

Australia and China: Challenges Mitigate Opportunities for Cooperation

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Introduction

The theme of this session is 'Asia-Pacific: New Situations, New Opportunities, and New Challenges.' This paper identifies the recent downturn in Australia-China bilateral relations as a 'new situation' that has been characterized as a 'tipping point' by the former Labor premier of Victoria.¹ It is common for Chinese officials and state-owned media to issue not only critical comments about developments in Australia but to lace these comments with implied sanctions.² At the same time, no visas have been issued this year for Australian ministerial visits to China.³

This paper is divided into four parts. Part 1 provides a broad overview of Australia-China relations. Part 2 explores the opportunities for cooperation. Part 3 examines the major challenges to cooperation. Part 4, the conclusion, argues that the current challenges mitigate – or lessen – the opportunities to cooperation.

Part 1 Australia-China Relations

According to the Australian Department of Foreign Affairs and Trade:

The Australia-China bilateral relationship is based on strong economic and trade complementarities, a comprehensive program of high-level visits and wide-ranging cooperation. In 2014, the Australian Prime Minister and Chinese President agreed to describe the relationship as a “comprehensive strategic partnership.”⁴

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¹ Joe Kelly, “China ties at ‘tipping point’,” *The Australian*, December 11, 2017 and John Kehoe, “China relationship on a ‘knife edge’,” *The Australian Financial Review*, March 6, 2018.

² Primrose Riordan, Simon Benson and Rowan Callick, “China fires up diplomatic row,” *The Australian*, December 7, 2017; Andrew Tillett, “China lashes out at foreign crackdown,” *The Australian Financial Review*, December 7, 2017; Angus Grigg, “Angry China blasts Australian media,” *The Australian Financial Review*, December 12, 2018; Mark Saunokonoko, “‘Biogoted’ Australia faces trade war over South China Sea, paper warns,” 9News, January 2, 2018; Richard Wood, “Turnbull branded ‘anti-China pioneer’ by state media,” 9News, February 27, 2018 and Glenda Korpelaar, “China delivers trade warning amid strain on ties,” *The Australian*, April 19, 2018.

³ Dennis Shanahan and Primrose Riordan, “Cold war: China’s freeze on ties,” *The Australian*, March 1, 2018; Primrose Riordan and Rachel Baxendale, “DFAT boss’s China trips deferred,” *The Australian*, March 2, 2018; and Jennifer Hewett, Michael Smith and Phillip Coorey, “China’s big snub to Australia,” *The Australian Financial Review*, April 12, 2018.

⁴ Department of Foreign Affairs and Trade, *China Country Brief*, <http://dfat.gov.au/geo/china/pages/china-country-brief.aspx>.

Australia-China Free Trade Agreement

Approximately thirty percent of Australia's merchandise and sixteen percent of services exports go to China. Merchandise exports are concentrated in a few key sectors. For example, iron ore comprises half of merchandise exports, with gold, coal and wool comprising fifteen percent. China imports two-thirds of its iron ore of which Australia supplies sixty percent.

On 20 December 2015, Australia and China signed a Free Trade Agreement (ChAFTA). The complementarities of this agreement are illustrated in Table 1 that shows what each party sought to obtain from the agreement.

Bilateral two-way trade reached U.S. \$151 billion in 2015-16 with Australia enjoying a surplus of U.S. \$51 billion. Two-way trade in goods and services was valued at more than \$155 billion in 2016-17.

One year after ChAFTA came into force, over eighty-five per cent of Australian goods by value in exported to China entered duty free or at preferential rates. Australian exports of wine, pharmaceuticals and skin-care products shot up dramatically. By 2019, ChAFTA will cover ninety-four per cent of Australian goods by value exported to China and rise to ninety-six per cent by 2029 when ChAFTA will be fully implemented.

Table 1 – Australian and Chinese ChAFTA Objectives

What Australia Wanted	What China Wanted
Lower tariffs on agricultural goods	Greater access to markets for direct and indirect investments
Removal of regulatory barriers on financial and legal services	Higher threshold for investment in Australian assets before triggering a government review
Fewer limits on cash transactions	Greater use of yuan as transaction currency of choice

One major challenge for Australia is to get China to remove non-trade barriers over quarantine and safety standards. This issue featured at the fifteenth meeting of the Joint Ministerial Economic Commission and Strategic and Economic Dialogue held in China in September 2017.

Investment

In 2016, Chinese investment in Australia reached U.S. \$11.49 billion the highest level since 2008 a peak year with record investment going to agriculture and infrastructure.

Asian Infrastructure Investment Bank

In 2014, Australia initially declined to join China's Asian Infrastructure Investment Bank (AIIB) under pressure from the United States and Japan. However, when France, Germany, Italy and the United Kingdom joined in March 2015, Australia reversed course and became a member in June 2015. Australia contributed U.S. \$930 million.

