

# China-Australia Relations : Could We Expect RCEP to Solve Trade Dispute

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**Abstract:** The RCEP was a Free Trade Agreement launched by ASEAN in 2012. It marks the birth of the world's largest free trade zone and an essential step towards advancing economic integration in East Asia. However, as the trade war between China and the United States continues to escalate, Australia adopts the strategy of following America, resulting in several frictions in trade between China and Australia. But, with the RCEP agreement came into effect, the relationship between China and Australia seem to improve.

**Keywords:** RCEP; China-Australia Relations; Trade

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## 1. What is the RCEP?

The Regional Comprehensive Economic Partnership is a free trade agreement initiated by ASEAN in 2012. After 8 years of negotiations and 31 rounds of formal negotiations, on November 15, 2020, the economic and trade ministers of 10 ASEAN countries, including China, Australia, and New Zealand, officially signed the agreement through video conference. It marks the birth of the world's largest free trade area and is also an important step in promoting East Asian economic integration.

The RCEP covers over 10 areas, including small and medium enterprises, economic and technological cooperation, goods, services, investment, and intellectual property protection in 15 countries. By reducing tariffs and non-tariff barriers, the 15 member countries can unify the market, open their markets to other members and implement regional economic integration.

With ASEAN as the central framework, the RCEP conducts dialogues on a wide range of strategic, political, and economic issues of common concern to promote peace, stability, and economic prosperity in East Asia. The RCEP is significance in promoting regional economic integration in East Asia, and has been recognized as “the most important achievement of East Asian Economic Integration in the past 20 years”. It has three characteristics: the largest, the most inclusive, and the most potential<sup>[1]</sup>.

## 2. The Development of China-Australia Trade Relations

From 1949 to 2018, the development of China-Australia trade relations can be broadly divided into three stages:

The first stage: develop slowly. From 1949 until the establishment of diplomatic relations between China and Australia in 1972, the economic progress between the two countries was very slow. The total trade volume between China and Australia was about 4.6 million dollars in the mid-20th century. In 1972, the total trade volume was only about 86.54 million dollars, and China accounted for only 1% of Australia's total merchandise trade.

The second stage: rapid growth. After China and Australia established diplomatic relations in 1972, economic and trade exchanges and good cooperation between the two countries have been developing rapidly, and the bilateral trade volume and investment have increased yearly. In 1978, China and Australia established the China-Australia Council, to further promote exchanges and cooperation between the two countries in economy and trade, culture, science and technology, education, information, and sports. In 1980, the bilateral trade volume between China and Australia surged from 86.55 million dollars in 1972 to 1.273 billion dollars. It reached 2.33 billion dollars in 1992, making China the ninth-largest commodity market and trading partner of Australia (Liu, 1994)<sup>[2]</sup>.

The third Stage: be important trade partners to each other. In the 21st century, with China's accession to the WTO, the development of China-Australia trade relations turn into a new situation. With the deepening trade and economic relations between the two sides, China and Australia launched the negotiation of a free trade agreement in April 2005, and then after several rounds of negoti-

ations, the agreement was officially signed on June 17, 2015. In 2018, the bilateral import and export value of goods between China and Australia reached 143.13 billion dollars, an increase of 14%, with a high growth rate. By now, China has remained Australia's largest trading partner for export and import, while Australia is China's seventh-largest trading partner and sixth-largest source of imports (Wo, 2021).

However, as the trade war between China and the United States continues to escalate, Australia adopts the strategy of following America, resulting in several frictions in trade between China and Australia. China-Australia trade relations seem to have entered the fourth stage: trade war. In 2018, Australia specifically introduced investment restrictions against China. In 2019, Australia restricted Huawei and other Chinese telecommunication equipment suppliers from constructing 5G networks. In 2020, Australia advocated for investigations on the origin and prevention of COVID-19 in China.

On top of that, Australia has conducted several anti-dumping investigations against Chinese products. Therefore, China quickly took action against Australia's beef and barley exports, suspending beef imports and increasing taxes on barley by 80%. In 2021, China also imposed punitive tariffs of 116%-218% on Australian wines, leading to a 97% plunge in Australian wine sales to China.

### **3. Can RCEP Solve the Trade Dispute between China and Australia?**

Since the beginning of 2018, China-Australia relations have deteriorated, affected by the trade war between China and America. Australia took a strike against China, banning Huawei and ZTE from providing 5G technology to Australia. With the outbreak of COVID-19, Australia's further provocations, irrationality, and political dissent have intensified the frictions between the two sides, leaving the relationship between the two countries more strained than ever.

China soon fought back at Australia, imposing import bans, anti-dumping investigations, or delayed clearance on a range of products imported from Australia, including logs, wine, barley, beef, lobsters, copper, and coal. In fact, China and Australia are naturally complementary in trade, and the economic and trade relations between these two countries have always been quite close, with several important industries in Australia having formed a dependence on China in the past decade.

