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# China and Australia

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## Introduction

China and Australia personify the odd couple. In almost every way, they offer contrasts rather than commonalities - in culture, history, population size and structure, and political systems.

Yet, their economies have proven highly complementary. China is Australia's top trading partner - the biggest buyer not only of goods, but also now of services - while Australia is China's seventh biggest source of imports, providing 4.4 per cent of the global total, chiefly key components for industry such as iron ore - of which China bought $A81.5 billion in 2015. Australia is the second biggest destination in the world, after the United States (US), also for Chinese investment, and for Chinese students.

Since they first became aware of each other, their relationship has been characterised by great expectations, frequently dashed then raised again.

Former President Hu Jintao began his speech in Australia's parliament in 2003, baffling almost everyone who had flocked to hear him: "Back in the 1420s, the expeditionary fleets of China's Ming dynasty reached Australia's shores. For centuries, the Chinese sailed across vast seas and settled down in what they called Southern Land. They brought Chinese culture to this land and lived with the local people". He was channelling the views promoted by the British ex - submariner Gavin Menzies about the - somewhat inflated and totally undocumented - feats of Admiral Zheng He, who certainly voyaged to Africa but never to Australia or America.

Four centuries later, thousands of people left Fujian and Guangdong in the mid-19th century to try their luck at finding gold in Victoria and then other states in Australia. Many of their descendants live there still. But while some prospered swiftly, they then had to endure the introduction at the start of the 20th century of the "white Australia" policy that was introduced substantially through pressure from trade unions anxious about the potential loss of jobs to further waves of Chinese immigrants. This policy persisted in broad terms until 1965.

In the Mao Zedong decades, the Australian wool marketing board said that if only every Chinese person bought a sock - or maybe two - then the entire national wool clip would be sold every year. However, then bilateral economic and even political relations did not develop much even after Australia's Labour government decided to normalise with the People's Republic of China (PRC) in 1972. And both countries had to wait until after Tiananmen (1989) and the first ten years, and perhaps twenty years of reform and opening policy in China to really see their relationship becoming more substantial.

## The surge of China – Australia Relations in the 2000s.

In the early 1990s, Hong Kong's *South China Morning Post* reported on "China fever, which is being compared with the gold rush of the 1850s when thousands of Chinese prospectors poured into Australia to seek their fortune. This time the rush is in the other direction - Australian companies seeking a share of the world's fastest-growing economy". In the first few months of 1993 alone, Australian industry piled $A1 billion into China. Beermaker Foster's, for instance, bought breweries in Guangdong, Tianjin and Shanghai, and proclaimed its target to "fosterise" China. But Foster's and other Australian companies that flocked to China as it opened, confident that consumers would be captivated, largely faltered.

In recent times, China has become the main source of migrants to Australia - and in business migration, overwhelmingly so. There are now almost 1 million people of Chinese ethnic origins living in Australia out of a total population of about 23 million - although only a third of that Chinese group were born in the PRC.

At the political level, when Kevin Rudd - who learned Chinese at university, and speaks Mandarin - first became prime minister in 2007, one of his political advisers Bruce Hawker wrote that his election "heralds a new era in Sino-Australian relations. It will be a dynamic period, full of opportunity and promise on many fronts, with a bolder acknowledgement of the need for ever-closer relations between Canberra and Beijing."

Yet within 18 months, Zhu Feng, then the deputy director of the School of International Studies at Peking University, said during a visit to Australia: "When Mr Rudd was elected, there was an expectation that a more intimate relationship between the countries would result, because he knows China so well and speaks Chinese. But it has remained just at the commercial level. Bilateral relations as a whole are still far from intimate," to the disappointment of China, which he described as "a lonely rising power."

Great expectations had again been raised and dashed, with Rudd's speech at Peking University, on his first visit as PM in April 2008, suggesting that Australia could be China's *zhengyou*, its true friend, ready to speak frankly - including, as Rudd did briefly in the same speech, about human rights issues in Tibet. He received a frigid welcome from China's leaders, and a level of tolerance for Rudd has only been restored a decade later through his assiduous efforts since leaving politics.

