



Australia-China Relations (January 2015 to June 2016)

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Introduction

This chapter will detail the notable trends and key developments in Australian political, economic, strategic and cultural engagement with China from January 2015 to June 2016.

Elevated to a Comprehensive Strategic Partnership in 2014, Australia and China have continued to nurture their bilateral ties. January 2015 to June 2016 saw the forging of an ever-closer trade relationship, stronger people-to-people links through business, tourism and education and the reinforcement of the orthodoxy that a close Australian relationship with China and a close Australian relationship with the United States do not have to be mutually exclusive concepts.

Under the guidance of two conservative leaders Australia's China policy during this year and a half continued to largely be based on pragmatism, not ideology. The Australia-China relationship enjoyed broad bipartisan support in the Australian political system although there were, naturally, some divergences in Government and Opposition positions. In this time a number of relationship milestones were marked, most significantly the conclusion and implementation of the China-Australia Free Trade Agreement.

But while the bilateral relationship over this 2015-2016 period was, on the whole, relatively smooth, engagement between the two countries was not without its complications and differences. Continuing regional tensions over security and maritime claims and mounting Australian domestic sensitivity over Chinese investment gave rise to potential flashpoints in the relationship.

Ultimately, however, cooler heads and diplomatic finesse prevailed. While the relationship remains a challenging one, both countries seem committed to continuing to maintain a forward-looking perspective and continue to strive for deeper, more mature engagement.

The Australian perception of China

Cultural attitudes in Australia towards China appear to have undergone a marked, positive shift in recent years. One survey published by the United States Studies Centre at the University of Sydney in June 2016 revealed that Australians, by a slim margin, think China has a more positive influence on Australia than the US (48 percent versus 47 percent).¹ Another poll published by a different Australian international policy think tank in the same

¹ S. Jackman et al., "The Asian Research Network: Survey on America's role in Asia-Pacific," United States Studies Centre at the University of Sydney, June 2016.

month revealed that the Australian public now view China as Australia's "best friend in Asia" (30 percent) with Japan ranking second (25 percent).² When the same question was posed in 2014, China and Japan had tied equal first.³ Poll results also highlighted that China and the United States are tied when it comes to which relationship is perceived by Australians as more important to Australia.⁴ The demographic split on this last point is a notable one, with younger Australians (aged under 45) nominating China as the more important relationship and Australians aged over 45 nominating the US. "This augers well for the future of the Australia-China relationship," observed one China analyst.⁵

These warmer Australian sentiments towards China, while encouraging, remain qualified. Australians continue to demonstrate concern about China's human rights record, political system and, to a lesser extent, China's environmental policies, and express unease about China's military activities in the Asia Pacific.⁶ And despite being generally welcoming of China's economic rise, apprehensions about Chinese investment in Australia have also re-emerged and gripped the national consciousness.

Nonetheless, while Australia's view of China, as multilayered and complex as it is, is one that is unable to be pigeonholed, the country continues to strive to forge links that span beyond the purely formal and business-first. There is a recognition that while both countries' values may not seamlessly align, a concerted attempt to understand, if not wholly accept, each other's cultural underpinnings by forming closer people-to-people links and deeper institutional ties is crucial in order to more constructively engage, capture new opportunities and overcome challenges.

This is reflected, for example, in the growing interest amongst Australian university students to study and work in China. In 2015 the Australian Government expanded its New Colombo Plan, a scholarship program for Australian undergraduates interested in studying and working in the Indo-Pacific region, to accommodate 34 new host locations, including China. China proved to be the most popular destination with 500 Australian students opting to study and work there that year. The Australian Government projects that by the end of 2016 the number of Australian students nominating China as their host location will have quadrupled to 2000.⁷ Student enthusiasm for engaging more closely with China may continue to soar as Australian primary and secondary schools try to more effectively promote Chinese language study by non-background speakers. Current figures have seen a downward trend – between 2007 and 2014 the number of non-background speakers taking Year 12 Chinese as a

² A. Oliver, "The Lowy Institute Poll 2016", Lowy Institute for International Policy, 21 June 2016.

