



Australia-China relations summary

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Foreign interference

It was [reported](#) on July 11 that a rule change had been instituted barring international students from participating in an Australian National University-organised program for internships in federal MPs' offices. The program had given course credits to successful applicants.

This followed apprehensions raised by some MPs to the President of the Senate, Scott Ryan, and the Speaker of the House of Representatives, Tony Smith, about 'behind-the-scenes access enjoyed by Chinese students' and 'the potential risk of Chinese students exploiting this privileged access to MPs and ministers' offices'.

Former Australian prime minister Kevin Rudd, who currently leads the Asia Society Policy Institute in New York, in an [interview](#) with *Channel News Asia* in Singapore published on July 26 stated that the debate around foreign interference in Australia, at least in the form initiated by the government, had been 'reasonably irresponsible because it's so easy in a country like Australia for this to head in a racial direction'. He said he was 'concerned that this debate could, in fact, become slanted against the Australian-Chinese community'. However, with respect to the substance of foreign interference legislation, Mr Rudd said he thought the government was 'getting the balance right'.

US Secretary of State Mike Pompeo at a US Senate Foreign Relations Committee [hearing](#) on July 25 referred to Australia's foreign interference legislation, saying:

[Australia is] getting up to speed in the same way you all look at CFIUS [Committee on Foreign Investment in the United States] and FIRRMA [Foreign Investment Risk Review Modernization Act].

We are beginning to strike that comprehensive response versus China that I think will ultimately do what has historically happened – allow America to prevail.

Steve Bannon, former chief strategist to US President Donald Trump and former executive chairman of the far-right Breitbart News, in an [interview](#) with Fairfax Media on July 9 asserted that Australia had fallen prey to Chinese influence given the country's acceptance of Chinese investment into natural resources and technology, and political donations:

Australia is an object lesson in what to avoid. People [in Australia] played by the rules. It came up gradually, and then it was there.

Mr Bannon termed Australia 'the San Andreas fault between China and the West', stating the country 'is in a fight for the ages'. He said:

If we continue on this path we're down, China will control all of the countries of South East Asia and they will control Australia

[Several MPs](#) expressed broad support for Mr Bannon's views. Liberal backbench MP Andrew Hastie, chair of the Parliamentary Joint Committee on Intelligence and Security said:

We are dealing with a state that uses the whole of society to advance its national objectives. We are less organised because we believe in individual liberty. That's a good thing for Australia but it does make us vulnerable to authoritarian states.

Labor MP Anthony Byrne, deputy chair of the Parliamentary Joint Committee on Intelligence and Security, said:

I would say that regardless of where you are on the political spectrum, there are defining issues that democracies like ours have to deal with, and on the point that Mr Bannon has made about defending civilisation and defending our national sovereignty, I completely agree with him.

A proposal by Cambria Green Agriculture Tourism Management, a group of Australian and international investors led by a Melbourne-based Australian-Chinese property developer and a Shandong businessman, to build a \$100 million, 3,185 hectare development on the Tasmanian east coast has been met with opposition from the Tasmanian Greens party for, among other things, purported links with the Chinese Communist Party (CCP).

In a [submission](#) to the Cambria Estate draft planning scheme amendment on June 14 the party outlined a concern, seemingly, about the potential for an effective takeover by the CCP:

Tasmania is an ideal target. It...has geographic importance as an essential stop on the air route from mainland China to the Antarctic continent.

The Chinese Communist Party government has a long-term strategic objective that clearly involves the land of Tasmania....If this development is approved, it may prove to be the foundation for further acquisition of large parcels of land by companies that have both the backing of the Chinese Communist Party and are financed by Chinese state-owned banks.

Tasmanian Greens leader Cassy O'Connor [told](#) the Tasmanian parliament:

We will not be the useful idiots for the Chinese Communist Party. We will come into this place and defend Tasmania's sovereignty, our food security, our way of life and our cultural identity every single day of the week.