Part 2 Opportunities for Cooperation

As the map on the cover of this paper illustrates, Australia's participation in China's Belt and Road Initiative (BRI) is a major opportunity to cooperate with China to assist with infrastructure development not only in China and Eurasia but northern Australia and the South Pacific as well. This section discusses the opportunities for Australia in linking the Commonwealth Government's Northern Australia Infrastructure Fund (NAIF) with the BRI.

Australia and China's One Belt, One Road Initiative

In September-October 2013, President Xi Jinping proposed the Silk Road Economic Belt while visiting Kazakhstan and the 21st Century Maritime Silk Road while visiting Indonesia. In November 2013, the Chinese Communist Party (CCP) Central Committee approved these initiatives under the banner of One Belt, One Road (later referred to as the Belt and Road Initiative).

Australia did not feature on maps illustrating the One Belt, One Road issued at this time. This was puzzling because of the proximity of northern Australia to Indonesia and the significance to China of Australian exports of resources from Western Australia and Queensland.

These factors were certainly known to Xi Jinping who as Vice President paid several visits to Australia. In June 2010, for example, Xi travelled by car across the Northern Territory from Darwin to the Kakadu National Park. In November 2014, President Xi addressed the Australian Parliament and stated:

Oceania is a natural extension of the ancient maritime Silk Road, and China welcomes Australia's participation in the 21st century maritime Silk Road. Our two countries should enhance cooperation in humanitarian disaster relief, counter-terrorism and maritime safety to jointly meet various security challenges to our region.⁵

Xi is reported to have suggested privately that Darwin might serve as a hub to service the Maritime Silk Road.

In October 2015, the Northern Territory government made the decision to lease the Port of Darwin to the Chinese Landbridge Group for ninety-nine years, in part to position itself to secure a place on China's Maritime Silk Road trade route. That same month, China and Australia began discussions on aligning the BRI with the Northern Australia Development Initiative discussed below.

In February 2016, China's Foreign Minister Wang Yi hosted Australia's Foreign Minister Julie Bishop at the third round of the China-Australia Foreign and Strategic Dialogue held in Beijing. At a joint press conference held after the dialogue, Minister Wang Yi announced that "the two sides have established a working group to pair up China's belt and road initiative and the

⁵ Full text of Chinese President Xi Jinping's address to Australia's Parliament, *The Straits Times*, November 19, 2018. <https://www.straitstimes.com/asia/australianz/full-text-of-chinese-president-xi-jinpings-address-to-australias-parliament>

northern Australia initiative.”⁶ In April 2016, President Xi called on Australia to align the BRI and Northern Territory development.

Australia-China Belt and Road Initiative

On 27 May 2016, the Australian government launched the Australia-China Belt & Road Initiative (ACBRI).⁷ ACBRI came under the auspices of the Australia-China Council funded by the Department of Foreign Affairs and Trade. The former Minister for Trade, Andrew Robb, was appointed chairman.

At its launch ACBRI issued its inaugural report, *China's One Belt One Road*. ACBRI's remit was to promote infrastructure development, engagement with China, and public education on the BRI. For example, ACBRI assembled a Senior Executive Delegation to engage with Chinese counterparts on an annual basis. Also, ACBRI formulated a strategy to promote Australia's involvement with the BRI such as identifying Chinese priority projects and determining Australian capability. ACBRI sought to build awareness through boardroom briefings held in Sydney, Melbourne, Canberra, Brisbane and Perth from May to August 2016. ACBRI negotiated a formal advisory role with Victorian government. ACBRI led a cluster of agriculture-focused companies and a delegation of Australian banks and services companies to Beijing in September and October, respectively to explore BRI opportunities.

It was also in October 2016 that Australia and China commenced discussions on a Memorandum of Understanding on the Belt and Road Initiative.

Finally, Australia became an unofficial One Belt, One Road partner in 2016 with the launching of the public-private non-governmental organisation the Australia-China OBOR Initiative (ASOBORI).⁸

Northern Australia Infrastructure Facility (NAIF)

In May 2015, the Treasurer, Joe Hockey, announced the Northern Australia Infrastructure Facility (NAIF) in his budget speech for 2015-16.⁹ Hockey outlined funding for the NAIF in five areas: AUD \$5 billion in concessional loans for private sector investment; AUD \$101.3 million over four year for cattle supply chains (roads); AUD \$15.3 million for tropical health research into threats from exotic diseases; AUD \$3.7 million to draw up an Infrastructure projects pipeline priority list; and AUD \$2.1 million to fund a taskforce into insurance premium reduction measures. Later the government issued *Our North, Our Future White Paper on Developing*

⁶ “Joint Media Conference with Foreign Minister Wang Yi - Beijing, China,” Minister of Foreign Affairs, The Hon Julie Bishop MP, February 17, 2016; https://foreignminister.gov.au/transcripts/Pages/2016/jb_tr_160217a.aspx.

