

# ACRI OPINION

AUSTRALIA-CHINA RELATIONS INSTITUTE 澳大利亚-中国关系研究院

## Belt and Road will go ahead with or without Australia

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A divide has once again opened between Australian economic commentators and defence hawks, this time over China's Belt and Road Initiative (BRI) and what Australia's response to it should be.

The latter accuse the former of being naïve about Beijing's geopolitical intentions and the BRI's strategic implications. Meanwhile, economists see hawks as being quick to deploy emotive rhetoric – a 'string of pearls' to depict ports in the region with some Chinese ownership, a 'dragonhead' to describe Chinese investment in Northern Australia – but less enthusiastic about engaging in debate based on hard data and evidence.

Whatever the strategic intentions and implications of the BRI, they are a sideshow to the structural shifts that have been underway for decades.

Last month, the Stockholm International Peace Research Institute released new figures showing that China's military expenditure reached \$US215.2 billion in 2016, a staggering \$11.4 billion more than the rest of Asia combined.

But China's spend still only amounted to 1.9% of its GDP, much less than the 3.3% in the US.

China is also already the number one trading partner for the US, Germany, Japan, South Korea and India. And of course, China is Australia's biggest trading partner as well, buying just less than one third of our exports.

In terms of China's overseas direct investment, an analysis earlier this month by David Dollar at the Brookings Institution found that most still goes to countries not involved in the BRI.

All this renders suggestions that the BRI is predominantly a geostrategic play to bind countries closer to Beijing sound rather breathless.

And even if the BRI does have some strategic intent, this still would not detract from its economic logic.

In a Lowy Institute report released earlier this year, Peter Cai concludes that the BRI's key drivers are China's pressing economic concerns. Meanwhile, the Asian Development Bank estimates that emerging Asian economies are in need of infrastructure investment totalling \$1.7 trillion a year to maintain growth and alleviate poverty. Australian business sees potential gains from being involved.

Ryan Manuel from the Australian National University (ANU) also observes that the administrative body charged with drafting BRI documents is the central government's economic ministry, the National Development and Reform Commission. The Ministry of Foreign Affairs is a joint signatory on official BRI statements, but is outranked by economic agency co-signatories, and there is no form of institutional link with China's defence forces.

In any case, what exactly is the strategic leverage that BRI investment would buy China?

Such hawkish claims appear unaware of research by Evelyn Goh at ANU that documents the limits of Chinese influence, even in its weakest neighbours. In fact, in some cases influence was found to run in the opposite direction. That shouldn't surprise – when Chinese companies invest overseas, it's their capital that can become captive to the domestic politics of the host state.

Late last year the Sri Lankan government announced it would sell an 80% stake in Hambantota Port to a Chinese company, prompting domestic protests. It has since scaled back its sale plans and earlier this month refused permission for a Chinese submarine to dock at Colombo Port. Such is the agency that local actors retain.

In the case of Australia, allegations that Chinese ownership of Darwin Port could be harnessed to serve China's grander strategic plans (by facilitating intelligence collection or to provide an access point for the People's Liberation Army) have been unanimously rejected by Australian security agencies. Speaking at the National Press Club last week, outgoing Defence Secretary Dennis Richardson reiterated that the decision of the government to allow the port sale 'was spot on then, and it was spot on now'.

The broader point is that any Chinese investments in Australia, BRI-badged or not, must conform to Australian approvals and regulatory processes.

Like-minded countries in Australia's immediate neighbourhood have already put their hands up to explore BRI cooperation: both New Zealand and Singapore have each signed a Memorandum of Understanding with China.

And while there was a distinct lack of representation by Western leaders at last week's Belt and Road Forum in Beijing, seven ASEAN heads of government (including Indonesia, the Philippines, Malaysia and Vietnam) were on hand. This aligns with a poll of ASEAN regional affairs experts in April 2017 that showed 73.6% of respondents viewed China as the most influential country in Southeast Asia, compared with 3.5% nominating the US.

Given US President Donald Trump's touting of his infrastructure and job-creating credentials, and his boast of a 'very good relationship' with Chinese President Xi Jinping, it's not beyond the realm of possibility that the current US administration could also become a BRI supporter. Earlier this week the US representative at the Beijing forum Matthew Pottinger told media that US companies and its embassy in Beijing had established an American Belt and Road Working Group.

Like the Asian Infrastructure Investment Bank, the BRI will proceed with or without Australia. Being alive to both the opportunities and the risks, Australia can attempt to define the way it engages with the initiative while it is still early days, pushing for, as Foreign Minister Julie Bishop articulated in March, 'the principles of transparency, private sector engagement and ensuring that infrastructure investment leads to strong development outcomes.'

Alternatively, Australia can stick with the current approach – playing a game in which others are writing the rules.

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