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Australia-China Relations Institute

澳大利亚-中国关系研究院

August 30 2018







The Morrison Government and China

On August 24 2018 Scott Morrison was elected leader of the Liberal Party by a party-room vote and sworn in as Australia's 30th Prime Minister.

Mr Morrison was Treasurer from September 21 2015-August 23 2018. He visited China at least twice in that capacity, most recently in September 2017 to participate in the third Strategic Economic Dialogue in Beijing, the highest level bilateral economic meeting between Australia and China.¹

On Mr Morrison's assumption of the prime ministership a spokesperson for the People's Republic of China (PRC) Ministry of Foreign Affairs (MFA) congratulated Mr Morrison and said:²

China stands ready to work with the new Australian government to move forward bilateral ties along the right track.

Maintaining foreign policy continuity and consistency seems to be the name of the game in a Morrison government. This was emphasised by

This fact sheet was prepared by Elena Collinson, Senior Project and Research Officer, Australia-China Relations Institute, University of Technology Sydney.

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Scott Morrison and Steven Ciobo, 'Strategic economic dialogue with China', joint media release, September 15 2017 http://sjm.ministers.treasury.gov.au/media-release/091-2017/.

2 Ministry of Foreign Affairs of the People's Republic of China, Foreign Ministry spokesperson Lu Kang's regular press conference, August 24 2018 http://www.china-embassy.org/eng/fyrth/t1588050.htm>. new Foreign Minister Marise Payne in an August 27 interview.³

Ms Payne has indicated she will be meeting with Chinese officials during the UN General Assembly Leaders' Week in September.⁴

Australia's 5G network and Huawei

Mr Morrison had on August 23 effectively announced the ban of Huawei and ZTE's participation in Australia's 5G network during his two-day stint as Acting Home Affairs Minister.

The ban was communicated obliquely through a press release outlining the Australian government's security directions on 5G. Under Australia's Telecommunications Sector Security Reforms, which come into effect on September 18, the government may direct a carrier, carriage service provider or carriage service intermediary 'to do, or not do, a specified thing that is reasonably necessary to protect networks and facilities from national security risks.'5

The press release read:6

The government considers that the involvement

³ Sky News, 'Marise Payne defends 5G block on Chinese telco', Sky News, August 27 2018 https://www.skynews.com.au/details/_5827190848001>.

⁴ Ibio

⁵ Australian Department of Home Affairs, Telecommunications sector security reforms https://www.homeaffairs.gov.au/about/consultations/telecommunications-sector-security-reforms>.

⁶ Mitch Fifield and Scott Morrison, 'Government provides 5G security guidance to Australian carriers', joint media release, August 23 2018 https://www.minister.communications.gov.au/minister/mitch-fifield/news/government-provides-5g-security-guidance-australian-carriers.

of vendors who are likely to be subject to extrajudicial directions from a foreign government that conflict with Australian law, may risk failure by the carrier to adequately protect a 5G network from unauthorised access or interference.

The release carefully did not specify any particular country or company targeted by the government direction.

Shortly after the publication of the release, however, Huawei Australia announced via Twitter that they had 'been informed by the Govt [sic] that Huawei & ZTE have been banned from providing 5G technology to Australia.'⁷

The timing of the release – while public and media attention was fixed on leadership tensions in Canberra – resulted in minimal domestic news coverage of the decision. However, it was swiftly picked up by the PRC, who, through the MFA and the Ministry of Commerce, communicated strong criticism of the ban. An MFA spokesperson said the PRC was 'gravely concerned' about the decision. The spokesperson went on to say:8

The Australian side should know better than citing all sorts of excuses to erect artificial hurdles and enforce discriminatory measures. We urge the Australian side to abandon its ideological bias and level the playing field for Chinese enterprises' operation in Australia.