Australia has tended to focus on China as an economic relationship. But China has tended to seek something more. Former ambassador to Canberra Chen Yuming said at a dialogue meeting he hosted, that "we are not economic beings, we are human beings, and our relationship should be developed at a human level." Another former ambassador to Australia, Fu Ying – now chairwoman of the National People's Congress foreign affairs committee, and thus one of China's top three diplomats - said in a speech in Canberra how "among western countries, Australia is very open towards China and has rendered us important help during our reform and development. Australia is a window for China to understand the world" – a position later amplified by her successor Zhang Junsai, who said Australia was an ideal testing ground for new paths for China's international development and relationships, because it is a comparatively mature yet non-threatening and friendly country. The two countries, said Fu, are "natural partners of cooperation." Australia, she said, "is very open to China, and it's easy to speak and work with Australians. Australia can also help us understand the western world."

At the economic level, success probably peaked in December 2015 when the China Australia Free Trade

Agreement (ChAFTA) came into effect, after 10 years of intense negotiations. This is the most comprehensive such deal that China has so far concluded. Australia's then Trade and Investment Minister Andrew Robb who achieved the crucial breakthrough, told the Australian Chamber of Commerce in Beijing a few weeks later that the quality of the agreement owed everything to the significance and the opportunities the Chinese government saw in it. He described it as «a transformative moment for the Australian economy.»

His counterpart Commerce Minister Gao Hucheng, he said, was a candid and tough negotiator, but one whose word he felt he could trust. He said the drivers for China included that «they had to introduce the rules-based governance institutions of the developed world,» including a sophisticated financial market and anti-corruption measures, that it needed to become a services based economy - with 70 per cent of Australia's economy already services-based. «That's where the jobs are,» he said. In due course, he said China would have to give similar concessions to much larger countries. But side effects might, said Gao, disrupt the country if it opened its services sector up too quickly and too broadly. Robb said that he had responded "that China had often used special economic zones to trial the opening of its economy. And Australia only comprises 23 million people, smaller than some of China's economic zones,"(… )"And we are a knowledge based economy. We have world class services. We won't swamp China. If we set up aged care homes, they will employ Chinese people, and bring to China intellectual property. The same with hotels and restaurants, the whole hospitality area is rich with jobs. And with insurance, derivatives, funds. These doors have now opened up through ChAFTA, and the regular reviews to the agreement will deliver more."

ChAFTA also extended to China the same automatic right for investment by private companies without government review, from $A252 million to $A1.094 billion, the same as in the FTA with the USA. But state-owned enterprise investments, from any country, can face review at any level, and the level for review of investment in agricultural land, again from any source, was cut from $A252 million to $A15 million in 2015.

In October 2015, not long before ChAFTA came into effect, the high point came of the investment relationship - with the federal government approving the sale of the Port of Darwin by the Northern Territory government to Landbridge, an infrastructure company based in Shandong province, China. This triggered criticisms from Washington, which only a few years earlier had decided to rotate thousands of marines through Darwin on regular training exercises.

**A Growing Australian Unease about China's Economic Clout…**

In 2016, though, other investment issues, together with security concerns, then began an unravelling of the relationship from its elevated expectations - just as had happened regularly before, with the most recent distancing taking place under the Rudd prime ministership.

At a broad-based level, this involved concerns about Chinese buyers - including some people who remain residents of the PRC - driving up the costs of housing in Australia, by their preparedness to secure property at any price, in part in order to find a safe haven for money they had been able to bring out of China. Australian states added a surcharge to real estate bought by foreigners in general - though by far the majority was bought by Chinese - though this did not by late 2016 deflate the markets, since other global targets including Hong Kong, Singapore and Canada had introduced even higher taxes on overseas buyers.

In April 2016 a Chinese $A371 million bid for a rural property, S. Kidman, that is the size of Ireland - or China's Jiangsu province - and sprawls across three states (Northern Territories, Queensland and South Australia) was refused by the federal government on the grounds of "national interest," allegedly because of proximity to a missile-testing range (in South Australia) but more realistically because of the emotiveness, more in urban Australia than in the more pragmatic rural areas, of the notion of "selling the farm" to foreigners.

In August 2016, following a national election at which small protectionist parties and independents improved their position, especially in the Senate, the federal government stepped in again and blocked the $A10 billion purchase of a majority stake in New South Wales electricity company Ausgrid, being sold by the state government, to the world's largest utility, Chinese state-owned State Grid. A senior researcher at China's Commerce Ministry, Mei Xinyu, responded that Chinese companies - which were "in a fever" to invest overseas - were puzzled as to how they could do business in Australia as a result. They had become aware, he said, that "different Australian government regimes - different leaders - also have different attitudes towards putting the free trade agreement into effect."