The Tasmanian Greens are also moving to establish an inquiry on foreign ownership and influence. The terms of reference are available [here](#).

South China Sea

Outgoing Defence Force Chief Mark Binskin in an [interview](#) with Fairfax Media on July 5 agreed with the assessment put forward by the reporter that the People's Republic of China (PRC) 'has changed' since he assumed the command of the Australian Defence Force in 2014. He pointed to the 'very, very concerning' militarisation of features in the South China Sea as a major factor.

On the PRC's justifications of these actions – the [installation](#) of anti-ship cruise missiles and surface-to-air missile systems on Fiery Cross Reef, Subi Reef and Mischief Reef in the Spratly Islands, for example – the Air Chief Marshal rejected completely the country's claim that they were defensive manoeuvres:

I don't think there is trust there...because [according to] all the reports that you see, they are militarising. They'll put a spin on that and say it's only for defensive reasons. But...if you didn't build an island, you wouldn't need to defend it. If there are weapons on those islands, they are militarised.

When asked on July 6 about the Air Chief Marshal's observation that the PRC's actions in the South China Sea had resulted in a trust deficit, Foreign Minister Julie Bishop seemed to quietly agree, [reiterating](#) Australia's 'concern' about the militarisation of features and pointing to President Xi's 2015 [assertion](#) that 'China does not intend to pursue militarisation' and the ensuing pursuit of militarisation regardless. She [said](#):

President Xi Jinping (sic) had said that China would not militarise the South China Sea Islands but we have been concerned by militarisation of some of the features. These are matters we have raised with China privately and publicly and our position on the South China hasn't changed.

US Democratic congressional representative Joe Courtney in an interview immediately prior to the Australia-US Ministerial Consultations (AUSMIN), published in *The Australian* on July 24, [encouraged](#) Australia to conduct unilateral freedom of navigation operations (FONOPs) in the South China Sea. He reasoned that it would help 'shift where the momentum is in terms of China's illegal claims to control what is one of the most critical bodies of water in the world.' He said:

This is a big priority – it's maybe a little scary still [for Australia] to take that step but I was hoping [US] Admiral [Harry] Harris was going to be ambassador because he might have been as forceful and persuasive an advocate as there is.

President Trump had in February [said](#) the US 'would love to have Australia involved [in FONOPs with the US Navy]'.

To Mr Courtney's remarks the Foreign Minister [responded](#):

It's a completely different scenario and with respect to the congressman, I wonder if he understands that the US conducts global FONOPs 24/7 around the world.

If suddenly Australia unilaterally conducted FONOPs against China, it would be the first we have done anywhere in the world. That would be an extraordinary step for a country like Australia to take when we have never conducted one anywhere.

This statement by the Foreign Minister is arguably the Australian government's most emphatic rejection of Australia conducting FONOPs – at least unilaterally – to date.

Defence Minister Marise Payne had [stated](#) in the lead-up to the AUSMIN talks that:

We regularly and consistently prosecute the case and argument for freedom of navigation and oversight...We haven't taken a backwards step in this respect.

Shadow Defence Minister Richard Marles in comments to the *Australian Financial Review* [did not rule out](#) joint FONOPs with 'partners in the region' under a Labor government:

We have an interest in continued constructive US engagement in the region. Labor would consider opportunities for further co-operation with partners in the region.

Invoking congressional representative Courtney's remarks, a journalist at the AUSMIN press conference on July 24 asked US Secretary of Defense Jim Mattis whether '[he] would like to see Australia [conduct a unilateral FONOP in the South China Sea]'. The Defense Secretary [responded](#), 'that's a sovereign decision by a sovereign state.'

In a [speech](#) to the Heritage Foundation in Washington on July 12 former prime minister Tony Abbott criticised the Turnbull government for not having mounted FONOPs in the South China Sea.

