

**AUSTRALIA-CHINA RELATIONS AT
CROSSROADS: THE CURRENT
STATE OF AFFAIRS**

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Executive Summary

1. Australia-China relations are at their lowest point in 50 years since the two countries established diplomatic ties in December 1972. There are few signs that the relationship will return to its earlier period of stability and expansion.
2. Over the past five decades, Australia and China have developed deep economic interdependence, and extensive diplomatic, educational and cultural ties. In 2014, the two countries formed a comprehensive strategic partnership. A free trade agreement was signed in 2015 when Australia also joined the Asian Infrastructure Investment Bank.
3. China has been Australia's largest trading partner for nearly two decades. More than one third of all Australian exports go to China. In recent years, Chinese students and tourists have also become major sources of income for Australia's higher education and tourism sectors. However, the relationship has deteriorated in recent years.
4. There are multiple factors affecting the bilateral relationship, both domestic and external, particularly in Australia's formulation and implementation of its China policy. Most critically, the alliance with the United States has always been an important anchor of Australian foreign and security policy, and more prominently in recent years in influencing how Canberra manages its ties with China.
5. Until recently, Canberra adopted a pragmatic approach to balancing between its alliance with the United States, which is essential for its security and deepening economic ties with China. This was possible during periods of relatively stable US-China relations. However, since 2017, both the external and domestic environments changed and Australia's balancing act has become untenable.
6. Domestic politics in Australia affect its China policy. Governments under the Australian Labour Party place priorities on multilateralism, Asia, and diplomatic approaches to managing bilateral differences with China, while recognising the importance of the alliance for security and important international issues.

7. The Liberal-National Party coalition governments, on the other hand, view the alliance with the United States as the cornerstone of Australia's foreign and security policy. They tend to follow US lead on important international and regional issues and more recently have taken hardline policies towards China, from the Huawei ban to the call for independent international inquiry into the origins of the COVID-19.

8. Despite the serious diplomatic strains between the two countries, Australia-China two-way trade remains strong, largely as a result of rising commodity prices such as iron ore and liquified natural gas. However, whether this will last is not guaranteed; any further deterioration of the relationship will inevitably affect the economic ties.

AUSTRALIA-CHINA RELATIONS AT CROSSROADS: THE CURRENT STATE OF AFFAIRS

YUAN Jingdong*

Australia-China Relations Reeling from Political Stalemate

- 1.1 The year 2022 marks the 50th anniversary of the establishment of diplomatic relations between Australia and China. Instead of celebrating a significant milestone, Beijing and Canberra likely will find themselves stuck in protracted animosity for some time to come. Indeed, never have ties between Australia and the People's Republic of China (PRC) been so estranged. As Geoff Raby, a former Australian ambassador to the PRC, remarked, the bilateral relationship is at its 'lowest ebb'.¹
- 1.2 Gone are the days when Beijing and Canberra often touted their 'comprehensive strategic partnership'; today, their political leaderships have stopped meeting one another – albeit it seems, not for a lack of trying on Australia's part. From trade disputes to security issues affecting both countries, normal diplomatic channels have frozen, leaving bilateral exchanges to acrimonious media charges and counter charges. While a change of government to Labour in the upcoming 21 May elections may provide a window for reconciliation, it will not fundamentally change a relationship fraught with deep-seated distrust and growing disputes.
- 1.3 Despite diplomatic tensions, bilateral trade has so far weathered the deterioration, including China's economic sanctions against a number of Australian exports such as wine, barley, coal and beef. Two-way trade in the past two years has demonstrated strong growth, largely due to the historically high commodity prices from iron ore

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¹ Geoff Raby, 'The lowest ebb – the decline and decline of Australia's relationship with China', *Pearls and Irritations*, 1 November 2020, <https://johnmenadue.com/geoff-raby-the-lowest-ebb-the-decline-and-decline-of-australias-relationship-with-china/>, accessed 14 August 2020.

to liquefied natural gas (LNG), of which Australia's share of total Chinese imports represents 60% and 44%, respectively.²

- 1.4 A host of factors accounted for the deterioration in relations: the structural causes of the inherent incongruence of the two countries' fundamental positions on a range of major international and regional issues; domestic politics and differences between Australia's major political parties on how to manage the country's relationship with China; external factors affecting bilateral relations, in particular the Australia-US alliance; and emerging security issues in an increasingly complex bilateral relationship characterised by deep economic interdependence.

Australia-China Relations at 50

- 2.1 Australia and China established diplomatic relations on 21 December 1972. For over five decades, bilateral relations have evolved into extensive ties of economic interdependence, social and cultural contacts, and growing diplomatic and security exchanges. In 2014, the two countries termed their relationship as a 'comprehensive strategic partnership'.
- 2.2 Successive Australian governments, either under the coalition of Liberal-National Parties (LNP) or the Australian Labour Party (ALP), have in general adopted a relatively consistent China policy despite the differences in their respective domestic policies. The early decades saw a steady growth of bilateral ties in all aspects and shared interests in opposing Soviet expansionism. Canberra responded positively to China's reform and opening up and played a critical role in facilitating China's integration into the regional economic structure such as the Asia-Pacific Economic Cooperation (APEC) framework in the early 1990s.
- 2.3 While the ALP governments (Hawke and Keating, 1983-1996) had embraced Asia and multilateralism as its foreign policy priorities, the Howard government (1996-2007) returned to an alliance-centred approach to its foreign relations. Canberra's

² Ron Wickes, Mike Adams, and Nicholas Brown, *Economic Coercion by China: The Impact on Australia's Merchandise Exports*. Adelaide, SA: Institute for International Trade, the University of Adelaide, July 2021, <https://iit.adelaide.edu.au/ua/media/1479/wp04-economic-coercion-by-china-the-effects-on-australias-merchandise-exports.pdf>, accessed 3 February 2022.

ties with Washington were further strengthened in the aftermath of the 9.11 terrorist attacks in America and the subsequent US invasions of Afghanistan and Iraq. Australia was among the first and few allies to directly participate in the military operations.