A few years ago, he said, Chinese investors in Australia were focused on exploration and on mineral products. "Now, the pick is agriculture and infrastructure - and the Australian side should seize these opportunities rather than wait for the market to decline." He recalled a mayor of the city of Shenzhen taking a brief cruise during which a particular Australian wine label was drunk. The mayor's endorsement encouraged the local Chinese agent to bid for 30 per cent of the Australian winemaker, which was accepted - "and this in turn encouraged the agent into greater efforts to promote the product. Australia should allow Chinese investors not only to buy agricultural products, but also stakes in those companies that make them - to help them to increase their market share in China. The Australian government has excessive concerns and worries, and is politicising what is a business deal. Chinese investors will think that Australia is not a reliable partner." Partly as a result, Dr Mei said, the trade boom following ChAFTA had only reached half what he had expected.

## …As well as Strategic and Foreign Policy Assertiveness

This perception of a chilly turn in the relationship was reinforced in late July 2016 by Australia's Foreign Minister Julie Bishop joining her American and Japanese counterparts to issue a tough warning - clearly targeting China - against "coercive unilateral actions" in the South China Sea, following their meeting in Vientiane, Laos, on the sidelines of a gathering of foreign ministers of the 10-nation Association of South East Asian Nations (ASEAN). The three countries - with Japan and Australia full military allies with the US, though not with each other despite increasingly close defence links - took up the international arbitration judgment of the court in The Hague convened on 12 July 2016 on behalf of the UN Convention on the Law of the Sea (UNCLOS), that came down heavily for the Philippines in its case against China's behaviour in the South China Sea, most of which China claims. The three foreign ministers "reiterated the importance of upholding the rules-based maritime order including in the Asia Pacific region and the Indian Ocean." They called on all states to respect freedom of navigation and overflight, and reaffirmed the importance of states' making and clarifying their claims based on international law, including the UNCLOS, and "not using force or coercion in trying to advance their claims, and seeking to settle disputes by peaceful means including through legal processes such as arbitration."

This statement met with a barrage of criticism from China, with *Global Times* calling Australia "not even a paper tiger, it's only a paper cat at best". It editorialised that Australia was "a unique country with an inglorious history (…), an ideal target for China to warn and strike (…), Australia's power means nothing compared to the security of China." It said that "Australia has inked a free trade agreement with China, its biggest trading partner, which makes its move of disturbing the South China Sea waters surprising to many. Besides trying to please the US, it also intends to suppress China so as to gain a bargaining chip for economic interests. China must take revenge and let it know it's wrong. Australia calls itself a principled country, while its utilitarianism has been sizzling. It lauds Sino-Australian relations when China's economic support is needed, but when it needs to please Washington it demonstrates willingness of doing anything in a show of allegiance."

This takes up a position pursued by Australian National University Professor of Strategic Studies Hugh White, author of "The China Choice" (published in 2012), who believes that Australia is increasingly being driven to choose between its post-World War II military ally and protector, the USA, and its dominant economic partner, China. It has become a position increasingly frequently pursued in discussions with Chinese party-state actors, that Australians doing business with China in either country, or for example needing access to China for study, should press for a distancing of the relationship with the US.

One of Australia's leading sinologists, John Fitzgerald, who after 8 years in Beijing as director of the Ford Foundation became Director of Swinburne University's Program for Asia-Pacific Social Investment and Philanthropy, took a very different position, writing in September 2016 that "throughout the resource boom years, leaders in industry and government reassured one another that Australia could pursue shared bilateral interests in trade and investment without invoking the differing values and security interests that otherwise divide the two countries. Unfortunately, this formula was read in Chinese policy circles as a statement of values not priorities – that Australians valued trade and investment not principles. By appealing to the financial interests of Australia's business, government and media managers, China's leaders then persuaded many influential Australians to do their talking for them," especially including business leaders but also former foreign ministers Alexander Downer and Bob Carr, one a Liberal, the other Labour.

Fitzgerald referred with concern to six commercial media agreements signed in Sydney in May 2016 between Chinese and Australian entities under the auspices of the visiting Head of the Central Propaganda Bureau of the Chinese Communist Party, Liu Qibao. It emerged soon after, that Chinese individuals and corporations had also become by far the largest donors to Australia's major political parties. Wang Zhenya, an engineer who was born in 1981 and grew up in Nanjing, moved to Australia for education in 2003, then just a decade later was elected to parliament as a Senator for Western Australia.

