

What risks upsetting the Australia - China detente in 2024?

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After a sustained trough in the Australia-China relationship during the tenure of the Malcolm Turnbull and Scott Morrison-led coalition governments (2015-2022) in Australia, 2023 has seen the détente pursued by the incumbent Labor administration come to fruition, with the relationship widely regarded to have 'stabilised.'

This improvement has been marked by a number of milestones. Most of the trade restrictions Beijing applied to several Australian imports (including coal, beef and barley) during the previous government's term have now been rescinded, with the remainder (wine and lobsters) [expected](#) to end in early 2024.

Cheng Lei, an Australian citizen detained by Beijing on national security charges in 2020, was [released](#) in October, raising hopes for the release of the Australian-Chinese writer Dr. Yang Hengjin, who was detained in 2019 on charges of espionage.

Bilateral trade is burgeoning, and high-level bilateral meetings have regularised, culminating in Australian Prime Minister Anthony Albanese meeting Xi Jinping in an official visit to Beijing – the second meeting between the two leaders. In the wake of the meeting, Albanese said the relationship showed 'promising signs,' while Xi, during the meeting's opening, [said](#) ties had now 'embarked on the right path to improvement.'

What, then, are the prospects for the Australia-China relationship heading into 2024?

While currently on an upward trajectory, fundamental differences pose questions as to the level of intimacy the relationship can attain and the true nature of its resilience. Key among them is Canberra's close alliance with Washington, along with the two democracies' shared concerns about the challenges China poses to regional security, liberal-democratic values, and the rules-based global order. At the same time, Australia's long-held conundrum of balancing the lucrative economic benefits of its trade partnership with China, and the security benefits of its alliance with the US, is becoming increasingly fraught, with economic and tech 'wars' shifting to the centre of great power competition.

Moving into 2024, several potential developments could reveal the fragility of 2023's Australia-China detente. Three possible plot twists, in particular, threaten to profoundly set back the relationship: First, an incident or accident involving the two nations' militaries in the South and East China seas; second, Australia restricting China's access to its critical minerals, and in particular lithium; and third Canberra banning Chinese technology on security grounds, roughly repeating its consequential decision on Huawei in 2018.

South and East China Seas

In November 2023 Royal Australian Navy divers, operating in waters Beijing claims to be the subject of territorial disputes between China and Japan, were injured by sonar pulses emitted from a People's Liberation Army Naval (PLAN) vessel. The incident marked one of the most serious incidents involving the two militaries in recent history.

Canberra promptly criticised the Chinese actions through formal channels and [public statements](#). The latter prompted rebukes from Beijing, which first [questioned the veracity](#) of the accusations, and in turn, accused Australia of provocations.

While [not the first](#) dangerous interaction between Australia's and China's militaries in seas near China, the incident reflected an escalation for both sides.

Aside from territorial concerns, there is an additional geostrategic factor underlying these tensions.

Chinese media have closely followed Australia and US joint exercises with the Philippines and Japan in waters near Taiwan. Some in the Chinese media have [speculated](#) that the United States is using exercises of this kind to prepare its allies to rapidly mobilise in the event of an invasion of Taiwan. With Japan's outlying islands in close proximity to northern Taiwan, and the Philippines close by in the south, military assistance from Japan, and basing rights in both Okinawa and the Philippines, would position US forces to form a pincer on attacking forces, and potentially block both the Bashi Channel and the Miyako Strait, through which PRC naval forces would need to traverse to blockade Taiwan.

Given the perceived strategic stakes, China may continue to respond aggressively to these exercises – which show no immediate signs of abating. This is particularly likely if Beijing fears that they could undermine Beijing's intimidation campaign and embolden 'Taiwanese independence forces.'

What this means for the Australia-China relationship, however, is not immediately clear.

Pessimistically, a repeat of something akin to the sonar incident would likely remove doubt in Canberra as to Beijing's intentions. The high stakes also raise the risk of an incident between the US and China occurring that could escalate and potentially trigger a wider conflict. Should that occur, Canberra will almost certainly stand on the side of its ally.

More optimistically, Beijing's criticisms of the joint exercises have largely been focused on its neighbours and Washington. Not long after the sonar incident, Beijing [dispatched](#) the Communist Party's head of the International Liaison Department Liu Jianchao to Australia, and [rescinded](#) its trade restrictions on Australian beef. A likely reason for this is Chinese analysts' [views](#) that the US is pulling the strings. In either event, given Australia's reliance on US backing, Beijing will feel that the key to halting these exercises lies not in Canberra but in Washington.

Critical minerals

Another potential problem for the Australia-China relationship is the possibility of obstructions to China's access to Australia's critical minerals. At the top of the list is lithium – a key product in rechargeable batteries, one which has been called the 'new oil.'