The PRC's Ministry of Commerce said the Australian government had made the 'wrong decision'.9

On August 24, Huawei released a statement characterising the decision as 'politically

- 7 Huawei Australia, Twitter status update, @HuaweiOz, August 22 2018, 4.36 pm https://twitter.com/HuaweiOZ/status/1032411216184930304>.
- 8 Ministry of Foreign Affairs of the People's Republic of China, Foreign Ministry spokesperson Lu Kang's regular press conference, August 23 2018 http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1587703. shtml>.
- 9 Ministry of Commerce of the People's Republic of China, 'The Australian government's 5G safety guide', August 23 2018 http://www.mofcom.gov.cn/article/ae/ag/201808/20180802778676.shtml.

motivated, not the result of a fact-based, transparent, or equitable decision-making process'.¹⁰

While Mr Morrison has not addressed the 5G decision and its exclusion of Huawei and ZTE, his incoming Foreign Minister, Marise Payne, in a *Sky News* interview on August 27, said that the decision was 'not targeted' at those particular companies, and that it was 'aimed at solely protecting Australia's interests and the protection of Australia's national security'. She conceded, however, that Huawei and ZTE had 'different obligations' and that extrajudicial direction was 'part of the legal system in which [Huawei and ZTE] work' and that that was indeed 'a concern'.¹¹

In the same interview, *Sky News* presenter David Speers put to Ms Payne speculation that the decision on 5G had been taken in the National Security Committee of cabinet 10 days before the announcement and that there had been 'some pushback, concern, debate about how it would go down in China'. Minister Payne did not comment on the National Security Committee's deliberations but said it was 'a very well-considered decision over an extended period of time in all of its implications'. ¹³

In an indication that the issue is unlikely to be swept to one side by the PRC, the *People's Daily* newspaper in an editorial on August 28 said 'Australia has a strong ideological prejudice on China and they are taking a discriminative approach and trying to politicise business operations.' As the *Australian Financial Review*'s China correspondent, Michael Smith, notes, the *People's Daily* 'reflects the view of the Communist

- 10 Huawei Australia, Media statement: Huawei Technologies Global HQ, August 24 2018 http://huaweihub.com.au/media-statement-huawei-technologies-global-hq/.
- 11 Sky News, 'Marise Payne defends 5G block on Chinese telco', Sky News, August 27 2018 https://www.skynews.com.au/details/_5827190848001>.
- 12 Ibid.
- 13 Ibid.
- Michael Smith, 'China intensifies criticism of Australia's Huawei 5G ban', Australian Financial Review, August 28 2018 https://www.afr.com/news/policy/foreign-affairs/china-intensifies-criticism-of-huawei-5g-ban-20180828-h14lr0.

Party and rarely comments on Australian affairs unless Beijing wants to send a clear message that it is unhappy.'15

The opposition Australian Labor Party has requested a security briefing from the government on the 5G decision. However, it is unlikely that they would pursue a reversal of the decision were they to win the next election unless the government's decision was at odds with advice received from security agencies. Shadow Minister for Communications Michelle Rowland stated:¹⁶

On matters of infrastructure security, Labor will always take the advice of our security agencies.

Foreign investment

Some Chinese-language media outlets and China-based commentators have pointed to Mr Morrison's decisions on foreign investment as Treasurer in discussing the new Prime Minister and how Australia-China relations may fare during his leadership. For example, Chinese financial magazine *Caixin Global* headlined its report of Mr Morrison's assumption of the prime ministership, 'New Australian PM has history of blocking Chinese investment'.¹⁷

During Mr Morrison's tenure as Treasurer, he blocked two foreign investment applications, both of which were bids by Chinese-owned companies.

