

# China Versus The Anglosphere

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China's sanctions on Australia have raised hackles in other English-speaking nations

Beijing's ability to weaponize its global trade power is concentrating minds from Washington to Canberra. On Tuesday it was [reported](#) that China's Ministry of Industry and Information Technology has proposed controls on the production and export of rare earths, which are used in many critical technologies, from fighter jets and precision missiles to smartphones and wind turbines. With 70% of global exports, China dominates the supply chain. The threat to rare earths is the latest example of why reducing critical dependence on Chinese trade is now viewed as a matter of national security.

Beijing regularly bullies defiant trade partners with informal economic sanctions, but they have never been serious enough to trigger a unified response from neighbors or nations bound by treaty relationships. That will change if President Joe Biden is successful in his bid to forge a united front to constrain China (see [Biden's United Front Against China](#)). The current sanctions on Australia have raised diplomatic hackles across the world—especially among the English-speaking allies in the “Five Eyes” intelligence-sharing group, which appears to be expanding its role into broader strategic matters. Closer coordination among these allies, which are highly dependent on Chinese imports to serve critical industries, could yet form a basis for wider multilateral cooperation on tech regulation and industrial policy.

## Beijing's bark is usually worse than its bite

China has had a lot of practice in using trade sanctions as a coercive diplomatic weapon

China has wielded trade sanctions as an economic weapon for a decade. In 2010, it even threatened to block exports of rare earths to Japan over a row about disputed waters. This proved counterproductive, as it simply encouraged Japan to build its own rare earth supply chain to lessen its dependence on China. (Despite their name, rare earths are not actually that rare at all—just costly and dirty to process.) But Beijing has experimented with its tactics, which range from cutting imports of Norwegian salmon to withholding tourist dollars: Japan, Taiwan, South Korea and the Philippines have all suffered from unofficial restrictions placed on Chinese tour groups. Its goal is to assert China's dominance while deterring other countries from crossing it (see [Sanctions With Chinese Characteristics](#)).

Beijing's bark, however, has proved worse than its bite. It targets individual companies or industries; sanctions tend to be short-lived. And it prefers to block imports of political rather than economic importance: salmon, for example, not oil products. This may cause localized pain, but rarely wide economic damage. In fact, trade spats typically make little impact on overall bilateral trade. In 2017, Beijing hit back against Seoul's deployment of a US anti-missile system with tourist restrictions, halving the number of Chinese visitors. Yet South Korea's exports to China jumped by a record amount.

Recently, Beijing's “wolf warrior” diplomacy has become more threatening—but its trade disputes have followed a similar pattern. Australia has been in the doghouse since 2017-18, when it enacted foreign-interference legislation

targeted at China and blocked Huawei from its 5G network. Relations sunk even lower in April last year, when Canberra called for an independent international investigation into the origins of the Covid pandemic. Beijing retaliated by slapping tariffs on Australian barley. Yet Australia's overall exports continued to surge: by the end of June 2020, it was sending an astonishing 49% of its exports to China—a record high.

The latest sanctions are on coal shipments. More than 80 ships carrying an estimated US\$800mn of coal were [stranded](#) off China's coast, unable to unload. China's aim is to show that Australia needs it more than it needs Australia. The reality is more complex. Australia supplies, on average, 40% of the coking coal used in China's steel mills. That topped 60% in the first half of 2020, as the pandemic interrupted other supplies. China can find alternatives for a few months, but it will turn back to Australia as its mills run short.

China's trade dominance means it can generally deal with trade disruptions more easily than its trade partners. It accounts for a large share of their trade, whereas each partner accounts for only a sliver of China's. Australia, with a share of about 2%, does not even make China's top 10 trade partners. This means Beijing can afford to throw around its economic weight. But that logic does not apply to strategic goods that China needs, such as iron ore. Australia supplies about 70% of China's iron ore imports, shipping almost 800mn tons to China last year. Given that the total seaborne market in the rest of the world is only 460mn tons, Australia has nowhere else to send it—yet China also has nowhere else to buy it.

China's trade dominance means it is well placed to handle the fallout from any trade dispute

### Five Eyes need to look harder

China's sanctions typically amount to flesh wounds—painful but not ultimately harmful. Its own economic reliance on trade has constrained how far it is willing to go. Yet it could hit back much harder, if it determined that the strategic gains outweighed the losses. Restricting exports of critical goods is one such weapon. It would probably take the US and its allies several years to find alternative supplies of rare earths, for example.

