

“Challenges for the Biden Administration: Hot Spots in the Indo-Pacific”

How Should the Biden Administration Handle China’s Economic Pressure Campaign against Australia?

Benjamin Herscovitch, Research Fellow, Australian National University



Despite a new year and a new president in Washington, China’s economic punishment against Australia continues. More than four years since the early signs of politically motivated trade restrictions first appeared, this economic statecraft saw a reduction of approximately AU\$3 billion worth of Australian exports to China in 2020.¹ Impacting a wide range of industries, most notably coal, wine, barley, and cotton, there are so far no indicators that China is planning to significantly ease these trade restrictions.² Ratcheted up

dramatically in 2020, these punitive measures come on the back of a precipitous and sustained downward trajectory of diplomatic and political relations. Australia has been on the receiving end of increasingly strident and threatening diplomatic messaging, high-profile and likely politically motivated targeting of Australian citizens in China, a decline in leader- and ministerial-level engagement, and a winding back of access to Chinese officials at the working level.³

As the last decade of China's use of economic statecraft makes plain, Australians are not alone in suffering economic pain at Beijing's hands. Among other victims, China has inflicted trade restrictions on Norway,⁴ Japan,⁵ Mongolia,⁶ South Korea,⁷ and Taiwan⁸ in a bid to register its anger and push other capitals to change policy course. Now that this economic ire is directed at Canberra, many Australians are asking what can be done to protect Australia's export industries and minimize the leverage that the Chinese Communist Party (CCP) has over their country.

Diplomatic talk is (relatively) cheap

Supporting Canberra in its trade tussle with Beijing would serve a dual purpose for Washington. It would dovetail with the Biden administration's twin focus on alliance-building and strategic competition with China.⁹ Aiding Australia would provide the United States with a tool to blunt Beijing's ambitions for influence across the Indo-Pacific, while also allowing it to demonstrate in a tangible and credible fashion its commitment to allies and partners. Given the compelling

strategic rationale for supporting Australia, what precisely should the Biden administration do?

Even before taking office, the incoming administration was expressing solidarity with Australia. In response to China's growing economic pressure on Australia in the final months of 2020, Jake Sullivan, national security advisor to President-elect Biden tweeted: "As we have for a century, America will stand shoulder to shoulder with our ally Australia and rally fellow democracies to advance our shared security, prosperity, and values."¹⁰ From Canberra's perspective, such expressions of support from one of the most influential voices in US foreign policy serve as a promising sign of Australia's heightened standing and access in Washington under Biden.¹¹

But solidarity alone is not an effective response to the cold, hard economic pressure that China is bringing to bear on Australia. As well as protecting Chinese industries and developing self-sufficiency, China's economic pressure campaigns are universally motivated by specific political, diplomatic, military, or economic grievances.¹² In other words, they are at least partially driven by China's heightened threat perception of other countries' behavior. China will sometimes wind back economic pressure without getting redress to its particular complaint and may do so this year with respect to trade restrictions on Australian coal simply because the Chinese steel and energy industries require this input.¹³ But in cases where China can bear the economic costs of trade restrictions, Beijing will typically require specific assurances, face-saving

concessions, or redress from the victim country before economic restrictions are significantly eased.¹⁴ This record of China's determined use of trade restrictions does not bode well for US diplomatic efforts to move the policy dial in Beijing through words alone.

Of course, Beijing will have noticed Biden's recent criticism of China's "economic abuses" and "aggressive, coercive action."¹⁵ And China would take even more notice if the US increased the prominence of these criticisms by, for example, raising the issue directly when presidents Biden and Xi meet or pushing for a G7 declaration opposing Beijing's economic punishment of Australia.¹⁶ Such diplomatic moves would both heighten awareness of China's weaponization of trade and highlight the scope of international opposition to Beijing's economic punishment of Australia. Yet there is little reason to believe that political leaders in Beijing will be significantly chastened by such criticisms alone. As recent belligerent trends in Chinese diplomacy and the last decade of China's use of trade restrictions as a tool of statecraft indicate, Beijing is willing to endure significant and long-term reputational damage in pursuit of its national goals.