³ A. Oliver, "The Lowy Institute Poll 2014", Lowy Institute for International Policy, 2 June 2014.

⁴ A. Oliver, "The Lowy Institute Poll 2016", Lowy Institute for International Policy, 21 June 2016.

⁵ Xinhua, "China rated Australia's best friend in Asia: Lowy poll", *China.org.cn*, 21 June 2016.

⁶ A. Oliver, "The Lowy Institute Poll 2016", Lowy Institute for International Policy, 21 June 2016.

⁷ J. Bishop, "New Colombo Plan", speech, Beijing, China, 17 February 2016.

second language dropped by about 20 percent⁸ – but attempts are being made to strategically combat this. In 2015, Western Australia was able to remove one of the major disincentives for the pursuit of Year 12 Chinese by successfully separating Chinese-speaking students and non-background learners.⁹

Australia and China continue to cultivate their cultural ties – both at the elite and, importantly, more casual levels. On September 24 2015 the Australian state of Victoria signed a five-year-deal with China for cultural exchange programs, including the establishment of a Chinese film festival in Melbourne and tours of China by the Australian Ballet and the Melbourne Symphony Orchestra.¹⁰ This is the first time an Australian state has signed an agreement with the Chinese national government. There is, too, a slowly burgeoning familiarity in Australia with some aspects of Chinese popular culture. Australian public broadcaster SBS bought the rights to air popular Chinese dating show ‘If You Are The One’ in 2013. Viewership has slowly swelled, growing to an audience of 82,000 in October 2015.¹¹ The show had gained enough cult following traction in Australia that it filmed an Australian special with Australian Mandarin speakers in December 2015.

Australia has also continued to emphasise the importance of bearing in mind the historical context of the Australia-China relationship, and the common ground both countries have found in the past. In a speech on August 6 2015 Prime Minister Turnbull captured this sentiment by stating, “It is vitally important for Australians, and Chinese, not to forget that in an epic struggle for the survival of our own nations, our own sovereignty, we were allies. It is important for Americans and Chinese to remember that too.”¹²

Australia and regional security

Australian Government policy with respect to regional security in January 2015-June 2016 was relatively steady, with reasonable consistency in policy enduring over a change in government leadership. Approaches to security issues in the Asia Pacific by both Abbott and Turnbull governments during this timeframe were cautious and measured, favouring diplomacy and cool appraisals over sabre-rattling displays and abrupt moves.

Take, for example, the Australian Government response to a senior US military official announcement on May 13 2015 that plans were underway to rotate long-range bombers in

⁸ J. Orton, “Building Chinese language capacity in Australia”, Australia-China Relations Institute at the University of Technology, April 2016.

⁹ B. Hiatt, “Language course shake-up to end Asian discrimination”, *The West Australian*, 14 August 2015.

¹⁰ D. Andrews, “Victorian arts and music strike a chord in Beijing”, media release, Government of Victoria, 23 September 2015.

¹¹ P. West, “If You Are The One and The Bachelor know how to get to us: we all fear dying alone”, *The Conversation*, 16 October 2015.

¹² M. Turnbull, “ChAFTA and rebalancing of Chinese & Australian economies”, speech, Australia-China Business Forum, Sydney, Australia, 6 August 2015.

Australia. Appearing before a US Senate Foreign Relations Committee hearing, US Assistant Secretary of Defence for Asian and Pacific Security Affairs David Shear said, “[W]e will be placing additional Air Force assets in Australia as well, including B-1 bombers and surveillance aircraft.”¹³ This provoked a swift reaction from China, with a Chinese ministry of foreign affairs spokeswoman stating the country was “extremely concerned” by the statement. “We demand the relevant side talk and act cautiously and not take any actions that are risky or provocative to maintain regional peace and stability,” she said.¹⁴ Then-Prime Minister Tony Abbott was quick to dismiss Assistant Secretary Shear’s remarks, asserting on May 15, “I understand that the official misspoke and that the US does not have any plans to base those aircraft in Australia.” He went on to say that “Australia's alliance with the US is a force for stability. Our alliance is not aimed at anyone.”¹⁵

