

Working Paper

SWP Working Papers are online publications within the purview of the respective Research Division. Unlike SWP Research Papers and SWP Comments they are not reviewed by the Institute.

RESEARCH DIVISION ASIA / BCAS 2018 | SESSION NR. 3, OCTOBER 2018

Australia between China and the United States

Aaron L. Connelly

Since the late 1990s, Australian leaders have echoed John Howard's assertion that Australia would not need to choose between its ally and security guarantor, the United States, and its biggest market, the People's Republic of China. Australia may not have yet faced a comprehensive and decisive "China choice," as Professor Hugh White would frame the question. But the Government is facing several distinct China choices each year. Over the past two years in particular, the Turnbull Government evaluated these choices from the perspective of Australian national interests, sometimes answering the call of its ally to take a stand against Beijing's revisionism, sometimes resisting that call.

This paper will first provide background on the economic relationship between Australia and China, to provide context for fears that Beijing will seek to use economic ties to coerce Australia into geopolitical positions that it would not otherwise take. It will then examine two issues on which Canberra has recently decided to risk Beijing's opprobrium, the debate about Chinese Communist Party influence operations, and over competing regional multilateral arrangements including the Belt and Road Initiative and the Quad; as well as one area where Canberra has been more cautious, proposals for Australian freedom of navigation operations in the South China Sea. Finally, it will argue that this approach is likely to continue despite the ousting of former Prime Minister Malcolm Turnbull in August, and a likely further change in government in Australia at the next election, due by mid-May 2019.

Economic Coercion in the Australia-China Relationship

When Australia's position between the United States and China is discussed, even in Canberra, attention often turns to the high percentage of Australian goods that are exported to the PRC. The assumption appears to be that China's purchase of around 30% of Australian goods exports gives Beijing the ability to terminate Australia's extraordinary run of

economic growth – 27 years without a recession – should Canberra fall out of favour with Beijing on geopolitical issues.

But goods exports to China are concentrated in a few sectors. Iron ore comprises around half of the figure, while other minerals constitute another 15%. As Rory Medcalf has written:

“China imports two-thirds of its iron ore, of which Australian producers supply around 60%. Limitations to China’s domestic supply and the structure of global iron ore supply means China has few alternatives to Australia....

The nature of our economic relationship means that there are limits to the pressure China can apply without imposing sizeable costs on itself. Pressure that would have the biggest impact on our economy - such as threatening to restrict the iron ore trade - would likely be a ‘one shot’ option for Beijing, doing serious harm to that link thereafter. After all, Chinese attempts at economic coercion against other countries have often backfired in the long run.”¹

There are, however, important parts of the economy that are more vulnerable to Chinese economic coercion — primarily the tourism and higher education sectors, and coal exports. In February 2018, China became the leading source of short-term visitors to Australia at 1.4 million visitors a year, a title long held by New Zealand.² Chinese tourists still only represent only around 15% of tourists in Australia, but that number has grown exponentially in the past ten years.³ Moreover, analysis suggests they spend 60% more than other demographics.⁴

Around 61% of Chinese tourists prefer to travel to Australia on package tours.⁵ If Australia were to be removed from the list of approved countries for such tours by the Chinese Ministry of Foreign Affairs, or state media were to encourage a boycott of Australia as a holiday destination, the sector could take a hit.⁶ In 2017, tourism sectors in South Korea and Palau suffered as a result of such actions. The politically connected gaming industry in

¹ “Chinese money and Australia’s security,” Rory Medcalf, ed., *NSC Policy Options Paper 2*, March 2017, <https://nsc.crawford.anu.edu.au/department-news/9880/chinese-money-and-australias-security>.

² Tom Westbrook, “China leapfrogs New Zealand as Australia’s top tourist source,” Reuters, 18 April 2018, <https://www.reuters.com/article/us-australia-tourism/china-leapfrogs-new-zealand-as-australias-top-tourist-source-idUSKBN1HP0VA>.

³ Jason Karaian, “More tourists in Australia now come from China than New Zealand,” *Quartz*, 21 April 2018, <https://qz.com/1258898/chinese-tourists-in-australia-now-outnumber-visitors-from-new-zealand/>.

⁴ Andrew Taylor, “Safety, seafood and drinking tap water: what attracts Chinese tourists to Sydney,” *Sydney Morning Herald*, 8 September 2018, <https://www.smh.com.au/national/nsw/safety-seafood-and-drinking-tap-water-what-attracts-chinese-tourists-to-sydney-20180908-p502kv.html>.

