



LA TROBE
UNIVERSITY



The La Trobe Asia Brief

Australia-China Relations

Finding the elusive balance

"For all the talk of shared history and values, we can no longer rely on America to keep us secure."

Hugh White

"The halcyon days of having one's cake and eating it too are drawing to a close."

Euan Graham

"It is deplorable that the bilateral relationship has been undergoing depression for two years."

Chen Hong

Also featuring Rebecca Strating, Dan Hu, Rowan Callick,
John Fitzgerald and Nick Bisley



Message from the Vice-Chancellor

The relationship with China is of critical importance to Australia. It is also increasingly complex, being influenced by economics, domestic factors and strategic forces.

I'm pleased to introduce this issue of the La Trobe Asia brief, which is dedicated to exploring the strengths and weaknesses of interaction between the two countries, from diverse vantage points.

The authors include highly respected voices in international relations, China studies and security studies, with a strong contribution from our own institution, as well as an international perspective from counterparts in China.

At La Trobe University, our vision is to promote positive change and address the major issues of our time head-on. La Trobe Asia is an important part of the University's engagement with the region.

I'm sure you'll agree that this issue of the La Trobe Asia brief makes an important and well-timed contribution to public debate on Australia-China relations, and will remain a resource of thoughtful analysis for policymakers and scholars alike.

Professor John Dewar
Vice-Chancellor

About the series

The La Trobe Asia Brief is a publication from La Trobe Asia, based at La Trobe University. This series provides a platform for commentary, research and analysis of policy issues that are of key importance in the Asian region. The work will feature La Trobe University academics working with collaborators based in the region. The papers in The La Trobe Asia Brief series are written for an informed audience. Authors will be invited by La Trobe Asia to contribute to this series.

Photos

Front cover: Australian and Chinese flags.
(Photo: studiocasper/istockphoto).

Back cover: Crowds watch a dragon dance at the Chinese Lunar New Year celebrations in Melbourne. 2 February 2014. (Photo: Chris Phutully/Flickr).

Editor

Matt Smith.

With thanks to: Diana Heatherich, Tom Barber and Romy Pearse.

The La Trobe Asia Brief #2

© 2019 La Trobe Asia.

All rights reserved.

La Trobe University does not take institutional positions on public policy issues. The views represented in this paper are the authors and do not necessarily represent the views of the University or collaborating institutions.

Listen to the podcast

La Trobe Asia's podcast, *Asia Rising*, covers news, views and general happenings of Asian states and societies. You can listen to interviews with authors from this publication, discussing Australia's relationship with China.



Matt Smith interviewing policy brief contributor Rowan Callick for the *Asia Rising* podcast. 31 June 2019. (Photo: Diana Heatherich).

Facing China without our historical ally

Professor Hugh White

Three big questions confront Australia's foreign and defence policy today. The first is can we rely on America to resist China's ambitions to dominate East Asia? The second is can we continue to rely on America to defend us in the decades to come? And third, what should we be willing to do to support America in resisting China's challenge?

For a long time we have taken it for granted that the answers to the first two questions are both 'yes'. We have assumed that America can uphold the old US-led regional order by containing China's bid to become the region's leading power – which would keep us safe from any major threats from China. And we have assumed that if a major threat nonetheless arose, America would fight to defend us.

We have also taken it for granted that the answer to the third question is 'not much'. We have assumed that America would find China easy to deal with, so they wouldn't require much help from us – certainly not the kind of help that would damage our relations with Beijing.

These assumptions looked sound while China's economy was small, its military was weak, and its leaders were reluctant to challenge America – and while America looked determined to preserve its leadership role in Asia and globally. But they have looked more and more shaky as China's wealth, strength and ambition have grown, and America's resolve has appeared less clear.

There will be no quick and easy victory for America and its allies. Neither side has a clear advantage in a maritime war in the Western Pacific.

This has put Australia in an awkward position. We have wanted to encourage America to resist China's ambitions and defend Asia's US-led order, but for obvious reasons we haven't wanted to jeopardise our own relations with Beijing. That is why diplomatically we have mostly sat on the fence, expecting America to act tough against China but not doing much ourselves.



Xi Jinping and Donald Trump at a cultural performance at the Great Hall of the People, Beijing, China. 9 November, 2017. (Official White House Photo by Andrea Hanks).

There is of course an element of duplicity here: Canberra is trying to have its cake and eat it too by telling Washington that we are supporting them against China while we tell Beijing the opposite. But while that is true at one level – the level of diplomacy – at a deeper strategic level something more is going on.

Despite Canberra's confidence that America will easily contain China, there is a latent consensus – largely unspoken, but clear and powerful nonetheless – about what we must do if that fails.

If Washington cannot convince Beijing to abandon its challenge, and the consequent escalating rivalry leads to a conflict, then Australia should and would fight alongside America in a war with China to uphold American leadership in East Asia.

That latent consensus rests on a few supporting assumptions of its own. One is that America would undoubtedly go to war with China rather than surrender its leading position in Asia. Another is that America and its allies would win, and win quite easily. A third is that it is never going to happen, because neither America or China want to go to war.

Over the past decade this contingency has steadily become the primary focus of Australian defence policy. And the idea that if necessary Australia and America, perhaps with other like-minded countries, would fight and win to preserve US leadership in Asia shapes our view of the future and our place in it.



The USS Sterett conducts a replenishment-at-sea with the dry cargo and ammunition ship USNS Richard E. Byrd in the South China Sea. 9 June 2017. (Photo: United States of America MC1 Byron C. Linder/U.S. Navy).

Our conviction that we and America would if necessary be willing to fight to contain China provides reassurance that we do not need to contemplate the alternative – the unthinkable possibility that China’s challenge will succeed.

This is a false reassurance, and the assumption that neither side wants a war is plainly wrong. On the contrary, as many have observed, the contest between Washington and Beijing for primacy in East Asia is exactly the kind of situation in which great powers do go to war.

In flashpoints like the South China Sea and Taiwan, each side is testing the other’s military resolve in classic Cold-War style brinkmanship. Both want to show that they are willing to fight, expecting to convince the other to back off. There is a real risk that miscalculation will start a war that neither wants. Such things have happened many times before.

If that happens there will be no quick and easy victory for America and its allies. Neither side has a clear advantage in a maritime war in the Western Pacific, and the most likely outcome would be a costly but inconclusive stalemate, followed by a swift escalation to nuclear conflict.

It is almost impossible to overstate the consequences of such a war for everyone – including Australia – and of course nobody would ‘win’ it.

If this was understood in Washington there is no reason at all to assume that America’s leaders – assuming they are rational – would decide to fight.

Of course they want America to stay on top in Asia, but they don’t want it enough to fight that kind of war. And would Australian leaders think any differently, when they found themselves on the brink, peering into that abyss?

This matters, even if we avoid a slide to war. The balance of perceived resolve between America and China will probably decide which of them emerges as the dominant power in East Asia over the years ahead.