⁷ ACBRI home page may be found at <http://www.acbri.org.au>

⁸ ASOBORI issued *China's One Belt One Road: Opportunities for Australian Industries*, http://www.acbri.org.au/report/ACBRI_Report-Final1-1054-56.pdf and “Australia risks missing out on China's One Belt One Road,” *The Conversation*, May 16, 2016; <http://theconversation.com/australia-risks-missing-out-on-chinas-one-belt-one-road-77704>.

⁹ The Honourable J. B. Hockey MP, Treasurer of the Commonwealth of Australia, Budget Speech 2015, delivered on 12 May 2015; <http://www.budget.gov.au/2015-16/content/speech/html/speech.htm>.

Northern Australia Overview that outlined funding of AUD \$916.3 million over four years including AUD \$600m on a roads program.¹⁰

Hockey's initiative was enshrined in law with the passage of the Northern Australia Infrastructure Facility Act on 3 May 2016.¹¹ This act established an independent board that established its headquarters in Cairns in July 2016. Infrastructure priorities included: airports, communications, energy, ports, rail and water.

NAIR is an initiative of the federal government. But many of the key project developments are the prerogatives of the Western Australia, Northern Territory and Queensland state governments. For example, in 2017 Queensland Deputy Premier and Minister for Trade and Investment, Jackie Trad, visited China to explore investing opportunities arising from China's BRI and the Annastacia Palaszczuk's government's North Queensland development priorities.

A year after the passage of the Northern Australia Infrastructure Facility Act the initiative achieved scant progress due to lack of interest, complex investment barriers, and the dearth of infrastructure projects that would generate ongoing financial returns. In fact, more money spent on salaries for board members than on actual projects.¹²

Australia Declines to Link BRI and NAIF

In 2017, Australia and China exchanged several high-level visits. China sought Australia's involvement in the BRI and linkage with development in northern Australia. The Commonwealth government repeatedly sidestepped the issue.

In February 2017, Australia hosted the fourth round of the China-Australia Diplomatic and Strategic Dialogue in Canberra. At a joint press conference Foreign Minister Wang Yi stated, "We are willing to align the 'Belt and Road' initiative with the 'Northern Development' plan of Australia."¹³ Julie Bishop noted:

We talked about the need for greater infrastructure, both regionally and in our respective countries – China's One Belt One Road initiative, Australia's Developing Northern Australia initiative – and *we commit to the principles of transparency, private sector engagement and*

¹⁰ This document may be located at <http://northernaustralia.gov.au/sites/prod.office-northern-australia.gov.au/files/files/WhitePaperSummary.pdf>.

¹¹ Federal Register of Legislation, Northern Australia Infrastructure Facility Act 2016, No. 41, 2016; <https://www.legislation.gov.au/Details/C2016A00041>.

¹² Philip Wen and Ben Blanchard (Reuters), "China to talk new Silk Road in Australia, no deal expected yet," *The Sydney Morning Herald*, March 20, 2017; <https://www.reuters.com/article/us-china-australia-idUSKBN16S0DX?il=0>.

¹³ Ministry of Foreign Affairs of the People's Republic of China, "Wang Yi and Foreign Minister Julie Bishop of Australia Jointly Meet the Press," February 9, 2017; http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1437164.shtml.

ensuring that infrastructure investment leads to strong development outcomes (emphasis added).¹⁴

In March 2017, on the eve of Premier Li Keqiang's official visit to Australia, China's Vice Minister Zheng Zeguang observed that there are "many opportunities and space for cooperation" between China and Australia on the BRI and that Premier Li would raise this during his visit. Australia's trade Minister Steve Ciobo opined, "Obviously Australia has a high degree of expertise both in relation to execution but also financing of infrastructure. So there will be scope for Australian businesses in the future to be involved in belt-road initiative projects."¹⁵ The media quoted an anonymous Australian official, "No formal memorandum on this issue will be signed during the visit."¹⁶

Premier Li Keqiang visited Canberra from 24-28 March to attend the high-level dialogue under the Comprehensive Strategic Partnership. Australia declined to link the BRI with the NAIF.

The following month Prime Minister Malcolm Turnbull flew to Beijing to meet President Xi. They each talked at cross-purposes. Turnbull focused on innovation, science and education, while Xi discussed the One Belt, One Road and linkage to northern Australia. This linkage was promoted by the Australia-China Senior Business Leaders' Forum that included participants from Xi's Central Leading Group on Economics and Finance. The Forum encouraged Chinese participation in major water conservation projects in northern Australia.

