



Australia-China relations summary

June 2018 edition

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The latest developments in Australia-China relations in June 2018.

Foreign interference

On June 28 the Australian Senate passed the [National Security Legislation Amendment \(Espionage and Foreign Interference\) Bill](#) and the [Foreign Influence and Transparency Scheme Bill](#).

Of the bills' passing Attorney-General Christian Porter [said](#):

This sends a strong message to those who would seek to undermine our way of life that Australia is acutely aware of activities against our national security and will continue to take the steps necessary to thwart their activities.

The Attorney-General had on June 8 [asserted](#) that it was imperative for the legislation to be passed prior to the five federal by-elections set for July 28, reasoning:

The level of activity has increased...the thing is that this activity is designed to interfere with democratic processes

...

Even in the time that it has taken to consider the Espionage and Foreign Interference Bill, the threat environment has changed and become more acute.

The Attorney-General did not go into detail regarding possible anticipated threats facing the by-elections, [pointing instead](#) to Australian Security Intelligence Organisation (ASIO) Director-General Duncan Lewis' [statement](#) last month that espionage and foreign interference activity in Australia was 'occurring at unprecedented scale'.

Defence Industry Minister Christopher Pyne said in an [interview](#) on the same day that 'these laws and the by-elections are not linked at all'. He later [stated](#) he meant that '[t]he laws have a broader application than the by-elections'.

The deputy chair of the Parliamentary Joint Committee on Intelligence and Security, Anthony Byrne, in a [speech](#) to parliament on June 20 warned against criticism of the foreign interference legislation:

I also note that there are those who represent other countries who make comments about our country bringing laws into our nation's Parliament to protect the Australian people.

And I say to those people: it is a very foolish thing to put Australians' back up against the wall. When we introduce legislation that seeks to protect our democratic process, do not push back.

This was [seen to be](#), in part, a reference to the ambassador of the People's Republic of China (PRC) to Australia.

Some Australian-Chinese members of the public in the lead-up to the passing of the foreign interference legislation [expressed anxiety about](#) the laws targeting their community.

Trade Minister Ciobo [in response](#) to one community member said:

I think those who have attempted to portray it being about the bilateral relationship with China have done Australia a great injustice. I think [those] concerns are alarmist...because all of us are invested in having strong bilateral relationships.

Fairfax Media [reported](#) on June 27 that suspected PRC intelligence operatives had attempted to 'cultivate' a member of the New South Wales Legislative Council, Ernest Wong, in a 'long-term operation'. The report acknowledged, however, that 'there is no suggestion that Mr Wong has ever acted inappropriately or wittingly passed any information on', nor is there a 'suggestion that Mr Wong ever knew he was being cultivated'.

On June 5 the co-chair of the US Congressional-Executive Committee on China, Christopher Smith, [introduced](#) the Countering the Chinese Government and Communist Party's Political Influence Operations Act, a bill [reportedly](#) 'modelled on a...Cold War bill that was designed to crack down on Soviet and communist disinformation'. One of the aims of the bill is to 'enhance cooperation and coordination with Australia, Canada, and Taiwan (Republic of China), whose governments and institutions have faced acute pressure from [PRC] political influence operations'.

Ministerial and opposition engagement

On June 12 the PRC consul-general in West Australia, Lei Kezhong, [wrote](#) an op-ed in *The West Australian* newspaper addressing the bilateral relationship. He characterised remarks made by 'some Australian politicians' as 'irresponsible' and as having put 'bilateral relations in jeopardy'. He criticised 'some Australia media' for 'repeatedly fabricat[ing] news stories about so-called 'Chinese influence and infiltration' in Australia'.

While acknowledging Australia and China differed 'in history, culture and social systems', the consul-general stated that 'there is no fundamental conflict of interest'.

When asked about Mr Lei's piece, the Attorney-General [questioned](#) the allegation of fabrications by the media:

It's a simple thing to say the media is fabricating a story, but which particular story is said to be fabricated?...I'm perplexed about what is said to be the fabrication in all this.