On April 29 2016 Mr Morrison in his preliminary decision on a \$370.7 million bid by a Chinese-led consortium for S. Kidman & Co., Australia's biggest private landholder, indicated the sale would likely be blocked. S. Kidman & Co.'s assets comprised of 2.5 percent of Australia's agricultural land, and 1.3 percent of Australia's total land mass. Mr Morrison in his preliminary decision deemed the sale contrary to the national interest, citing concerns regarding 'the size and significance of the Kidman portfolio' and noting 'the form in which the Kidman portfolio has been offered as a single aggregated

- 15 Ibid
- 16 Chris Griffiths, 'ALP seeks Huawei security briefing', The Australian, August 28 2018 https://www.theaustralian.com.au/business/technology/alp-seeks-huawei-security-briefing/news-story/a31c05868b4b078c9e276d77a94ad624.
- 17 Coco Feng, Qing Ying, Zeng Jia and Wang Liwei, 'New Australian PM has history of blocking Chinese investment', Caixin, August 24 2018 https://www.caixinglobal.com/2018-08-24/new-australian-pm-has-history-of-blocking-chinese-investment-101318546.html.

asset, has rendered it difficult for Australian bidders to be able to make a competitive bid.'18 The Chinese consortium withdrew their bid following this preliminary assessment. The sale of S. Kidman and Co. was subsequently approved in December 2016, to a joint bid by Australian mining magnate Gina Rinehart and Chinese company Shanghai CRED.

On August 19 2016, Mr Morrison blocked China's State Grid and the Hong Kong-listed Cheung Kong Infrastructure (CKI) from acquiring a majority stake (50.4 percent) in Ausgrid, the NSW electricity distributor, citing national interest concerns regarding 'the transaction structure...and the nature of the assets.'¹⁹

The PRC's Commerce Ministry criticised the decision as 'clearly protectionist' and said it 'seriously hurts the enthusiasm from Chinese companies to invest in Australia.'²⁰

Mr Morrison told talkback radio on September 5 2016 that PRC-based investors understood the decision. He said: 'If you wanted to do the same thing in China you wouldn't be allowed to do it.'²¹

Mr Morrison had made it a point to note that in considering foreign investment applications, '[t]he national security concerns are not country-specific'.²² Indeed, there is evidence which points to Mr Morrison supporting foreign investment bids over Australian bids where it is deemed in the Australian national interest. In February 2016, for example, Mr Morrison approved the \$280 million sale of Australia's largest dairy firm, Van Diemen's Land Company, to Moon Lake Investments, a company owned by a Chinese businessman over two rival Australian bids. In the face of calls for the company to be put back into Australian hands, the

- 18 Scott Morrison, 'Preliminary decision of foreign investment application for purchase of S. Kidman & Co' Limited', media release, April 29 2016 http://sjm.ministers.treasury.gov.au/media-release/050-2016/>.
- 19 Scott Morrison, 'Statement on decision to prohibit the 99-year lease of 50.4 percent of Ausgrid under current proposed structure', media release, August 19 2016 http://sjm.ministers.treasury.gov.au/media-release/069-2016/>.
- 20 SBS News, 'China ramps up pressure over blocked Ausgrid bid', SBS News, August 18 2016 https://www.sbs.com.au/news/china-ramps-up-pressure-over-blocked-ausgrid-bid>.
- 21 AAP, 'Morrison backs PM on investment stance', SBS News, September 5 2016 https://www.sbs.com.au/news/morrison-backs-pm-on-investment-stance>.
- 22 ABC News, 'Ausgrid lease: Treasurer Scott Morrison blocks sale to Chinese, Hong Kong bidders', ABC News, August 11 2016 http://www.abc.net.au/news/2016-08-11/scott-morrison-sale-of-ausgrid-to-chinese-consortium-blocked/7720530>.

then-Treasurer said that blocking the sale 'would corrupt and undermine the integrity of all future sales processes' and mean that 'no investment tender process could be taken seriously again in this country.'²³

During Mr Morrison's time as Treasurer, China remained the largest source of approved foreign investment by both number and value in Australia ²⁴

As Prime Minister, Mr Morrison may potentially have to navigate another controversial foreign investment decision regarding a Hong Konglisted bidder. Cheung Kong Infrastructure's (CKI) \$13 billion bid for APA Group, Australia's biggest gas pipeline operator, is currently being assessed on national security grounds and competition grounds by the Critical Infrastructure Committee and the Australian Competition and Consumer Commission (ACCC), respectively. The ACCC is expected to hand down its draft decision in September.