Fears that trade or investment restrictions in lithium targeting China would substantially damage the bilateral relationship have been [raised before](#). A key reason cited is that Australia is by far the largest import source of the mineral central to fuelling the PRC's burgeoning electric vehicle and rechargeable battery industries – key priorities in Beijing's Made in China 2025 strategy, and its plans to capitalise on the green energy transformation.

Yet such restrictions could become more likely in late 2024.

Hitherto a substantial proportion of the world's lithium exports have gone to China, which has modest lithium reserves of its own, yet dominates lithium processing and battery production. In 2022, China had over half of

the world's lithium refinery capacity while its share of the world's lithium-ion battery manufacturing capacity stood at [about 77 percent](#). A game changer, however, is that the United States, as well as Japan, South Korea and Europe, are aggressively moving to ramp up their own refinery and battery production capacities through subsidy programs such as Washington's [Inflation Reduction Act \(IRA\)](#). Should they succeed in doing so, their attention will shift from acquiring batteries to securing their own supplies of the raw materials used to produce them. This will likely lead them to cast their attention to Australia – currently the world's largest exporter, and, among the major supplying nations, Washington's closest ally.

In line with this, the recently released Australia's Critical Minerals Strategy 2023-2030 report [says](#) that 'The Government will use policy tools to help diversify global supply chains, particularly where this will link Australian projects into the markets of our allies and partners.' Reflecting this, Treasurer Jim Chalmers blocked three bids by Chinese miners, and Australia and Indonesia recently drew up a deal on EV batteries. Yet Australia continues to send almost all of its lithium exports to China, and Chinese investors – principally Tianqi Lithium – still have a sizeable stake in local operations. These contradictions are likely to receive growing scrutiny in 2024 and beyond.

A trigger that could prompt more immediate action is if China is seen to use non-market instruments to retain, extend or weaponise its critical mineral supply chain dominance. In July, China [banned](#) exports of the rare earths germanium and gallium, although this was seen as retaliation for US technology export bans. This followed an alleged ban on rare earth exports to Japan in the wake of a fishing incident involving the two nations in 2010. While it is [unclear](#) whether the 2010 ban was actually enforced, it has been cited as a reason for hedging against China's rare earth dominance.

A more flagrant example of the weaponisation of supply chain bottlenecks or over-concentration would likely heap pressure on Australia to explain to its security partners why it is helping feed China's critical minerals dominance. A similar response could follow suspected attempts by Beijing to undermine competition through pricing mechanisms (i.e., dumping or oversupply), or interfere politically in other (less stable) supplier nations.

Huawei II

Australia's [decision](#) to ban Huawei from Australia's digital infrastructure in 2018 – the first nation to do so – was an important contributing factor behind the steep decline in the Australia-China relationship that lasted until the resumption of high-level dialogue in 2022. Despite the presently improved ties, Beijing continues to express grievance over the decision.

The Australian government recently banned TikTok from government devices, but has stopped short of enacting a broader ban. However, led by members of the opposition, growing attention has been directed to a wide variety of Chinese technology that could facilitate '[cyber-enabled](#)' threats to Australian security. While no Chinese product or firm looks to be under immediate threat of blanket bans, the Huawei precedent, renewed concerns about cyber espionage among Australia's intelligence agencies, and the growing number of Chinese commodities that have become the subject of scrutiny, mean that a 'Huawei II' decision is not completely off the cards in 2024.

Solar 'smart inverters'

In July, the opposition's Shadow Minister for Cyber Security [James Paterson](#) and Shadow Minister for Climate Change and Energy Ted O'Brien brought attention to fears that Chinese 'smart inverters' for solar panels could be used to surveil or sabotage energy supplies, mirroring earlier concerns about the technology in the United States and the Netherlands. In response, Home Affairs Minister Clare O'Neil said that the government was looking to boost domestic production to reduce Australia's reliance on 'high-risk vendors.' In October, the Australian government announced that it was drawing up plans to thwart potential cyberattacks using solar inverters. Should experts conclude that threats from Chinese technology can't be easily mitigated, Australia may eventually be faced with a conundrum similar to that which led to the banning of Huawei.

Canberra will also be taking note of the measures other nations are taking against Chinese solar panels, inverters, and similar technologies. In mid-December, it was [reported](#) that Britain's National Grid was likely in

the process of stripping parts of the nation's transmission system that were bought from NR Electric, whose parent company is owned by China's state electricity grid operator.

Electronic vehicles

Paterson has also brought attention to growing security concerns about electric cars, which have been described by one expert as 'data-hoovering computers on wheels.' Fears about cyber vulnerabilities associated with Chinese EVs have similarly [been raised](#) by a number of experts, especially in the [United Kingdom](#) and North America. [China also](#) sees danger in electric vehicles, having banned Teslas from politically sensitive locations and having demanded that data collected from such vehicles not be sent abroad.

A more recent concern has been Chinese companies' attempts to shift into EV charging networks and battery energy storage systems (BESS), which some experts argue could [open backdoors](#) into national electricity grids.