The Attorney-General emphasised the Australian press' independence and underlined that media reporting on issues such as influence and infiltration is 'a healthy, critical part of our democratic system.'

[Prime Minister](#) Malcolm Turnbull, [Foreign Minister](#) Julie Bishop and [Trade Minister](#) Steven Ciobo seemed to make a concerted effort to project a softer tone on Australia-China relations in speeches to a networking forum hosted by the Australia-China Business Council (ACBC) on June 19.

While conceding that ‘from time to time, there will be differences in terms of issues’, the [go-slow](#) on Australian wine exports to the PRC was the sole acknowledgement of a ‘granular’ issue between the countries in the Prime Minister’s speech. The Prime Minister opted to focus on accentuating people-to-people ties between Australia and China, and both countries’ commitment to free trade.

He said:

I’m filled with optimism about the relationship. I think we should all be positive about it and recognise the strength of the engagement...

Prime Minister Turnbull also appeared to lay some of the blame for current concerns about the bilateral relationship on the media, stating, ‘You can often see a lot more negativity presented than is actually the case’. The Prime Minister said it was ‘important to reinforce the reality’.

Foreign Minister Bishop elaborated on the message that ‘[n]o two countries agree on every single aspect of foreign policy’, listing specific examples of Australian disagreements with the US: the President’s stand on trade, raising tariffs, US withdrawal from the Paris agreement and US withdrawal from the Iran deal.

Minister Bishop also noted she wanted to ‘pay tribute to the role China played in bringing North Korea to the negotiating table.’

Trade Minister Ciobo nominated the South China Sea as an instance of a ‘[difference] of opinion’ but stated that:

[P]rovided we’re respectful and mindful of the fact that we will have different points of view from time to time, we can engage in robust trade and investment, broad trade and investment, healthy trade and investment...

Shadow Minister for Foreign Affairs Penny Wong and Shadow Minister for Trade and Investment Jason Clare spoke at the same business forum.

Senator Wong [noted](#):

[I]t is possible for us to assert our interests and safeguard our sovereignty, without being offensive and inflammatory.

She criticised the Turnbull government for ‘the disjointed megaphone diplomacy [it] seems to have preferred of late.’

Senator Wong also restated the Australian Labor Party’s six principles for engagement with China, [previously outlined](#) last year.

Mr Clare [linked](#) ‘unwise and provocative remarks from the Prime Minister and other Ministers over the last few months’ to issues being faced by Australian beef and wine exporters.

PRC ambassador Cheng Jingye [told](#) the forum’s attendees:

We need to see each other’s development and policy intentions from a more positive perspective with less Cold War mentality.

He said that ‘the two countries need to have more interaction and inclusiveness with less bias and bigotry.’ When [asked](#) by press who the ‘bias and bigotry’ descriptor alluded to, he said, ‘You can come to your own conclusions’. The Ambassador had in April [criticised](#) Australia for ‘systematic, irresponsible, negative remarks and comments regarding China’.

Of Ambassador Cheng’s speech Department of Foreign Affairs and Trade (DFAT) Secretary Adamson [noted](#) that although ‘[h]e used a couple of adjectives which have naturally enough received attention’, she ‘thought his speech was a rather balanced account of our relationship with some positives in there.’

Shadow Minister for Defence Richard Marles, [commenting](#) on the bilateral relationship on June 20 also made use of the term ‘bigotry’, saying:

[W]e have always got to be making sure that bigotry has no place in the way in which we relate to China.

He went on to say:

It is really important that we engage with China on terms which are dignified and respectful, and understand that China is not an enemy in the sense of the Soviet Union. China doesn’t have aspirations around what political system should apply in Australia.

In the same press conference Mr Marles described himself as a China ‘hawk’. He stated that on issues such as the South China Sea and ‘the way in which China is seeking to shape the global rules-based order’:

[I]t is important that we have a very clear articulation to China about what our national interest is and at times I feel the government could be stronger in relation to that.