The Australian Financial Review observed that a successful bid 'would give [CKI] control of almost 60 percent of Australia's pipelines'. The bid has prompted some concerns regarding national security amongst some members of government, who appear to have designated the Hong Kong company as a PRC company. For example, Centre Alliance Senator Rex Patrick on July 4 sent an email to Mr Morrison, urging him to block CKI's bid. The Senator cited the expansion of 'Chinese control' over critical infrastructure as a primary concern:²⁶

My strong view is that the sale of APA to CKI would be prejudicial to our national security

interests, as it would further expand Chinese control of vital energy infrastructure.

Senator Patrick joins former deputy prime minister Barnaby Joyce and Nationals Senator John Williams in recommending against the approval of the proposed bid.²⁷

Trade

Mr Morrison as Treasurer was generally positive about Australia-China trade, highlighting its importance to the Australian economy, pointing to the many opportunities offered by an 'empowered Chinese middle class',²⁸ and praising the results yielded by the China-Australia Free Trade Agreement.

However, he also publicly acknowledged the challenges faced by the Chinese economy and the risks these may pose for Australia (see, for example, his address to Bloomberg on August 25 2016²⁹). As Angus Grigg from the *Australian Financial Review* pointed out, this was something Mr Morrison's 'two immediate predecessors failed to do'.³⁰

In an address to Citigroup in New York on October 12 2017 Mr Morrison noted:31

[T]he risks to the upside that have borne so much fruit for the Australian economy, can be just as sharp on the downside.

Mr Morrison has also lent some support to the some of the concerns underpinning the US' trade war with China, stating that while he disagreed with the US' actions, 'There's some legitimate issues that have been raised by the US and those

²³ Scott Morrison, 'Chinese dairy play was in our interests', Australian Financial Review, February 25 2016 https://www.afr.com/opinion/chinese-dairy-play-was-in-our-interests-20160225-gn3oxz.

²⁴ Foreign Investment Review Board, Annual report 2015-16 https://cdn.tspace.gov.au/uploads/sites/79/2018/05/FIRB-16-17 https://cdn.tspace.gov.au/uploads/sites/79/2018/05/FIRB-16-17-Annual-Report.pdf.

²⁵ Phillip Coorey, 'CKI-APA Group \$13b takeover reviewed by Critical Infrastructure Committee', Australian Financial Review, July 16 2018 https://www.afr.com/news/ckiapa-group-13b-takeover-reviewed-by-critical-infrastructure-committee-20180715-h12q21.

²⁶ Matt Chambers, 'Morrison urged to block CKI bid for APA pipeline group', *The Australian*, July 5 2018 https://www.theaustralian.com.au/national-affairs/morrison-urged-to-block-cki-bid-for-apa-pipeline-group/news-story/4770b0328e9d2c8b32e45b8fc26d9818>.

²⁷ Primrose Riordan, 'Calls to block \$13bn Hong Kong bid for nation's gas network', *The Australian*, July 12018 https://www.theaustralian.com.au/national-affairs/national-security/call-to-block-13bn-hong-kong-bid-for-nations-gas-network/news-story/d23657de8070587297b5b3649038779f

²⁸ Scott Morrison, 'Better days ahead', speech, October 12 2017 http://sjm.ministers.treasury.gov.au/speech/025-2017/>.

²⁹ Scott Morrison, 'Staying the course – strengthening our resilience in uncertain economic times', speech, August 25 2016 http://sjm.ministers.treasury.gov.au/speech/015-2016/>.

³⁰ Angus Grigg, 'Morrison finally provides some honesty on China', *Australian Financial Review*, August 25 2016 https://www.afr.com/news/politics/scott-morrison-finally-provides-some-honesty-on-china-20160825-gr0oru.

