

**AUSTRALIA-CHINA RELATIONS AT
CROSSROADS: THE CURRENT
STATE OF AFFAIRS**

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Executive Summary

1. Australia-China relations are at their lowest point in 50 years since the two countries established diplomatic ties in December 1972. There are few signs that the relationship will return to its earlier period of stability and expansion.
2. Over the past five decades, Australia and China have developed deep economic interdependence, and extensive diplomatic, educational and cultural ties. In 2014, the two countries formed a comprehensive strategic partnership. A free trade agreement was signed in 2015 when Australia also joined the Asian Infrastructure Investment Bank.
3. China has been Australia's largest trading partner for nearly two decades. More than one third of all Australian exports go to China. In recent years, Chinese students and tourists have also become major sources of income for Australia's higher education and tourism sectors. However, the relationship has deteriorated in recent years.
4. There are multiple factors affecting the bilateral relationship, both domestic and external, particularly in Australia's formulation and implementation of its China policy. Most critically, the alliance with the United States has always been an important anchor of Australian foreign and security policy, and more prominently in recent years in influencing how Canberra manages its ties with China.
5. Until recently, Canberra adopted a pragmatic approach to balancing between its alliance with the United States, which is essential for its security and deepening economic ties with China. This was possible during periods of relatively stable US-China relations. However, since 2017, both the external and domestic environments changed and Australia's balancing act has become untenable.
6. Domestic politics in Australia affect its China policy. Governments under the Australian Labour Party place priorities on multilateralism, Asia, and diplomatic approaches to managing bilateral differences with China, while recognising the importance of the alliance for security and important international issues.

7. The Liberal-National Party coalition governments, on the other hand, view the alliance with the United States as the cornerstone of Australia's foreign and security policy. They tend to follow US lead on important international and regional issues and more recently have taken hardline policies towards China, from the Huawei ban to the call for independent international inquiry into the origins of the COVID-19.

8. Despite the serious diplomatic strains between the two countries, Australia-China two-way trade remains strong, largely as a result of rising commodity prices such as iron ore and liquified natural gas. However, whether this will last is not guaranteed; any further deterioration of the relationship will inevitably affect the economic ties.