The clearer it becomes that America is less willing than China to go to the brink, the weaker its claims to regional leadership, and the stronger China’s will become.

That leads us to sobering answers to the three questions I posed at the start. First, we cannot depend on America to forestall China’s rise and prevent it dominating East Asia. On the contrary, the transition from a US-led to a Chinese-led regional order is already well underway.

In fact the most likely outcome – especially given the drift of US politics today – is that America will quite soon cease to play any substantial strategic role in Asia.

Second, we can no longer rely on America to keep us secure. For all the talk of shared history and values, the real foundation of our alliance is our usefulness to America in supporting its strategic position in Asia. When it forsakes that position, it will no longer need our alliance.

And third, this means we should end the dangerous illusion that we can stop all this happening, defend America’s leadership and preserve our US alliance by fighting China at America’s side. Instead we should be preparing for a different future in which Australia must look to its own defence in an East Asia dominated by China. That will not be easy, but it is not impossible.

Should Australia be involved in the South China Sea?

Dr Rebecca Strating

Over recent months, tensions again appeared to be ratcheting up in the South China Sea (SCS).

Last year, in August, a US destroyer nearly collided with a Chinese warship. In September, a Chinese destroyer came close to bumping a US warship, condemned by Australian defence minister Christopher Pyne as 'aggressive tactics' that were 'destabilising and potentially dangerous'.

In December, China warned other states that it would take 'necessary measures' to defend its sovereignty after two incidents in a week involving US warships sailing near disputed waters. More recently, the Philippines has protested the presence of nearly 300 Chinese vessels around Philippine-occupied Thitu (or Pag-asa) Island in the Spratlys.

The US Trump administration has also been conducting Freedom of Navigation Operations (FONOP) more regularly. In February 2019, the US Navy conducted the Trump administration's tenth known FONOP, in this instance within 12 nautical miles of Chinese-occupied Mischief Reef.

The US Vice-President Mike Pence's defining speech to the Hudson Institute in October 2018, in which he declared a new era of competition over cooperation, pointedly called out Beijing's 'reckless harassment' of US vessels in the SCS.

For Australia, the dilemma is the extent to which it is willing to accommodate China's rewriting of the maritime rules.

These dynamics require us to interrogate Australia's interests in the SCS, what it is and is not doing to protect those interests, and how this issue affects relations with China, the US and other secondary powers.

Much of the focus in Australia is on how to protect freedom of navigation in the South China Sea as a trade route. This perspective presents China as trying to gain control of the seas – in essence, to create a 'Chinese lake'. Yet, much of Australia's trade along the SCS is coming to and from China. There are bigger potential costs for Australia.

The rules matter for Australia, in both governing the seas as a 'global commons' as well as enabling the peaceful and rights-based distribution of maritime resources. At over 10 million square kilometers, Australia has the third largest Exclusive Economic Zone in the world.

Australia has a clear interest in trying to maintain a legal order that has provided it with such a significant entitlement on the basis of geographical rather than historical grounds. Challenges to the rules constitute a blow to the status quo order that Australia seeks to defend.

The rules also matter for regional security: while it seems unlikely that the SCS will be the flashpoint that tips the US and China into conflict, it may be considered a litmus test for what rising powers may be able to get away with in other oceanic and non-sovereign spaces, including Antarctica.

How Australia deals with the SCS has implications for its wider relationships. Australia has looked to the Association of Southeast Asian Nations (ASEAN) as part of a diversification strategy to hedge against its economic reliance on China. For its part, ASEAN has been divided on the SCS, although is negotiating with China around a Code of Conduct.

Australia has sought to deepen relations with Japan, which has played an important role in developing maritime security capacity among littoral Southeast Asian states. There is potential for Australia to conduct joint FONOPs with Britain and France in the future. This would provide an opportunity to assert the rules-based order – operationally as well as rhetorically – without binding itself so closely to the US.



US destroyer USS Milius performs a dry replenishment-at-sea with the Japanese destroyer JS Kaga in the South China Sea. 31 August 2018. (Photo: Markus Castaneda/U.S. Navy).

In attempts to defend Australia's SCS interests, the Turnbull government put the Chinese leadership offside with its strong language on the South China Sea, among other things. Australia's 'rules-based order' rhetoric, for instance, targeted China's refusal to abide by the 2016 arbitral tribunal ruling in the case initiated by the Philippines, which found that China's 'nine-dash line' and 'historic rights' had no legitimate basis under the United Nations Convention on the Law of the Sea (UNCLOS).

While Australia has moved to increase joint maritime exercises and port visits – including transiting through the Taiwan Strait in 2018 and 2019 – it remains hesitant to employ unilateral FONOPs to push back against China's assertive actions.

Australia conducts freedom of navigation flights, yet from what is publicly known, it continues to resist pressure from US officials to conduct unilateral surface FONOPs within 12 nautical miles of contested islands, reefs and shoals.

Artificial islands, such as Mischief Reef, do not generate any maritime entitlements under international law if they are built upon submerged features. FONOPs are hence designed to protest against China's excessive maritime claims, and assert rights to freedom of navigation and international law.

Given Australia's claims to defend the 'rules-based order', its reluctance to participate in FONOPs creates a gap between rhetoric and operational policy.

While there are questions about the effectiveness of FONOPs and whether they are merely symbolic, there seems little doubt that part of Australia's hesitance stems from fears that Beijing could retaliate, particularly in trade.