Huawei

On July 6 Huawei [announced](#) it was awarded a \$136 million contract by Western Australia's Public Transport Authority to build and maintain a new communications system for Perth's 180 kilometre rail network. The project, a joint venture with Australian engineering company UGL, will 'design, install and commission the service and maintain the new digital radio system for an initial period of five years from completion with options for a further five plus five years.'

The leader of the WA Opposition criticised the decision, stating there were 'serious strategic issues' around the awarding of the contract to Huawei given that emergency services would eventually be integrated into the communications system.

Prime Minister Malcolm Turnbull [said](#) the WA government had 'consulted with the Department of Home Affairs' during the decision-making process. The Prime Minister also noted that 'the decision to award the contract is obviously one for the WA government. But we don't go into the security dimensions in any more detail than that.'

In an [interview](#) with *The Australian* on July 5 Huawei company director Chen Lifang told the newspaper, 'The government officials I met this week say there hasn't been any decision made by the Australian government.'

But on July 11 *Reuters*, citing two unnamed political sources, [reported](#) that the government would soon be announcing a ban on Huawei from involvement in the 5G broadband network. This follows [recommendations](#) from national security agencies against letting the firm bid for 5G contracts.

The sources indicated that among intelligence agency concerns was China's National Intelligence Law, passed by the PRC in June last year, which requires that:

All organizations and citizens shall...support, cooperate with, and collaborate in national intelligence work.

One of the sources said:

It is a Chinese company, and under Communist law, they have to work for their intelligence agencies if requested. There aren't many other companies around the world that have their own political committees.

Jeremy Mitchell, a senior Huawei Australia representative, [told](#) a conference on July 25 that the 'idea that 'ban Huawei and then you'll make the Australian security of the 5G network safe' is ridiculous'. Mr Mitchell pointed out that other major telecommunications suppliers have factories in the PRC and,

therefore, 'the supply chain that we have has got China in it. With or without Huawei, the Australian 5G network will be made in China.'

Hong Kong investment in energy infrastructure – CKI bid

The Hong Kong-listed Cheung Kong Infrastructure's (CKI) \$13 billion bid for APA Group, Australia's biggest gas pipeline operator, is 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'.

Centre Alliance Senator Rex Patrick on July 4 sent an [email](#) to the Treasurer, Scott Morrison, urging him to block CKI's bid. The Senator cited the expansion of 'Chinese control' over critical infrastructure as a primary concern:

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.

Port of Darwin

The controversy surrounding the 2015 sale of the Port of Darwin to Chinese company Landbridge was briefly revisited this month with Senator Rex Patrick [stating](#) on July 13 that '[t]he Foreign Investment Review Board didn't in my view do a good job in relation to [that purchase]...Darwin is a critical port for the Royal Australian Navy.'

The Foreign Minister was unequivocal in dismissing concerns of this nature when they were raised during a July 6 interview while the Minister was visiting the Northern Territory.

When asked, 'How comfortable are you with the Port [of Darwin] being owned by the Chinese company Landbridge?' The Minister responded that:

[I]t will be a foreign investment that is very fruitful for Darwin... Already the refrigerator container capacity has increased some four-fold and that has seen significant increase in trade through the Darwin Port which is good for the Territory.'

She noted that the Department of Defence had 'looked at the matter' and that 'they had no security concerns at all'.

When pressed about the issue by the interviewer again and asked, 'Why did you change foreign ownership rules if you're not fussed about the Chinese ownership of [the port]?' the Minister said:

The Northern Territory Government contacted the Defence Department and the Defence Department had no concerns and they expressed no security concerns and that is still the case. The changes to our foreign investment rules are because of a whole range of concerns not in relation to the Darwin Port.

She rejected the notion that changes to Australia's foreign investment framework were made in hindsight after the sale of Darwin Port.

Belt and Road Initiative (BRI)

On July 10 PRC Ambassador to Australia Cheng Jingye, in a [speech](#) to an Australia-China Business Council conference in Darwin dedicated to discussing the BRI, encouraged Australia to sign up to the initiative. He stated that 'China is open to Australia's participation in the building of the 21st Century Maritime Silk Road' and that Australia 'has a role to play in the BRI'.

