



Rejuvenating the Australia-China Relationship

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In April of 2020, Australia called for an independent investigation into the origins of COVID-19. At the time, this was a low point for Australia-China relations and commenced what could best be described as a spiral in official ties. Australian Journalists were asked to leave the mainland. China has slapped tariffs on Australian barley, wine imports, and restrictions on Australian coal exports. Australia and China's frosty diplomatic relationship has morphed into a full-blown trade wrangle.

The reality is that this toxic diplomatic deterioration has been brewing for the past six years to the disappointment of businesses on both sides. How did we get here, and what are the long-term implications of the Australian Chinese trade dispute?

A recent US-China series event discussed the state of the Australia-China relationship, featuring

Peter Arkell — Managing Director of Carrington Day, Chairman of Global Mining Association of China

Michael Wadley — board member, Australia China Business Council

Alex Chu — Director and founder of Anken Group

All three are Australian-born business leaders living in China. They are witnessing the disruption caused by sour ties between Beijing and Canberra, but they all reinforce a theme that has been omnipresent with the US-China trade conflict. That local governments and businesses on both sides are determined to move forward with remarkable commercial opportunities between the two countries.

The message is a clear one. Federal leadership on both sides needs to settle their differences and allow billions of dollars of bilateral investment and trade to continue. Commodity exports remain integral between the two countries, and while there is a global free market in strategically important sectors such as iron ore, both sides know the importance of a stable flow of industrial metals. While the pandemic has restricted travel and education exchanges, these were two areas deemed to be of vital importance to garnering more robust cultural understanding.

We discuss the challenges and opportunities facing major Australian industries.

Australia-China Tensions: The Background

Michael Wadley: The current state of relations, essentially political, has been developing for the past five years. Successive Australian governments and their security strategies, coupled with attitudes from the Chinese side, have led to a marked deterioration in official relations. Many of China's perceptions about Australia have been formed in the context of Australia's historical ties with the United States. As US-China tensions evolved under the Trump administration, Australia's relationship with China has also deteriorated.

How does the Australian business community view the current geopolitical situation?

Peter Arkell: The Australian business community has faced different situations over the past few years. Several key points:

- The community was full of anticipation in 2014 as it welcomed the China-Australia free trade agreement, an enormous breakthrough at the time and surpassed China's deal with New Zealand.
- Since then, it is concerning how and when the deterioration in relations began. This decline is unwelcomed.
- We want to proceed on the business-to-business front, and despite national tensions, relationships with our customers remain strong. Business goes on as the recovery from the pandemic is robust, and companies on both sides want to put official tensions to one side and focus on the long-term opportunities to expand engagement.

There is a sense among the Australian ex-pat community that whereas businesses and the government once worked together to address the China market, now it is much more challenging to have the Australian government participate in initiatives. There is little value that they could provide on a day-to-day basis.

Business Amid Political Tensions

Are Australian companies ignoring the controversial issues facing Western governments, including Xinjiang, Hong Kong, accusations of election interference, and others? How are Australian business federations dealing with political tension while guaranteeing the interest of their members?

Alex Chu: Businesses are not ignoring it, but at the same time, many of them as small and medium enterprises (SMEs) have to be very practical as they have been operating in China for a long time. For some, there is a need to celebrate commonalities rather than focus on current tensions, hoping that the tensions will not become permanent. While many are positive in the mid-to-long-term, there certainly are difficulties as we advance in the next few years.

Michael Wadley: The businesses that stayed through COVID-19 have benefited from the market, but as previously iterated, the cooperation previously seen between the Australian government and the business community is much weaker. The geopolitical strategy has taken precedence over trade.

For Australian businesses, public companies must think about the risk of dealing with China's unpredictability over the next few months. The Australian federal government's messaging is putting China at fault, while media and public opinion are also negative on the country. In the latter's case, polls suggest that 60 to 80 percent of Australians view China negatively.

While geopolitics preoccupy Canberra and Beijing, what goals do individual cities — such as Melbourne and Shanghai, Perth and Beijing — have in mind?

Alex Chu: There is a disconnect between what both federal governments say and what's happening on the ground. As most Australian businesses in China are SMEs, few have contact with the political decision-makers in Beijing and Canberra. In dealing with local levels of government, the sharp rhetoric is absent, and localities are supportive of Australian projects.