³¹ Scott Morrison, 'Better days ahead', speech, October 12 2017 http://sjm.ministers.treasury.gov.au/speech/025-2017/>.

things can't be dismissed simply because of the nature of the way these issues are unfolding.'32

South China Sea

As Defence Minister Ms Payne had expressed support for US freedom of navigation operations (FONOPs) in the South China Sea – for example, FONOPs by the USS Lassen in October 2015;³³ the USS William P. Lawrence in May 2016.³⁴ But she did not express any indication that Australia would consider FONOPs in either a joint or unilateral capacity despite calls from some US quarters to do so. When on February 22 2016 US vice admiral Joseph Aucoin responded in the affirmative when asked whether it would be 'valuable' for Australia to undertake FONOPs,³⁵ the then-Defence Minister had been non-committal, stating:³⁶

As Vice Admiral Joseph Aucoin said, freedom of navigation exercises are a matter for each individual country.

On February 21 2017 former head of the Australian Defence Force Angus Houston, in an address to the National Press Club, articulated the view that diplomacy was the best option for Australia in the South China Sea in the first instance as conducting FONOPs 'could provoke...a military response'. Ms Payne termed Mr Houston's remarks a 'constructive contribution'.³⁷

During her carriage of the Defence portfolio, Ms Payne did not hesitate to criticise the PRC's

- 32 Phillip Coorey and Jacob Greber, 'China and US both to blame for trade war: Scott Morrison', *Australian Financial Review*, July 20 2018 https://www.afr.com/news/china-and-us-both-to-blame-for-trade-war-scott-morrison-20180718-h12uzt.
- 33 Shalailah Medhora, 'Australia strongly supports US activity in South China Sea, says Marise Payne', *The Guardian*, October 27 2015 https://www.theguardian.com/world/2015/oct/27/australia-strongly-supports-us-activity-in-south-china-sea-says-marise-payne>.
- 34 Brendan Nicholson, 'Marise Payne backs US warship patrol in South China Sea', *The Australian*, May 11 2016 .
- 35 Brendan Nicholson, 'Śend in the ships: US chief urges challenge to Beijing', The Australian, February 22 2016 https://www.theaustralian.com.au/national-affairs/defence/send-in-the-ships-us-chief-urges-challenge-to-beijing/news-story/8e71f880f3b1fd9e79ccf6e88db146cb?from=public research.
- 36 Andrew Greene, 'South China Sea: US admiral Joseph Aucoin urges Australia to launch 'freedom of navigation' operation', *ABC News*, February 22 2016 http://www.abc.net.au/news/2016-02-22/aus-should-challenge-claims-in-south-china-sea-says-admiral/7189598.
- 37 Primrose Riordan, 'Stay away from China, former defence chief warns', *The Australian*, February 21 2017 https://www.theaustralian.com.au/national-affairs/defence/stay-away-from-china-former-defence-chief-warns/news-story/9d9c584259e9c082d104b7e377b2b773>.

militarisation of the South China Sea but did so in a largely measured manner. For example, on May 21 in criticising the PRC's May deployment of H-6K bombers to conduct landing drills on Woody Island, she said:³⁸

We urge all claimants to refrain from destabilising actions, including the deployment of advanced military equipment to disputed features.

In response to the PRC's deployment of the bombers the US rescinded an invitation to the PRC to participate in the Rim of the Pacific (RIMPAC) naval exercises, the largest multinational naval exercise in the world. Ms Payne's office said Australia would not be adopting any similar approach:³⁹

Australia is not planning any changes to our bilateral defence cooperation with China.

Indeed, Ms Payne on July 31 announced that the PRC would be participating for the first time in the Kakadu maritime drills hosted by the Royal Australian Navy biennially since 1993.⁴⁰

Her strongest criticism was voiced during a speech to the Shangri-La Dialogue, an annual security summit in Singapore on June 2 this year, where she noted that in international relations '[a] dopting a 'might-is-right' approach is contrary to the interests of all nations'. She told the audience:⁴¹

Nations must also have the right to be free from coercion or criticism when they lawfully and reasonably communicate objections about the behaviour of other nations. As Foreign Minister,

³⁸ David Wroe, 'Australia's Defence Minister condemns 'destabilising' move by China to land bombers on new islands', Sydney Morning Herald, May 21 2018 https://www.smh.com.au/politics/federal/australia-s-defence-minister-condemns-destablising-move-by-china-to-land-bombers-on-new-islands-20180521-p4zgmy.html>.