However, data and results indicate that the scale of trade between China and Australia has been increasing year by year, from \$136.447 billion in 2017 to \$169.519 billion in 2019. In 2020, the total trade volume between China and Australia was approximately 168.319 billion US dollars, a year-on-year decrease of 0.1%. In terms of imports and exports, China's exports to Australia in 2020 amounted to \$370.23 billion, a year-on-year increase of 11.2%; Imports from Australia amounted to approximately \$796.35 billion, a year-on-year decrease of 4.6%, resulting in a trade deficit of \$426.12 billion between China and Australia. Moreover, by 2020, China's investment in Australia had decreased by nearly two-thirds, directly from \$2.4 billion in 2019 to \$800 million (Qian Zhan, 2021).

The year 2022 seems to be a turning point in China-Australia relations. On January 1, the RCEP agreement came into effect. On May 23, Anthony Albanese defeated Morrison to become Australia's new leader. On November 15, Xi Jinping met with Albanese in Bali. Moreover, on December 7, the epidemic officially opened in China. All kinds of events pushed China-Australia relations to thaw a lot, and the economic and trade exchanges between China and Australia have returned to normal<sup>[3]</sup>.

First, about economy. China's Ministry of Commerce data shows that China-Australia trade totaled 229.9 billion dollars in 2022. In the first quarter of 2023, bilateral trade was about 58.8 billion dollars, up 10.9% year-on-year. On May 11, 2023, Australian Trade Minister Don Farrell visited China, during which he met with Chinese Minister of Commerce Wang Wentao and co-chaired the 16th China-Australia Ministerial Economic Joint Committee. Don Farrell's trip to China was the first face-to-face meeting between the top trade officials of China and Australia after a gap of four years, which not only for the two countries to find solutions to thaw the trade dispute, but also provided a foundation for strengthening diplomatic relations between China and Australia.

Subsequently, on May 25, Fangchenggang Guangxi held the RCEP Trade and Investment Exchange Conference — China (Fangchenggang) · Australia session. This conference promoted the economic and trade exchanges, and increased the investment and cooperation between China and Australia in various fields. Both countries jointly build a high-quality service platform and system for RCEP trade and investment. Obviously, the mutually beneficial cooperation between the two sides in the economic and trade fields, is in the common interests of the two countries and the two peoples. Moreover, the RCEP also brought a considerable favorable impact on enhancing the trade and economy of the two countries.

Second, about diplomacy. 2022 marks the 50th anniversary of the establishment of diplomatic ties between China and Australia. On December 21, 2020, Australian Foreign Minister Penny Wong visited China and held the Sixth China-Australia Foreign and Strategic Dialogue with Wang Yi. In a joint outcomes statement issued after the dialogue, the two sides agreed to maintain high-level engagement and commence or restart dialogue in areas, which has been instrumental in pushing the China-Australia relations back on track.

On July 13, 2023, Wang Yi and Penny Wong met again in Jakarta. The two had in-depth exchanges on the future direction of China-Australia relations and economic cooperation. Wong also promised that the Australian government would push for greater progress in the Australia-China Comprehensive Strategic Partnership. It can be seen that the two countries' principal foreign affairs officials have met frequently over the past two years, which has played a positive role in promoting bilateral relations, economic and trade exchanges, and people-to-people exchanges, and is conducive to the continued improvement of relations between the two countries and the comprehensive thawing of the two economies.

Third, about cultural exchanges. Since March 2023, the governors of Victoria and Western Australia have visited China in succession, hoping to renew relations with China. In April 2023, a delegation of 15 Australian company executives and local officials visited Hong Kong, Tianjin, and Shenzhen.

#### **4. Conclusion**

In the late 1990s, the world entered a stage of hyper-globalization, in which commodities were no longer designed, assembled, and marketed in one country. However, it was subcontracted to various countries worldwide. After COVID-19, hyper-globalization was even more challenging to sustain. For this reason, Japan has invited India and Australia to create a Supply Chain Initiative, and the Western countries are also adjusting their global supply chains. In order to adapt to the new regional globalization, China has also put forward the economic strategy of Dual Circulation. In this environment, the emergence of RCEP helped member countries to shift the gravity of international trade from the U.S.-led WTO to the regional economic framework, begin to reconstruct the economic map of Asia, reduce the dependence on the Western market, and even further deepen the economic and trade relations in the East Asian region.

In recent years, along with the intensification of Sino-US competition, most countries have a low willingness to participate in the U.S. geopolitical competition with China. At the same time, the U.S. has always tried to force other countries in the Asia-Pacific region to "take sides", in an attempt to isolate China. However, the signing and taking effect of RCEP, it appears in some ways that ASEAN countries, and even traditional U.S. allies such as Australia, Japan, and New Zealand, are more eager to reach economic cooperation with China, and achieve a win-win situation, rather than continuing to follow U.S. policy toward China mindlessly.

China and Australia are both important countries in the Asia-Pacific region, and the two country's economies have long been highly complementary. The stable development of China-Australia relations is in the fundamental interests of the two countries and people. It is also conducive to promoting peace, stability, and prosperity in the Asia-Pacific region and the world. However, in the past few years of deteriorating relations, the people of both countries have felt the serious damage to bilateral trade and the severe impact on various industries. So today, Australia has begun to reach closer economic cooperation with China through RCEP, which not only deepens cooperation and promotes economy and trade with China, but also gradually resolves the conflict with China.

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