There is much support in areas such as financing, tax incentives, regulations. This fits as part of a more significant trend in helping businesses recuperate after COVID-19. It is a positive environment, one in which we hope that people-to-people contacts and small business contacts will prevail over tensions.

Negative Perceptions

Is the negative perception of China unique to Australia and which Australian businesses face, or is it a global problem that businesses across the world must handle?

Michael Wadley: Negative perceptions of China have risen around the world, but it is lower still in Germany and across Europe. Europe, for instance, is taking a different approach with the Comprehensive Agreement on Investment (CAI), and European countries debate how to define the relationship with China. However, Australia remains closely aligned to American policy, which is concerning given the continued decline in the US-China relationship.

While many initiatives on supply chain and manufacturing are beneficial to the economy, their reasoning is driven by tensions with China. And the US faces similar problems, where it is anticipated that the new Biden administration will now negotiate with China more predictably and create better results for the globe.

Are attitudes in China towards Western governments and countries also shifting?

Michael Wadley: As mentioned previously, there is a difference between different levels of government in their signals. Experience has shown that those who live in China are aware of

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Beijing's message, but they can also deprioritize it. On a people-to-people level, business is still being conducted, and little has changed in attitudes towards Australians from the Chinese side, in both large metropolises and smaller provincial areas

Given China's increasing role in the world economy, will Australia accept this economic reality and Australian companies be focused on China?

Peter Arkell: I hope Australian businesses will be laser-focused on China, as they have an opportunity to define the country's relationship. Public opinion polls reflecting the current negative sentiment should be cautiously noted. More informed subsectors should also be considered: one study showed that most of the Chinese community in Australia has a high opinion of China's ability to manage the economy. They may have a better-informed view.

Moreover, Australian businesses on the ground have an opportunity to reframe the current anti-China sentiment and shape it towards a more "sensible center," as well as Chinese Australians and their counterparts in America. There is a greater appreciation for both sides of the argument, but we still hold Australian values in mind, and we would like to see businesses thrive in China. The world is undergoing a difficult period of adjustment as it transitions from an American-dominated global economy to one where China is a significant player. Some adjustments will now need to be made.

The Role of SMEs

As the business environment for small businesses — particularly American ones — has become more difficult due to technology and data regulations, how difficult is business for small Australian companies in China at the moment?

Alex Chu: It has always been difficult in many ways. Whereas before China's less mature market and different regulations created gray areas for doing business, now foreign companies face intense competition from many places. Those businesses have been able to pivot when needed and merge, which has been increasingly observed lately. They are finding ways to make their businesses work.

Trade and Investment

Discuss the state of the mining industry and the attitudes of Australian miners concerning China.

Peter Arkell: The iron ore industry forms a large part of Australia's trade with China. The Australian metal trade has done well in the past six months as there have not been sustained levels of high export prices to China for Australian iron ore. Given the leading alternative global supplier of iron ore is Brazil, which has been hit hard by both COVID-19 and significant accidents, China continues to rely on Australian iron ore.

Australian miners have been well-represented in China for the past two decades, but it is becoming more difficult to find assets inside China, given regulatory barriers. The Chinese side is willing to partner with Australian and international miners in projects around the world, as the head of the China Mining Association has expressed a desire to make Chinese mines more safe, green, and productive.

On the other hand, Chinese investment in Australia in this area is difficult given obstacles from the Foreign Investment Board. As a result, Chinese investment may go elsewhere, including places considered a sovereign risk, because demand for natural resources is enormous.

Once a price taker, China is now determined to become more of a price maker, and to do so means owning more international assets.

Given strategic security concerns across Western countries regarding investment, will Chinese investors find it increasingly challenging to hold international assets, and will commercial relationships be limited to bilateral trade?

Peter Arkell: That is possible, with the consequence being that shareholders of those companies, unable to sell to Chinese investors, will not receive their return on investment. As Chinese investors flock to more investment-friendly countries with the resources, company shareholders in Western countries will lose out on opportunities. To counteract this, there needs to be a balance between national interests and commercial realities.

Michael Wadley: Assessments have been made on whether this decoupling is viable for industries in the US and other western countries. For the leaders of those countries, there needs to be an understanding of the benefits of being involved with China, and countries such as Japan, Singapore, and Malaysia are dealing with China differently compared to the US and Australia.

Wall Street wants to be investing in the China story, and with national interests aside, there are compelling economic reasons to do so.

Despite pushback against Chinese investments and loans across the world, is China in a position to dictate trade terms because of its status?