He seemed to encourage a reconsideration of linking Northern Territory development with the BRI as a starting point: 'The excellent location of [the Northern Territory] equip it with special advantages in developing its trade and economic cooperation with China and participating in BRI.'

The Ambassador used his speech to address common concerns about the BRI, asserting it has 'nothing to do with geopolitics', that it is 'based on rules and the rules of law', that the PRC will 'endeavour to establish a rules-based legal network for BRI cooperation' and that 'more will be done to ensure Belt & Road projects are of high quality and high standard.'

On July 31 the Foreign Minister [announced](#) that Australia, the US and Japan had 'formed a trilateral partnership to mobilise investment in projects that drive economic growth, create opportunities, and foster a free, open, inclusive and prosperous Indo-Pacific.' This follows on from a [commitment](#) out of the AUSMIN talks on July 23-24 to 'advance a shared infrastructure agenda, including by holding a formal dialogue on infrastructure investment in the Indo-Pacific'.

While the PRC and the BRI were not mentioned in the announcement, reports and commentary characterised the infrastructure investment partnership as '[alternative](#)' or '[rival](#)' to the BRI.

Australian participation in this new fund appears to enjoy bipartisan support. Shadow Minister for Foreign Affairs Penny Wong in a [speech](#) to the US Studies Centre at the University of Sydney on July 18 had pointed to the need for more infrastructure investment in the Indo-Pacific region, stating, 'The Australian Government would do well to seriously consider similar initiatives.'

The US has [committed](#) US\$113 million in 'immediate new funds' to the undertaking. This [elicited](#) the following response from the PRC foreign ministry:

We hope these countries can offer some real money and real measures to improve regional connectivity and help with the development of countries in the region.

If only it was \$US2 trillion.

It is unclear at present how much Australia and Japan will contribute.

On July 30 Fairfax Media [reported](#) that their attempt to access the full text of the Memorandum of Understanding between Australia and the PRC on cooperation with Australian companies on BRI projects in third-party countries, quietly signed in September last year, under the Freedom of Information Act failed due to a lack of express consent from the PRC.

Quad

US Assistant Secretary of Defense for Asian and Pacific Security Affairs and Armitage International consultancy co-founder Randy Schriver [observed](#) in a July 16 interview with Fairfax Media that he 'detect[ed] interest...combined with some concern' among the nations that comprise the Quadrilateral Security Dialogue. He said that if the Quad was fully revived 'a full range of activity is ultimately possible' including conducting military exercises and 'presence operations' in the South China Sea or Indian Ocean.

India's navy chief had previously [stated](#) that this incarnation of the Quad would not involve a military dimension.

The US and Australia in their [joint statement](#) following the AUSMIN talks touched on the Quad briefly, stating the countries 'welcomed the recent U.S.-Australia-India-Japan consultations on the Indo-Pacific in Singapore'.

Xinjiang

Following a US Congressional-Executive Commission on China hearing on July 26 the increasing repression of the Uighur population in China's Xinjiang region, exiled Uighur leader Rebiya Kadeer [urged](#) Australia to 'call on China to stop engaging in state terrorism'. Ms Kadeer criticised Australia for staying silent on the human rights abuses due to fears of economic reprisal:

Marco Rubio said...that a lot of countries across the world are fearful of losing their economic ties with China, so they are silent against the atrocities that are occurring against the Uighur people. One of those governments is obviously Australia.

Foreign Minister Julie Bishop said Australia 'shares concerns expressed by the international community' and that Australian officials 'have conveyed these concerns to China on a number of occasions'.

Release of Stern Hu

Former Rio Tinto executive Stern Hu, an Australian citizen, was quietly released from a Shanghai prison in early July¹ after having been detained for nine years.