## What to Expect in the Future? A Denser but more Complicated Relationship

The comparative physical closeness of China and Australia, which is the only Western country encompassed by President Xi Jinping's "One Belt, One Road" regional strategy, as well as the presence of so many Chinese migrants - widely welcomed as comparatively easily assimilated - and students on all campuses, and of 1 million Chinese tourists a year, the similarity of their time zones, as well as the complementarity of the economies, provide a bottom line. They all make it likely that unless either country withdraws for a decade or more into a protectionist shell, or into an aggressive, military-dominated mindset, and while the relationship will be marked by periods of mutual disappointment and distrust, these will be followed by warming and rediscovery.

Limits will remain, however, to institutionalising the relationship much further - chiefly due to the structural differences between a liberal democracy in which a quarter of the population has been born elsewhere, and a centralising, authoritarian single-party state whose citizens comprise only ethnic "Han" and the designated "minorities." Can Australia relate to the China beyond the party, or must every significant aspect of the relationship, where organisations are involved, be directed ultimately by the party?

The refusal of Australian governments to allow giant Chinese telco Huawei a role in the multi billion dollar roll-out of upgraded broadband connections around the country, provides a good example of the complexities. Even though Huawei hired a former Liberal foreign minister,

a former Labour state premier, and a former naval admiral, on its Australian advisory board, the governments in Canberra have remained implacable. A director of Huawei, Chen Lifang, said in an Australian newspaper's interview that Huawei operates as a private company "outside the system" in China. She said: "There is an expression in China 'inside the system and outside the system'. The relationship between Huawei and the Chinese government is just the same as the relationship between any Western private company with their governments. Huawei is outside the system." However, corporate affairs staff at the company have explained that Huawei, like every other large corporation in China whatever its ownership, has inside a party committee which selects – or has a veto right over the selection of – directors and key managers. Meanwhile, Australians continue to argue between themselves as to whether Huawei can or should be entrusted with helping establish the nation's cybercore.

**The Debate is Likely to Go on both in China and in Australia**

China's needs of Australia, at the central leadership level, also change - and carry in the tide with them, attitudes and commitments of Chinese organisations and individuals at most other levels. In early 2013, Zhu Feng described the visit to China of Prime Minister Julia Gillard as "powerfully demonstrating that economic and trading bonds prevail in today's world over security concerns," while adding that Australia's global role as a member of "the liberal world order" positions it as "a most effective tool by which Beijing can win friendships, and retain the gains we want".

But Ding Dou, a Peking University professor, has described Australia and China as "economic friends, strategically distant." China's dream about Australia, he said in reference to President Xi's catchphrase, is that "Australia will walk away from the US and build a close relationship with China". Professor Ding's position, though, implies that an economic policy may not also be "strategic." But this would appear unrealistic. Australia's joining the Asia Infrastructure Investment Bank, for instance - one of the big initiatives of the Xi Jinping years so far - looks to be a "strategic" move, one which also irritated the USA, which has stayed away from the new bank and used extensive diplomatic communications to seek to persuade its security partners, mostly unsuccessfully, to do likewise. Deakin University professor He Baogang said that "China's grand strategy is a function of its economy. This makes life both easier and more complex for Australia, since Washington wants to slow down China's economy, while Canberra certainly doesn't."

Ross Terrill, one of Australia's best known experts on China, who has been based at Harvard University for most of the last 50 years, commended Professor White for instigating a lively debate, but said that his thesis "underestimates Australia's power to say yes or no in concrete diplomatic situations." He warns that for Canberra to align on security issues with Beijing "bristles with difficulties." He said: "We can be economically open to China and still speak up for Australian values. I know some people think there is a contradiction there, but I think we have to do both. We should welcome the trade and investment with China, but should never give the impression we are packing our values away in a trunk - China wouldn't respect us for that." He noted that former prime minister John Howard wrote in his autobiography of how his message to his Chinese counterparts was that "we both have our values, but let's see if we can do business anyway." In contrast, he said, Kevin Rudd had been perceived as a friend by Beijing - and suffered from the response when he was perceived to have hurt his Chinese friends. Australia's attitude to China is different from America's, he said. Although Canberra followed Washington in refusing to recognise the PRC, "it wasn't a crusade at all. Australians seem to be natural realists."

**Conclusion**

Under Gillard's prime ministership, Australia stepped up, using the Beijing formula, to a "comprehensive strategic partnership" with China, including a commitment to annual talks between the Australian prime minister and Chinese premier. She also presided over an ambitious white paper, *Australia in Asia's Century*, which in general terms plotted an Asian future for the country. This intended to broaden the corporate, educational, security and even cultural focus beyond China to the region as a whole. But China continued to be perceived widely as a proxy for Asia.

