

# What's the Deal: Tense China-Australia Relations Disrupt Trade

By Jason Aravanis

Australia's increasingly strained relationship with China may further disrupt trade in the Iron Ore and Black Coal Mining industries

Both China and Australia's economies heavily rely on the trade of mining and energy products

Amid the backdrop of the ongoing COVID-19 pandemic, the once robust China-Australia relationship has begun to sour in recent weeks. China is Australia's largest trade partner, accounting for 26.0 % of Australia's trade with other nations. Two-way trade, which is the sum of exports to and imports from China, grew by 20.5 % in 2018-19, to a record \$235 billion. Increasing confrontation between the two nations may disrupt the trade of iron ore, black coal and natural gas.

The Chinese Ministry of Commerce implemented an 80.5 % tariff on Australian barley imports this month, following a ban on red meat imports from four major Australian abattoirs. Despite coinciding with Australia's push for an independent inquiry into the origins of the COVID-19 pandemic, China has denied that the trade disruptions are related. Nevertheless, these barriers represent a growing threat to Sino-Australian trade, which has surged since the implementation of a free-trade agreement between the countries in December 2015.

In January 2020, the announcement of a trade deal between the United States and China created potential headaches for Australian mining and energy industries. Under the 'phase one' trade agreement, China must increase purchases from the United States by \$US200 billion over two

years. As China pivots to American suppliers, demand may be withdrawn from Australian suppliers. Under the phase one agreement, China has pledged to purchase \$52.4 billion worth of American energy products. This agreement may become a major threat to Australia's:

- [Oil and Gas Extraction industry](#) and
- [Black Coal Mining industry](#)

Both China and Australia have a strong reliance on the trade of mining and energy products between their economies. The [Iron Ore Mining](#) industry is expected to generate \$83.4 billion in revenue in 2019-20, and is highly exposed to Chinese trade. Exports are expected to account for 84.9 % of revenue in the current year, with China accounting for 81.8 % of total export revenue. As a result, almost 70 % of the revenue in the industry is generated from trade with China.

Iron Ore Mining is unlikely to be drawn into any trade dispute between Australia and China, as both countries are highly dependent on iron ore trading. In 2019, China imported 62 % of its iron ore from Australia. Comparatively, the next largest supplier, Brazil, accounted for 21 % . Furthermore, China announced new economic stimulus measures to counter the COVID-19 downturn at the National

# What's the Deal: Tense China-Australia Relations Disrupt Trade

## Subscribe and become an industry expert

Subscription packages can be tailored to meet your individual or company's needs. Benefits of subscription include substantial discounts on report prices, exclusive data access and rates on customised research to help you move quicker than the competition. Including key statistics, analysis, historical data and future forecasts, IBISWorld Industry reports provide the information you need to make sound business decisions – now and into the future.

**For more information, please call us today on (03) 9655 3881**

People's Congress on 22 May 2020. This stimulus includes funding for construction, which will require greater output from Chinese steel manufacturers, and result in higher demand for iron ore. Australian iron ore is expected to satisfy this rising demand, due to the worsening COVID-19 outbreak in Brazil, which has threatened local mining output and led to a spike in global iron ore prices.

Exports of black coal and natural gas to China may be disrupted if trade disruption escalates. In early 2019, China previously attempted to influence Australia through trade restrictions by delaying Australian coal deliveries at major Chinese ports. This may have occurred in response to the Turnbull Government introducing anti-

foreign interference laws, and banning the Chinese telecommunication giant Huawei from developing a 5G network in Australia. However, this disruption was short-lived, due to the ease with which Australian firms in the [Black Coal Mining](#) industry could transition supply to alternative markets such as India, Japan and South Korea. Similarly, exports from the [Oil and Gas Extraction](#) industry will likely be able to find alternative markets if trade barriers are introduced in the Chinese market.

**Related IBISWorld reports:**  
[Oil and Gas Extraction](#)  
[Black Coal Mining](#)  
[Iron Ore Mining](#)