⁵ Nielsen, “Outbound Chinese Tourism and Consumption Trends: 2017 Survey,” <https://www.niel-sen.com/content/dam/nielsen-global/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>.

⁶ For an example of the effect of Approved Destination Status on Chinese tourism, see Lauren Beldi, “China’s ‘tourist ban’ leaves Palau struggling to fill hotels and an airline in limbo,” *ABC News*, 28 August 2018, <https://www.abc.net.au/news/2018-08-26/china-tourist-ban-leaves-palau-tourism-in-peril/10160020>.

Australia is particularly concerned about such a scenario, and its most prominent personalities have spoken out in the past against Australian government policies that are perceived to have damaged Canberra's relationship with Beijing.⁷

In 2017, mainland students attending Australian institutions represented A\$9 billion (€6 billion) of a \$31 billion (€19 billion) export industry. In New South Wales, Chinese student fees represented around 20% of university revenues, with the highest market concentration risk at the state's most elite institutions.⁸ The higher education sector's leadership, like the tourism sector's, has been outspoken in arguing for government to maintain a positive relationship with Beijing.⁹

Yet to date, Beijing has not sought to pull either of these levers in response to an increasingly tough stance against its coercion of its neighbours – and if Australian policy remains on its current course, it is not clear that it will.

“Australia Has Stood Up”

Over the past two years, relations between Canberra and Beijing sunk to a historic low point. The downturn in relations probably began with Australia's response to the arbitral tribunal's award in *Philippines v. China*, which urged China to abide by the binding ruling. Beijing responded with heated rhetoric from Chinese state media outlets, including a memorable *Global Times* editorial titled “‘Paper Cat’ Australia will learn its lesson,” which called Australia “a pioneer of hurting China's interest,” and warned that “If Australia steps into the South China Sea waters, it will be an ideal target for China to warn and strike.”

The chill in the relationship continued into 2017, as controversy over CCP influence operations in Australia reached a fevered pitch in the second half of the year. A ground-breaking series of stories by ABC and Fairfax journalists in June 2017 pointed to two individuals, one Australian citizen of Chinese descent and one Chinese permanent resident of Australia, who it was alleged were backing CCP United Front organizations in Australia, and donating to the country's two largest political parties with the intention of influencing policy on the South China Sea. In response, the Turnbull Government introduced laws intended to prevent what it termed foreign interference in Australian politics.

Other stories around the same time pointed to the Chinese Association of Students and Scholars, a student group on many university campuses in Australia to which most mainland Chinese citizens studying in Australia belong. The reports alleged that these organizations were intimidating Chinese citizens studying in Australia by reporting on remarks that departed from the party line. Later reports suggested that the association had sought to police discourse in Australian classrooms by complaining that professors had made

⁷ Fergus Ryan, “How the China lobby is building a Great Wall of influence,” *Business Spectator*, 5 May 2014, <https://www.theaustralian.com.au/business/business-spectator/news-story/how-the-china-lobby-is-building-a-great-wall-of-influence/f3f6199bdd986cd4eb948e0adcbfc7c9?nk=83ae5f8bb4e8e29519b4e5c5c73704cc-1542777719>.

⁸ Audit Office of New South Wales, *Universities 2017 Audits*, 8 June 2018, file:///Users/Shark/Downloads/Universities%202017%20audits-%20website%20version.pdf.

⁹ See, for example, Andrew Clark, “Sydney Uni's Michael Spence lashes government over ‘Sinophobic blatherings’,” *Australian Financial Review*, 28 January 2018, <https://www.afr.com/news/policy/education/sydney-unis-michael-spence-lashes-government-over-sinophobic-blatherings-20180128-h0pjc4>.

comments or used terminology insensitive to mainland students, such as referring to Taiwan as a country. Only a few such incidents came to public knowledge, and it remains unclear whether the efforts were coordinated or directed from overseas as the stories initially implied. Given the sector's vulnerability to Chinese economic coercion, the incidents are and were a particular cause for concern.¹⁰

Shortly before the foreign interference legislation was introduced, reporters asked Prime Minister Turnbull to comment on it at a campaign event for an upcoming by-election. He responded by reciting – in Mandarin – a likely apocryphal Mao Zedong quotation on the establishment of the People's Republic of China. Just as Mao had told the world that "China has stood up," he told them, so too could he say that "Australia had stood up." The legislation and the statement were received poorly in Beijing, and a further deterioration in the relationship followed.¹¹

Around the same time, Australia attended the first meeting in ten years of the Quadrilateral Security Dialogue on the side-lines of the East Asia Summit in Manila. The Quad, as it is known, has long been perceived by Beijing as a security partnership designed to encircle and contain China's rise. The actual work product of the Quad in the ensuing eleven months has been minimal. But Australia's participation is notable, because by most accounts it was the Rudd Government's decision to stop supporting the dialogue in 2008 that originally caused it to lapse. This, too, appeared to anger Beijing.