2.4 Australia-China relations continued to grow during this period. This was most prominently reflected in the rapidly expanding trade where Australian natural resources became important exporting items to China. In 2006, the two countries signed a 25-year, A\$25-billion contract for Australian LNG export to China. Bilateral ties also extended to areas including high-level visits, human rights dialogues and limited security contacts. Canberra adopted a balanced and pragmatic policy towards China, actively promoting economic relations while hedging against China's rise by strengthening its alliance with the United States and expanding security ties with US allies such as Japan.³

2.5 The ALP governments (2007-2013) continued the China policy of balancing between Australia's economic interests and security needs. Kevin Rudd, the first Mandarin-speaking prime minister of a major Western country, promoted a Pacific Community to engage China and elevate Australia's role in regional diplomacy as a middle power. Bilateral economic ties continued to grow, with China in 2007 overtaking Japan as Australia's largest trading partner.

2.6 However, Rudd was also wary of China's rise and its implications for regional security. Canberra's concerns over China's growing power were reflected in its 2009 Defence White Paper and were an important factor in Australia's endorsement of the Obama administration's pivot to Asia policy, including the 2011 agreement to rotations of US Marine Corps in Darwin. At the same time, with the release of the *Australia in the Asia Century* white paper in 2012 and the establishment in 2013

³ Roy Campell McDowall, *Howard's Long March: The Strategic Depiction of China in Howard Government Policy from 1996 to 2006*. Canberra, ACT: Strategic and Defence Studies Centre, Australian National University, 2009, <https://press-files.anu.edu.au/downloads/press/p8361/pdf/book.pdf>, accessed 24 March 2022.

of strategic dialogues at the prime minister and foreign minister levels, the ALP government remained committed to engaging China.⁴

- 2.7 The 2013 federal elections saw the return of the LNP coalition government. Australia-China relations continued to grow, with Chinese President Xi Jinping's state visit in 2014 when he spoke at the joint session of Parliament. In 2015, the two countries concluded a free trade agreement. Despite US pressure, Australia joined the China-sponsored Asian Infrastructure Investment Bank (AIIB) as one of its founding members.
- 2.8 The AIIB case is illustrative. While the Abbott government initially chose not to join due to national security reasons and pressure from the Obama administration, Canberra's position shifted when major European allies of the United States decided to participate, not wanting to be left out of a major source of capital and the opportunity to participate and affect the development of this new institution.⁵
- 2.9 This period also marked rapid growth in Chinese investments in Australia and continued performance in two-way trade, with Australia registering significant surpluses.
- 2.10 By the end of the decade, bilateral trade in goods and services reached A\$245 billion, about 30% of Australia's total foreign trade.⁶ Meanwhile, China had also become and remains the top country with the largest numbers of students and tourists in Australia.
- 2.11 Indeed, higher education has become a major source of income for Australia, and Chinese students represent close to a third of all international students enrolled in Australian universities. Prior to the closing of Australian borders due to the outbreak

⁴ 'Kevin Rudd and Australia-China Relations', The Australia-China Story, <https://aus.thechinastory.org/archive/kevin-rudd-and-australia-china-relations/>, n.d., accessed 23 March .2022

⁵ Tony Walker, 'Australia's Balancing Act between China and the US', *Australian Financial Review*, 13 November 2014, <https://www.afr.com/politics/federal/australia-s-balancing-act-between-china-and-the-us-20141113-11mauy>, accessed 20 January 2018.

⁶ Edmund Tang, 'Resilient export industries deliver record trade surplus in 2020', Austrade, 3 August 2021, <https://www.austrade.gov.au/news/economic-analysis/resilient-export-industries-deliver-record-trade-surplus-in-2020>, accessed 15 March 2022.

of COVID-19, there were 173,724 (end of March 2020) enrolled Chinese students. In comparison, the next largest student cohort, from India, was 97,737.⁷ China has also become the number one source of tourists to Australia. Prior to COVID-19, 1.4 million Chinese tourists visited the country, accounting for one third of all foreign visitors and spending of A\$12.2 billion.⁸

2.12 Bilateral relations began to experience increasing strains in 2016, due to both domestic and external developments for Australia and China. In Australia, concerns over growing Chinese influence and investments in critical infrastructure have led Canberra to pass legislation on foreign influence and greater scrutiny of foreign capital. In addition, the Australian government has publicly expressed its concerns and criticisms of issues ranging from the mistreatment of the Turkic Muslim population in Xinjiang and enactment of the controversial national security legislation in Hong Kong.⁹ In recent years, Canberra has shifted from its previously neutral position on the South China Sea territorial disputes to stepping up its rhetoric against PRC's 'invalid' claims.¹⁰

2.13 Not surprisingly, China has lashed out at Australia for its comments on the Uighurs situation in Xinjiang and accused Canberra of 'interfering' in China's internal affairs by offering visas to Hong Kong residents.¹¹ Beijing was particularly upset when the Morrison government proposed an independent international inquiry into the origins of the COVID-19 pandemic. Cheng Jingye, the Chinese ambassador to Australia at the time, issued warnings that Australia could be paying heavy

⁷ Peter Hurley, *Coronavirus and International Students*. Melbourne: Mitchell Institute, Victoria University, October 2020, <https://www.vu.edu.au/sites/default/files/international-student-update-2020-mitchell-institute.pdf>, accessed 6 April 2022.