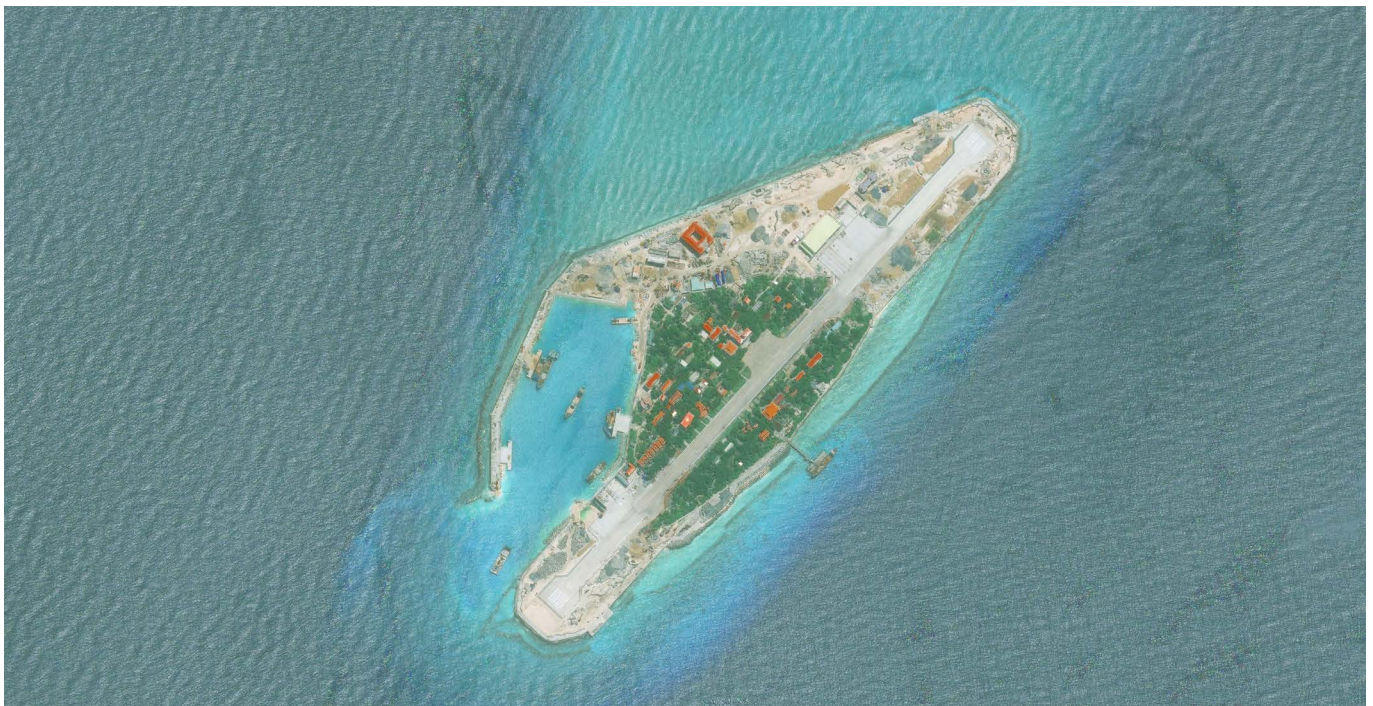
This reluctance is increasingly out of step with other like-minded, non-claimant states, such as France and Britain. In September 2018, Britain conducted its first SCS FONOP as it passed the Paracels, with China strongly opposing what it viewed as a violation of its sovereignty. These activities followed France's earlier forays into SCS FONOPs.

Questions are being raised in Washington DC over whether FONOPs are enough to prevent Beijing from using 'salami-slicing' or 'grey zone' tactics to increase its control of land features and block Southeast Asian neighbours from accessing their sovereign rights to maritime resources.

Given the extent of China's artificial island building, it seems the answer is no. Some analysts have therefore argued that a wider range of measures are needed in order to prevent China from controlling the SCS, in particular focusing on strengthening defence relationships and alliances with partners in Southeast Asia.

For Australia, the dilemma is the extent to which it is willing to accommodate China's rewriting of the maritime rules, and what it is prepared to risk – particularly in economic terms – to push back against the artificial island building and excessive maritime claims that undermine UNCLOS.

The South China Sea disputes should not be examined in isolation from Australia's other regional priorities. What Australia contributes will have an impact on its relationships with regional partners, and its alliance with the US, whose government appears to be expecting Australia to do more in this dispute.



China's land reclamation on the Spratly Islands in the South China Sea. 16 June 2017. (Photo: amti.csis.org).

Sensibility to prevail over prejudices

Professor Chen Hong

The past two years have witnessed a mounting volume of attacks aimed at China on a series of issues by some Australian media outlets, think tank academics and political figures.

While China welcomes constructive suggestions and advices based on truth and fairness, there has been a growing exasperation in China at such incessant lopsided and double standard denigration which has played an alienating and distancing role in the bilateral relations of today.

Distorted portrayal of China as a force with contrivance to impel political directions in Australia is so ridiculous that it does not warrant serious scrutiny; yet the absurdity of such allegations ferments to fan a misled public panic at China and even the Chinese community in Australia.

Demonisation of China's constructive role in the South Pacific has abetted to create the fallacy of a 'China Threat'. Australia has also initiated a smear campaign to vilify the private-owned Chinese business Huawei. Instead of embracing innovative technology they are painted with a mission of espionage and interference.

It is a fact that China and Australia have distinctively dissimilar political and social systems. Each country has its own values and cultures of preference, but that gives no excuse to make judgement to impose on the other.

Dichotomisation of the world into antagonising camps is indeed outdated in Thomas Friedman's flat world, which celebrates global convergence of interests and aspirations, rather than promoting an ideologically driven mentality like during the Cold War period.

Admittedly China is now the world's second largest economy, but it is not a political and military super power that some people with vested interest have been portraying – nor does it want to be. China has the least intention to become a geopolitical hegemony.

To avoid misinformation or misguidance, it is important to reiterate a number of positions pertinent to our bilateral relations that China upholds.

China has not the slightest interest in influencing or even manipulating Australia's national mechanism of governance. As China does not want other countries to interfere with its own internal affairs, China respects Australia's political, economic and social system and way of life.



Protesters and supporters awaiting the visit of China's president Xi Jinping to Parliament House, Canberra. 17 November 2014. (Photo: Marco Catalano/Twitter).

However on issues of core national interest, China will definitely not hesitate to be adamant and outspoken to make its position and attitude known, but that will of course be within the framework of locally recognised lawful conduct in Australia.

It is in fact a disgrace and paranoid to concoct the conspiracy theory that China connives to threaten Australia's sovereignty and integrity.

As Australia's biggest trade partner, China wants its business activities including investment, acquisition and technological collaboration initiatives and activities to be handled on the basis of equality and impartiality. China opposes approaches and policies to deal with business proposals from Chinese companies with national prejudices.

Some critics in Australia have been insinuating that China is or will be using trade as a leverage to effect policy changes, but China always believes that politicisation of business activities is dangerous. China has never cited the so-called security concerns to reject or even ban business ventures and trade deals with Australia.

China's aid programs and Belt and Road Initiative (BRI) infrastructure projects in any part of the world are between China and the relevant countries or regions, aiming at development, prosperity and mutual benefits.

The programs and projects have received enthusiastic and congenial reception from the local governments and people. China does not appreciate Australia's repeated attempts to disparage China's presence in the South Pacific, even to coax and coerce some island nations' governments to edge out China's business engagements.



Anti-Chinese foreign investment protesters outside the Chinese consulate in Sydney. 30 May 2015. (Photo: Reddit).

China espouses the outlook that the world is free and open, and no part of the world should be deemed as some country's 'own patch' or backyard. China does not believe in zero-sum contestation, and is willing to work in collaboration with Australia to promote development and prosperity of the Asia Pacific region, and welcomes Australia to participate under the BRI cooperative framework in various practicable ways.

It is in fact a disgrace and paranoid to concoct the conspiracy theory that China connives to threaten Australia's sovereignty and integrity.

China's relationship with any third party country, region, organisation or alliance will not adversely affect its relationship with Australia. China will not sacrifice mutually beneficial relations with Canberra in order to pledge allegiance to any other country.

We believe the comprehensive strategic partnership with Australia is important to China's national interest, and to the regional and international stability and peace.

In a number of instances Australia pioneered and went even further than some of the other Western countries to contain China and counter its peaceful rise, which is damaging or in fact destructive to the mutual trust and friendship between our two countries.