Accused of corruption and commercial espionage, Mr Hu was arrested by PRC authorities in July 2009 and sentenced to 10 years in March 2010 after a three-day trial. His arrest came during fraught negotiations between China's steel sector and foreign mining companies. Former premier of Western Australia, Colin Barnett, who had travelled to China soon after Mr Hu's arrest, made the [observation](#), too, that Mr Hu's arrest came against the backdrop of PRC disgruntlement at Australia's decision to permit a [visit](#) by Uighur leader Rebiya Kadeer in August 2009.

Australian leaders had raised Mr Hu's case with their PRC counterparts in private discussions since his , including Kevin Rudd with Wen Jiabao in [October 2009](#), Julia Gillard with Wen Jiabao in [April 2011](#), and Tony Abbott with Li Keqiang in [April 2014](#).

¹ Court documents state Mr Hu's release was scheduled for July 4. However, he was not spotted leaving the prison on that day leading to some speculation the release date was informally shifted.

The business community

The Australian business community appears to have been less vocal this month than in months previous on the state of the bilateral relationship and its potential ramifications for business. This may be attributable in part to briefings provided to Australian boards by Director General of the Australian Security Intelligence Organisation (ASIO) and Department of Foreign Affairs and Trade Secretary Frances Adamson.

An unnamed source present at such a briefing [told](#) the *Australian Financial Review*:

They expressed the strong opinion the trade issues were going to continue.

The message was don't be put off by this but be mindful of the sensitive and complex security environment.

Another source told the newspaper that 'there was an unspoken message that the government's position on China would be undermined by criticism from the business community' (paraphrased).

Australian intelligence agencies have also been working to reach out to the business community to exchange views and to gather information. Deputy Director-General of the Office of National Assessments [said](#) they were 'experimenting with ways of tapping outside expertise when we are grappling with particular questions.'

Australian Agriculture Minister David Littleproud told *Reuters* on the sidelines of a G20 agriculture ministers' meeting in Buenos Aires July 25 that he had sent 'agricultural envoys' to the PRC to explore how barriers to Australian meat exports might be addressed. (See [previous fact sheets](#) for discussions on go-slows on beef and pork). The Agriculture Minister also said he was hoping to meet his counterpart in China later in the year and 'demonstrate that we are good friends and we have a beneficial relationship.'

Defence Trade Controls Act review

In April this year the Defence Minister [announced](#) a review of the *Defence Trade Controls Act 2012* to ascertain whether the Act 'adequately safeguards national defence capability and prevents trade and collaboration that could unwittingly advance the military capabilities of potential adversaries'.

On June 8 the Department of Defence made a [submission](#) to the review committee which recommended extensions of government powers in overseeing international research partnerships, including controlling the supply of all technology to research partners and performing search and seizures without a warrant. The department reasoned that this was a necessary response to a changed national security environment, the particulars of which were detailed in a classified annex.

While no nation-states have been singled out, the submission comes against the backdrop of concerns articulated since at least around June 2017 by [some commentators about research cooperation](#) with the PRC. Indeed, in [commentary](#) about the defence submission only the PRC was mentioned as cause for anxiety in Australian cooperation with overseas universities.

The department's submission elicited a strong response from universities and research institutes, who seemed to broadly agree that the requested powers were unreasonable. See their supplementary submissions [here](#).

Labor spokesperson for Science and Research Kim Carr [labelled](#) the submission an ‘overreach’ and that Defence officials’ responses at Senate Estimates were at odds with the submission they made to the review:

The fact remains that what the Defence Department has told me at Senate estimates is in complete contrast to the submission that they have made to the parliamentary committee.

They have said that defence has not identified any incidents of noncompliance with the Defence Trade Control Act by universities or research organisations.

Cyber security

It was [reported](#) this month that the Australian National University’s computer network had been successfully targeted by hackers and that the university ‘has been working in partnership with Australian Government agencies for several months to minimise the impact of this threat’.