Huawei and 5G

The Australian Financial Review on June 13 [reported](#) that ‘national security agencies...have recommended against letting the firm bid for 5G contracts.’

The Australian government is empowered [by statute](#) to ban Huawei from involvement in the 5G network if they deem it potentially constitutes a national security threat.

On June 15 Huawei Australia chairman John Lord, along with Huawei Australia directors John Brumby and Lance Hockridge, sent all federal MPs a letter seeking to correct the record on ‘recent public commentary’ on Huawei and the potential security concerns around its involvement in Australia’s planned 5G network, stating some observations were ‘ill-informed’ and ‘not based on facts’. They [wrote](#):

Countries like the United Kingdom, Canada, Germany, Spain, Italy and New Zealand, just to name a few, have managed to embrace Huawei’s technology within their own national security frameworks.

Chair of the Parliamentary Joint Committee on Foreign Affairs and Trade, Liberal Senator David Fawcett, [called on](#) his Coalition colleagues to ban Huawei from involvement in the 5G network in a party room meeting on June 19 due to the company’s purported links with PRC authorities. The warning was [reportedly](#) met with a level of support from the party room and was also backed by some Labor MPs.

Senator Fawcett [commented](#) to a media outlet:

I welcome trade with China, but sometimes they don't play by the same rules...where there are areas that potentially create a risk, we need to take appropriate measures.

Of the Huawei letter an unnamed Labor MP [said](#), 'I don't think they made much progress. I don't think there is any mood on the Labor side to let this go through.'

On June 25 Nationals MP George Christensen in parliament also [called for](#) a rejection of the Huawei bid:

Huawei has close links with the Chinese Communist Party and must report security information back to it. We should say no to Huawei.

In [response](#) to a question regarding Huawei at the ACBC forum on June 19 the Foreign Minister was careful to note that Australia's security assessment of Huawei was 'not directed at China'. She said, '[T]his is what we do in relation to all matters where the Australian government has a say.'

Former Canadian prime minister Stephen Harper during a panel discussion in London, in an apparent [reference](#) to Huawei, voiced concerns about cyber espionage and the Five Eyes intelligence sharing network:

Different countries have permitted the penetration of Chinese and other hardware in particular, and in some cases software, into our systems in a way that causes some of the rest of us to be reluctant to engage in cyber cooperation.

Huawei Australia's John Lord in an [address](#) to the National Press Club on June 27 [referred](#) to US politicians who had made 'throwaway comments' about Huawei, saying:

I am concerned they have a lot of information coming to Australia from overseas and it's not proven.

In [introducing](#) the Defending US Government Communications Act in February this year Republican Senator Tom Cotton described Huawei thus:

Huawei is effectively an arm of the Chinese government, and it's more than capable of stealing information from US officials by hacking its devices. There are plenty of other companies that can meet our technology needs, and we shouldn't make it any easier for China to spy on us.

Republican Senator Marco Rubio [echoed](#) the sentiment.

Business concerns

Citrus Australia chief executive Nathan Hancock on June 3 [voiced concerns](#) about the Australia-China bilateral relationship and consequences tensions might have for the Australian citrus industry:

Only a few years ago we signed a free trade agreement with China and now we find ourselves in the situation where China is threatening to stop trade with us, and teach us a lesson through trade.

I think it's time we took this seriously. Ministers in Australia should be going to China and starting to rebuild our relationship, and this might go so far as the Prime Minister himself.

He [called on](#) the Australian government not to 'trip things up':

We can't do anything much about...political machinations except to say to our government we don't want them tripping things up.

Mr Hancock noted, 'In 2013 we were close to zero export tonnes to China...In 2017, we exceeded 70,000 tonnes to China', with China accounting for approximately one quarter of total citrus fruit exports in 2017.

The Australian [reported](#) on June 6 that the wine and meat industry representatives had joined forces to call on Prime Minister Turnbull to meet with President Xi Jinping. Head of the Winemakers Federation of Australia, Tony Battaglione, said:

It's not just wine, it's all agricultural products that are potentially at risk.