⁸ Mark Saunokonoko and Tara Blancato, 'No tourists from China leaves \$12b black hole in crippled Aussie tourism sector', 9News, 21 February 2022, <https://www.9news.com.au/national/no-chinese-tourists-punches-giant-12-billion-hole-in-hammered-australian-tourism-sector/22b3dc4b-665d-4053-b528-bfe6ae679d70>, accessed 26 April 2022.

⁹ Max Walden, 'Australia joins UK, Japan in expressing concern over China's treatment of Uyghurs, Hong Kong', ABC (Australia) News, 1 July 2020, <https://www.abc.net.au/news/2020-07-01/australia-statement-condemn-china-over-hong-kong-uyghur-abuses/12409268>, accessed 24 August 2020.

¹⁰ Carl Thayer, 'Australia Abandons Its Neutrality on the South China Sea Maritime Disputes', *The Diplomat*, 27 July 2020, <https://thediplomat.com/2020/07/australia-abandons-its-neutrality-on-the-south-china-sea-maritime-disputes/>, 31 March 2022.

¹¹ Liu Xin and Liu Xuanzun, 'Australia Likely to Face Unbearable Consequences', *Global Times*, 29 July 2020, <https://www.globaltimes.cn/content/1196106.shtml>, accessed 5 August 2021.

economic price for its anti-China position. Beijing accuses Canberra of ‘pandering’ to the United States in an anti-China crusade.¹² Beijing’s warnings have been followed by concrete punitive measures against Canberra resulting in over \$20 billion in lost sales to Australian businesses ranging from barley, wine, coal, to beef and lobster.¹³

- 2.14 While Australia-China relations have made significant progress since 1972, resulting in ever growing economic interdependence through trade and investment, Beijing and Canberra are not oblivious to the fact that Australia and China are two polities with vastly different histories, ideologies, values and socioeconomic systems, and hold divergent as well as shared views on regional and global issues. Some of these differences and disputes relate to such issues as human rights, the Dalai Lama/Tibet, Taiwan, the South China Sea, among others.

Australia-US Alliance and Canberra’s China Policy

- 3.1 Australia-China relations are significantly influenced by the seven decades of close alliance relationship between Canberra and Washington. Formed during the early years of the Cold War, the alliance (officially known as The Australia, New Zealand, United States Security Treaty, or ANZUS when it was established in 1951) has endured major changes in international politics and regional geopolitical shifts, and remained one of the key pillars for security and prosperity of the two democratic countries.¹⁴
- 3.2 Australia’s vulnerability to security threats due to its geographic location and unique endowments—a continental-sized territory thinly populated but with an extensive

¹² Georgia Hitch and Jordan Hayne, ‘Federal Government Calls Chinese Ambassador about Comments on Trade Boycott over Coronavirus Inquiry’, ABC (Australia) News, 28 April 2020, <https://www.abc.net.au/news/2020-04-28/government-calls-chinese-ambassador-boycott-coronavirus-inquiry/12191984>, accessed 30 April 2020.

¹³ Richard Wood, ‘China trade sanctions “failing to cripple Australian economy”’, 9News, 13 April 2021, <https://www.9news.com.au/national/china-trade-sanctions-did-not-hurt-australian-exporters-as-expected/b0c23816-d964-4f0a-941d-b44e65329fa5>, accessed 15 April 2021.

¹⁴ An overall assessment can be found in Peter J Dean, Stephan Frühling and Brendan Taylor, eds., *Australia’s American Alliance*. Carlton, VIC: Melbourne University Press, 2016. See also, United States Studies Centre, the University of Sydney. *The Alliance at 70: The Story of the Alliance between Australia and the United States*. Sydney: USSC, 2021, <https://www.ussc.edu.au/books/the-alliance-at-70>, accessed 10 December 2021.

coastline and vast areas to defend, have historically influenced the country's statecraft and diplomacy, the key of which has always been to seek 'great and powerful friends' for its security.¹⁵

3.3 Australia has demonstrated its unswerving support for all major US foreign policy actions by dispatching troops to the Korean War, Vietnam War, and invasions of Afghanistan and Iraq. In recent year, Australia has also been among the first to commit air power and Special Forces to fight against the Islamic State of Iraq and Syria (ISIS) in northern Iraq.¹⁶ Australia has also provided for the establishment of joint intelligence gathering and surveillance facilities on its territories, and in return has been granted access to intelligence and advanced US weapons systems.¹⁷

3.4 Of particular importance, both during the Cold War years and in today's strategic environments, are the three joint US-Australia facilities at North West Cape (for submarine communication), Pine Gap (surveillance of Soviet nuclear capabilities) and Nurrungar (early warning of Soviet attacks).¹⁸ These facilities also provide Australia with the requisite intelligence and the opportunities to work with its US counterpart and the Five-Eye partners (Canada, New Zealand and the UK) in intelligence gathering and sharing.¹⁹

3.5 While the Australia-US alliance remains the anchor for Australia's security, their interests and policy priorities do not always align. Australia has developed close economic ties with China, which is becoming a major destination for its merchandise trade, services, education and tourism.

¹⁵ Allan Gyngell, *Fear of Abandonment: Australia in the World since 1942*. Melbourne: La Trobe University Press, 2017.

¹⁶ Bates Gill, 'The U.S.-Australia Alliance: A Deepening Partnership in Emerging Asia', in Ashley J Tellis, Abraham M Denmark and Greg Chaffin, eds., *Strategic Asia 2014-15: U.S. Alliances and Partnerships at the Center of Global Power*. Seattle, WA and Washington, DC: The National Bureau of Asian Research, 2015, pp. 90-91.

¹⁷ Felicity Ruby, 'Silent Partners: US Bases in Australia', *Australian Foreign Affairs*, 10 (2020), pp. 29-53.