Australia-China relations and CCP sensitivities

There is also probably limited benefit in the United States engaging in Trump-era acts of symbolic wine solidarity. After China imposed anti-dumping tariffs on Australian wine exports of up to a 212% in November 2020, some senior US officials, including Secretary of State Mike Pompeo, began posting photos of

themselves drinking Australian wine in support of an old ally and as a means of challenging China.¹⁷ Like the month-long December 2020 campaign by the Inter-Parliamentary Alliance on China to buy Australian wine, these moves were entertaining theatrical political barbs across Beijing's bow.¹⁸ But the first problem with wine solidarity is that China's tariffs on Australian exporters could end up being a net positive for US wine exporters as they push Chinese consumers to look for alternatives. Although the data are still unclear on whether these tariffs against Australia will benefit US wine exporters, China's trade restrictions on Australian coal have already reportedly benefitted Canadian and US coal exporters.¹⁹ So even if motivated by a heartfelt desire to help, wine solidarity cannot compete with the commercial impulse to fill gaps in the Chinese market left by the exclusion of Australian exporters. The second problem with wine solidarity is that absent policies and enforcement mechanisms, markets typically do not respond to the suggestions of a secretary of state. A few extra bottles of South Australian red being drunk in Washington and at US embassies worldwide is cold comfort for Australian wine exporters in the absence of market moving measures from government.

If small-scale consumer activism is not an effective response, should the Biden administration place tariffs and other trade restrictions on select Chinese exports to punish China for its punishment of Australia? Bonnie Glaser has proposed a web of collective action counter-coercion arrangements to impose costs on China for its politically motivated trade restrictions and reduce

vulnerability among would-be victims.²⁰ Such initiatives may shape Beijing's long-term risk calculus when deciding when and against whom to use trade restrictions. But the CCP's siege mentality and fears of being undermined by a US-led containment strategy mean such policy moves risk further economic pain for Australia in the short-term.²¹

The CCP often interprets Australia's behaviour through the prism of what Beijing believes is a concerted and multinational US-led effort to undermine its interests.²² Australia is one of the closest US allies with a long track record of challenging China on human rights, maritime and territorial claims, and Chinese overseas investments, among a range of other contentious issues.²³ Beijing perceives these and related measures as a direct threat to China's "core interests."²⁴ For the CCP, Australia's criticisms of China's human rights record and South China Sea policies are a direct challenge to China's social stability, regime security, and territorial integrity. Australia's restrictions on Chinese companies as both vendors and investors are seen as a threat to China's economic development. In response to these perceived infractions, Beijing has since 2016 levelled a growing array of punitive economic, diplomatic and political measures against Canberra.²⁵

A US-led international effort to economically pressure China to stop economically pressuring Australia would probably also be interpreted as an attack on a range of China's "core interests." including its economic development and national security. If Australia joined or endorsed such an

effort, it would likely be perceived by Beijing as further confirmation of Canberra's support for US-led anti-China policies and would risk provoking a deeply hostile response from Beijing, including the possibility of additional retaliatory trade restrictions. Given the relative weakness of Australia compared to the United States combined with Australia's acute export dependence on China, such blowback from Beijing would most likely be disproportionately directed at Canberra rather than Washington.

Leaving aside these concerns about possible further punishment, responding to China's use of trade restrictions with illiberal trade practices would also be inconsistent with decades of Australian diplomatic and political support for the liberal, rules-based trading regime.²⁶ As successive Australian policy white papers have stressed, Australia is a trading nation with a deep and abiding interest in economic openness and multilateralism.²⁷ Australia seeks, as much as is consistent with its own national security, a world in which goods and services generally move freely. To advocate for, willingly benefit from, or enact additional trade distorting measures as a remedy for China's trade distorting policies would be a dramatic departure from Australia's declared policies. By imposing additional costs on individuals and businesses forced to pay more for alternatives to the excluded Chinese imports, it would also incrementally take the world further away from the goals of economic openness and growth that

Australia has long sought through decades of often hard-won economic and trade liberalisation.