We believe it's very important that the Prime Minister go to China to meet with the President.

Mr Battaglione [noted](#) that there had been some improvement in the PRC customs issues faced by Australian wine exporters since Minister Ciobo's May visit to Shanghai.

The head of the Australian Meat Industry Council recognised that 'issues around defence [and] issues around domestic issues' needed to be given priority but voiced hope that a prime ministerial visit to China would 'cut through the white noise'.

Progress on Australian chilled beef and frozen beef remains stalled, despite access to other countries, such as Argentina and Ireland, being opened up.

Western Australia Minister for Alannah MacTiernan [indicated](#) on June 26 that Australian pork exports to China had also seemed to be experiencing a go-slow since late last year. She said, 'We want it unstalled and have been asking the federal government to please help us...'

On June 23 the president of Port Adelaide AFL club David Koch relayed in an [interview](#) an anecdote about the club's Chinese business partners refusing to attend a lunch function in China last in February if Australia's ambassador was in attendance.

[Qantas and references to Taiwan, Hong Kong, Macau](#)

Qantas chief executive Alan Joyce on June 4 [told](#) reporters that the airline was 'working to meet the requirements' laid out by the Civil Aviation Administration of China (CAAC) but that it was 'taking time to get there'.

The CAAC had on April 25 written to the airline carrier demanding they adjust references to Taiwan, Hong Kong and Macau on their website, apps and marketing materials that may imply they are territories independent of China.

In justifying Qantas' compliance with the CAAC's demands Mr Joyce referenced the Australian government's adherence to the one-China policy, [stating](#), 'Airlines don't decide what a country is called, governments do...[W]e're not doing anything different than the Australian government'.

The Prime Minister on June 5, when asked whether it was 'a concern that Qantas has bowed to pressure from Beijing', [said](#):

Qantas has got to make its own decisions as a private company, but just so everyone is clear we've had a One China Policy for many decades now.

The Foreign Minister in a [press statement](#) on the same day repeated her concerns, previously expressed on [May 7](#) and [May 24](#), about foreign governments pressuring private companies:

Private companies should be free to conduct their usual business operations free from political pressure of governments...The decision of how Qantas structures its website is a matter for the company.

DFAT Secretary Frances Adamson had [told](#) a Senate Estimates hearing on June 1:

I want to be very clear with the committee that, while we may express views in a variety of ways – sometimes very publicly; sometimes behind the scenes – the government cannot be in a position to tolerate the exercise of economic coercion.

Defence Minister Marise Payne framed her [response](#) to a question on the matter during a press conference in much the same way as Foreign Minister Bishop. She also stated, ‘We call Taiwan, ‘Taiwan’, and that is our approach as part of our recognition of one China’.

On June 5 Leader of the Opposition Bill Shorten, when [asked](#) about Qantas’ decision, conceded it was a ‘pretty complex issue’ for the company. Mr Shorten said he ‘probably rather that hadn’t happened’ but added the qualification:

Having said that, that’s a business decision for Qantas, I’m not going to start running their airline for them.

On the same day Deputy Prime Minister Michael McCormack in an address to the International Air Transport Association in Sydney [said](#), ‘There should be no political pressure from governments that threatens the ordinary operations of business.’ In a subsequent interview with *Sky News* the Deputy Prime Minister [reiterated](#) Australia’s recognition of the one China policy.

Taiwan’s foreign ministry [called](#) ‘on all governments and international firms to...resist China’s unreasonable demands.’ The ministry said it lodged a complaint with Qantas, requesting the decision be overturned.

A PRC foreign ministry spokesperson [asserted](#) that ‘any business that wants to operate in China should...respect the ‘One China’ principle. This is a basic requirement.’ In this vein, a PRC government source [told](#) *The Australian Financial Review*: ‘If you don’t follow China’s rules, we won’t allow you to take part in [the upcoming China International Import Expo in November]’. The business [view](#) seems to be, ‘We just have to be compliant’.