¹⁸ Kim Beazley, 'ANZUS at 70: The Joint Facilities in the 1980s', *The Strategist*, 18 August 2021, <https://www.aspistrategist.org.au/anzus-at-70-the-joint-facilities-in-the-1980s/>, accessed 27 August 2021.

¹⁹ Andrew O'Neil, 'Australia and the "Five Eyes" intelligence network: the perils of an asymmetrical alliance', *Australian Journal of International Affairs*, 71:5 (2017), pp. 529-543.

- 3.6 The alliance has at times displayed signs of discordance. In 2004, for instance, then Australian foreign minister Alexander Downer suggested that ANZUS might not apply if there was a military conflict over the Taiwan Strait involving the United States. Similarly, in 2014, Australian defence minister David Johnston also stated that he did not believe Australia would automatically join the United States in a regional conflict.²⁰
- 3.7 For Australia, a significant challenge has always been the maintenance of a balance between an increasingly critical economic relationship and a strengthening, solid security alliance of seven decades. As a junior partner, there is perhaps limited scope for Canberra to manoeuvre just as the government must do its uttermost to advance both its economic and security interests.²¹ Indeed, Canberra often finds itself walking on a tight rope, trying at once to maintain an outstanding and most valuable military alliance with the United States, while keeping and repairing its bilateral ties with Beijing for economic reasons.²²
- 3.8 On the other hand, US China policy, which in recent years has become much more hawkish, inevitably places constraints on Australia's own policy towards China. In 2010, Australian National University Professor Hugh White published a rather prescient essay in which he suggested that maintaining US primacy in the region was becoming more costly given China's growing power and Beijing's determination to expand its influence. As a result, blindly believing that alliance was the only means to securing Australian interests would become more tenuous.²³
- 3.9 China-US relations have experienced steep decline since Trump came into power in 2017. The administration adopted a more hawkish China policy that included the trade war, new national security and defence strategies that were clearly aimed at China, and closer ties with Taiwan. The United States ramped up military activities

²⁰ Gill, p. 91.

²¹ Paul Kelly, 'Australia's Wandering Eyes', *The American Interest*, 8:5 (2013), pp. 62-67.

²² Michael Wesley, 'The Challenge of Triangulation: The Impact of China on the Australia-US Alliance', *Australian Journal of Politics and History*, 67:3-4 (2021), pp. 405-420.

²³ Hugh White, 'Power Shift: Australia's Future between Washington and Beijing', *Quarterly Essay*, 39 (August 2010), pp. 1-74.

in the Western Pacific to demonstrate its determination to maintain freedom of navigation and a free and open Indo-Pacific.²⁴ The United States has conducted more freedom of navigation operations (FONOPs) in the South China Sea in recent years to challenge China's territorial claims.²⁵

- 3.10 The overall deterioration in US-China relations has important implications for Australia's China policy. Canberra has sought to ring fence its economic ties with China while supporting US strategy in the region, in particular with regard to securing a rules-based order and strengthening Australia-US security cooperation. At the same time, Australia has been more cautious in following the US lead in conducting its own FONOPs in the South China Sea.
- 3.11 That Australia has maintained a close alliance relationship with the United States in itself does not really concern Chinese analysts, many of whom readily point out why Canberra needs Washington for its own security. What is at issue, though, is the extent to which Australia not only follows US policy but also provides critical support to America's military operations that pose direct threats to Chinese interests.
- 3.12 Indeed, at a time when the Australia-US alliance is being strengthened due to perceived and real Chinese threats to their shared interests, the greater risk is that Australia may be entrapped in a military conflict not of its own making but out of an obligation to support its alliance partner and, as a result, puts its own security in danger. This is the alliance security dilemma.²⁶
- 3.13 Nonetheless, the Morrison government has in effect discarded Australia's long-held 'strategic ambiguity' of managing its relations with China and replaced it with a decidedly 'strategic clarity' by firmly aligning with Washington's positions. This

²⁴ Department of Defence, *Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region*. Washington, DC: DoD, 2019, <https://media.defense.gov/2019/Jul/01/2002152311/-1/-1/1/DEPARTMENT-OF-DEFENSE-INDO-PACIFIC-STRATEGY-REPORT-2019.PDF>, accessed 20 February 2020.

²⁵ David B Larter, 'In challenging China's claims in the South China Sea, the US navy is getting more assertive', *Defense News*, 6 February 2020, <https://www.defensenews.com/naval/2020/02/05/in-challenging-chinas-claims-in-the-south-china-sea-the-us-navy-is-getting-more-assertive/>, accessed 21 May 2020.

²⁶ Glenn H Snyder, 'The Security Dilemma in Alliance Politics', *World Politics*, 36:4 (1984), pp. 461-495.

hardened policy stand has resulted in closer security cooperation with the United States, including endorsing the Trump administration's 'free and open Indo-Pacific' strategy, support of the rules-based (and US-led) order, active participation in the Quadrennial Security Dialogues (the Quad), and most recently, the launch of AUKUS, a trilateral defence cooperation arrangement to provide Australia with eight nuclear-powered attack submarines and collaboration in defence technology development such as artificial intelligence, quantum and cyber.²⁷

- 3.14 Australia is among the first regional powers to embrace the geostrategic concept of the Indo-Pacific, with analysts and government documents increasingly using the concept both to recognise the growing importance of the Indian Ocean and its link to the Pacific as the world's busiest gateways for seaborne trade and energy transports and also Australia's unique geographic location in the Indo-Pacific.²⁸

Domestic Politics and Australia-China Relations

- 4.1 Australia has always maintained that middle powers can play a more prominent role in regional and global affairs.²⁹ In the late 1980s, it was instrumental in setting up APEC, and in the early 1990s it also introduced the concept of cooperative security. When Kevin Rudd became prime minister in 2007, he proposed an active and creative middle-power diplomacy—to lead, not to follow, and based in Asia but with a global vision.³⁰

²⁷ Rory Medcalf, 'In defence of the Indo-Pacific: Australia's new strategic map', *Australian Journal of International Affairs*, 68:4 (2014), pp. 470-483; Poornima Vijaya, 'Australia's Role in the Quad and Its Crumbling Ties with China', *Journal of Indo-Pacific Affairs* (Winter 2021), pp. 136-144; Thomas Wilkins, 'The AUKUS Trilateral Security Partnership and What It Means for Australia'. International Information Network Analysis, 15 November 2021, https://www.spf.org/iina/en/articles/thomas_03.html, accessed 18 April 2022.

