

# Australia and the Belt and Road Initiative

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As Australia's only think-tank devoted to studying the Australia-China relationship, the University of Technology Sydney's Australia-China Relations Institute (ACRI) has followed China's ambitious Belt and Road Initiative (BRI) closely.

In November 2017 ACRI published a report exploring the case for greater Australian engagement with the initiative.<sup>1</sup>

The report noted the Australian government's cautious openness to engaging with China on the BRI.

In formal terms, it was reported in September 2017 that the Australian government had signed a Memorandum of Understanding (MOU) with China around BRI cooperation in third countries.<sup>2</sup>

The extent to which the Australian government is receptive to the BRI largely stems from an appreciation of the infrastructure deficits that plague the region and recognition that the BRI is one potential forum for cooperation between Australia and China to address these deficits.

The ACRI report identified that while tariff rates in the Asia-Pacific have seen substantial reduction over the past two decades, non-tariff trade barriers such as elevated transport costs owing to poor infrastructure, customs procedures, and behind-the-border trade and investment restrictions have remained stubbornly high.<sup>3</sup>

In May 2017, then-Trade Minister Steven Ciobo, prior to attending a Belt and Road Forum in Beijing, stated, 'Australia supports the aims of initiatives such as the Belt and Road that improve infrastructure development and increased opportunities in the Asia-Pacific region'.<sup>4</sup> In August

1 James Laurenceson, Simone van Nieuwenhuizen and Elena Collinson, *Decision time: Australia's engagement with China's Belt and Road Initiative*, Australia-China Relations Institute, University of Technology Sydney, November 9 2017 <<https://www.australiachinarelations.org/content/decision-time-australias-engagement-chinas-belt-and-road-initiative>>.

2 Andrew Tillett, 'Labor's Asia plan called naïve and hypocritical', *The Australian Financial Review*, September 29 2017 <<https://www.afr.com/news/labors-asia-plan-called-naive-and-hypocritical-20170929-gyr1wv>>.

3 James Laurenceson, Simone van Nieuwenhuizen and Elena Collinson, *Decision time: Australia's engagement with China's Belt and Road Initiative*, Australia-China Relations Institute, University of Technology Sydney, November 9 2017 <<https://www.australiachinarelations.org/content/decision-time-australias-engagement-chinas-belt-and-road-initiative>>.

4 Steven Ciobo, Belt and Road Forum, media release, May 14 2017 <[https://trademinister.gov.au/releases/Pages/2017/sc\\_mr\\_170514.aspx](https://trademinister.gov.au/releases/Pages/2017/sc_mr_170514.aspx)>.

2018, then-Prime Minister Malcolm Turnbull remarked, ‘We look forward to working with China on the Belt and Road Initiative projects...Global infrastructure investment is a good example of where countries should work together’.<sup>5</sup> And in November last year Prime Minister Scott Morrison told *Caixin* magazine that ‘Australia welcomes the contribution the Belt and Road Initiative can make in meeting the infrastructure needs of the region, and we’re keen to strengthen engagement with China in regional trade and infrastructure developments that align within the international standards of governance and transparency.’<sup>6</sup>

Similarly the opposition Australian Labor Party (ALP) has expressed a willingness to notionally explore cooperation with China on the BRI. In September 2017 Shadow Treasurer Chris Bowen indicated that should the ALP win the federal election they would ‘come to office...with an open mind as to how Australia and China can best collaborate’ on the BRI.<sup>7</sup> A month earlier Shadow Foreign Minister Penny Wong made the case for ‘a policy that looks at the [BRI] with an eye to identifying points of mutual interest and complementarity rather than reflexive negativity.’<sup>8</sup>

That said, the Australian government has also raised concerns about the BRI. These concerns are widely shared by academic and policy analysis circles in Australia.

One source of unease is what the geostrategic ramifications of the initiative may be. This was alluded to in Australia’s 2017 Foreign Policy White Paper, which stated, ‘Economic power is also being used for strategic ends. We are already seeing increased competition over regional economic integration, including in the financing of infrastructure projects. There is a risk that trade and investment, which in the past have acted to restrain strategic rivalry, could fuel it instead.’<sup>9</sup>

Another issue is the amorphousness of the BRI. The benefits of ‘signing up’ are not immediately clear, and there is a lack of a specific flow of projects. It was reported in May 2017, for example, that Australia’s national security committee of cabinet had debated twice on whether to ink a memorandum of understanding linking Australia’s Northern Development Strategy with the BRI and opted to reject the proposal on the grounds that ‘there was no evidence that signing up had tangible benefits. [The committee felt that] it did not appear that it would lead to extra investment from China beyond what would happen anyway. [And] the government was not satisfied with the details – or lack of detail – in the China proposal.’<sup>10</sup> And suggesting that these reservations had not eased, in October 2017 Malcolm Turnbull stated that Australia would ‘prefer to focus on specific projects and investments rather than engaging in generalities.’<sup>11</sup>

Other concerns include deficits around the BRI’s governance, project transparency, including detail on how disputes might be mediated, and limited local participation<sup>12</sup> in countries hosting BRI projects. The BRI is not, as yet, rules-based. Information on why some BRI projects receive

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

6 Li Xin and Ke Dawei, Interview with Scott Morrison, *Caixin*, November 15 2018 <<https://www.pressreader.com/china/caixin-china-economics-finance/20181115/281651076237815>>.