Future Submarine Project

On April 26 2016 Australia announced that French shipbuilder DCNS had won the bid to develop Australia’s next fleet of submarines, beating out TKMS of Germany and the Government of Japan, represented through Mitsubishi Heavy Industries and Kawasaki Heavy Industries. Some commentators in the Australian and international press lambasted the decision, asserting Australia had capitulated to Chinese pressure by rejecting the Japanese bid. This was captured in headlines such as “China ‘celebrates’ Japan sub snub”¹⁶; “Abysmal process a slap in the face to Tokyo”¹⁷; “Submarines down under – Australia rejects a Japanese bid after Chinese pressure”.¹⁸ But this alleged pressure did not seem to be borne out by the facts. A survey of Chinese accounts focusing on Australia’s competitive evaluation process for the submarine design bid yields one statement by Chinese Foreign Minister Wang Yi on the subject, given in response to a question from an Australian journalist: “[We] hope that in its military cooperation with Japan, Australia will take into full account this historical context and take into consideration also the feelings of the people of Asian countries because of that part of history. As to your question about whether that move, of buying Japanese submarines, will constitute an act to contain China's rise, I don't think that is the intention of Australia's policy and I

¹³ P. Dorling, “B-1 bombers coming to Australia to deter Beijing's South China Sea ambitions: US”, *Sydney Morning Herald*, 15 May 2015.

¹⁴ M. Vincent, “Tony Abbott confirms US has no plans to send B-1 bombs to Australia, says defence official ‘misspoke’”, *ABC News*, 15 May 2015.

¹⁵ J. Garnaut and D. Wroe, “US official misspoke on B-1 bombers being based in Australia: Tony Abbott”, *Sydney Morning Herald*, 15 May 2015.

¹⁶ C. Stewart, “China ‘celebrates’ Japan sub snub”, *The Australian*, 28 April 2016.

¹⁷ P. Dibb, “Abysmal process a slap in the face to Tokyo”, *The Australian*, 30 April 2016.

¹⁸ Wall Street Journal, “Submarines down under – Australia rejects a Japanese bid after Chinese pressure”, *Wall Street Journal*, 26 April 2016.

actually don't think that any country or force in the world can stop that rise.”¹⁹ There does not appear to be any further evidence pointing to Chinese agitation around the possibility that Australia might make a strategic statement by deciding to award Japan the submarine contract. One Australian expert commented, “While China is likely to be pleased that Japan was unsuccessful, it was not overly concerned about the decision itself. Its concerns remain with what it perceives to be a regional order stacked against its interests.”²⁰ The Australian Government emphasised the decision was wholly merit-based: “The [competitive evaluation] process was overseen by an independent Expert Advisory Panel... This decision was driven by DCNS's ability to best meet all of our unique capability requirements.”²¹

The South China Sea

On the South China Sea, Australia maintained a position of neutrality, urging claimants to act in accordance with international law, including the UN Convention on the Law of the Sea, to avoid coercive behaviour and unilateral actions, to engage in dialogue with one another, to work towards the adoption of a code of conduct and to reach a resolution through peaceful means. Since the first United States freedom of navigation operation (FONOP) by guided missile destroyer USS Lassen on October 27 2015, Australia has continued to assert its right to freedom of navigation noting that Australian aircraft and navy vessels have flown or sailed throughout the South China Sea for decades. Australia traverses the South China Sea in patrols called Operation Gateway, carried out since the 1980s. The Australian Government has denied that there have been requests by the US to join them in patrols and maintains the position that Australia strongly supports the states' rights under international law to freedom of navigation and freedom of overflight. Australia has also continuously emphasised that all countries with a stake in the South China Sea should avoid increasing tensions in the region by acting with restraint. An examination of Australian statements and actions with respect to the South China in January 2015-June 2016 highlights this.