Establishing how vulnerable China's trade partners would be to such an act of economic warfare is difficult, because few (if any) nations have conducted detailed audits of their supply chains. But a [report](#) by the Henry Jackson Society, a trans-Atlantic security think tank based in London, has dug into the trade data for five nations: the US, UK, Canada, Australia and New Zealand. The group has political relevance, because these countries also comprise the Five Eyes intelligence-sharing alliance. In recent months, Five Eyes has expanded its activities to [combating](#) “shared global security challenges,” and it issued a [joint statement](#) in November urging China to end its crackdown on Hong Kong legislators. Since at least four of the five alliance members already have a strained relationship with China, they are among the countries most likely to feel the force of any new trade disputes.

Few countries have conducted detailed surveys of their supply chains to assess their dependence on China

The Henry Jackson Society report identifies a high level of “strategic dependence” on China, based on the trade data categorized according to the Harmonized System (HS) in the UN's Comtrade database. The test for “strategic dependence” is met by any given country when (i) it is a net importer of a good, (ii) it imports more than 50% of that good from China,

and (iii) China controls more than 30% of the global trade of that good. This means that it could be constrained—for economic, geopolitical or other reasons—from easily sourcing alternative supplies.

Across the group, the Five Eyes countries are dependent on China in 17 out of 99 broad industries (HS2), 184 out of 1,244 sectors (HS4), and 831 out of 5,224 specific categories (HS6). Not all these dependencies have worrying implications: four of the five are dependent on China for Christmas tree lighting, for example. But roughly one quarter of all Chinese imports in each country serve 11 critical areas: communications, energy, healthcare, transport systems, water, financial services, critical manufacturing, emergency services, food and agriculture, government facilities, and information technology. In total, the five nations depend on China for 260 categories of critical goods.

Fives Eyes countries have a material dependence on China for a range of critical goods

Australia is most dependent as it relies on China to supply components for its mining and metal production industries, for several industrial chemicals and fertilizers, and for vitamins, pharmaceutical goods and medical equipment. But the other four also depend on China across a range of goods, from machinery and magnesium to laptops and lithium-ion batteries.

The report concludes that China’s dominance will be impossible to break in many existing industries: “The five powers have become so dependent on China for a number of exports that they may not be able to regenerate self-sufficiency across all strategic sectors, even those that underpin existing critical infrastructure.” Instead, it advises them to focus on future technologies, which have special strategic significance. They already depend on China for 57 categories of critical goods needed to serve nine identified future industries, ranging from artificial intelligence to synthetic biology. But China does not yet dominate the supply chains.

### China dependence

Strategic dependency on Chinese imports for critical goods of the future

	Industries	Sectors	Categories
<b>Australia</b>	1	13	35
<b>Canada</b>	0	8	25
<b>New Zealand</b>	1	11	35
<b>UK</b>	0	2	12
<b>US</b>	0	6	25

Source: Henry Jackson Society, UN Comtrade

The connection between trade and technological strength is one that Beijing understands well. It is pushing hard to boost its own industrial and technological self-sufficiency, while simultaneously aiming to retain its position as a global manufacturing hub (see [Understanding Dual Circulation](#)). The US and several allies have beefed up investment screening to prevent Chinese firms from acquiring technology in strategic industries. Washington has also put in place its own export restrictions to China via its “entity list.” But there is, as yet, scant evidence of a common strategy.

The US and some of its allies have beefed up investment screening to stop China getting technology in strategic industries

If these measures fail to dent China's technology drive, deeper cooperation will be required. A [report](#) by researchers in the US, Europe and Japan argues that a new "tech alliance" is needed to ensure that liberal democracies maintain technological leadership. It recommends harmonizing definitions of "critical technologies," establishing a semiconductor manufacturing consortium, aligning export controls for semiconductor manufacturing equipment, and creating a multinational investment mechanism for digital infrastructure. The proposed members of the alliance include most of those in the "Democratic 10," made up of the G7 nations, plus Australia, South Korea and India.

The successor to the Trans-Pacific Partnership could end up as a bulwark against Chinese trade dominance

Another possible forum for cooperation is the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the 11-nation successor to the failed Trans-Pacific Partnership. The UK applied to join the trade bloc this month, as it begins to build a foreign trade policy independent of the European Union. Former president Donald Trump withdrew the US from the TPP in 2017, but President Biden may decide it is in America's strategic interest to renegotiate membership, if only to prevent China from muscling its way in. China is not a member of the CPTPP, but it has expressed interest in becoming one (see [After RCEP: A Tough Ask For Pivot 2.0](#)). The trade bloc is strategically important, because forging supply chains that bypass China requires nurturing alternative manufacturing hubs.

Building a united front is much easier said than done, and none of these measures may prove sufficient to constrain China's remarkable tech rise in any case (see [Why China Can Succeed In Tech](#)). But reining in China's trade dominance may at least give the US and its allies a fighting chance.