²⁸ David Scott, 'Australia's embrace of the "Indo-Pacific": new term, new region, new strategy', *International Relations of the Asia-Pacific*, 13:3 (September 2013), pp. 425-448.

²⁹ Andrew Cooper, Richard A Higgott and Kim R Nossal, *Relocating middle powers: Australia and Canada in a changing world order*, UBC Press, Vancouver, 1993; Gareth Evans and Bruce Grant, *Australia's foreign relations in the world of the 1990s*, University of Melbourne Press, Melbourne, 1991.

³⁰ Carlyle A Thayer, 'Kevin Rudd's multi-layered Asia Pacific Community initiative', *East Asian Forum*, 22 June 2009, <https://www.eastasiaforum.org/2009/06/22/kevin-rudds-multi-layered-asia-pacific-community-initiative/>, accessed 31 March 2022.

- 4.2 While there is significant bipartisan support of the alliance, Australia's political parties tend to place different emphases on and display divergent preferences for the alliance's role in Australia's overall foreign and security policy, particularly pertaining to such critical questions as middle power diplomacy, regional multilateral institutions and multilateralism in general, and dealing with China. ALP has tended to be more receptive to multilateralism and to a better balance between alliance solidarity and active, middle power diplomacy, while LNP governments are more inclined to place the alliance as a key pillar of Australian foreign policy.³¹
- 4.3 On China specifically, ALP governments have been more inclined to engagement than confrontation. Former Prime Minister Paul Keating has been a consistent critic of the Coalition governments' alliance-driven policy and remains an advocate for a more independent and balanced foreign policy.³² Likewise, Senator Penny Wong, opposition shadow foreign minister, also argues for a careful and nuanced approach to managing Australia's alliance relationship with the United States and dealing with the rise of China by engaging and promoting the region's multilateral institutions.³³ On numerous occasions, she has criticised the Morrison government's unnecessarily provocative posturing, alarmist rhetoric and 'drums of war' with reference to China, which she charges that the Coalition exploits for electoral politics. The Coalition's tactic is clearly to depict ALP as 'weak on China'.³⁴
- 4.4 ALP, while recognising the challenge of facing China's rise and Beijing's increasingly assertive, and at times aggressive foreign policy, seek to exercise autonomy, agency and pragmatism within the context of the US-Australia alliance and go beyond what have been characterised as the 'two fatalisms', that China's rise

³¹ Michael D Cohen, 'Political Parties, Australia and U.S. Alliance, 1946-2016', *Asian Security*, 16:3 (2020), pp. 323-342.

³² Paul Karp, 'Paul Keating Calls for More Independent Australian Foreign Policy after US Elections', *The Guardian*, 10 November 2016, <https://www.theguardian.com/australia-news/2016/nov/10/paul-keating-calls-for-more-independent-australian-foreign-policy-after-us-election>, accessed 9 October 2020.

³³ Penny Wong, 'The End of Orthodoxy: Australia in a Post-Pandemic World', *Australian Foreign Affairs*, 9 (July 2020), pp. 100-118.

³⁴ Tony Walker, 'As the Coalition plays up China fears ahead of an election, how might Albanese position himself?' *The Conversation*, 10 February 2022.

is inevitable and immune to accountability so one should just get used to it, and that conflict is inevitable and one therefore needs to get used to it.³⁵

4.5 The LNP governments, on the other hand, have generally anchored its foreign policy in alignment with the United States and the alliance's overall approaches to regional security issues. However, there are variations in how the China policy has been formulated and implemented. The Howard government's pragmatic approach to managing China's rise reflected his deep experience as a seasoned politician, close relationships with US leaders, especially President George W Bush, and an overall stable US-China relationship. These conducive conditions are absent in today's Australia-China relations.³⁶

4.6 The deterioration of Australia-China relations began in 2017 when concerns over Chinese political interference in Australian politics triggered heated debates and eventually led to the passage of the foreign interference law in late 2018. While no foreign country is named, it is common knowledge that China is the target.³⁷ Subsequent reports and comments by senior government officials also underline what Canberra considers as extensive activities in Australia backed by Beijing.³⁸ Needless to say, Australia's foreign interference law also has 'left many Chinese-Australians and their community organizations caught in a contest for their loyalty'.³⁹

4.7 Meanwhile, the Turnbull government banned Chinese communications providers Huawei and ZTE from participating in developing Australia's 5G network, the first

³⁵ Senator Penny Wong, 'Speech to the US Studies Centre', 23 September 2021.

³⁶ Paul Kelly, *Howard's Decade: An Australian Foreign Policy Reappraisal*, Lowy Institute Paper 15. Sydney: Lowy Institute for International Policy, 2006, https://www.lowyinstitute.org/sites/default/files/pubfiles/Kelly%2C_Howard%27s_decade_1.pdf, accessed 2 April 2022.

³⁷ Kelsey Munro, 'Australia's New Foreign-Influence Laws: Who Is Targeted?' *The Interpreter*, 5 December 2018, <https://www.lowyinstitute.org/the-interpreter/australia-new-foreign-influence-laws-who-targeted>, accessed 24 August 2020

³⁸ Ben Packham, 'China meddling "staggering", makes case for interference law', *The Australian*, 16 November 2021.