During an Asia Pacific security summit in Singapore in May 2015 the Australian Government supported US Defence Secretary Ashton Carter's call for “an immediate and lasting halt” to China's land reclamation activities in the South China Sea.^{22 23} Then-Defence Minister Kevin Andrews also reiterated Australia's opposition to any coercive or unilateral actions to change

¹⁹ J. Bishop, Joint media conference with Foreign Minister Wang Yi, Beijing, China, 17 February 2016.

²⁰ N. Bisley, “French company DCNS wins race to build Australia's next submarine fleet: experts respond”, *The Conversation*, 26 April 2016.

²¹ M. Turnbull and M. Payne, “Future submarine program”, joint media release, Australian Government, 26 April 2016.

²² A. Carter, “A regional security architecture where everyone rises”, speech, IISS Shangri-La Dialogue: Singapore, 30 May 2015.

²³ K. Andrews, “114th IISS Asia Security Summit”, IISS Shangri-La Dialogue, Singapore, 31 May 2015 .

the status quo in the South China Sea and addressed the need for cooperation between ASEAN members and China on a code of conduct.²⁴ He stated in a *Wall Street Journal* interview that Australia had been sending long-range maritime patrol aircraft over the South China Sea and Indian Ocean for decades and would continue to do so but the question whether Australia might participate in patrols with the US was left hanging.²⁵

The same *Wall Street Journal* report said US Navy and Marine Commanders in the Pacific had been urging Australia to consider joining multilateral naval policing missions in the South China Sea, potentially alongside Japan. Mr Andrews said Australia had not engaged in formal talks with the US on naval missions as a direct challenge to Chinese muscle-flexing nor had Australia discussed taking a role in multilateral naval patrols.²⁶ He indicated that the go-ahead for Australia to take a role in multilateral patrolling would require approval from ministerial colleagues. Stories in Australian media outlets such as the *Sydney Morning Herald* and *The Australian* had also suggested that Australia was indeed discussing naval and air exercises in disputed waters, reportedly to make points about freedom of navigation. Peter Jennings, chair of the Abbott Government's 2015 Defence White Paper expert panel, was reported as stating, "The next step after asserting our position is the simple physical demonstration of it by actually sailing through the sea and airspace. If we're serious about asserting it then we'll have to do it, at some stage."²⁷ Greg Sheridan, Foreign Editor of *The Australian*, wrote, "The Abbott Government is actively considering conducting its own "freedom of navigation" exercises near artificial islands built by China in disputed territory in the South China Sea."²⁸ But there in fact remained no indication from the Abbott Government that this was indeed the case, with the Government simply continuing to repeat the established line that "[Australia takes] no side in the territorial disputes but we certainly deplore any unilateral alteration of the status quo."²⁹

A joint report by the Australian National University and Washington's Centre for Strategic and International Studies released in July 2015 flagged concerns about "China's growing blue water navy and its long-range missile forces" and the potential threat it posed to Australian security. Prime Minister Abbott responded, "I would rather focus on the strength of the friendship rather than on hypothetical possibilities in many, many years time." He said Australia had "strong friendships with China, strong security relationships with the United

²⁴ AAP, "South China Sea dispute: Australia says countries must sign code of conduct", *The Guardian*, 31 May 2015.

²⁵ R. Taylor, "Australia to continue military patrols in South China Sea", *Wall Street Journal*, 31 May 2015.

²⁶ *Ibid.*

²⁷ J. Garnaut and D. Wroe, "Australia urged to send military to counter China's control over sea lanes", *Sydney Morning Herald*, 15 May 2015.

²⁸ G. Sheridan, "Flight exercises to test China waters", *The Australian*, 2 June 2015.

²⁹ J. Massola, "Australia 'deplores' unilateral action in South China Sea: Tony Abbott", *Sydney Morning Herald*, 29 June 2015.