Some Australian scholars have been vociferously creating an outlandish fantasy of China's 'silent invasion', citing illogical and baseless stories which genuine academics would not deign to take seriously.

Such fake news and conspiracy theory misinform and mislead the public in a viral way, provoking a 'Red Scare' or 'Sino-phobia' that overflows from the news press to spill into the government's policy-making process.

It is deplorable that the bilateral relationship has been undergoing depression for two years. We appreciate some recent positive signals released by the Australian side to thaw and revive the frosty ties, but continual cancerous attempts such as the *Four Corners* recent calumny of China are still emerging to bring the relationship to an even further decline.

We hope sensibility shall ultimately prevail over prejudices that, according to the English/Irish writer Oliver Smith, should be lopped off to ensure the healthy and vigorous growth of the goodly tree of humanity.

Morrison's China choice

Dr Euan Graham

When China was – belatedly – raised during the recent Australian election campaign, the Prime Minister Scott Morrison repeated a well-worn mantra about not having to ‘pick sides’ between the United States and China. The former, he characterised as Australia’s ‘friend’, labelling China as a ‘customer’. While this description no doubt raised eyebrows in Beijing, Morrison was arguing that Canberra could ‘stand by’ both.

Morrison and the Coalition government was returned to power for three more years on 18 May, against the polls and pundits’ predictions of a Labor victory. The result ought to ensure basic continuity towards China, according to the policy template that Morrison inherited from Malcolm Turnbull less than a year ago.

But so far foreign policy has largely taken a back seat, such as Mr Morrison’s domestic re-election imperative. With his mandate now secured, Mr Morrison has both the opportunity and obligation to show his true colours on China, probably the most important challenge he faces.

The diplomatic line adopted by the Morrison administration has generally sought to position Australia somewhere in between its chief ally and chief customer. Mr Morrison has previously suggested that Australia might take on an intermediary role.

If that’s what the Prime Minister himself believes, few in Canberra’s foreign policy and defence circles think in such terms. To do so would only expose Australia to heightened risk, precipitating exactly the kind of invidious strategic choices that Mr Morrison wishes to avoid.

The Morrison administration has also framed US-China geopolitical competition as Australia’s primary external threat. Unfortunately, this invites Australians to think of the US alliance not only as a source of security, but as an equivalent source of danger – via ‘entrapment’ in a downwardly spiralling US-China strategic dynamic.

Drawing such equivalences may be borne of a desire to maintain Canberra’s flexibility as a middle power, but this is getting harder. More importantly, it plays into the Chinese Communist Party’s (CCP’s) efforts to sow discord between the US and its Pacific allies. China sees Australia partly as a dependable provider of raw materials and education services. But Canberra is also in Beijing’s strategic sights as a US ally, whose long-term loyalties are in play.

Morrison’s reticence on China is understandable from a political point of view. But the newly returned PM is only storing up trouble for Australia by failing to prepare the public for the deteriorating security environment that probably lies ahead.

Unless Australians are primed for the possibility of deeper tensions to come in the China relationship, it will be difficult for the federal government to take the people with it. Regarding the health of ‘the relationship’ with China as an end in itself is another pitfall to be avoided. The best guarantee against that is an Australian national interest framing that accepts the risk of frictions in service of those interests.

The focus of the commentariat on Australia being ‘caught in the middle’ of US-China tensions has obscured the basic fact that the strategic pendulum of China-Australia relations has moved inexorably closer to home within the life-span of the current government. When the Coalition came to power in 2013, the primary concern was about Australia being pulled into an East China Sea conflict between China and Japan.

Since then the focus of attention has moved steadily southwards, initially to the South China Sea. Australia’s security concerns there are still mostly indirect, hinging on two questions. First, what are the implications for the regional ‘rules-based order’ if China’s coercive salami-slicing tactics continue to cut through the status quo? Second, will Australia follow its allies lead by conducting US-style freedom of navigation operations. Neither has been convincingly answered.



Australian Prime Minister Scott Morrison addresses the media. 26 March 2019. (Photo: Scott Morrison/Twitter).

Such important but far-off concerns for Australia have more recently been eclipsed by China's ambiguous but unmistakable strategic interest in the Southwest Pacific. For it is here that China and Australia's strategic interests clash directly, given Canberra's quasi-hegemonic role.

Prime Minister Morrison's most important security policy announcement so far, made at last year's APEC summit, was the decision to establish a joint naval base with Papua New Guinea at Lombrum, on Manus Island. While the US has also announced some involvement with the joint base, this is the clearest indication yet of geopolitical competition playing out directly between Canberra and Beijing.

The Southwest Pacific will continue to be the main area to watch for the remainder of Mr Morrison's time in office, as a bellwether of strategic tensions in the Australia-China relationship. The South China Sea will continue to matter, although Canberra's strategic role in Southeast Asia will be a supporting one, best measured by the ability to maintain 'access' to the region, through its various, overlapping security partnerships.

A quasi-strategic dimension to Australia-China relations has also manifested domestically in recent times, via the issue of political interference. This underlines how the multi-spectrum nature of China's challenge transcends the traditional confines of foreign and security policy. Morrison has at least been spared the hard work here, as new counter-interference legislation was enacted under Malcolm Turnbull.

However, the first prosecutions will be a key test of the Morrison administration's commitment to the policy he inherited. Another test will be Morrison and his ministers' ability to reach out to the Australian Chinese community in ways that don't compound the existing pressures they are under, from Xi Jinping's heavy-handed cultivation of influence among the Chinese diaspora.

The recently announced creation of a National Foundation for Australia-China Relations, under the direction of Australia's Department of Foreign Affairs, is something else to watch. The new body, which replaces the Council for Australia-China Relations, is being federally funded to the tune of \$44 million, with a broad remit to raise China literacy in Australia.

Investing some of this resource in Australia's scholarly capacity to understand the CCP and its armed wing, the People's Liberation Army, would be a welcome step. The financial dependence of Australian universities on China has transformed them from ivory towers into a frontline microcosm of the China-Australia relationship. This is a subject worthy of academic scrutiny in its own right.

Australia is in an uncomfortable spot between the US and China, because it's more geographically and economically exposed to China, than say Canada, or the UK. But this dilemma can also blind Australians to the less freely acknowledged fact that they have grown accustomed to having the best of both worlds: riding high, economically, on the back of China's booming commodities demand, while simultaneously enjoying a stable period of alliance relations with the United States, during which time the costs of security were relatively cheap and military commitments mostly at arm's length.

Such a sweet spot was never going to last forever. As the status quo that has served Australia so well rapidly evaporates, politicians need to be honest with the electorate that we are headed for harder times, and that the halcyon days of having one's cake and eating it too are drawing to a close.



Australian Army, US Army and Chinese People's Liberation Army on a joint exercise in the Northern Territory. 3 September 2016. (Photo: Department of Defence, Australia).

Why is China annoyed with Australia?