Multilateralism and geo-economic grand strategy

Although there is likely little that Washington can do by way of immediate assistance, in the longer-term the United States could aid Australia by again offering the multilateral trading system that has been central to not just its growth, but also its very existence.²⁸ Australia has long been committed to the multilateral trading system on principled as well as pragmatic and self-interested grounds.²⁹ The rules-based trading regime established around the World Trade Organization (WTO) and its precursor institutions provides a measure of legal redress and protection for all states, which is especially critical for the protection of the rights and interests of small and middle powers such as Australia.³⁰

If the United States remains a spoiler in the WTO Appellate Body and in violation of WTO rulings, Washington will be indirectly undermining Canberra.³¹ Australia is currently seeking redress to China's tariffs on Australia's barley exports via the WTO.³² The irony could barely be starker: Current Biden administration policies inherited from Trump, such as a non-functioning and empty WTO Appellate Body and massive and WTO non-compliant US tariffs on Chinese exports, are undermining the very institutions and processes to which Australia is appealing for protection against China's punishing trade restrictions.³³ Even if, as is often plausibly argued, elements of

the WTO require reform, the United States should, at least, once again constructively reengage with the multilateral trading regime and its rules and procedures.³⁴

Of course, as many have pointed out, there is little appetite in Washington on either side of politics to wholeheartedly recommit the United States to the WTO and its associated free trade agenda.³⁵ Many Democrats and Republicans now harbor deep-seated reservations about the WTO system and trade liberalization due to widespread perceptions that China is reaping gains at the expense of US industries and workers.³⁶ Meanwhile, the Biden administration has committed itself to “foreign policy for the middle class,” which entails a more sceptical approach to free trade and a greater willingness to use economic protectionist measures.³⁷ Although these domestic political hurdles are steep, constructively reengaging with the WTO should be a priority. It would serve not just Australian interests, but also the interests of US allies and partners who depend on WTO rules and procedures for redress and protection.

Longer-term, the Biden administration should also respond to China’s growing use of economic statecraft against Australia and others by formulating a comprehensive US geo-economic strategy. The Trump administration made plain in its 2017 *National Security Strategy* that “economic security is National security,” and this sentiment was subsequently echoed verbatim by Biden’s campaign.³⁸ But beyond identifying this nexus, there remains much work to be done in Washington to formulate a coherent and comprehensive strategy that

fully integrates economic and security considerations in a manner capable of meeting the challenge of China's economic statecraft.

Such a geo-economic strategy will need to perform two devilishly complex tasks. First, it will need to find a balance between competing security and economic concerns in the world's emerging "Geo-economic Order."³⁹ Where once there was a broad if not always sharp distinction between decisions in the economic and security realms, now economic decisions about infrastructure investments, telecommunications, trade, and much besides also raise fundamental security questions.⁴⁰ Although the formulation of a geo-economic strategy for the United States would be welcomed by allies such as Australia, it should avoid abrogating core US commitments to economic openness and should factor in the economic costs involved when the liberal preference for open markets is overridden by security concerns. As Australians know all too well, the touch of China's economic statecraft is often painful. But the US cure for such pain should remain broadly consistent with the principles of the liberal, rules-based economic order that has facilitated history's greatest and fastest increase in general prosperity.⁴¹

Second, and perhaps more dauntingly, a new US geo-economic strategy will need to articulate precisely how to defend US and likeminded economic and security interests against the full force of China's vigorous economic statecraft. There is no country better prepared to use economic policy to pursue national objectives than China. The CCP sits atop a vast and steadily expanding economy

with a massive tech-driven innovation ecosystem and an unrivalled supply of highly educated human capital. The CCP and its more than 90 million members are also woven into the managerial fabric of the Chinese corporate sector, while the Chinese legal system can demand subservience to state goals from SOEs and private enterprises alike. Meanwhile, the world-at-large is deeply dependent on the Chinese economy for its export earnings, providing Beijing with ready points of leverage in nearly every nation. China's economic statecraft is also tactically varied and flexible, encompassing everything from the politically motivated application of anti-dumping measures to the potential activation of its telecommunications companies as espionage assets. Responding to China's economic statecraft will therefore be among the most demanding national security challenges the United States has ever confronted.

The age of geo-economics presents new, accelerating and complex challenges to the United States and its allies and partners. To meet these challenges and effectively counterbalance China's efforts to wield economic power as a weapon of statecraft, constructive reengagement with the liberal, rules-based global trading regime will be critical. But such a principled approach is alone not enough to navigate the era of geo-economic competition. The multitude of new means by which war can be waged by other means makes designing effective geo-economic strategies and policies as hard as it is essential.⁴² Australia and other states have already been living with China's coercive economic statecraft

for years, but the process of fully grasping its significance and developing effective and principled policy responses is only just beginning.

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