

Trade tensions to benefit Australian farm exports

By **Jeremy Stevens**

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Prime Minister Malcolm Turnbull's recent trip to Washington has highlighted the divergent paths the American and Australian governments are taking in their approach to the People's Republic of China.

Since President Donald Trump took office in January 2017, relations between the United States and the PRC have become more adversarial.

The Trump administration's national security strategy has painted China as a strategic competitor, which is actively seeking to undermine US values and interests across the political, economic and military arenas.

Furthermore, the decision to apply tariffs on imported washing machines and solar panels, followed by the announcements to impose tariffs on imported steel and aluminium, has sent a strong signal Mr Trump's 'America first' policy is more than just a slogan.

In contrast, on the eve of his US trip, Mr Turnbull explicitly rejected the idea China was a threat to Australia, and warned against "cold war" thinking.

Australia in recent years has been an advocate of opening up markets with its trade partners.

It has implemented free trade agreements with Japan, South Korea, and the PRC, and played a key role in resurrecting the Trans-Pacific Partnership Agreement among the remaining 11 members after Mr Trump withdrew US support.

Whether the two close allies can genuinely maintain a different strategic thinking toward the PRC remains to be seen. What is clear is that following the US down a path of increasing trade protectionism toward our largest trading partner would be a bad outcome for Australia.

With ongoing trade tension between the US and China appearing likely, what are the implications for Australia?

While a full-blown trade war between the world's largest two economies would be bad for everyone, Australia included, a period of more targeted trade sanctions between the two could have mixed results for Australian exporters, with some sectors potentially able to capitalise on the market disruption.

When a country responds to punitive trade measures, it will naturally look to do so in a way that will least harm its own economy.

If PRC-based importers can replace certain US products with equivalent products from other countries without too much disruption, China will look to retaliate in these sectors.

This is precisely the response we have seen from the PRC with the announcement that it will impose tariffs on 128 US products, mainly from the agricultural sector.

Agriculture is the most obvious area of competition between Australia and the US when it comes to exporting to China, and the current friction could be positive for Australian farmers.

Wine, a particularly fast-growing market in China and worth \$516 million to Australian producers in 2016, could receive a boost if the announced tariffs on Californian wine exports remain in place.

US fruit, nuts and other smaller categories are now all targets of retaliatory trade sanctions and are products Australia exports.

US beef exporters, only recently allowed to re-enter the Chinese market after a mad cow disease scare 13 years ago, could find themselves shut out again.

That would be good news for Australian cattle farmers.

Dairy is another sector where the republic's authorities may look to limit US imports, which in 2016 totalled \$US384 million (\$500 million), potentially favouring Australian exporters.

Importantly, not only do Australian exporters compete directly against US firms in these sectors, under the China-Australia Free Trade Agreement, tariffs on these products are set to be phased out in coming years, further boosting their competitiveness.

The future purchasing power China's middle-class citizens who are willing to pay a premium for quality food products cannot be matched in any other market over the medium term.

Even modest estimates of the size of the middle class by 2030 start at 800 million people.

Establishing a greater market share in China for Australian food exports during a period of trade tensions would not only greatly benefit local producers but could also partially offset any potential negative impacts on other export sectors.

Jeremy Stevens is the Program Director at China Matters.