³⁹ Jennifer Hsu, Richard McGregor and Natasha Kassam, *Lines Blurred: Chinese Community Organizations in Australia*, Sydney: Lowy Institute for International Policy, November 2021.

Five-Eye country to do so.⁴⁰ Canberra has also tightened its review of foreign investments in what are considered to be national security sensitive sectors and critical infrastructures, effectively preventing a number of high-profile Chinese acquisition/merger bids for Australian dairy farms and electricity grids.⁴¹ Canberra infuriated Beijing by calling for an independent international inquiry into the origins of the COVID-19 pandemic. The virus originated in Wuhan and Beijing imposed a complete lockdown of the city. It has refused to take the blame and resisted any public inquiry not sanctioned and carried out by the World Health Organisation (WHO); WHO subsequently sent a team of international experts to the city, nearly a year after the pandemic first broke out in China.⁴²

4.8 Chinese responses to these developments have been selective though the message has been clear. Beijing has introduced a series of measures on Australian exports to China, imposing high tariffs on beef, barley and coals, and launching investigation into Australian wine products, citing anti-dumping and protecting domestic industries to justify its actions. Canberra does not agree that these are purely trade disputes; Prime Minister Morrison has declared he will never trade away Australian sovereignty.⁴³

4.9 Australia has resisted China's economic coercion and doubled down on a decidedly hard-line policy towards China. In April 2021, the Morrison government, using the recently passed Foreign Relations Act, cancelled Victorian state government's

⁴⁰ BBC, 'Huawei and ZTE Handed 5G Network Ban in Australia', 23 August 2018, <https://www.bbc.com/news/technology-45281495>, accessed 24 August 2020.

⁴¹ Alice Uribe, 'Coronavirus: Foreign Investment Scrutiny Tightened in FIRB Revamp', *The Australian*, 30 March 2020, <https://www.theaustralian.com.au/business/economics/coronavirus-foreign-investment-scrutiny-tightened/news-story/cab47063dc8d978dbe924cd740f1929a>, accessed 30 March 2020; Peter Hatcher, 'Revealed: Why the Sale of Ausgrid to Chinese Buyers Was Vetoed', *Sydney Morning Herald*, 28 May 2018, <https://www.smh.com.au/opinion/revealed-why-the-sale-of-ausgrid-to-chinese-buyers-was-vetoed-20180528-p4zhxh.html>, accessed 24 August 2020.

⁴² Michael Walsh, 'Australia called for a Covid-19 probe. China responded with a trade war'. ABC News, 3 January 2021, <https://www.abc.net.au/news/2021-01-03/heres-what-happened-between-china-and-australia-in-2020/13019242>, accessed 2 April 2022; John Zarocostas, 'WHO team begins Covid-19 origins investigation', *The Lancet*, 6 February 2021, [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(21\)00295-6/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00295-6/fulltext), accessed 2 April 2022.

⁴³ Natasha Kassam, 'Great Expectations: The Unravelling of the Australia-China Relationship', The Brookings Institution, 20 July 2020, <https://www.brookings.edu/articles/great-expectations-the-unraveling-of-the-australia-china-relationship/>, accessed 27 August 2021; Andrew Tillett and Michael Smith, 'PM Stands Firm Against China's Wine Threat', *Australian Financial Review*, 19 August 2020, <https://www.afr.com/politics/federal/pm-stands-firm-against-china-s-wine-threat-20200819-p55n7l>, accessed 22 April 2022.

MOUs (memorandum of understanding) it had signed with China's National Development and Reform Commission on the BRI (Belt and Road Initiative).⁴⁴ Needless to say, Beijing responded to the cancellation, accusing Canberra of 'unreasonable provocation' and warning that the action would further harm bilateral relations.⁴⁵

4.10 Canberra also conducted a review of the Darwin Port lease with the Chinese state-owned Landbridge Group. In the end, it allowed the deal to stay.⁴⁶ The Coalition government does not shy away from calling out Beijing's actions that undermine the regional rules-based order.⁴⁷ Defence Minister Peter Dutton on numerous occasions publicly suggests that Australia would join US-led military actions if Taiwan is attacked, though he has retracted from such provocative comments in recent statements.⁴⁸

4.11 The latest spat between Beijing and Canberra involves a bilateral agreement between China and the Solomon Islands, which reportedly would allow Beijing to dispatch defence personnel in the event that Chinese citizens or economic interests are endangered and require assistance. The Morrison government accuses China of extending military presence to the South Pacific and warns that Australia considers it a red line should China build a military base there.⁴⁹ Canberra is so concerned that it sent a minister to Solomon in an apparent attempt to convince Prime Minister

⁴⁴ Mick Tsikas, 'Morrison government quashes Victoria's Belt and Road deal with China', *The Conversation*, 21 April 2021, <https://theconversation.com/morrison-government-quashes-victorias-belt-and-road-deal-with-china-159480>, accessed 22 April 2021.

⁴⁵ Jamie Smyth, Christian Shepherd and Thomas Hale, 'China berates Australia for cancelling Victoria BRI projects', *Financial Times*, 22 April 2021, <https://www.ft.com/content/f2c9a79f-da04-4f84-aacf-01a0d059cfac>, accessed 25 April 2021.

⁴⁶ Ross Muir, 'More at stake over Darwin Port than the Landbridge lease', *Asialink*, 2 June 2021, <https://asialink.unimelb.edu.au/insights/more-at-stake-over-darwin-port-than-the-landbridge-lease>, accessed 9 June 2021.

⁴⁷ Hamish McDonald, 'Australia's shaky "southern anchor" in push on China', *Asia Times*, 13 February 2022.