Dr Dan Hu

Speaking at a recent La Trobe University public debate on Australia-China relations, and in spite of other arguments he tried to make, author of the controversial *Silent Invasion* Professor Clive Hamilton rightly admitted “we’re leading the world in the push back... and the rest of the world is coming to us to see what we’re doing, how we’re doing it”.

This widely understated fact is particularly true in the foreign investment domain. Controversies surrounding Chinese investment in Australia and Australia leading the way amongst advanced economies in the backlashes against China’s Belt and Road Initiative (BRI) and high-tech mergers and acquisitions have contributed to the Chinese government’s discontent over Australia and their role in spearheading an ‘anti-China’ campaign.

I have been leading an ongoing comparative study across G7 countries on their foreign investment policy and regulation changes, which are widely seen as responses to China’s BRI and acquisition of technology companies overseas. Our findings indicate that Australia (which is not a member of the G7 group) pioneered this wave of regulatory responses.

It is unrealistic to hope that such open opposition and criticism across a wide spectrum of issues would not be hurtful towards a country.

Amongst the G7 countries Germany was the first to update its regime in July 2017, entitling its Ministry of Economic Affairs and Energy to review inbound transactions by foreign investors based outside the EU or the European Free Trade Association, and to prohibit or restrict a transaction if it poses a threat to the German ‘public order or security’.

In reality it was merely instituting what has been in place in Australia since the mid 1970s, as well as in the US and Canada at around the same time.

These three resource-rich countries adopted a less liberal approach of foreign investment regulation at that time by establishing authorities like Australia’s Foreign Investment Review Board (FIRB) and America’s CFIUS (Committee on Foreign Investment in the United State) to screen individual foreign investment proposals against ‘national security’ or ‘national interest’ concerns.

Canada and the US, however, are lagging behind Australia in this initiative by still engaging in a debate over what regulatory changes have to be made, with most of their responses having been in the form of tightening on a case-by-case basis, as demonstrated by Canada’s recent blocking of the CCCI-Aecon deal.

Australia, on the other hand, effected institutional changes first and immediately, well before G7 countries started pondering action.

As early as March 2016, amid controversies towards Chinese investment in the infrastructure sector, notably Darwin Port, the Federal Government reaffirmed its jurisdiction over foreign acquisition of local critical infrastructure, guarding against future cases of state/territory governments prioritising economic performance over ‘national security’.

In January 2017, a full six months before the first G7 country took action (by establishing the authority to review foreign investment proposals), Australia had already founded a sector-specific ‘Critical Infrastructure Centre’ to assess ‘national security risks from foreign involvement in Australia’s infrastructure, including espionage, sabotage, and coercion’.



In December that year, the Security of Critical Infrastructure Bill was introduced and passed four months later. But ahead of all these responses, the Treasury quietly placed David Irvine, a long-time head of Australian intelligence agencies ASIS and ASIO, on the FIRB in December 2015. He took the seat as Chairman in April 2017, signifying the priority of 'national security' in evaluating foreign investment proposals.

Advanced technology has not really been a major area for Chinese investment in Australia but the same readiness can be detected in dealing with Chinese communications company Huawei. Australia was the first to explicitly ban Huawei and ZTE from providing 5G technology in their national networks as early as August 2018 – a move US President Donald Trump and seemingly more economies intend to follow.

These actions may be seen inside Australia as merely responding to challenges brought about by capital inflow and concerns in the domestic sphere over foreign ownership and control. But when put together, they amount to rather clear evidence of hostility when compared with other countries and thus seem to point to a shocking (to the Chinese side of course) determination to lead a campaign against China.

It is unrealistic to hope that such open opposition and criticism across a wide spectrum of issues would not be hurtful towards a country, let alone one such as China with whom substantial economic ties have been forged.

Though reservation and caution over more sensitive areas like advanced technology may be understandable in a time like this, maintaining an open attitude towards Chinese investment in other sectors would not only benefit the Australian economy but also demonstrate flexibility and good will to the Chinese side, which are particularly necessary against Australia's openly harsh stances in virtually all other issues.

The dampened interest of Chinese capital in areas other than health care for the past two years is clear indication of Chinese investors' concern over 'regulatory and political risks surrounding controlling acquisitions', as illustrated by the latest *Demystifying Chinese Investment in Australia* report by KPMG and the University of Sydney.

Putting aside the falsehood and weak reasoning occasionally found in the ongoing debate, the essence of virtually every suggested solution to the current policy conundrum would have to be this: how is Australia going to strategise its China policy, which has been neither clearly articulated or consistently implemented for at least the past decade? How would issues be prioritised and balanced, if possible?

As Hugh White, the ANU Professor of Strategic Studies who proposed *The China Choice* in 2013, neatly commented in the aforementioned debate with Clive Hamilton, "we do have to choose our battles wisely".



Huawei technology booth in the M2M area at the Embedded World fair 2016 in Nuremberg. 23 February 2016.
(Photo: Wikipedia User:Ordercrazy).



A crowd watches a Chinese dragon dance during Chinese Lunar New Year celebrations in Federation Square, Melbourne. 1 February 2014. (Photo: Chris Phutully/Flickr).

Finding a new China policy equilibrium

Professor Nick Bisley

From the late 1990s until the early 2010s, Australia's approach to the People's Republic of China (PRC) followed a pattern established by the Howard government. This entailed a form of policy compartmentalisation in which the two countries would focus on their shared economic interests and bracket out the challenging political issues, such as questions of human rights, democratisation and Australia's fidelity to the US-centred strategic order.

Compartmentalisation allowed China and Australia to forge a mutually beneficial trade relationship while Canberra deepened its security ties with the United States and Japan. And when pressed Australian governments of both persuasions would declare that they did not have to choose between Beijing and Washington.

Of course, both the PRC and Australia knew that Canberra had long made a geopolitical choice in its relationship with the US, but compartmentalisation meant neither side needed to talk about or confront that reality.

In 2009, Kevin Rudd tried to do things differently—criticising China's human rights record in Beijing and raising concerns about the strategic implications of the country's return to power in the 2009 Defence White Paper. It did not work and the status quo returned.

By 2017 Malcolm Turnbull's government reflected the growing influence of those who viewed China more as a threat than an opportunity, and tried to pull the complex political issues out of their box,

But the government could not match its tougher rhetoric with policy substance, and it beat a retreat in 2018, after a period in the PRC diplomatic deep freeze and some symbolically significant market access problems.

Clearly, compartmentalisation is no longer viable. The economic relationship is too complex. Engagement with China is now politically and strategically challenging and, as China is contesting US primacy, keeping the political and economic separate is impossible. But as Rudd and Turnbull's efforts showed, developing a new policy approach is extremely challenging.

For one thing, both appeared not to have thought through the complexity of the task. Neither had established a clear set of larger objectives or begun to align the ends and means of Australia's China policy.

So what are the forces with which a more effective China policy must grapple? First, the assertive, confident and at times abrasive face of Chinese power is not likely to disappear.