HK investment in energy infrastructure

It was [reported](#) on June 13 that Hong Kong-based company CKI had made a \$13 billion bid to acquire Australian gas pipeline company, APA Group. APA Group’s chief executive [stated](#) that if the bid is successful ‘it will be a sizeable transaction with a pretty big footprint’ in Australia’s energy sector’. 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. Former deputy prime minister Barnaby Joyce [said](#):

There is obviously increased sensitivity because future regulatory requirements placed on a foreign government could have foreign relation implications in that they could take retaliatory actions in other areas because of what they might see as an excessive regulatory burden.

Quad

Former prime minister John Howard [expressed](#) his support for the Quad in a newspaper interview on June 2:

The quad...is a fine idea and it is not something to which the Chinese can take any exception whatsoever because it brings together four countries whose governance traditions are the same.

Officials from Australia, India, the US and Japan [met](#) in Singapore on June 7, on the sidelines of an ASEAN Senior Officials Meeting.

The four countries released separate statements which broadly [echoed each other](#), although India [refrained](#) from specific reference to 'freedom of navigation and overflight' and 'international law'.

India also made it a point to note in their statement that:

India does not see the Indo-Pacific region as a strategy or as a club of limited members.

The Quad did not feature in US Defense Secretary Jim Mattis' [prepared remarks](#) at the 17th Shangri-La Dialogue in Singapore on June 2. When asked about this he [joked](#) about how it had been in the 'seven hour' version of his speech and had to be cut, although he did note that he supported it 'one hundred percent'.

Former DFAT secretary Peter Varghese [told](#) an Australian National University (ANU) forum on June 26 that Australia should work to strengthen the Quad in 'careful increments'.

South China Sea

On June 2 the Defence Minister during a [speech](#) to the Shangri-La Dialogue issued a veiled reproach to China with respect to, among other things, its actions in the South China Sea:

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.

The US Defence Secretary was blunter in his [criticism](#) at the same forum.

In response, a People's Liberation Army (PLA) general [said](#), 'Any irresponsible comments from other countries cannot be accepted'.

Former Australian chief of army Peter Leahy on June 4 [observed](#), 'We were very slow to really see what they were up to and now China has gotten ahead of us.' He noted he saw little point in Australia engaging in freedom of navigation operations (FONOPs) but that Australia did conduct them, the country should 'do them independently'.

He said:

We shouldn't do it as part of a coalition. We should do it as a sovereign naval effort.

On June 26 Prime Minister Turnbull [announced](#) that Australia would be investing about \$7 billion in six unmanned, long-range surveillance drones through a cooperative program with the US Navy.

Defence Industry Minister Christopher Pyne [said](#) the drones would perform reconnaissance and surveillance for Australia and its allies in ‘all of the south to the Antarctic, the Indian Ocean, the Pacific Ocean, the South China Sea and Southeast Asia’.

Australia, China and the Pacific

In the wake of [reports](#) in April that Vanuatu and the PRC were in talks to establish a PRC military base in the Pacific nation (although this was [denied](#) by both countries) Australia has made a concerted effort to foster close relations with Pacific countries.

Prime Minister Turnbull [referred](#) to Vanuatu as one of Australia’s ‘key partners’ during a June 25 visit by Vanuatu Prime Minister Charlot Salwai Tabimasmal – his first official visit to Australia. The Prime Minister announced that Australia and Vanuatu would be commencing negotiations on a bilateral security treaty and pledged, amongst other things, increased Australian funding for education in Vanuatu, enhanced opportunities for Vanuatu residents to work in Australia, and a strengthening of the Australia-Vanuatu cyber security partnership.

The Prime Minister also [hosted](#) Solomon Islands Prime Minister Rick Houenipwela earlier in the month – his first official visit to Australia as prime minister – to discuss Australia’s funding of an undersea high speed communications cable between Australia and the Solomon Islands and Papua New Guinea. Australia had edged out Huawei’s bid to build the cable.