How does the general population view China? The Lowy Institute, one of only two foreign-policy focused think-tanks in Australia, conducts an annual opinion poll. In the 2016 poll, the same number, 43 per cent, nominated the relationship with China and the US as more important. 85 per cent of Australians said "Chinese people [they] have met" are a positive influence on their view of China, while 79 per cent saw "China's culture and history" as a positive influence and 75 per cent saw its economic growth as a positive influence on their view. On the opposite side, Australians reacted most strongly to "China's human rights record", with 86 per cent of the Australian public saying it had a negative influence on their views. "China's military activities in our region" also provoked a strong response, with 79 per cent saying these influenced their views negatively. Other negative influences were "China's system of government" with 73 per cent saying it negatively influenced their view, its "environmental policies" (67 per cent) and "Chinese investment in Australia" (59 per cent). Asked whether they were "in favour or against Australia conducting similar operations in an effort to ensure freedom of navigation in the South China Sea," 74 per cent were in favour, with only 20 per cent against. In a separate poll commissioned in 2015 by the Australia China Relations Institute based at the University of Technology, Sydney, 93 per cent expected China to end up replacing the US as the region's dominant power within the next 20 years. Another clear majority, 77 per cent, said that "if China becomes the region's dominant power" this would have a damaging impact on Australia's security.

At the political and strategic level, this odd couple will continue to keep raising and dashing each other's great expectations of impossibly close ties, given their crucial

institutional disparity. But at the same time, given the inexorable pressures to suck every economic opportunity from the other, and given the personal enmeshments that will intensify as Chinese migrants, students and tourists continue to find Australia something of a haven, the relationship will deepen socially and culturally, regardless.

The relationship with China is throwing up, at the end of 2016, big questions that are central to Australia's national identity and its future options.

They include, whether a debate might deepen and broaden, about the nature of the alliance with the United States. Australia, having fought in every war alongside the US since World War II, has become a touchstone ally. This was tested most during the Vietnam War, when conscription in Australia divided the community bitterly, and led to the alliance facing severe questions. It survived that experience. Might the massive weight of the economic relationship with China, combined with the growing influence of the million-strong Chinese community within Australia, and the turn in academia towards a "positive" approach to the PRC in research as a result of universities' dependence on Chinese income, lead to a distancing from the US, especially strategically?

Another big question concerns the intensification of the core, economic relationship with China. Will this continue in a straight line, or might this relationship plateau with Chinese demand for Australian resources including iron ore, coal and other minerals steadying as China's own industrial growth flatlines? Will Australia succeed in restructuring its own economy to match and complement China's own restructuring away from investment and manufactured-exports led growth, towards services and consumption? Or might institutional challenges prevent such a new complementarity from reaching the intensity of the economic partnership as formerly configured? A report on Australia's relationships with its second biggest economic partner, Japan, published in September 2016 by the Australia-Japan Foundation, « Australia and Japan Create a New Economic Paradigm, » raises some appropriate questions. It stresses Australia's strategic connections with Japan: "It cannot be emphasised strongly enough that current economic relationships cannot have priority over geopolitical forces that threaten national security and therefore threaten economic welfare security. Geopolitics, economics and value systems are intricately interlinked. Economic relationships between states that have clashing value systems" - implying, but not naming, China - "are always resting on foundations that could shift quickly and catastrophically." The report says that one impetus towards closer Australia-Japan geo-security cooperation - despite Canberra's decision to buy 12 French rather than Japanese submarines - is "the rise and behaviour of China," another is "the lack of consistency in the responses of the US to the changing power-balance" in the region.

The third big question is whether Australia will continue down the path of identifying itself more clearly as an "Asian" country. This is happening culturally, in a way that might have appeared unthinkable 20-30 years earlier. For instance, Australia in 2015 hosted - and won - the Asia Cup for football. It is routine to use a phrase such as "our region" to describe East Asia. In terms of the China relationship, this could mean the closeness will intensify. Or it could mean something different: a discovery, in a closer relationship with the region as a whole, of commonalities with other countries, and of the nuanced way in which those other Asian nations relate to China. Thus Australia might start to detach itself from its current default position of treating China as a proxy for Asia as a whole as it develops more links with countries that reject Chinese hegemonic ambitions.