When Xi met Turnbull he included Australia for the first time in the single most important policy priority of his presidency; in so doing Xi gave his imprimatur to Chinese investment in northern Australia's infrastructure. Chinese media coverage highlighted Xi's call for the "alignment of China's Belt and Road initiative with Australia's northern development plan" and virtually passed over Turnbull's stress on innovation.¹⁷

If the One Belt, One Road initiative and the northern Australia infrastructure development were linked, this likely would spark greater interest from potential Chinese investors. If Chinese investors could link OBOR with a northern Australia project it would improve the likelihood of being approved for official funding.

In hindsight, the Turnbull-Xi meeting may be viewed as a major turning point and perhaps a missed opportunity of major consequence.

¹⁴ "Australia-China Foreign and Strategic Dialogue - joint press conference with Chinese Foreign Minister Wang Yi," Minister of Foreign Affairs The Hon Julie Bishop MP, Parliament House, Canberra, 7 February 2017; https://foreignminister.gov.au/transcripts/Pages/2017/jb_tr_170207.aspx.

¹⁵ Stephen Dziedzic, "Li Keqiang visit: Chinese Premier arrives in Australia for five-day tour," ABC News, March 23, 2017; <http://www.abc.net.au/news/2017-03-23/chinese-premier-li-keqiang-in-canberra-for-five-day-visit/8378146>.

¹⁶ Jamie Smyth, "Australia rejects China push on Silk Road strategy," *The Financial Times*, March 22, 2017; <https://www.ft.com/content/e30f3122-0eae-11e7-b030-768954394623>.

¹⁷ Xinhua, "China, Australia seek to make bigger 'cake' of shared interest," April 15, 2016; http://www.xinhuanet.com/english/2016-04/15/c_135283169.htm.

Belt and Road Forum for International Cooperation, Beijing

On 14 May 2017, China hosted the BRI Forum in Beijing. Australia was represented by Trade Minister Steve Ciobo, Andrew Robb (former Minister for Trade and Investment), Kevin Rudd (former Prime Minister and Foreign Minister) and Daniel Andrews (Premier of Victoria). No Australian companies were invited.

Australia supported the “Initiative on Promoting Unimpeded Trade Cooperation along the Belt and Road” statement issued at the end of the trade session despite European protests over lack of clauses on transparency and tendering standards.

Trade Minister Ciobo clearly spelled out Australia’s reservations about linking the BRI with northern Australia development. Ciobo noted that:

Australian participation is to put further meat on the bone for BRI. Given the strong relationship between Australia and China, it is important for Australia is there to learn more... [Australia has experience in] financing, designing and the construction of major infrastructure... There are complementarities between northern Australia and Belt and Road, but they are separate initiatives... We’ve seen much merit in the BRI Initiative. We see opportunities for collaboration. But we take decisions about initiatives in Australia on the basis of what’s in Australia’s national interest and I think we don’t need to view everything through one lense.¹⁸

Andrew Robb suggested that there are joint venture opportunities for Australian businesses to build hospitals, schools and aged care services along the BRI trade route.

BRI Summit, Beijing

Following the BRI Forum, China hosted the BRI Summit in Beijing, on 15 May 2018. This summit was attended by twenty-nine heads of government and representatives from seventy other countries, the United Nations, World Bank and International Monetary Fund. At the summit, President Xi announced a further US \$124 billion for BRI initiatives. Australia was not represented.

Part 3 Challenges to Cooperation

After the election of Donald Trump as president of the United States, his pursuit of America First and Make America Great Again resulted in the U.S. withdrawing from the Trans-Pacific Partnership and the Paris Accord on Climate Change. Trump’s actions reinforced the common commitment of Australia and China to oppose protectionism and to support policies designed to mitigate climate change.

Australia-China economic ties are substantial. China is Australia’s largest trading partner and, as noted above, their economies are complimentary. Australia joined – if belatedly - China’s AIIB.

¹⁸ Quoted by Kirsty Needham, “New Silk Road: China invites world leaders to hook up to 'One Belt One Road',” *The Sydney Morning Herald*, May 12, 2017; <https://www.smh.com.au/world/new-silk-road-china-invites-world-leaders-to-decipher-one-belt-one-road-20170512-gw3ge0.html>.

China provides the largest number of foreign students attending Australian universities and the income they generate is important for their hosts.¹⁹ Chinese tourism is on the increase.

How then do we explain Australia's reluctance to join the BRI and the downturn in bilateral relations? This section focuses on four major challenges to cooperation that must be addressed.

Chinese Ownership of Critical Infrastructure

The decision by the Northern Territory government to lease the Port of Darwin to China's Landbridge Group in 2015 provoked protests to the Australian government by President Obama and other U.S. officials because U.S. naval vessels regularly use these port facilities. It was later revealed that the Chinese lease was only reviewed at the lowest levels of Department of Defence and focused mainly around operational aspects of the transaction rather than any larger strategic implications.