By early 2018, as the foreign interference legislation wound its way through Parliament, Beijing was refusing to offer dates for a regular visit by then foreign minister Julie Bishop, who had not visited the country since 2016.¹² In fact, in the first ten months of the year, only one Australian minister had visited China. Trade Minister Steve Ciobo attended a series of trade promotion events in Shanghai – but was denied a meeting with his counterpart in Beijing.¹³

Yet by August it also appeared as though a thaw in the relationship was beginning to occur. Prime Minister Turnbull gave a speech at the University of New South Wales, in which he praised the role that mainland students and researchers play in Australian universities, but also reiterated a number of positions anathema to Beijing, such as Australia's refusal to sign a memorandum of understanding for the Belt and Road Initiative – if this time in softer language.¹⁴

¹⁰ For an overview of these episodes, see Elizabeth Redden, "China's 'Long Arm'," *Inside Higher Ed*, 3 January 2018, <https://www.insidehighered.com/news/2018/01/03/scholars-and-politicians-raise-concerns-about-chinese-governments-influence-over>.

¹¹ Australian Associated Press, "Malcolm Turnbull 'not intimidated' by China rebuke as Bennelong campaign gets personal," *The Australian*, 10 December 2017, <https://www.theaustralian.com.au/national-affairs/malcolm-turnbull-not-intimidated-by-china-rebuke-bennelong-campaign-gets-personal/news-story/a232f3a4a910f2ad62f24b0720851f2c>.

¹² Colin Packham, "Australia yet to strike deal with China for foreign minister's visit: sources," 1 August 2018, <https://www.reuters.com/article/us-australia-china-diplomacy/australia-yet-to-strike-deal-with-china-for-foreign-ministers-visit-sources-idUSKBN1KM4U3>.

¹³ Colin Packham, "China shunned Australia's minister during recent visit: diplomat," *Reuters*, 31 May 2018, <https://www.reuters.com/article/us-australia-china/china-shunned-australias-minister-during-recent-visit-diplomat-idUSKCN1IW07A>.

¹⁴ Malcolm Turnbull, Speech at the University of New South Wales, 7 August 2018, <https://www.malcolmtturnbull.com.au/media/speech-at-the-university-of-new-south-wales-sydney-7-august-2018>.

The speech was attended by the PRC ambassador to Australia, and received praise from the foreign ministry. *The Australian's* foreign editor, Greg Sheridan, has argued that the Turnbull Government's earlier efforts to set a new normal, combined with China's weaker position amidst a trade war with the United States, has led to a new equilibrium in the relationship. This, he argues, has given Australia greater flexibility to push back on Beijing's assertiveness in the future.¹⁵

In an early test of that hypothesis, the government rejected a Huawei bid to build Australia's 5G network two weeks after the speech, and since then has reinvigorated Australian efforts to offer alternatives to Huawei and other firms' investments in undersea cables connecting Pacific island countries. These have not resulted in the level of rhetoric from Beijing seen at similar junctures last year.

Sheridan may be right. But just 17 days after Turnbull's speech, the prime minister was overthrown in a party coup. The next election, which must be called before mid-May, is likely to return a Labor government on present polling. Whether any recalibration in the relationship can survive the reversals of fortune of Australian politics will be addressed later in this paper.

Freedom of Navigation Operations

Despite the *Global Times'* allegation that Canberra has been a "pioneer of hurting China's interests" in the South China Sea, the issue is one on which the Australian Government has in fact resisted pressure from Washington to do more. US officials have frequently raised the possibility of Australian freedom of navigation operations with their Australian counterparts in bilateral consultations over the past three years. The Turnbull Government, while publicly supporting US freedom of navigation operations, privately took the position that Australia should not conduct its own freedom of navigation operations.

However, following the apparent UK freedom of navigation operation in the Paracels at the end of August, the Australian Government may come under renewed pressure from Washington and Indo-Pacific Command in Honolulu to conduct its own freedom of navigation operations in the South China Sea. In light of that possibility, it is worth considering the operations that Australia already undertakes in the South China Sea, and what the conduct of a freedom of navigation operation would specifically require of Canberra.