⁴⁸ Peter Hatcher, 'Dutton raises stakes over Taiwan with talks of war', *Sydney Morning Herald*, 16 November 2021, <https://www.smh.com.au/national/dutton-raises-stakes-over-taiwan-with-talk-of-war-20211115-p598wa.html>, accessed 18 November 2021.

⁴⁹ Geoff Chambers and Ben Packham, 'Scott Morrison's "red line" warning on China base', *The Australian*, 25 April 2022, <https://www.theaustralian.com.au/nation/politics/scott-morrisons-red-line-warning-on-china-base/news-story/aedc30c4be318b5ee7fcc13a5236fe7d>, accessed 25 April 2022.

Sogavare to scrap the pact.⁵⁰ Washington sent Kurt Campbell, the Biden administration's coordinator for the Indo-Pacific to the Solomon Islands to express similar concerns to the Sogavare government.⁵¹

4.12 With the federal elections pending, the politicisation of elections is already heating up, with Coalition accusing ALP as Beijing's preferred governing party in the upcoming Australian federal elections. This allegation has been rejected by the ALP. Anthony Albanese, leader of the opposition, suggests that on national security issues, there is no daylight between the ALP and the Coalition. He emphasises that even if the ALP wins the next election, relations with China will still be a challenge to manage. He further points out the three pillars of an ALP foreign policy are the alliance with the United States, engagement with regional partners and engagement in multilateral forums such as the UN. He maintains that Australia can uphold its principles on human rights, a rules-based order, be critical of China with regard to Hong Kong and Xinjiang, while striving for an economic relationship, just as the Howard government had done.⁵²

'It's the Economy, Stupid'

5.1 Without doubt, economic ties have been the most resilient and positive ingredient of the China–Australia bilateral relationship. From a country that Australia did not understand and feared during the Cold War, to one that gradually became normal and friendly in the early decades after the establishment of diplomatic relations in 1972, and to today's almost indispensable role in several key areas of the Australian economy, China has changed from an adversary to an important partner. The scope, speed and scale of Australia–China relations—from commodity trade to higher education and tourism—were unimaginable in 1972.

⁵⁰ Andrew Greene, 'Australia's Pacific Minister Zed Seselja urges Solomon Islands Prime Minister not to sign China security deal', ABC News, 13 April 2022, <https://www.abc.net.au/news/2022-04-13/pacific-minister-solomon-islands-china-security-deal/100989656>, accessed 18 April 2022.

⁵¹ Farrah Tomazin, 'US warns Solomon Islands over China pact; will fast track new embassy', *Sydney Morning Herald*, 23 April 2022, <https://www.smh.com.au/world/north-america/us-warns-solomon-islands-over-china-pact-will-fast-track-new-embassy-20220423-p5afjn.html>, accessed 25 April 2022.

⁵² Anthony Albanese, 'Transcript: National Press Club Q&A', 25 January 2022.

- 5.2 Two likely key drivers have contributed to this phenomenal growth in Australia–China economic ties in the past two decades: China’s shift from consumer goods and light industries in the early decades of economic reform and opening up, which were largely based on labour-intensive processing and assembly of products aimed mainly at overseas markets, to a more recent emphasis on infrastructure developments that are capital and resource intensive.
- 5.3 Meanwhile, with hundreds of millions of people being lifted out of poverty and moving into the middle class, demands for housing and automobiles further drive up the need for minerals and energy supplies, which Australia is well positioned to provide. Iron ore has been one of the most critical commodities (others being crude oil and natural gas) that have sustained and allowed China to transform its economy, including a powerful steel industry that accounted for 57% of global output in 2020, with 88% of the iron ore for steel production sourced in the global seaborne market. Australia meets 60% of Chinese overseas imports.⁵³
- 5.4 Indeed, despite the political deep freeze, Australia-China economic ties remain strong. In 2020, Australian exports to China in their two-way trade (A\$245 billion) registered record new high (A\$159 billion) despite COVID-19 and recent tensions, thanks largely to growing Chinese demands for iron ore and rising commodity prices.⁵⁴ In contrast, after years of steady growth, Chinese investments in Australia have experienced significant declines in recent years, from a record year of US\$16.2 billion in 2008 to only US\$585 million in 2021, due largely to Canberra’s greater scrutiny of foreign investments and the COVID-19 pandemic.⁵⁵
- 5.5 However, the risks of a deteriorated bilateral relationship negatively affecting economic ties are real and cannot be ruled out, putting Canberra in an unenviable position—the spectre of both losing its security guarantee and its major market.⁵⁶

⁵³ David Uren, *Iron Ore Futures: Possible Paths for Australia Biggest Trade with China* (Barton, ACT: Australian Strategic Policy Institute, September 2021).

⁵⁴ Department of Foreign Affairs and Trade, China country brief, <https://www.dfat.gov.au/geo/china/china-country-brief>, accessed 31 March 2022.

⁵⁵ KPMG and the University of Sydney, *Demystifying Chinese Investment in Australia*. April 2022.