A public debate erupted in Australia about the security implications of a Chinese presence in such a sensitive area. It is commonly assumed that Chinese businesses, private and state-owned, are used by China's security apparatus for intelligence purposes that feed into war planning.

Security concerns raised by the lease of the Port of Darwin immediately led to a review of foreign investment in critical infrastructure. The Foreign Investment Review Board (FIRB) has directed that Australian states and territories must now receive Government approval before selling critical infrastructure to offshore buyers. David Irvine, former head of Australian Security Intelligence Organisation (ASIO) and former Ambassador to China, was appointed to the FIRB to ensure that security implications were factored into foreign investment and ownership of critical infrastructure such as electric power grids and telecommunications. The Defence Department has placed bans on phones produced by Huawei and the WeChat App.²⁰

Chinese interference in its domestic affairs

The Australian Security Intelligence Organisation stated in its 2016-17 annual report, "We identified foreign powers clandestinely seeking to shape the opinions of members of the Australian public, media organisations and government officials in order to advance their country's own political objectives. Ethnic and religious communities in Australia were also the subject of covert influence operations designed to diminish their criticism of foreign governments."²¹ In addition, China's Ministry of State Security is alleged to have conducted covert operations in Australia against Chinese citizens without conducting liaison with the Australian Federal Police.

¹⁹ Tim Dodd, "Top brass on a mission to ease China tensions," *The Australian*, April 11, 2018; Tim Dodd, "Chinese defy warnings and flock to Aussie unis," *The Australian*, April 18, 2018 and Cameron Stewart, "'Beholden unis fear offending Chinese'," *The Australian Financial Review*, April 27, 2018.

²⁰ Angus Grigg, "Defence bans WeChat app," *The Australian Financial Review*, March 12, 2018.

²¹ Australian Government, Australian Security Intelligence Organisation, *ASIO Annual Report 2016-17*, 4, 23 and 54; <https://www.asio.gov.au/sites/default/files/Annual%20Report%202016-17.pdf>.

In May 2017, Dennis Richardson, the most senior Australian Defence official and the Secretary of the Defence Department said on his retirement that China is conducting extensive espionage against Australia and exerting unreasonable influence over Chinese communities and media.²² In 2016, Former Chinese diplomat Chen Yonglin warned that the number of Chinese spies and agents working in Australia was growing.

Although China was not explicitly named it is widely held that China, Russia and North Korea are the main but not only foreign powers interfering in Australia's internal affairs. In late January 2018, it was reported that ASIO listed China as an extreme threat on a secret country-by-country counter-intelligence index, the highest level. Chinese entities have been implicated in hacking defence contractors, hacking industries and hacking the Commonwealth Scientific Industrial Research Organisation (CSIRO).²³

ASIO's assessment was backed by widespread Australian media reports of Chinese influence operations in Australia primarily directed by the CCP's United Front Work Department.²⁴ Chinese businessmen were identified as agents of influence in activities designed to influence Australian politicians, the Chinese community including Chinese students studying in Australia and the Chinese-language media.²⁵ In addition, there have been several cases where Chinese diplomats have instigated and/or supported Chinese students involved in the disruption of university lectures when they disagree with the lecturer's point of view on an issue related to China.²⁶

In 2017, in a high-profile case, a Labor Party frontbencher, Senator Sam Dastyari, resigned from Parliament after it was revealed he accepted cash donations from a Chinese businessman reportedly in return for supporting China's territorial claims in the South China Sea and that Dastyari warned a Chinese business associate that Australian security officials were tapping his phone.²⁷

²² Reuters, "China conducting extensive espionage against Australia: defense official," May 12, 2017; <https://www.reuters.com/article/us-australia-china-idUSKBN1880ZB>.

²³ Angus Grigg, Ben Potter and Nick McKenzie, "Chinese data breach riled CSIRO," *The Australian Financial Review*, April 4, 2018 and Angus Grigg, Ben Potter and Nick McKenzie, "It was a 'wake-up call': CSIRO spent millions after Chinese data breach," *The Australian Financial Review*, April 4, 2018.

²⁴ Lisa Murray, "China calls on 'friends' over territory issue," *The Australian Financial Review*, October 23, 2017; Kirsty Needham, "United Front, China's important 'magic weapon'," *The Sydney Morning Herald*, November 29, 2017 and John Dotson, "The United Front Work Department in Action Abroad: A Profile of The Council for the Promotion of Peaceful Reunification of China," *China Brief*, 18(2). February 13, 2018.

²⁵ Paul Maley and Nicola Berkovic, "ASIO flags Manchurian candidates," *The Weekend Australian*, December 9-10, 2017; AAP, "ASIO alert to foreign heat on campuses," *The Australian*, October 25, 2017 and John Garnaut, "How China Interferes in Australia," *Foreign Affairs*, March 9, 2018, <https://www.foreignaffairs.com/articles/china/2018-03-09/how-china-interferes-australia>.