7 Chris Bowen, ‘The case for engagement with Asia’, speech, Asia Society Australia, Sydney, September 29 2017 <<https://www.chrisbowen.net/transcripts/speeches/the-case-for-engagement-with-asia/>>.

8 Penny Wong, ‘Looking forward – looking back: Australia and the Asian Century’, speech, Australia 360 Conference, Canberra, August 8 2017 <<https://www.pennywong.com.au/speeches/looking-forward-looking-back-australia-and-the-asian-century-address-to-the-australia-360-conference-canberra/>>.

9 Australian Government Department of Foreign Affairs and Trade, *2017 Foreign Policy White Paper* <<https://www.fpwhitepaper.gov.au/>>.

10 Paul Kelly, ‘Cabinet saw no gain in Xi Jinping’s ‘project of the century’’, *The Australian*, May 29 2017 <<https://www.theaustralian.com.au/national-affairs/foreign-affairs/cabinet-saw-no-gain-in-xi-jinpings-project-of-the-century/news-story/098f7cfd460bc1ecc95468ed566871c4>>.

11 Australian Associated Press, ‘Turnbull plays down Belt and Road fears’, *SBS News*, October 23 2017 <<https://www.sbs.com.au/news/turnbull-plays-down-belt-and-road-fears>>.

12 Nyshka Chandran, ‘China can make its Belt and Road project more successful if it taps locals, experts say’ *CNBC*, September 14 2018 <<https://www.cnbc.com/2018/09/14/china-must-do-more-to-tap-locals-in-belt-and-road-initiative-panel.html>>.

funding and others do not is not available for public scrutiny as a matter of course. The BRI is also not multilateral, the preferred form of international engagement for a medium-sized power such as Australia.

One neat way of summarising these shared concerns in Australia is that the BRI is not the Asian Infrastructure Investment Bank (AIIB).

After initial equivocation following pressure from the United States not to join,<sup>13</sup> Australia signed up to the AIIB as a founding member.

Australia now regards the AIIB as a model Chinese-led initiative: it is plainly multilateral in conception, the benefits of 'signing up' are clear, its operations are rules-based, its lending practices are transparent and its governance standards are world-class.

The BRI is different for the reasons articulated above.

It ought to be noted that some of the differences between the AIIB and BRI are not necessarily flaws. For example, that the BRI is more bilateral allows it to focus on key issues of importance to both countries, and not get bogged down in disagreements that can sometimes limit the effectiveness of multilateral forums.

But unless other concerns are addressed, such as transparency around BRI projects, then fears that China, as the significantly larger partner, will be able to exert greater power in bilateral negotiations are unlikely to diminish.

The practical need underpinning the BRI is economically sound. However, the success of the BRI may ultimately depend on China's success in bringing countries like Australia, which are receptive but have legitimate concerns, on board.

To be sure, the responsibility for achieving positive sum outcomes does not lie solely with China. There are opportunities for the Australian government to proactively engage with the BRI in ways that do not necessarily provoke the concerns raised above. As the preceding analysis illustrates, Australian policy-makers and thinkers have conceived of the BRI almost exclusively in terms of it being an infrastructure program. This arguably reflects a lack of imagination. China's articulated vision for the BRI is a broader one of connectivity; infrastructure is only one part. China lists four other types of connectivity including policy coordination, unimpeded trade, financial integration and people-to-people bonds.<sup>14</sup> Reflecting on this list, it is not hard to identify opportunities that are in Australia's national interests and that any Australian government could pursue with confidence. Examples might include placing the upgrade of the 1988 Australia-China bilateral investment treaty and/or the 2015 China-Australia Free Trade Agreement on a work plan for BRI cooperation.

But with respect to infrastructure cooperation, addressing the above matters would promote deeper engagement abroad with the BRI. It will boost China's global leadership credentials, as well as realising a return on the substantial resources it has committed, thus easing Chinese public worries about why China is committing such substantial resources abroad when domestic needs also continue to be pressing.

<sup>13</sup> Phillip Coorey and Lisa Murray, 'John Kerry to Tony Abbott: steer clear of China bank', *The Australian Financial Review*, October 24 2014 <<https://www.afr.com/news/policy/foreign-affairs/john-kerry-to-tony-abbott-steer-clear-of-china-bank-20141023-11aw96>>.

<sup>14</sup> People's Republic of China National Development and Reform Commission, 'Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road', March 28 2015 <[http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)>.

And it will promote confidence in other countries that are naturally wary of what President Xi Jinping described in the Australian parliament in 2014: how the ‘big guy in the crowd’ will act.<sup>15</sup>

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<sup>15</sup> Xi Jinping, Address by the President of the People’s Republic of China, Parliament of Australia, November 17 2014 <<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=id:%22chamber/hansardr/35c9c2cf-9347-4a82-be89-20df5f76529b/0005%22>>.