States” and that the maintenance of these relationships were “the best way to ensure the peace, security and prosperity of our region.”³⁰

The change in leadership in the governing Australian Liberal Party in September 2015 did not signal marked deviation from the stance on the South China Sea assumed by the Abbott-led Government. Under Prime Minister Malcolm Turnbull, Australian policy on the South China Sea remained fairly consistent, although it has been noted that Prime Minister Turnbull has been more outspoken on the South China Sea than his predecessor.³¹

In his first in-depth interview as Prime Minister on September 21, Mr Turnbull had criticised Chinese activity on the South China Sea terming it “one of the more counterproductive foreign policies undertaken by China.”³² But when pressed on how Australia’s Defence Force needed to be positioned to deal with this, he said, “[N]o one, least of all the Australian Government, wants to exacerbate tensions.”

In an interview with *Bloomberg* in Hong Kong on October 15, then-Trade Minister Andrew Robb confirmed, “We wouldn’t participate in any surveillance or whatever other activities the United States might have talked about.”³³ This is the first time the Coalition Government seemed to rule out Australian participation.

There was no reference to the possibility of a joint Australia-US FONOP in the joint statement from the annual Australia-US Ministerial Consultations (AUSMIN) in October 2015. While the statement said, “They also decided to pursue enhanced naval cooperation across all domains, including additional combined training and exercises to strengthen both countries’ capacity to conduct maritime domain awareness and amphibious operations”, this has been a feature of all AUSMIN statements each year since 2011.³⁴

Still, the language of the 2015 joint statement departed from earlier expressions in specifically nominating Chinese land reclamations and construction activity.³⁵ Up until then, the Australian approach had been to urge “all sides” in the maritime territorial disputes to avoid force.

On October 27 the USS Lassen, sailed within the 12 nautical mile zone of a Chinese-built formation in the Spratly Islands, the first FONOP in the region since 2012. On the same day, Defence Minister Marise Payne issued a statement that read, “Australia is not involved in the

³⁰ A. Greene, “Prime Minister Tony Abbott refuses to be drawn on Chinese missile, navy threat to Australia”, *ABC News*, 13 July 2015.

³¹ G. Sheridan, “Turnbull sticks to rule of law to keep China dialogue flowing”, *The Australian*, 16 April 2016.

³² L. Sales, Interview with Malcolm Turnbull, Australian Prime Minister, *ABC 7.30 Report*, 21 September 2015.

³³ G. Ahlstrand, “Australia won’t join new patrols of South China Sea, says Robb”, *Bloomberg*, 15 October 2015.

³⁴ Australian Department of Foreign Affairs and Trade, Joint statement AUSMIN 2015, Australia-United States Ministerial Consultations, 13 October 2015.

³⁵ *Ibid.*

current United States activity in the South China Sea.”³⁶ On October 29, two days after the USS Lassen was deployed, Foreign Minister Julie Bishop stated, “We have not been asked to join the United States and we have no plans to do other than what we already do, and that is traverse international waters in accordance with international law.”³⁷ Cabinet Secretary Arthur Sinodinos also told Australia’s *Sky News* that Australia did not have “any plans to do what the United States has done” in relation to FONOPs.³⁸

Another call for an Australian FONOP from an American security establishment representative came on October 30. Bonnie Glaser, senior associate at the Center for Strategic and International Studies in Washington DC and a consultant to the US government on East Asia, wrote, “Australia and Japan should consider conducting their own FONOPs around China’s former LTEs [low tide elevations] to signal their concerns.”³⁹ The response from Australia remained the same. The Royal Australian Navy proceeded with plans to conduct a naval exercise with the People’s Liberation Army–Navy in Zhanjiang from October 31 to November 2, stating that the US FONOP did not affect the visit to China: “It’s business as usual for us. We’re not here to do anything with that,” said HMAS Arunta’s Commander Cameron Steil.⁴⁰ Aaron Nye, Commander of the HMAS Stuart, said “[Regarding the recent] events within the region – we don’t want to be distracted by those, and we’re keen to move forward on a relationship that’s built on trust and mutual respect.”⁴¹ Chief of Navy Vice Admiral Tim Barrett added, “The conduct of these activities between navies is the oldest form of international diplomacy and is fundamental in developing our understanding and cooperation between the RAN and the PLA-N.”⁴²