Equally, the PRC is not going to liberalise, and while it may not always be as sharply authoritarian as it has become recently, its political system is unlikely to moderate in any meaningful sense.

This newly resurgent country is also going to play a much greater role in the region, not just in terms of economic weight or market scale, but it will be a political and diplomatic leader, which creates institutions, makes rules and sets standards.

Third, the United States' relative influence in the region will decline, both politically and economically, and the unpredictable tendencies of recent years are likely to persist over the near term.

Finally, Australia's economic relationship with China will become more complex as PRC-origin investment grows and as more parts of the Australian economy engage with China. Equally, Australia will not significantly diversify its trade partners as there is no market quite like China.

For Australia, the policy challenges that these trends pose are very significant. While they do not call for a fundamental recasting of its approach, they do demand a decisive break with the compartmentalisation of years past. To do this I suggest a number of principles as the starting point for a new China policy equilibrium.

Most importantly, it must be interest-driven. Perhaps the biggest challenge Australia faces is reconciling its values as a liberal democratic society with its economic interest in an authoritarian great power.

While interests must drive the policy the country should establish realistic and clearly communicated red lines about conduct that is beyond the pale. These should be in line with international norms and most importantly should be managed and prosecuted collaboratively.

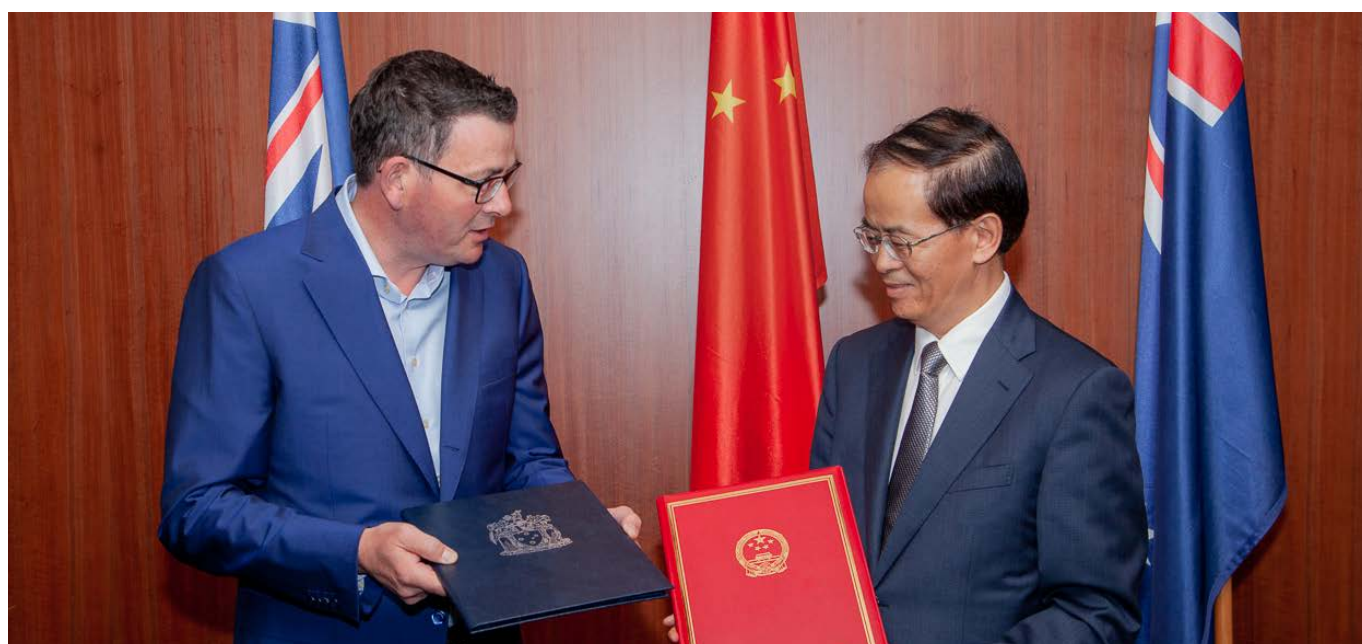
China policy must be pragmatic. The PRC and its influence and power cannot be wished away, and some kind of accommodation of Chinese interests will have to be negotiated.

The idea that the regional order would require no substantive changes to incorporate the PRC's interest is plainly absurd. The challenge lies in reducing the transaction costs of the move to a new dispensation.

China policy should also be reinforced by an active strategy to work with countries across the region to shape China's choices. Bilaterally, Australia will find it hard to be heard in Beijing, let alone shape PRC behavior. But as part of a larger group of states, whether in ad hoc or institutional form, the country can shape China's choices.

The PRC's growth has helped fuel a remarkable period of prosperity for Australia, but this growth is also creating a very different geoeconomic and geopolitical environment. China represents both threats and opportunities for Australia. In the past we ignored the difficulties and focused on the shared economic interests.

This is no longer possible. But equally we cannot see everything China says and does as an act of malevolence and threat. A new approach to the world's most influential country is needed to ensure Australia is best positioned to secure its core interests in a world in which Western powers will have less influence than in the past. Neither hoping for the best nor assuming the worst will do.



Premier of Victoria Daniel Andrews with Chinese Ambassador Cheng Jingye, signing a memorandum of understanding on the Belt and Road Initiative in Melbourne. 27 October 2018. (Photo: Chinese Embassy).

A testing friendship

Rowan Callick

On his last visit to Australia, in November 2014, China's President Xi Jinping noted in Canberra that he would soon – through his imminent trip to Tasmania – be able to boast he had been to every state, enabling him to “gain a full understanding” of the country.

“I don't know whether I can get a certificate for that,” he added in a rare jest.

China's leaders feel they've got a pretty full measure of Australia – its capacities and its limits.

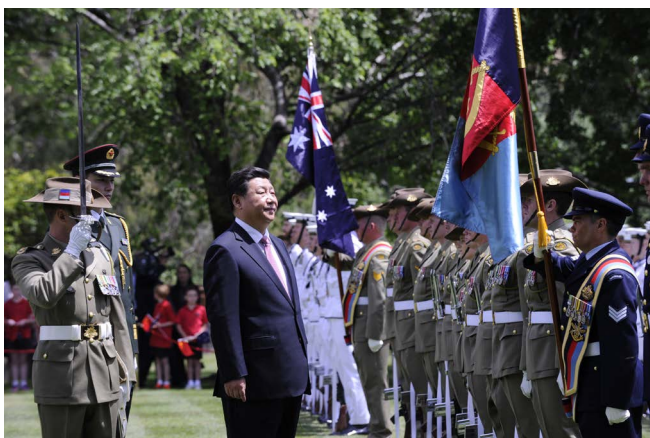
The reverse is far from true, despite China having become Australia's largest trading partner almost a dozen years ago. Australia's political, business and other leaders continue to struggle even to pronounce Chinese names, not least that of Xi himself. No significant figure in public or corporate life, except former Labor prime minister Kevin Rudd, has lived, worked or studied there.