First, Royal Australian Air Force (RAAF) P-3 maritime patrol aircraft already conduct integrated air defence patrols of the South China Sea out of Butterworth in Malaysia, as part of its Five Power Defence Arrangements (FPDA) activity. It has been reported that while these flights have not flown within twelve nautical miles of Chinese-occupied or -claimed features in the South China Sea, they have flown close enough to the features to be warned off by PLA units stationed on them. In response, the Australian aircraft have replied that they are sovereign aircraft operating in international airspace in accordance with international law.¹⁶

¹⁵ Greg Sheridan, "Turnbull resets China ties in positive UNSW speech," 11 August 2018, *The Australian*, <https://www.theaustralian.com.au/news/inquirer/turnbull-resets-china-ties-in-positive-unsw-speech/news-story/699b6fb7a0878260ac181ecab0c984b2>.

¹⁶ Rupert Wingfield-Hayes, "Flying close to Beijing's new South China Sea islands," *BBC*, 14 December 2015, <https://www.bbc.com/news/magazine-35031313>.

Royal Australian Navy vessels have also exercised in, visited, and made regular transits through the South China Sea. But none of these cruises are reported to have transited the Paracels, or within 12 nautical miles of Chinese occupied features, as they would need to in order to be considered freedom of navigation operations under the US Navy definition.

The US Navy is the only maritime force in the world with an institutionalized, global program of freedom of navigation operations, or FONOPs. These operations challenge what Washington regards as “excessive maritime claims,” for example restrictions on innocent passage through the territorial sea, restrictions on military operations in the exclusive economic zone, or excessively straight baselines. In order to conduct a freedom of navigation operation under the US Navy definition, a patrol must intentionally challenge one of these excessive claims. To date, there has only been one report of a US ally or partner doing so, the British transit of the Paracels in August. This cruise appears to have challenged Beijing’s straight baseline around the Paracels. (Under UNCLOS, only archipelagic states like Japan and the Philippines are entitled to draw straight baselines to define the boundaries of archipelagic territorial waters. As China is not an archipelagic state under UNCLOS, it must instead use baselines that hew closely to the shape of the islands themselves).

All Australian operations to date have avoided sailing within 12 nautical miles of Chinese-occupied features, and have avoided the Paracels altogether. The question is why Canberra has not done so, and as to whether it should.

First, there is the fear of Chinese retaliation. Chinese officials have regularly explained to Australian counterparts that there would be consequences for the bilateral relationship if Australia were to sail within 12 nautical miles of Chinese occupied features. Beijing’s intensely negative reaction to HMS *Albion*’s transit of the Paracels en route to Hanoi in August, which it has been reported did not transit within 12 nautical miles of the islands themselves, suggests that Beijing would also retaliate if the Royal Australian Navy were likewise to merely pass through the Paracels without approaching the 12 nautical mile territorial limit.

Second, there is the question of what such a freedom of navigation patrol would accomplish. American officials believe that FONOPs by countries other than the US can demonstrate that the concerns about Beijing’s excessive maritime claims are not merely the product of Washington’s apprehension about the rise of China and resulting great power competition, but rather indications of a broader apprehension about changes in Beijing’s statecraft as it becomes more powerful. But Beijing is unlikely to see an Australian FONOP as the result of anything other than American pressure. So if the goal is to demonstrate that Beijing’s behaviour is galvanizing broad opposition to its actions, a FONOP by such a close American ally after years of pressure may not be an effective response.

It is also worth noting that the US Navy’s program of FONOPs targets both allies and adversaries, and many countries in between, all over the world. The RAN has no history of conducting a global program of FONOPs, so an Australian Government would be unable to argue — as the US Government does — that a FONOP challenging Chinese claims is part of a broader, positive project designed to uphold international maritime law throughout the world. Rather, it would be doing precisely what Beijing argues that the US and its allies are doing — singling out the People’s Republic for particular scrutiny.

Given these factors, why are the Pentagon and Indo-Pacific Command pushing Canberra to conduct a FONOP? This paper argues that there are two reasons. First, during the second

half of the Obama Administration, FONOPs came to symbolize something much greater than the narrow legal logic that had previously supported them. Senator John McCain and other Republicans sought to highlight the four year lapse between FONOPs challenging Beijing's maritime claims in the South China Sea in a way that portrayed the Obama Administration as weak. The conduct of FONOPs, or lack thereof, came to be seen as a test of resolve. Some American analysts and officials have since then adopted this logic to evaluate the strength and independence of American allies' and security partners' positions in opposition to Beijing's violations of rules and norms of behaviour in the region. In rushing to evaluate the steadfastness of the Australian position, they appear to have discarded any serious consideration as to whether the operations would advance goals shared by both governments with regard to Beijing's behaviour in the South China Sea.

