf>

and its contribution to regional and global prosperity. The Asia-Pacific Economic Cooperation (APEC) forum and the Regional Comprehensive Economic Partnership (RCEP), of which both countries are members, provide frameworks for achieving sustainable partnerships in the East Asian and Asia Pacific regions, while the China–Australia Free Trade Agreement (ChAFTA) helps both countries to reap the fullest possible benefits from their bilateral partnership.

Sustainable economic partnership

EABER's report, *A Sustainable Economic Partnership for Australia and China*, sets out ten practical recommendations for short- to medium-term management of the relationship. These recommendations aim to stabilise, re-energise and sustain the relationship through the energy transition era by building common interests under multilateral frameworks and accounting for geopolitical tensions without detracting from the longstanding trade partnership.

The recommendations in the report include:

1. Organising a 1.5-track meeting in Australia on the energy transition, to lay the foundations for future ministerial-level exchanges.
2. Proposing a vision for paperless trade in APEC anchored on the United Nations Commission on International Trade Law Model Law on Electronic Transferable Records.
3. Establishing an expert working group to consider how sustainable finance taxonomies can be aligned in the region.
4. Producing a detailed stocktake of state-of-the-art technologies essential for climate adaptation and mitigation.

5. Conducting a study of RCEP utilisation rates, identifying barriers to understanding or utilisation, and quantifying compliance costs.
6. Improving RCEP business outreach by holding virtual workshops and training sessions and drafting RCEP 'guides to trade' for business.
7. Assessing the extent to which regional development banks are serving development interests.
8. Negotiating a new Australia–China Memorandum of Understanding on Cooperation on Education and Research.
9. Inviting China to consider creating a new class of visa for working holidaymakers.
10. Advancing discussion of bilateral business opportunities, including through a review of ChAFTA, and removing obstacles in the energy transition.

Other areas of cooperation

SIIS researchers acknowledged the comprehensiveness, specificity, feasibility, constructiveness, pragmatism and timeliness of the recommendations and looked forward to a Chinese version of the report and its promotion in China. It was important to see how China's and Australia's broad interests could be aligned in the development of the bilateral relationship.

In the context of de-risking and strategic competition between the United States and Europe against China, the fundamental complementarity between China and Australia and the interdependence of their bilateral trade in the Asian region is a reality that needs to be emphasised in more depth and detail, through business discussions and academic

forums as well as in political dialogues. This will help China and Australia to understand the mutual benefit derived from working on strategies to manage progress towards carbon-neutral development through the evolution of their trade and economic structures. Australia and China have both benefited greatly from their partnership in an open global system and both countries continue to support global and regional trade openness despite the pressures on the system and growing tensions between security and interdependence.

From a Chinese perspective, Australia and China have strong economic complementarity and strong compatibility in their current and future demand and production capacities in areas related to energy transition and decarbonisation. This matching of supply and demand, reinforced by their commitment to renew and deepen confidence in bilateral, regional and multilateral economic frameworks, will need to form the foundation of a sustainable Australia–China economic relationship.

The kind of cooperation required by a relationship based on China and Australia's shared interests involves taking the relationship beyond stabilisation and crisis management and towards setting achievable goals. This can be done through creating a negative list of things to avoid, a 'green light' list of acceptable actions and a 'grey list' of actions requiring monitoring. This would ensure clear dividing lines are drawn between national security and economic interests. On energy transition, for example, technology cooperation could be an area on which to focus as a first step in the articulation of a framework for cooperation.

Leader-level dialogues could help to clear the cloud of scepticism that surrounds bilateral cooperation within the community, business and government sectors and promote a confident attitude towards cooperation.

The existing bilateral FTA and multilateral frameworks need to be better utilised to manage the relationship. ChAFTA provides a space for bilateral discussion of cooperation on energy transition issues. Topics for bilateral discussion might include the definitions of green and sustainable investment, technology cooperation on electric vehicles, solar PV, batteries or concerns about new dual-use technologies.

Established regional and multilateral frameworks also provide platforms through which to achieve shared objectives in enhancing regional development. Such issues might include but are not limited to medical cooperation and facilitating the establishment of the Free Trade Area of the Asia-Pacific (FTAAP) as a long-term goal. Reasserting the benefits from open inclusive economic globalisation in both China and Australia's national interests and developing an agenda to strengthen global multilateral frameworks will help to build trust in the relationship.

Two-way people-to-people exchanges are an important priority in the relationship. Australia receives a large number of tourists, students and immigrants from China, while the corresponding number of Australians in China is relatively small, even after accounting for differences in population size. The elimination of obstacles to people-to-people exchanges is critical for closer cooperation on sustainable development.

Building on the short- and medium-term recommendations for the conduct of the relationship, it was important to develop a common understanding of both countries' interests in the relationship and the narrative that will sustain it through the inevitable shocks there will be from time to time.

The competitive strategies that the United States and Europe have

crafted towards China are unlikely to change dramatically in the foreseeable future and, together with global climate goals, contested geopolitics are likely to define the background in which Australia and China have to shape their bilateral partnership for some years. Like Japan and South Korea, Australia and China will have to manage the political tensions that now surround their high levels of economic interdependence. Even though Australia stands out as a country committed to open trade and the multilateral system, the demands of ally management and the drift towards the securitisation of trade relations among major powers will test the pursuit of its national interests and commitments.

Some suggest that Australia's experience in managing the disruption of its trade with China was a demonstration of its resilience to interdependence with China and its capacity to shift its trade to other markets with little cost. This does not appear to be a view that is shared in this report. Rather, what both countries relied upon to resolve their problems was the multilateral framework in which their bilateral trade relationship is managed. This is an important lesson and a lens through which both countries need to rethink and reassess their relationship, taking the domestic political atmosphere as well as the state of international arrangements into account. A new conception of the partnership would thus acknowledge the deep complementarities between the two countries and the benefits that tie them together, but also go beyond this to emphasise their shared interests in the multilateral system.

Energy transition and decarbonisation fit into this long-term narrative and can sustain the relationship over the coming two to three decades. Australia will be an important international source of the materials

needed for a world economy that is increasingly based on renewable energy and it will also need the most advanced goods and technologies to transform its own energy sector and establish its international competitiveness in this area. The development of future climate strategies by both governments and the depth of their cooperation in effecting the changes to the structure of their trade and economic relationship required by their decarbonisation goals will influence how the mutually beneficial China–Australia relationship evolve consistently with this narrative in the long term.