Australia is in turn disproportionately important to China, economically. Our population is the world's 55th largest, our economy the 13th, but we are China's 7th biggest trading partner.

Thanks to Prime Minister Gough Whitlam's adroitness and enthusiasm, Australia moved swiftly to recognise the People's Republic in 1972, ahead of most of the West.

For most of the period since then, Australia has been viewed as an especially agreeable and non-troubling partner.

Prime Minister Malcolm Fraser led a condolence debate when Mao Zedong died, assuring that “Australians will understand and share the sorrow felt in China at his passing... The nascent China I saw is his monument.”



Xi Jinping receives a ceremonial welcome during a visit to Government House, Canberra. 17 November 2014. (Photo: David Foote/AUSPIC).

Such sentiments continued – except for rare instances such as Rudd's 2008 speech at Peking University that questioned the human rights accorded to Tibetans in the spirit of a *zhengyou* (real friend) of China – through to another Liberal prime minister, Tony Abbott. He lauded Xi at the 2014 state banquet for his “historic, historic” speech, declaring that his country would be “fully democratic by 2050.”

Xi – the most powerful, the most ideological and the most communist party-focused of China's leaders since Mao – had actually told parliament of his routine goal “to turn China into a modern socialist country that is prosperous, democratic, culturally advanced and harmonious by the middle of the century.”

At least he had avoided the bizarre claims of predecessor Hu Jintao, who told parliament in 2003... “Back in the 1420s, the expeditionary fleets of China's Ming dynasty reached Australia's shores. For centuries, the Chinese sailed across vast seas and settled down in what they called Southern Land. They brought Chinese culture to this land and lived with the local people...”

PRC leaders have valued Australia as a reliable supplier of a wide range of quality resources, as a predictable American security ally but with a friendly twist – an increasingly ready educator of and pleasant and safe tourism destination for middle class Chinese, and a country where Chinese businesses can learn how to operate in a Western environment, and where Chinese migrants are welcome. Indeed, probably after New Zealand, Australia has become home to more such migrants, relative to its population, than any country in the world.

Australia has negotiated the most sophisticated of all Beijing's free trade agreements, after Liberal prime minister John Howard agreed to break Western ranks to accept China as a ‘market economy’. It became under Labor prime minister Julia Gillard a comprehensive strategic partner of Beijing.

Chinese leaders felt relaxed about what appeared a non-threatening relationship. A ‘human rights dialogue’ could contain any unwelcome angst on that front. The People's Liberation Army was encouraged to develop an especially close connection with the Australian Defence Force.

Leading Chinese academic Zhu Feng said in 2013 that Australia's global role as a member of “the liberal world order” – which Professor Zhu viewed as a benign influence on China – positioned it as “a most effective tool by which Beijing can win friendships, and retain the gains we want.”

Rapidly, however, that prospect soured for Beijing.

Why? What changed?

'China' didn't change its view substantially; most Chinese people retain a positive perspective on Australia and Australians.

But Xi rapidly and surprisingly centralised and personalised China's governance. In his first five-year term as communist general secretary – his core role – from 2012 to 2017, he purged and purified the party. His view of government is clear, "East, west, south, north, and the middle, the party leads everything." His *Thought on Socialism with Chinese Characteristics for a New Era* was enshrined in both party and state constitutions. Xi's is decidedly a 'new era'.

The old Deng Xiaoping era of China 'biding its time and hiding its strength' was discarded. His second term's focus is on Chinese global leadership, hinged off his Belt and Road Initiative, his renovation of the PLA, and his backing for Chinese tech giants including Tencent, Alibaba and Huawei to pioneer new global standards as part of the weaponizing of China's economic heft. The Chinese diaspora, in Australia no less than elsewhere, is expected to play a loyal supportive role.

Those many Western leaders, including in Australia, who had believed that modernisation equals liberalisation or Westernisation, were startled by this seemingly swift materialisation of China as a devoutly communist, authoritarian polity.

Their shock has been the greater because they had formerly failed to notice or acknowledge that the Party had remained there all along as a shadow accompanying all daily life – if less ambitious and omnivorous than it has now become again under Xi.

This almost wilful failure to 'read' China had been an especially common trope in the US, whose elite, as James Mann related in his prescient 2007 book *The China Fantasy*, fostered "an elaborate set of illusions about China, centered on the belief that commerce will lead inevitably to political change and democracy."

Zhu Feng has described China as a "lonely rising power" – and reflecting that, Beijing has in turn developed one test after another of loyalty or friendship, for each of its neighbours, hinting that its economic beneficence may be tried beyond endurance if too many such tests are failed.

Australia has resisted legislating an extradition treaty with China, it has failed to sign the Belt and Road MOU, it has ruled Huawei out of its 5G network and passed foreign interference laws. Thus China has appeared to become more demanding, while Australia is accused – especially by prominent Australian friends of Beijing – of becoming willfully uncooperative, even suspicious, or perhaps worse, of being subservient to a despised American President.

Despite the gaping hole of Australian investment in China that gravely limits our corporate understanding, the relationship otherwise remains 'thick' – it has much of the ballast that Gareth Evans when foreign minister lamented was lacking between Australia and Indonesia. There are for instance 39 Australian Studies centers at Chinese universities, more than in the rest of the world put together. Many involved, including in China, quietly hope the political climate will become less frenetic.

But for now, the pressure is intensifying for Australia to rebuild its standing with Beijing by passing those political tests – which Canberra will find increasingly difficult to resist unless friends and allies choose to reassert liberal democratic values.



Container ship Xin Fu Zhou departing from the inner harbour of the Port of Fremantle, Western Australia, on a liner voyage to Sydney. 18 February 2018. (Photo: Wikipedia user Bahnfreund).

Values in Australian diplomacy

Professor John Fitzgerald

Foreign policy practitioners and researchers rarely agree on anything in Australia, but one subject on which they do converge is the role of values. Values, we are told, have a place in foreign policy aspirations but in fact count for little in the conduct of Australia's international relations.

This may be about to change as the place of values in foreign and defence policy is thrown into sharp relief by the disruptive times in which we live.

Shifting power relations in the region, challenges to the post-war international order, and the rise of populist nationalism around the globe all present ethical challenges as well as policy ones.

At the popular level, movements targeting religious and ethnic difference test Australia's commitment to inclusion, equality, and diversity at home and abroad. Among state actors, a dynamic and increasingly powerful China is driving structural and strategic changes in the region while showing little sympathy for the values underpinning democracy, rule of law, or the liberal rules-based order on which regional stability and prosperity have been based since the second World War.

For Australia, the question arises whether the values by which Australians live their lives can help governments to negotiate safe passage through these complex ethical and policy issues.

Recent Australian governments appear to think so. A crude but useful measure of government foreign-policy thinking is a series of formal statements on values and foreign policy issued in Canberra over the past two decades.