²⁶ For an overview of Chinese influence operations in Australia see: Clive Hamilton, *Silent Invasion: China's Influence in Australia* (Richmond: Hardie Grant Books, 2018).

²⁷ Nick McKenzie, James Massola and Richard Baker, "Dastyari's Failure to Explain," *The Australian Financial Review*, November 30, 2017; Primrose Riordan and Greg Brown, "Dastyari under pressure to quit," *The Australian*,

Rules-based International Order

On 23 November 2017, the Australian government released its Foreign Policy White Paper. The overview to this document stated unequivocally “[t]oday China is challenging America’s position.” In chapter 2, A contested world, the White Paper asserted “[t]he United States remains the most powerful country but its long dominance of the international order is being challenged by other powers” that openly contest the principles and values on which international order is based.²⁸ Earlier in the year, Foreign Minister Julie Bishop made clear that

The importance of liberal values and institutions should not be underestimated or ignored.

While non-democracies such as China can thrive when participating in the present system, an essential pillar of our preferred order is democratic community.

Domestic democratic habits of negotiating and compromise are essential to powerful countries resolving their disagreements according to international law and rules.

History also shows democracy and democratic institutions are essential for nations if they are to reach their economic potential.²⁹

Australia is particularly concerned that China, a signatory to the United Nations Convention on the Law of the Sea (UNCLOS), chose to adopt a policy of three no’s - non-recognition, non-participation, and non-compliance - towards the Arbitral Tribunal’s Award.³⁰

UNCLOS is widely referred to by legal specialists as the Constitution of the World Oceans. The decision of the Arbitral Tribunal is now part of international case law. China’s actions in the South China Sea are likely to put it on a collision course with the major maritime powers if it attempts to interfere with the passage and over flight by foreign military ships and aircraft in the South China Sea generally, and the waters around the Spratly archipelago in particular.

Strategic Challenges

Australia’s 2017 Foreign Policy White Paper assessed that China’s power and influence will grow to match “and in some cases exceed” that of the United States in the Indo-Pacific. The White Paper depicted territorial disputes in the South China Sea as a “major fault line” in the region and noted that Australia was “particularly concerned by the unprecedented pace and scale of China’s activities... (and) opposes the use of disputed features and artificial structures in the South China Sea for military purposes.”³¹ Reports that China has now installed anti-ship

November 30, 2017; and Nick McKenzie, Richard Baker and Phillip Coorey, “Explosive tape damns Dastyari,” *The Australian Financial Review*, November 30, 2018.

²⁸ Australian Government, *2017 Foreign Policy White Paper*, pp. 1 and 21.

²⁹ “Change and uncertainty in the Indo-Pacific: Strategic challenges and opportunities,” Minister of Foreign Affairs The Hon Julie Bishop MP, 28th IISS Fullerton Lecture, Singapore, March 13, 2017, https://foreignminister.gov.au/speeches/Pages/2017/jb_sp_170313a.aspx.

³⁰ Jin Yongming, “Ruling won’t calm disputes in South China Sea,” *China Daily*, June 7, 2016; http://europe.chinadaily.com.cn/opinion/2016-06/07/content_25632134.htm.

³¹ Australian Government, *2017 Foreign Policy White Paper*, pp. 25, 46-47.

cruise missiles and surface to air missiles is viewed as a major provocation.³²

The White Paper stressed the importance of U.S. leadership of and participation in a rules-based international order. At a time of growing strategic uncertainty caused by President Trump, Australia has picked up the strategic slack and engaged more with like-minded democracies such as Japan,³³ India,³⁴ France³⁵ and the United Kingdom³⁶ to push back against Chinese political and military influence. The Quadrilateral Security Dialogue (Australia, India, Japan and the United States) is considering a Japanese proposal to mobilize funds from the World Bank to provide alternate funding to China's BRI for infrastructure development.³⁷

In 2018, Chinese investment and influence peddling in the South Pacific (Papua New Guinea

³² Amanda Macias, "China quietly installed defensive missile systems on strategic Spratly islands in hotly contested South China Sea," CNBC, May 2, 2018, <https://www.cnbc.com/2018/05/02/china-added-missile-systems-on-spratly-islands-in-south-china-sea.html> and Rachel Baxendale and Rory Callinan, "Warning for China on Missiles," *The Weekend Australian*, May 5-6, 2018.