[Fairfax Media](#) and [9News](#) on July 6 attributed the infiltration to ‘China-based hackers’. The 9News coverage said, ‘Multiple sources have told 9News that the Australian Cyber Security Centre followed the hackers’ trail to China’.

Alastair MacGibbon, head of the Australian Cyber Security Centre, declined to publicly confirm this. In [response](#) to a *Sky News* interview question on whether he could say that the hacking had originated in China, said, ‘No I can’t.’

Fairfax Media cited unnamed national security sources who ‘said the Chinese government was suspected of directing the cyber attack, but proving this may be difficult because hackers typically aim to hide their tracks.’

The same report noted that it was ‘confirmed by federal government officials that the cyber attack was launched from China and that the ANU computer network was significantly compromised’ while also stating that ‘the Australian government did not blame any country for the attack’.

Confucius Institutes

The Washington-based Centre for Strategic and Budgetary Assessments in a May [report](#) nominated Confucius Institutes in Western universities and schools as a key category of PRC ‘political warfare operations’. One of the co-authors of the report, Ross Babbage, former head of strategic analysis of the Office of National Assessments, [told](#) the *Australian Financial Review* on July 3 that Australian universities were ‘naïve’ about Confucius Institutes. He said, ‘Very few Australians are aware of the nature of the Chinese regime...It’s a very authoritarian state. Look at the human rights record.’

In a [follow-up article](#) on July 4 the Group of Eight universities said Confucius Institutes had ‘legitimate reasons for taking a role in the higher education sector.’ Group of Eight chief executive Vicki Thomson said:

Because we are hosting any centre, that is not an indication we support or don’t support it. The perfect uni is the one that is open and free to debate and discuss all issues.

The Group of Eight has previously addressed concerns about Confucius Institutes at universities. On September 7 2017 then-chair of the Group of Eight board, Professor Peter Hoj, in a [response](#) of sorts to an [opinion piece](#) written by Swinburne University Professor John Fitzgerald, said no concerns about PRC

'soft power' had been raised with him by any university vice-chancellors, and that there was no evidence of academics being 'constrained' by Confucius Institutes.

University partnerships

The PRC's Ministry of Education this month [announced](#) it would be ceasing 229 university partnerships with overseas institutions, 45 of which are with Australian universities, citing problems with financial viability.

Senior academics and education experts based in Australia and the PRC [state that](#) the Ministry's reasoning should be taken at face value and is not indicative of any political signalling. For example, the chief executive of the International Education Association of Australia, [said](#) the partnerships were courses that 'in practical terms either defunct or had no demand from students'. He went on to say:

At a time when every issue pertaining to Australia's relationship with China is being put under a microscope, this is one particular issue which is no cause for alarm.

Trade

By James Laurenceson

Australia's goods exports to China hit yet another record in the year to May: \$102.7 billion. Non-mining goods were particularly strong, up 2.9 percent over the previous month. Services exports led by tourism and education also continue to grow at double-digit rates, albeit with the student pipeline looking shaky as discussed in recent monthly summaries.

The fact that the Australia-China economic relationship continues to strengthen raises concerns amongst some commentators – have we become 'too dependent' on China? A [new ACRI fact sheet](#) summarises the results of recent economic modelling exercises that simulate the impact on Australia of a Chinese economic 'hard landing'. To be sure, the consensus forecast is for growth in China to remain robust. Still, it's useful to consider the implications if things were to go wrong. The overall findings may surprise: they suggest the hit to Australia in the short run would be negative and material, but at around or less than 0.5 percentage points. Recall that the trend rate of economic growth in Australia is around three percent. In the medium and long run Australia's flexible exchange rate would also kick in to soften the blow. These new studies also find that the impact on Australia does not stand out as being unusually large compared with other high-income countries such as the US, the EU and Japan.

The key take away is that the risk to Australia from an economic downturn in China as a result of strong trade ties shouldn't be overstated, particularly when the benefits of \$183 billion in two-way trade are also factored into the equation.

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