Second, the US defence establishment's preoccupation with FONOPs reflects a lack of imagination on the part of defence officials and analysts in Washington and Honolulu. The tendency to simply copy and paste tactics from the American context into the Australian context shows a lack of effort on the part of American officials to try to understand the Australian perspective and strategic environment.

After several years of focus on FONOPs, there is now a broad recognition in Washington that regular American FONOPs serve an important legal purpose, and should be conducted regularly, but will do little to shape Chinese behaviour in the region. Unfortunately, the Pentagon and Indo-Pacific command under both the Obama and Trump Administrations do not yet appear to have been able to identify or execute a strategy that *would* shape Chinese behaviour. In the absence of new ideas, FONOPs have continued to serve as a test of resolve in both the American and Australian context, despite broad acknowledgement that they are not fit for purpose.

While American analysts have occasionally caricatured as timorous Australia's decision not to conduct FONOPs in the South China Sea, it should primarily be seen as a sign of greater circumspection on the part of Canberra, and the independence of its approach.

Looking Ahead: The Trade War and the 2019 Election

As noted above, one factor that may have offered Australia additional protection against Chinese pressure in recent months has been the Trump Administration's trade war with China.

That is not to say that Australian policymakers are supportive of the trade war, which has caused great anxiety throughout the region. Australian businesses do not have as much intellectual property to protect as their American counterparts, so are less moved by appeals to fairness in this regard from Washington. Moreover, Australia harbours concerns that a tariff war with China will reduce Chinese output in a way that would hit its demand for Australian raw materials. Over the past two years, trade has been one of the few issues on which Australian members of Cabinet have been willing to speak frankly about their differences with the Trump Administration, including by supporting the conclusion Trans-Pacific Partnership following the United States' withdrawal.

But the trade war appears to have prompted Beijing to seek rapprochement with several of the states with which it was at odds as recently as the beginning of the year, including India, Japan, and Singapore. Though Australia was not brought in from the cold at the

same time as these governments, by late 2018 it appeared to have followed them — with the first visit by a foreign minister to Beijing in two years. That does not mean that Canberra is likely to take up Beijing’s argument in the trade war in any particularly active way. But it could remain neutral in the dispute while taking advantage of Beijing’s isolation to re-establish the relationship on the equilibrium described in Turnbull’s August address.

It is an equilibrium that is likely to be embraced by a future Labor Government. Too often foreign observers assume that Liberal-National coalition governments in Australia are tougher on China than Labor governments. But the split on China in Australia is not between the parties, but within them, and none of the key portfolios on Labor’s front-bench are held by members sympathetic to Beijing.

Moreover, there is a much larger schism between business interests and government that tends to push politicians toward a harder line on Beijing when they enter Government. Former Prime Minister Malcolm Turnbull was known as a Sinophile before he ousted Tony Abbott as prime minister in 2015, but once in government and receiving intelligence briefings he quickly adopted a tougher position. Any Labor front-benchers entering the ministry in 2019 may undergo a similar transformation.

Conclusion

The past two years have proven a difficult period for relations between Canberra and Beijing. But the Turnbull Government’s determination to see it through has perhaps established a new equilibrium in the relationship more forgiving of friction on issues critical to Australian interests. At the same time, Australia has exercised forbearance where pressure from Washington would have led to unproductive tension.

Remarkably, despite a low point in the relationship earlier this year, Beijing’s much-feared tools of economic coercion were barely deployed, suggesting that China has less leverage than many imagined. The trade war between the Washington and Beijing is likely to make them even less effective, though it could have negative consequences for Australian exports.

If this new equilibrium can be maintained, Australia may be able to put off – for a few more years – the need to choose between its history and its geography.

Aaron L. Connelly is Director of the Lowy Institute’s Southeast Asia Project. He sets the Institute’s research agenda on the region by commissioning analyses and organising programs of events and visiting fellows. His own research focuses on the international relations of Southeast Asia, particularly the politics and foreign policy of Indonesia, and politics and conflict in Myanmar.

© Stiftung Wissenschaft und Politik, 2018

All rights reserved

This Working Paper reflects the author’s views.

SWP

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4
10719 Berlin
Telephone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org