³³ Lisa Murray and Angus Grigg, "Japan taps Australia for China bulwark," *The Australian Financial Review*, October 27, 2017; Phyllip Coorey, "Australia, allies face up to China, N Korea," *The Australian Financial Review*, November 14, 2017; Primrose Riordan, "Japan, Australia mull agreement on closer military ties," *The Australian*, December 27, 2017; Primrose Riordan, "Japan deal to counter China rise," *The Weekend Australian*, January 13-14, 2018; Andrew Tillett, "Turnbull's Japan visit to focus on defence deal," *The Australian Financial Review*, January 13-14, 2018; Andrew Tillett, "Aust-Japan deal on defence likely to anger China," *The Australian Financial Review*, January 15, 2018; Primrose Riordan, "PM deepens Japan defence ties," *The Australian*, January 19, 2018; Michael Stutchbury and Angus Grigg, "All the Way With Abe," *The Australian Financial Review*, January 20-21, 2018; Primrose Riordan, "Tokyo eyes our help to defy China," *The Australian*, January 25, 2018.

³⁴ Rory Metcalf, "India moves to lock in the Quad," *The Australian Financial Review*, January 25-28, 2018 and Greg Sheridan, "Quad Dialogue is our Passage to India," *The Australian*, January 25, 2018.

³⁵ Ben Packham, "China high on Macron agenda," *The Australian*, April 30, 2018; Andrew Tillett, "Macron vows 'Indo-Pacific axis' with Australia," *The Australian Financial Review*, May 3, 2018 and Ean Higgins, "Macron tackles flashpoints as Paris burns," *The Australian*, May 3, 2018.

³⁶ Ben Packham, "Bishop urges UK to up its role in Indo-Pacific," *The Australian*, February 20, 2018; Andrew Tillett, "Bishop taps UK for Indo-Pacific rules oversight," *The Australian Financial Review*, February 20, 2018; Dennis Shanahan, "Turnbull welcomes Britain's Pacific push," *The Australian*, April 21-22, 2018; Phillip Coorey, "UK bid to join TPP may help counter China," *The Australian Financial Review*, April 21-22, 2018; Dennis Shanahan, "Turnbull trade pitch to counter rise of China," *The Australian*, April 23, 2018 and Greg Sheridan, "UK 'will draw closer in defence'," *The Australian*, May 7, 2018.

³⁷ Primrose Riordan, "Turnbull look to strengthen security ties with Asia," *The Australian*, November 7, 2017; Phillip Coorey, "Australia backs revival of 'anti-China' security group," *The Australian Financial Review*, November 8, 2017; Rory Medcalf, "An Indo-Pacific quad is the right response to Beijing," *The Australian Financial Review*, November 9, 2017; Richard Fontaine, "Why Washington and Australia urgently need the Quad," *The Australian Financial Review*, November 11-12, 2017; Rowan Callick, "Renewed talks rock Beijing's boat," *The Australian*, November 15, 2017; John Kehoe, "Navy 'quad' chiefs slam disruptive China," *The Australian Financial Review*, January 22, 2018; John Kehoe, "'Quad' naval chiefs take aim at China," *The Australian Financial Review*, January 22, 2018; Greg Earl, "Abe's misfiring Quad finally discovers a strong base," *The Australian Financial Review*, January 22, 2018; Carlyle A. Thayer, "World powers are scrambling for influence over Asian maritime routes," *Security Times* [special edition for Munich Security Conference], February 2018, <http://www.the-security-times.com/world-powers-are-scrambling-for-influence-over-asian-maritime-routes/> and Lisa Murray, "Labor backs the Quad in Indo-Pacific," *The Australian Financial Review*, March 16, 2018.

and Solomon Islands)³⁸ became a subject contention between Australia and China when Australia's Minister for International Development Concetta Fierravanti-Wells accused China of lending funds to Pacific nations on unfavourable terms and constructing "useless buildings...and roads to nowhere."³⁹ Greater concern was aroused in Australia when the media published unverified reports that China was seeking to establish a naval base in Vanuatu.⁴⁰ This led Australia and France to confer on cooperation in the South Pacific to protect their national interests.

Part 4 Conclusion

Australia and China face serious challenges that must be overcome if they are to embark on new cooperative activities. The present hiatus in bilateral relations is unlikely to last permanently and the initiative for change rests mainly in China's hands.

In the meantime Australians will continue to debate the merits of pursuing economic opportunities with China against the costs to Australia's national interests arising from the four main challenges identified in part four above.

Generally, the debate within Australia has seen the business community, especially those involved in trade with China, and state leaders in the Northern Territory and Victoria, argue that the Coalition Government should temper its critical comments about China and get on with the job of promoting trade.

The defence and security community, on the other hand, is very concerned with the threats to Australia's sovereignty by Chinese interference in Australia's internal affairs.⁴¹ Peter Jennings and Malcolm Davis of the Defence Department-funded Australian Strategic Policy Institute are most vocal in this respect. They are countered by Bob Carr, former Minister for Foreign Affairs and now head of the Australia-China Relations Institute at the University of Technology, Sydney. But there are also dissenting voices among defence analysts. Hugh White and Paul Dibb, two former deputy secretaries in the Department of Defence, have squared off in a public debate about the pros and cons of economic engagement with China versus national security.