³⁹ Andrew Tillett, 'Australia won't follow Donald Trump and scale back defence ties with China', Australian Financial Review, May 28 2018 https://www.afr.com/news/australia-wont-follow-donald-trump-and-scale-back-defence-ties-with-china-20180528-h10mgp>.

⁴⁰ Andrew Tillett, 'China to send a frigate to Australia for military exercises', Australian Financial Review, July 31 2018 https://www.afr.com/news/china-to-send-a-frigate-to-australia-for-military-exercises-20180731-h13dec.

Marise Payne, 'Shaping Asia's evolving security order', speech, June 2 2018 https://www.minister.defence-17th-iiss-asia-security-summit-shangri-la-dialogue>.

Ms Payne told *Sky News* on August 27 that on the South China Sea she would 'be consistent with the messages we have always given'.⁴²

Views on the Australia-China relationship

On January 26 2018, then-Defence Minister Payne appeared to back a US assessment of China as a greater threat to national security than Islamic terrorism:⁴³

It is for the US to determine what is of concern in relation to its national security, but I would note that Australia shares similar concerns.

However, she issued a clarification of this statement on January 29, stating unequivocally:44

Australia doesn't see a threat in the region and we certainly don't see China as a threat.

On December 11 2017, then-Treasurer Morrison said during a press conference:⁴⁵

China and Australia have a very practical and strong relationship. Remember, we were the government that negotiated in completing this China-Australia free trade agreement and that agreement has been a real boom in the Australian economy and we will continue to have very strong economic ties with China. They are a big customer of ours and we're a big customer of theirs.

On April 12 2018, in response to a question about ructions in the Australia-China bilateral, Mr Morrison told ABC Melbourne radio:⁴⁶

I don't think it is helpful to talk down the relationship with China...We have an outstanding relationship with China, they are our biggest trading partner. Defence Minister Christopher Pyne in his capacity as Minister for Defence Industry on June 6 this year said in a speech:⁴⁷

[W]hen it comes to China, I'm by my nature inclined to see a positive narrative.

I strongly believe we should focus on the many positive elements of the relationship in any discussion about the challenges.

⁴² Sky News, 'Marise Payne defends 5G block on Chinese telco', *Sky News*, August 27 2018 https://www.skynews.com.au/details/_5827190848001>.

⁴³ Paul Maley, 'Our defence strategy: all the way with USA', *The Australian*, January 26 2018 https://www.theaustralian.com.au/national-affairs/defence/our-defence-strategy-all-the-way-with-usa/news-story/4db0d0fea9881875b3bb91be046d4f72.

⁴⁴ AAP – SBS, 'Turnbull, Payne deny China a threat to Australia', *SBS News*, January 29 2018 https://www.sbs.com.au/news/turnbull-payne-deny-china-a-threat-to-australia.

⁴⁵ Scott Morrison, Press conference, Sydney, December 11 2017 http://sjm.ministers.treasury.gov.au/transcript/243-2017/.

⁴⁶ Scott Morrison, Interview with Jon Faine, ABC Melbourne, April 12 2018 http://sjm.ministers.treasury.gov.au/transcript/040-2018/>.

⁴⁷ Christopher Pyne, Keynote address at the welcoming dinner of the seventh national meeting of China Matters, June 6 2018 https://chinamatters.org.au/wp-content/uploads/2018/06/The-Hon-Christopher-Pyne-MP-Keynote-Address-at-the-Welcoming-Dinner-of-the-Seventh-National-Meeting-of-China-Matters-June-2018.pdf.