

# The Impact of China's Economic Sanctions on Australian Exports

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March 30, 2022

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# A decade of two halves

2012-2015

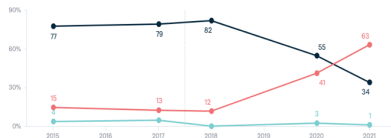


Post-2015

## CHINA: ECONOMIC PARTNER OR SECURITY THREAT

In your own view, is China more of an economic partner or more of a security threat to Australia?

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From 2015-18, the question was phrased: 'Is China more of an economic partner or more of a military threat?'

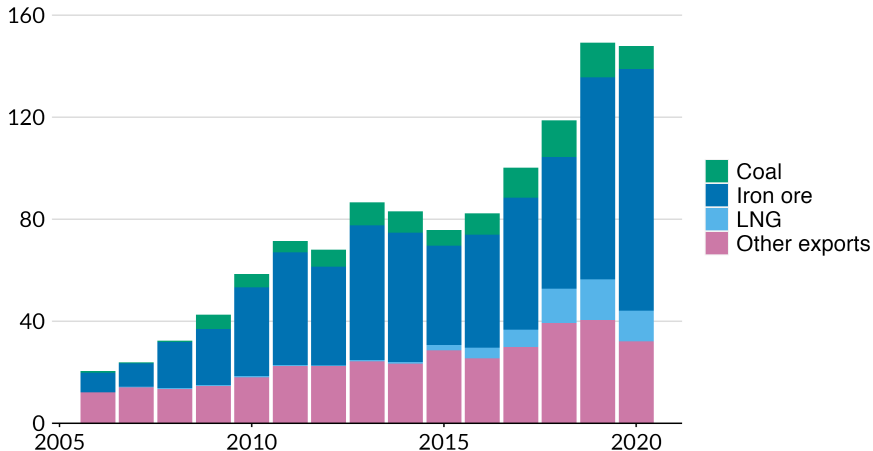
Dotted line indicates change in mode: see [Methodology](#).

◆ More of an economic partner to Australia ◆ More of a security threat to Australia ◆ Both equally

**Chinese official declares Beijing has targeted Australian goods as economic punishment**

## Australian exports to China have increased substantially, largely because of resource exports

Annual Australian merchandise exports (A\$bn)



Note: Merchandise exports exclude service exports. LNG = Liquefied Natural Gas.

Source: DFAT

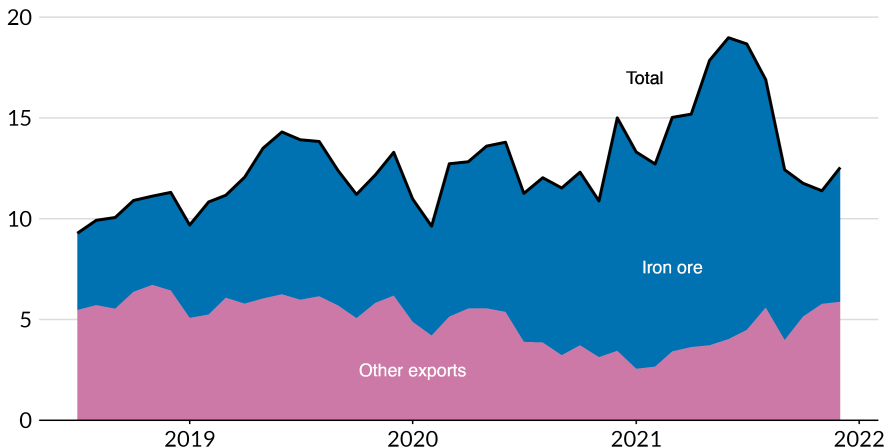
Table 1: Timeline of Chinese trade restrictions on Australian exports

Date trade restrictions first reported	Australian export	Proportion of Australian exports that went to China in 2019*
May-2020	Barley	57%
May-2020	Beef	25%
October-2020	Cotton	71%
October-2020	Timber	94%
October-2020	Coal	21%
November-2020	Wine	36%
November-2020	Lobsters	80%
November-2020	Copper ores and concentrates	36%
November-2020	Sugar products	6%

Sources: Table adapted from Benjamin Herscovitch's article in the Australian Industry Group's [2022 Exporters Guide](#), with data from DFAT and news reports in [The Conversation](#), [Australian Broadcasting Commission](#), [South China Morning Post](#) and the [Australia-China Relations Institute](#).

## Australian exports to China rose and then fell largely due to price fluctuations of iron ore

Monthly Australian exports (A\$m) of iron ore and 'other exports' to China

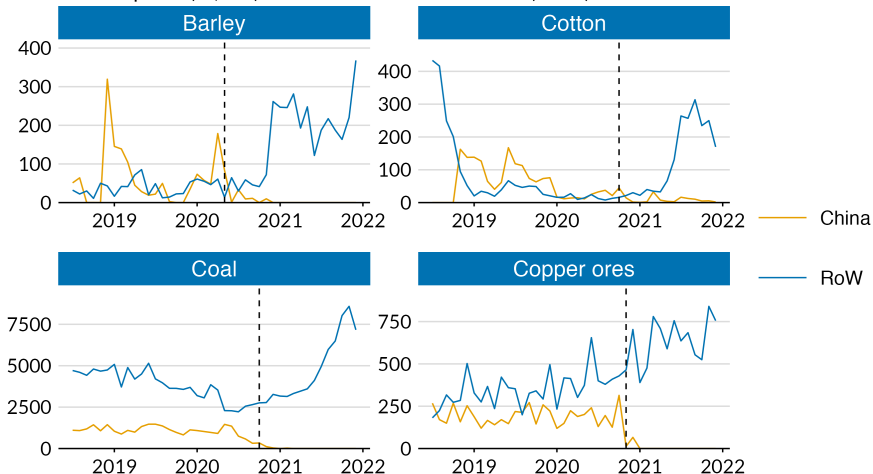


Note: Other exports includes all merchandise exports excluding iron ore.