Those in favour of associating Australia with China's BRI make the following argument: by signing up early Australia can help shape the BRI. And the BRI will

- Attract Chinese partners in Australian based projects
- Allow Australian businesses to partner with Chinese business beyond Australia in China and the Belt and Road countries

³⁸ Ben Packham, "China gift triggers more aid for PNG," *The Australian*, March 8, 2018 and Primrose Riordan and Rowan Callick, "China's push in Solomon Islands," *The Australian*, May 1, 2018.

³⁹ Primrose Riordan, "Attack on China over Pacific aid," *The Australian*, January 10, 2018 and Primrose Riordan and Rowan Callick, "Bishops raps minister for China spray," *The Australian*, January 12, 2018.

⁴⁰ David Wroe, "China eyes Vanuatu military base in plan with global ramifications," *The Sydney Morning Herald*, April 9, 2018.

⁴¹ Andrew Clark, "China Doves and Hawks Go To War," *The Australian Financial Review*, May 5-6, 2018.

- Provided opportunities for Australia business to contribute their skills in the development of infrastructure, banking, finance, resources, tourism, education, and healthcare professional services
- Create opportunities for joint partnerships to develop roads, bridges, schools and hospitals
- Contribute to improved connectivity and market access and integration across the BRI network
- Provide opportunities for Australia's public-private partnership development experience; and expertise in legal services, professional management consulting, technical trade-related businesses, agriculture, engineering, and energy
- More regional infrastructure under the BRI umbrella will result in more demand for Australian iron ore and coal
- Participation in the BRI will enhance policy coordination, financial integration, infrastructure connectivity, unimpeded trade, and people-to-people networks
- Boost Australia's standing and influence in region

Those who oppose or have reservations about associating Australia with China's BRI make the following arguments:

- The BRI is so unprecedented in scope there is a real question about the feasibility of many projects
- Since most BRI target countries have a poor sovereign risk rating there are major investment risks
- There is a lack of Chinese reciprocity in investment access
- The BRI will give preference to Chinese companies
- The BRI lacks a reciprocal two way trade flow
- The BRI will have an adverse impact on human rights and the environment
- North Korea, which attended the May 2017 BRI Forum and Summit, should not be included in the BRI until it complies with UN sanctions
- Foreign ownership of critical infrastructure (ports, power grids, roads etc.) is a potential threat to national security in host countries
- The BRI will enhance China's strategic and economic domination over Eurasia and beyond
- The BRI will undermine the U.S. leadership role in the region by extending Chinese influence at expense of the U.S.
- China will use joint BRI projects as economic leverage to influence Australia's decision-making
- The BRI will weaken the Bretton Woods financial institutions

- China wants formal state-to-state MOUs on BRI Cooperation

Perhaps the best summary of the state of play in Australia was made by the respected veteran political commentator Paul Kelly:

It is absurd to say Australia cannot be involved [in the BRI] for strategic reasons and equally absurd to say we should blindly sign any memorandum China wants, regardless of its abuse of economic principles. Both the anti-China nay-sayers and pro-China gladhanders are wrong. Australia is biding its time on Belt and Road, and that is sensible... it is far better that China's investment proposals for Australia be assessed on merit alone, and not be branded as part of a grand scheme to enhance China's regional interests. Such branding would only be counter-productive.⁴²

Change of Government, Change of Policy?

The deadline for the next election for the House of Representatives is 2 November 2019. Because Australia is a liberal multiparty democracy national elections may be called by the Prime Minister at any time.

The opposition Australian Labor Party has put on record that it would review Australia's participation in the BRI and also examine any linkage between the BRI and NAIF. In May 2017, Penny Wong, Opposition spokesperson on foreign affairs, visited China and wrote an opinion-editorial urging support for the BRI at a time of protectionism and global uncertainty. She argued, "We need to display much greater confidence in harnessing the opportunities of the (BRI)."⁴³

Later in the year, Chris Bowen, the Shadow Treasurer wrote:

We will come to office if we win the next election with an open mind as to how Australia and China can best collaborate on the Belt and Road Initiative with a clear eyed approach to our respective national interests...

We will examine proposals on a case-by-case basis including considering how the Northern Australia Infrastructure Facility and the Belt and Road Initiative can best complement each other.⁴⁴

So, in assessing opportunities and challenges, one must factor in the possibility of a change of government in Australia at the next federal election.

⁴² Paul Kelly, "One Belt, One Road: Australia needs to bide its time," *The Australian*, May 24, 2017,

⁴³ Penny Wong, "This is Hardly the Time to be Timid in our Region," *The Australian*, May 2, 2017.

⁴⁴ Chris Bowen, "Future Asia: Labor's Deeper Asian Engagement Policy," September 29, 2017.

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