In addition to acting on domestic concerns, Australia could face pressure to restrict Chinese EVs from its allies, with the United States, and allied nations in Europe and East Asia, potentially juxtaposing (or conflating) security concerns with fears that the explosive growth of China's EV exports threatens an industry seen to be an important pillar of their respective industrial and R&D ecologies.

With China's EV industry currently powered by Australian lithium, Canberra may be more susceptible to this pressure should Australia break off its lucrative critical minerals trade partnership with China.

Blanket bans and warnings

A potentially greater problem is that Australian authorities could issue blanket warnings – or use dissuasive regulatory or contractual instruments – to dissuade larger swathes of the economy from using Chinese technologies that could pose cybersecurity risks.

Such a proposal was raised earlier in 2023 by Paterson, who [criticised](#) the 'whack-a-mole' approach that had led to reactive government and public service bans on Chinese security cameras, drones and social media. He also said if certain technology was banned in government departments, 'it's hard to see why they should be permitted on a system of national significance' in the non-government sector.

Concerns about Chinese cyber espionage in the private sector – particularly among leading businesses and research institutes – have grown in Australia's intelligence community. In October Australian Security Intelligence Organisation (ASIO) Director General Mike Burgess [warned](#) that 'The Chinese government are engaged in the most sustained, sophisticated and scaled theft of intellectual property and expertise in human history.' Australian intelligence agencies have also stepped up their engagement with businesses and institutions targeted by, or seen to be susceptible to attacks from, foreign cyber agents. In the face of sustained attacks, a more aggressive approach of using public warnings that name Chinese vendors or products as a source of cyber vulnerabilities could profoundly impact Chinese tech sales and the reputation of Chinese vendors, angering Beijing.

Pressure from the United States could also come into play. In late October the Australian government introduced the [Defence Trade Controls Amendment Bill 2023](#) which 'streamlines the transfer of defence goods and technology' between Australia and its AUKUS partners – the United Kingdom and the United States – but which imposes harsher penalties on individuals who transfer technology to other nations' foreign entities 'in ways that prejudice Australia's interests.' In a similar vein, Australian entities wishing to participate in AUKUS Pillar II technology cooperation projects with US and U.K. partners will almost definitely have their cyber security capabilities audited, potentially strengthening alignment with US restrictions on Chinese technology.

A final issue is that the US could enlist Australia's participation in what has been called a 'tech war.' While Australia is not a major producer of advanced technology goods, it could be compelled to comply with US bans on investing in certain Chinese tech firms – a point [recently raised](#) by Dr Benjamin Herscovitch, a scholar on regulation and global governance at the Australian National University.

Mitigating factors

The prospects of further Chinese tech bans must also be measured against several mitigating factors.

The first is that unlike many of Canberra's allies, the Australian and Chinese economies are highly complementary. Given China's status as Australia's most lucrative export destination, and with few major Australian firms competing against China for market share in the advanced tech sphere, security fears won't be augmented by an underlying economic motive.

An additional issue is that in some advanced technology areas, the scale of China's market dominance means that avoiding Chinese tech is exceptionally difficult. In the case of green tech, this problem is compounded by the exceptionally short timeframe Canberra has given itself to drastically cut Australia's carbon emissions, meaning that establishing domestic industry or other supply alternatives to meet shortfalls could prove unfeasible.

Security risks vs economic rewards

In addition to the above, there are other risk factors for the Australia-China relationship in 2024.

For Beijing, an adverse Australian decision on China's bid for membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), never mind a [positive one](#) for Taiwan's bid, will impact the trajectory of the relationship. For Canberra, China's [tightening national security legislation](#) raises the risk of Beijing detaining more Australian citizens, which could reopen old wounds. With strategic competition between Australia and the PRC in the south Pacific not abating, Canberra will also be wary of any Chinese moves toward establishing a military facility in a Pacific island country. Outside the region, if China acts to save Russia from failure in Ukraine, or the US-China rivalry in the Middle East intensifies energy security concerns, Canberra will almost certainly side with its long-term ally.

Yet there is some room for restrained optimism. The aforementioned developments in the wake of the sonar incident are a testament to the Canberra-Beijing relationship's growing capacity to weather diplomatic storms. Lucrative trade benefits could also serve as a strong ballast – Australia's exports to China hit a [historic high](#) in March, and Australia's business community is again looking towards China with renewed, albeit more sober, enthusiasm. Australia's large Chinese-speaking population, and a predicted rise in Chinese tourists and students, could see a further strengthening of people-to-people ties.

Perhaps a bigger cause for optimism is the foreign policy acumen and diplomatic adroitness of the Albanese government – which has, though not without criticism, exceeded expectations. Inchoate signs that Australia is set to partially resume its role as a Washington-Beijing mediator could help – though what happens in and between those capitals is likely to continue to have a profound impact on Australia-China ties.

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