Howard on China

Former prime minister John Howard in a newspaper interview [said](#) that while he thought the Turnbull government had the ‘balance about right’ with respect to protecting Australia from foreign interference, the overall relationship with China would be best conducted by focusing ‘on the things we have in common’. He said:

We are not going to resolve the differences in systems. China overnight is not going to become more democratic and we are certainly not going to become more authoritarian.

But we have to get used to those differences. We shouldn’t try to develop some artificial explanation of the relationship which ignores those differences.

Mr Howard went on to say:

We are always going to be closer to the US than China but that doesn’t mandate that we shouldn’t have a very close relationship with China.

He [stated](#) that he was not a supporter of a ban on foreign donations, advocating instead for ‘timely disclosure’. He had [previously expressed](#) this view in September 2016.

While participating in a panel discussion in London Mr Howard [expressed](#) some concern that the Chinese diaspora in Australia may be used by the PRC to further Beijing’s agenda:

Australia’s population will reach 25 million soon, one million of them are ethnic Chinese.

[They are] terrific citizens making enormous contributions to our nation, but it remains the case that China is very interested in the capacity to use those people to further her own power and her interests.

Western Australia premier criticises Australia's handling of China relations

The Premier of Western Australia, Mark McGowan, on June 8 during a trip to Beijing [told](#) *The Australian*:

At a national level there needs to be care and consideration in the language.

Words are bullets and we all need to be careful that there are no misunderstandings.

On his return to Australia he [repeated](#) his call for a modulation in government rhetoric:

The Australian Government's language needs to be more friendly, more engaged, more respectful and certainly there needs to be more visits by senior Australian political figures to China.

Australian journalists denied visas

A group of Australian journalists scheduled to travel to China on June 7 as part of a study tour hosted by the Australia-China Relations Institute (ACRI) were denied visas to enter the country.

ACRI Director Bob Carr in an [interview](#) with ABC radio said that the refusal was 'more than a bureaucratic challenge; [it is a] policy position.' Mr Carr noted the decision not to grant the visas was evidence of tensions in the relationship.

Belt and Road Initiative (BRI)

Senator Penny Wong [reiterated](#) in her ACBC speech on June 19 Labor's position that a Labor government was willing to 'examine BRI projects on a case-by-case basis'. Senator Wong, drawing on Australia's Foreign Policy White Paper, said:

There is no doubt there's a massive infrastructure deficit in the region...BRI can contribute substantially to addressing this need. But to maximise the benefit and ensure the sustainability of these investments, projects should be transparent, conform to environmental and social safeguards, and not place unsustainable debt burdens on regional countries.

Trade Minister Ciobo during a speech at an ACRI function in Canberra on June 28 [said](#) the BRI was a 'key issue on our agenda'. He adopted, seemingly for the first time on public record, the 'case-by-case basis' phraseology, stating the government would support projects 'on a case-by-case basis on commercial merit and where there is a clear trade or investment opportunity for Australian businesses'.

Trade

By James Laurenceson

The 'pipeline' of Chinese students making their way to Australian universities continues to appear sluggish. Data on student visa grants in the financial year through to April show that the growth of those given to students applying from in China slowed to 1.8 percent. This is down from 15.0 percent at the same time last year. Visas granted to those entering the postgraduate research sector (applying from both in Australia and in China) have turned negative, down by 5.4 percent, compared with positive growth of 20.3 percent a year ago.

Another area where the strained political relationship between Australia and China threatens to impact economic outcomes is investment. Earlier this month a new report by KPMG and the University of Sydney [found](#) that in 2017 Chinese investment totalled \$10.3 billion. This was down on 2015 and 2016. Even more concerning were the responses to the authors' investor survey. On the one hand, 77 percent said that

new Chinese regulations have made it more difficult for them to invest in Australia. On the other, just one-third of Chinese companies now felt welcome to invest in Australia. The combination points to a challenging 2018 for building bilateral investment ties.

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