⁵⁶ Eryk Bagshaw, ‘Australian Trade with China Surges as Rest of the World Falls’, *Sydney Morning Herald*, 4 August 2020, <https://www.smh.com.au/world/asia/australian-trade-with-china-surges-as-rest-of-the-world->

- 5.6 Meanwhile, the extensive economic ties, especially growing Chinese investment and funding to Australia also presents serious challenges for Canberra—the risks of Beijing’s use of economic allure to gain access to and exert influence over Australian politicians and politics.⁵⁷ The need to diversify and the challenges of finding alternative export destinations and suppliers further highlight the importance of managing a critical bilateral relationship.
- 5.7 Japan offers a good example. Both Japan and Australia have extensive economic interdependence with China but have adopted different approaches in their respective China policy. While Tokyo and Canberra share similar views about the growing China challenge strategically and diplomatically, they have strengthened their security ties—through the Quad and the recently signed bilateral Reciprocal Access Agreement, with the latter allowing the two countries’ defence forces to train in each other’s territories in addition to joint military exercises, access to facilities and transfers of military equipment and technologies. However, the Japanese business community remains outspoken about the importance of maintaining economic ties with China and it has been more involved, including through back channels with politicians, to influence government policy.⁵⁸
- 5.8 In contrast, the Australian business community and sub-national actors such as states and territories, appear to be less vocal—at least publicly, with rare exceptions—in expressing their concerns over the potential economic consequences of the continuing deterioration of Australia-China relations at the politico-diplomatic level. To some extent, big business players, typically in the resource sectors, have not felt the need to intervene given that the bilateral diplomatic tension

falls-20200804-p55icy.html#:~:text=Australian%20exports%20to%20China%20have,rift%20between%20the%20two%20countries.&text=Trade%20with%20China%20was%20worth,to%20%2474.2%20billion%20this%20year, accessed 8 August 2020; James Laurenceson and Michael Zhou, *The Australia-China Science Boom*. Sydney: Australia-China Relations Institute, University of Technology Sydney, July 2020; James Laurenceson and Michael Zhou, *Small Grey Rhinos: Understanding Australia’s Economic Dependence on China*. Sydney: Australia-China Relations Institute, University of Technology Sydney, May 2019.

⁵⁷ Audrye Wong, ‘Peddling or Persuading: China’s Economic Statecraft in Australia’, *Journal of East Asian Studies* 21:2 (2021), pp. 283-304.

⁵⁸ Richard McGregor, ‘Australia can learn from Tokyo’s smarter approach to China’, *Nikkei Asia*, 5 January 2022.

has yet to seriously affect their bottom-line since the rise in commodity prices continue to deliver handsome paybacks.⁵⁹

- 5.9 However, there is no guarantee that the current state of bilateral relations will not spill over to the heretofore stable economic ties and even growing trade numbers. Several factors could threaten the viability of the economic interdependence between the two countries. China's slowing economy, partly due to COVID-19 and partly to Beijing's efforts in restructuring, could result in lesser demand for natural resources; China could choose to punish Australia by restricting imports of an expanded list of Australian products and discouraging Chinese students and tourists from going to Australia. Like Australia, China is also looking to diversify sources of suppliers for its commodity imports.

Changes Needed

- 6.1 Australia-China relations have experienced serious deterioration in recent years. There are multiple factors at play and no single factor could account for the downturn. By looking at the factors influencing Australian policy towards China and placing this policy within the broader contexts of Australia's alliance with the United States and its domestic politics, it is evident that Canberra's close ties with Washington and its reliance on the latter for security inevitably exerts significant influence on its China policy. While differences remain between the major political parties regarding middle power diplomacy, multilateralism and alliance, there is growing convergence to recognising the significant implications of China's rise and Beijing's more assertive foreign policy in the region.
- 6.2 However, the current deep freeze in bilateral relations should not preclude exchanges at the non-governmental level and multilateral forums, which appear to be the more feasible avenues to maintain dialogues and keep the communication channels open. However, non-governmental dialogues between Australia and China are not well developed and in recent years, the already limited academic exchanges

⁵⁹ Rowan Callick, 'Business perspectives on Australia-China relations', in John Fitzgerald, ed., *Taking the Low Road: China's Influences in Australian States and Territories*. Barton, ACT: Australian Strategic Policy Institute, February 2022, pp. 241-273.

have been further restricted by both governments out of ideological and security considerations.

- 6.3 Likewise, the role of the Australian business community has yet to be fully explored. For instance, the few voices in Australia's business community calling for the stabilisation of bilateral relations have been criticised as being driven by self-interest and advised against stepping into the foreign policy debate.⁶⁰ Academic and think tank discussions exploring areas of common interests and cooperation have also been criticised for being susceptible to PRC political influence. Serious dialogues are therefore rare and inconsequential in their impact on government policies, a situation which would benefit from changes.
- 6.4 Canberra would do well to seek, and be seen as seeking, to uphold its independent foreign policy, sometimes against US wishes and pressure. It needs to recognise that the regional order has undergone a fundamental change and the country should be more actively engaged in regional diplomacy, promoting an emerging new order based on multilateralism and regional institutions, with binding norms and rules on all players, including both the United States and the PRC.
- 6.5 Likewise, Beijing would need to accept and appreciate that Canberra, despite occasionally carried away by its own rhetoric, has, by and large, sought to maintain its autonomy in formulating and executing its PRC policy. Australian policies do not always follow in lockstep with those that the US administration wants its ally to adopt.⁶¹ The statements by Australian foreign and defence ministers at the July 2020 AUSMIN are clearly reflective of Canberra's determination to follow its own script, for example on issues such as economic decoupling and FONOPs.

⁶⁰ Michael Clifton, 'What should Australian business do about ... its waning influence on Australia-PRC relations?' *China Matters*, July 2020; Rowan Callick, 'Business should beware ensnarement in China controversies', *The China Story*, 6 August 2020, <https://www.thechinastory.org/business-should-beware-ensnarement-in-china-controversies/>, 8 August 2020.

⁶¹ Elena Collinson and James Laurenceson, 'Australian Policy on the PRC: Is It Independent of the US?' Sydney: Australia-China Relations Institute, University of Technology Sydney, August 2020, https://www.australiachinarelations.org/sites/default/files/20200821%20ACRI%20Briefing_Australian%20policy%20on%20the%20PRC%20-%20is%20it%20independent%20of%20the%20US%27_Elena%20Collinson%20James%20Laurenceson.pdf, accessed 22 August 2022.

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