Source: DFAT

## Australian barley, cotton, coal and copper ore exports have largely found other markets

Australian exports (A\$mn) to China and Rest of World (RoW)

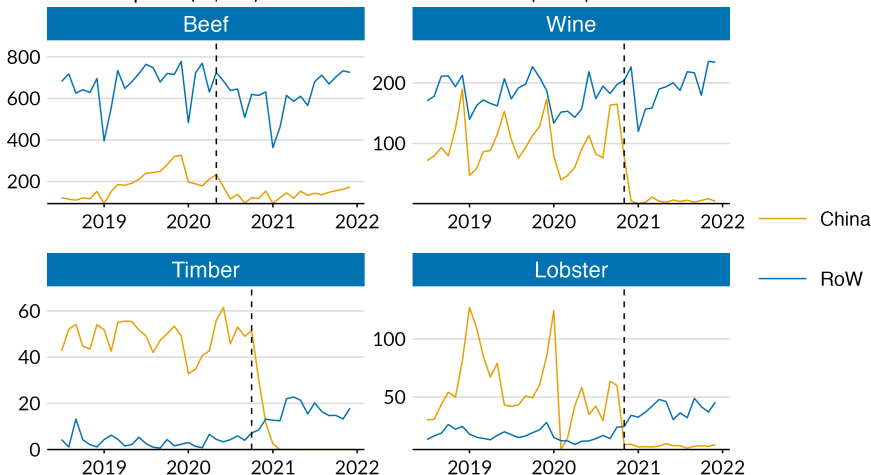


Note: Dashed line indicates month trade restrictions were first reported.

Source: DFAT

## Australian beef, wine, timber and lobster exports have had more difficulty finding other markets

Australian exports (A\$mn) to China and Rest of World (RoW)



Note: Dashed line indicates month trade restrictions were first reported.

Source: DFAT



## Who is winning

The impact on the Australian economy has been negligible.

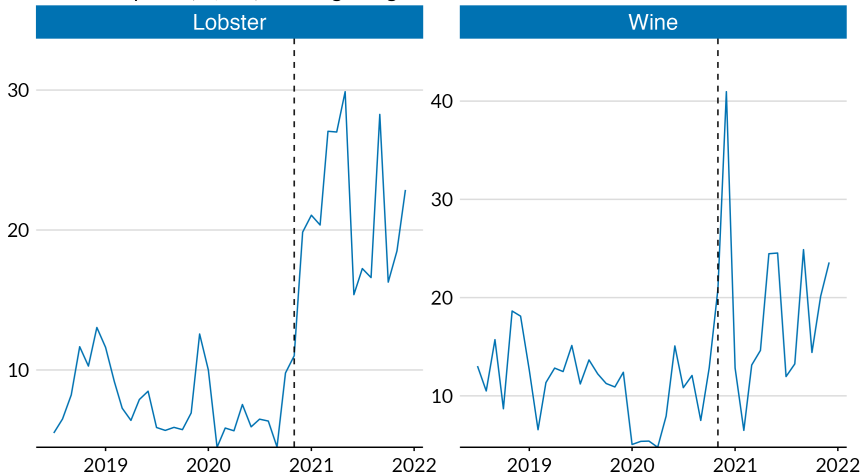
- The Australian Treasury estimates that goods affected by Chinese trade restrictions lost \$5.4 billion in exports in the year to June 2021, but at the same time exports of these goods to the rest of the world increased by \$4.4 billion.
- Still, some Australian exporters have lost significant income, time and investment.

But these sanctions also hurt China.

- Australian exports, particularly to China, are often used to produce goods exported to third markets.
- Damage to China's reputation.
- Finally, Chinese consumers miss out on Australian products.

## Some Chinese demand for Australian wine and lobster is being met by "grey-trade channels" through Hong Kong

Australian exports (A\$mn) to Hong Kong



Note: Dashed line indicates month trade restrictions were first reported.

Source: DFAT

## Why hasn't China banned Australian iron ore?

This would have a major impact on the Australian economy.

- Result in stranded assets and a significant hit to the government budgets.

But this would also have significant consequences for China.

- It would sharply increase the price of iron ore from other countries.
- Forcing Australian iron ore to be diverted to other markets at a much lower price, making other countries' steel production more competitive against China.
- As with the current trade sanctions, the banning of Australian iron ore would result in a lose-lose scenario for both countries, but at a much larger scale than the current sanctions.

## Recommendations for Chinese policymakers

China should use economic sanctions sparingly.

- Often the threat of sanctions are more powerful than the sanctions themselves.
- The threatening power of China's economic sanctions is reduced, when countries like Australia are subjected to them, but remain somewhat resilient to their effects.

## Recommendations for the Australian policymakers

- Avoid retaliatory economic sanctions and use the proper resolution forums through the World Trade Organisation.
- Encourage its large diplomatic network around the world to not just engage in diplomacy, but also actively engage with Australian businesses to find new markets.
- Increase the number of AusTrade officials in key alternate markets, such as in the subcontinent, ASEAN, the Middle-East, and Latin and South America.
- Provide targeted financial support and export diversification advice to Australian businesses hit by China's sanctions.
- Avoid megaphone diplomacy and overreactions.

## Data notes

- All data are in nominal Australian dollars.
- Code to reproduce charts can be found at my GitHub.
- All data in the charts and tables are sourced from the Australian Department of Foreign Affairs and Trade except where specified.

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