Michael Wadley: There are two aspects to trade relations with China. With industrial metals, China's demands mean that it would look anywhere to fulfill them irrespective of investment discussions and state of relations. The industry needs to be focused on thinking through a strategy, and the Belt and Road Initiative was a starting point.

Regarding China's investment tactics, studies have shown, except for the port in Sri Lanka, that there have not been many cases of malicious investment dealings. However, it is a good thing to be firm with China, but at the same time, incorporate China as part of the international

community. Many indeed share China's goal of development, and hopefully, BRI could become more sophisticated in its levels of standards and its negotiations with other countries.

Discuss the importance of regional trade agreements, the solidification of the Asia Trade Zone, and the roles that China and Australia could play.

Alex Chu: The current state of regional trade agreements is yet to be settled. Several key points:

- It isn't easy, including for trade specialists, to work out the processes involving value additions and opportunities for the Australian business community in China.
- Overall, these agreements play a positive role in forcing countries across Southeast Asia and North Asia to talk to each other, look at their industries a bit more closely, and examine the opportunities and threats.
- We hope that agreements can be broadened in the next 12 months as rational discussions take effect. These are opportunities for Australia as a trading nation to continue developing.

Education

How important is education to Australia's economy, and to what extent do Chinese students contribute to this domain?

Alex Chu: Education is the bedrock of people-to-people relationships between Australia and China. There is a strong positive sentiment in our dealings with local government officials and middle management in SOEs, many of whom studied at top Australian universities. Going forward, we hope that while the relationship is not perfect, the positives can outweigh the negatives in defining the China-Australia relationship.

Peter Arkell: Several Australian universities are helping international students during the pandemic by providing facilities for students to interact, as most of them have been forced to learn in isolation. It is a wonderful initiative and an example of business showing leadership. The university sector demonstrates its ability to negotiate the challenges and tensions between the two countries and practical issues related to the pandemic.

Education is an excellent opportunity for bilateral cooperation. Many Australian youngsters come and experience China now, and more would be welcomed. Having young people in each country contributes to not only their self-development but also the relationship between the two nations. Australia also benefits from being close to China's time zones, which helps families sending their children to study abroad.

Michael Wadley: Education is just a very underrated yet extraordinary investment opportunity in the relationship between the two countries. Many Chinese businesspeople of a younger generation had the Australian education experience, and I believe the security angles of

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education have to be managed, including the paranoia in the US and Australia against Ph.D. students.

This is an opportunity to use Australia's advantages in the China market: the combination of technological advancements with China's large market and research budgets creates many opportunities.

Climate Change

Is the climate agenda another area of cooperation between China and Australia?

Peter Arkell: Given the importance of the issue and the US' return to the negotiating table, potential cooperation between China and the US would be positive for battling climate change. However, the role of the Australian government is uncertain.

Australia could be a beneficiary of breakthroughs in climate negotiations, technological advancement in renewable energy, and other domains. And Australian organizations such as the Global Carbon Capture and Storage Institute have a significant presence in Beijing, allowing collaboration opportunities.

Conclusion: Looking Ahead

Can Australian businesses, including SMEs, succeed in China despite geopolitical tensions? How should Canberra approach its relationship with Beijing?

Alex Chu: Australian businesses are best positioned to highlight their advantages of being service-based SMEs, many of which are in media, marketing, design, and engineering. There has been an increase in foreign-local partnerships and mergers, and the key is to be practical, finding ways to expand business and overcome geopolitical issues.

This is especially important as some businesses are changing, opting away from having bases in China instead of flying into the country when needed. The key is to be patient and positive and to hope that sentiments will change.

Michael Wadley: First, despite comments from leading politicians in the last three months, the business community on the ground in China still plays a role in informing Australia's foreign policy. Second, the focus must remain on the people-to-people experience. Finally, China will be the scale economy, and as a country within the region, Australia needs to preserve its relations with China.

Peter Arkell: I believe that trade agreements are much better than trade disagreements, and Australia and China should consider returning to the state of affairs from several years ago when relations were more positive. The Free Trade Agreement, for instance, was a positive signal to

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business communities on both sides, yet at the moment, these communities hesitate because of tensions. Clear communication would allow business to thrive without fear, and this is an opportunity: there is no reason to have disagreements with the Chinese people, and the Chinese government is doing their part to run their country, just as the Australian government does their part.

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