Supporters and protesters during the 2008 Beijing Olympic Games torch relay in Canberra. 24 April 2008. (Photo: Pierre Pouliquin/Flickr).

Comparing the place of values across Foreign Policy White Papers issued in 1997, 2003 and 2017 is a reasonably reliable measure of continuity and change, as each was produced by a conservative coalition government, and all were issued through a single department in DFAT. Given these similarities, the difference between the earliest and latest White Papers is revealing.

The first two White Papers issued under Prime Minister John Howard (1996-2007) made a number of unequivocal statements about values but reflected the Howard government's preference for describing values in particularistic colloquial terms such as mateship and the fair go.

Values so described were subordinated to the pursuit of jobs and security as the basic test of the national interest guiding foreign policy (*Foreign Policy White Paper* [FPWP] 1997 p.iii).

Australian governments will need to hold allies and partners to their word if they want to distinguish themselves from authoritarian alternatives.

The effect was often to exclude values diplomacy from the Australian foreign policy tool box, a practice reflected in the convention governing bilateral relations with China, under which Australia and China agreed to leave their values at the door in meetings and negotiations.

This subordination of values to prosperity and security was facilitated by an ethno-cultural approach to values which proved difficult to translate into the language of international cooperation and diplomacy.

The first of the White Papers projected an ethnically grounded national identity rooted in a distinctively European if not British social and cultural heritage. "The values which Australia brings to its foreign policy," the paper stated, "have been shaped by national experience, given vigour through cultural diversity, but reflect a predominantly European intellectual and cultural heritage" (FPWP 1997, p. 11).

The second identified Australia as a cultural outlier with “predominantly European heritage” in an otherwise alien region (FPWP 2003, p.99). Translated into diplomacy, this approach implied that Australia had one set of values, Asians another, and all parties should respect the values associated with the other’s ethno-cultural traditions by remaining silent on values.

The 2017 White Paper issued under Prime Minister Malcolm Turnbull (2015-2018) sidestepped this ethno-cultural approach to describe values in terms of universal liberal principles.

It effectively repudiated earlier White Paper assertions that Australian identity and values were grounded in a particularistic ethnic heritage, stating that “Australia does not define its national identity by race or religion.” And it gave greater weight to values in foreign policy by shifting the locus of national identity from one based on ethno-cultural heritage to one grounded in values: “Australia does not define its national identity by race or religion, *but by shared values*” (emphasis added; 2017 FPWP p.11).

Consistent with these shifts, the folksy colloquialism of earlier statements gave way to the universal language of democratic liberalism in describing values as “political, economic and religious freedom, liberal democracy, the rule of law, racial and gender equality and mutual respect” (FPWP 2017 p.11).

Values were elevated in Australian foreign policy thinking from secondary attributes of a particular ethnic heritage to primary markers of national identity expressed in commonly understood liberal terms.

Further, the 2017 White Paper endorsed values advocacy as a legitimate aim of Australian foreign policy, particularly where this could help to sustain an international order based on commonly-accepted rules and norms.

By defining Australia’s values as the universal values that Australians shared with one another and with like-minded democracies abroad, the statement also equipped Australian governments to engage more effectively in values advocacy.

The 2017 statement conceded that the catalyst for this change was China. Beijing’s behaviour in occupying and militarising disputed territories in the South China Sea, and evidence of its interference in Australian politics and society in recent years, prompted a major reassessment of Australian foreign and defence policy which included serious reconsideration of the nature and salience of values.

While China may have been the catalyst for this transvaluation of values, values advocacy is by its nature regime agnostic.

If the 2017 White Paper secures bipartisan support then the long-standing assumption that all countries in the American alliance system share and practice common values is likely to come under scrutiny.

The phrase ‘common values’ has long served in official Australian documents as coded reference to the US alliance framework, on the assumption that these values require little further elaboration and that their realisation is self-evident. The rise of popular nationalism in North America and Europe makes this cosy assumption less tenable.

Australian governments will need to hold allies and partners to their word if they want to distinguish themselves from authoritarian alternatives. And to the extent that governments in Australia fail to live up to their own aspirations of racial, gender, and civic equality, their capacity to promote their values abroad is likely to be compromised.



Foreign Minister Julie Bishop, Prime Minister Malcolm Turnbull, Trade, Tourism and Investment Minister Steven Ciobo and DFAT Secretary Frances Adamson at the launch of the 2017 Foreign Policy White Paper. 23 November 2017. (Photo: DFAT/Nathan Fulton, Linda Roche).

Authors



PROFESSOR HUGH WHITE

Emeritus, Strategic and Defence Studies Centre, Australian National University

Hugh White AO has worked on Australian and regional strategic, defence and foreign policy issues since 1980. A respected commentator and analyst, his most recent publications include the Quarterly Essay *Without America* and the book *How to Defend Australia*.



DR REBECCA STRATING

Senior Lecturer, Politics, La Trobe University

Bec Strating is the Director of the Bachelor of International Relations and researches Australian politics and foreign policy. She was awarded the prestigious Boyer Prize by the Australian Institute of International Affairs in 2018.



PROFESSOR CHEN HONG

Director, Australian Studies Centre, East China Normal University

Chen Hong's research interest includes China Australia relations, Australian politics, culture and literature. He is author and co-author of several books in Australian Studies and a regular contributor and commentator to Chinese and international media.



DR EUAN GRAHAM

Executive Director, La Trobe Asia, La Trobe University

Euan Graham specialises in Asian security and international relations and his career has spanned consultancy, think tanks, diplomacy and academia. He is a frequent media contributor, writing and quoted widely on the South China Sea and North Korea.



DR DAN HU

Deputy Director, Australian Studies Centre, Beijing Foreign Studies University

Dan Hu is a senior lecturer and expert on the economic relationship between China and Australia. She is Deputy General Secretary of the Chinese Association for Australian Studies and is on the Editorial Board of *Journal of Australian Studies*.



PROFESSOR NICK BISLEY

Head of the School of Humanities and Social Sciences, La Trobe University

Nick Bisley is an expert on Asia's international relations and regularly contributes to media including *The Guardian*, *The Wall Street Journal*, *CNN* and *Time Magazine*. He is an advisory board member of China Matters, and the former Executive Director of La Trobe Asia.



ROWAN CALLICK

Journalist, author, advisory board member of La Trobe Asia

Rowan Callick is a veteran journalist and author who has worked as a China correspondent for both *The Australian Financial Review* and *The Australian*. He is the author of *Party Time: Who Runs China and How*, and has won two Walkley Awards for his coverage of China.



PROFESSOR JOHN FITZGERALD

Centre for Social Impact, Swinburne University of Technology

John Fitzgerald's research focuses on territorial government and civil society in China and on Australia's Asian diasporas. His publications have won international recognition, including the Joseph Levenson Prize of the US Association for Asian Studies.



Contact:

La Trobe Asia
La Trobe University
Melbourne, Victoria 3086
T +61 3 9479 5414
E asia@latrobe.edu.au



@latrobeasia