The matter of joint Australian-US FONOPs was swiftly revisited on November 18 during an APEC summit press conference held by Prime Minister Turnbull in Manila. The Prime Minister was asked whether Australia would participate in American FONOPs in the South China Sea. He replied, “We will consider our position in respect of all of these matters with great care but as to the manner in which we respond to this issue and you’ve raised the issue of freedom of navigation, we believe in freedom of navigation, obviously, that is one of the objectives.”⁴³

One week later on November 26 Prime Minister Turnbull took a softer tone and played down tensions between China and the US in an Australian TV interview. He deliberately talked down conflict in the South China Sea, in contrast with his first interview on the same program

³⁶ M. Payne, “Freedom of navigation in the South China Sea”, statement, Australian Department of Defence, 27 October 2015.

³⁷ J. Bishop, Doorstop interview with Michael Sukkar – opening of Realm, Eastland Shopping Centre, transcript, 29 October 2015.

³⁸ L. Feast, “Australia to join Chinese navy exercises in South China Sea”, *Reuters*, 29 October 2015.

³⁹ B. Glaser, 2015, “South China Sea: US Navy mission justified by China’s excessive claims”, *The Lowy Interpreter*, 30 October 2015.

⁴⁰ B. Birtles, “South China Sea: Australian naval commanders on China visit ‘not distracted’ by tensions”, *ABC News*, 1 November 2015.

⁴¹ *Ibid.*

⁴² Australian Department of Defence, “Royal Australian Navy exercise with the People’s Liberation Army – Navy”, media release, *Navy Daily*, 3 November 2015.

⁴³ M. Turnbull, press conference, transcript, Manila, Philippines, 18 November 2015.

on September 21. He said, “Yes there are issues between the United States and China over atoll building and island building in the South China Sea...It’s a mistake, if I may say so, to focus solely on the points of difference. Obviously it’s, in a sense it’s more interesting, it’s more newsworthy but it fails to capture the remarkable degree of unanimity and common purpose in the global community.”⁴⁴ Prime Minister Turnbull also took the opportunity to urge the US, during his first visit there as Prime Minister, to ratify the United Nations Convention on the Law of the Sea. During a speech on January 18 2016 he noted, “Non-ratification diminishes American leadership where it is most needed.”⁴⁵

The line of questioning on Australian FONOPs and calls for Australia to conduct such operations intensified in 2016. While visiting Japan on February 15 Foreign Minister Bishop was asked by Japanese media whether the United States had asked Australia to participate in FONOPs around the Spratly Islands. She asserted, “Well that’s not correct. We recognise that all countries have the right to freedom of navigation, freedom of over flight in accordance with international laws. The United States has not requested Australia to do anything in that regard. We already transit the South China Sea through international waters in accordance with those freedoms of navigation and overflight.” The following day Foreign Minister Bishop was asked if Japan wanted Australia to do more in the South China Sea. She replied, “Well, it’s not a question of Japan wanting us to do more. It’s a question of what we want to do, and Australia has already made it plain that we will continue to advocate for a peaceful resolution of the different claims over the South China Sea.”⁴⁶ On February 18 Foreign Minister Bishop was asked whether Australia would conduct unannounced FONOPs. Her response indicated that Australia was not intending to do so: “We already transit the South China Sea...That is what already occurs in accordance with international law, but Australia is not going to add to tensions in the region. We’re calling for calm, we’re calling for all parties to show restraint and exercise restraint.”⁴⁷

On February 22, during a visit to Australia, US Vice Admiral Joseph Aucoin was asked whether all countries with an interest in passage through the South China Sea should be conducting freedom of navigation operations. He said in response, “Personally, it’s up to those countries but I think it’s in our best interests to make sure those sea lines remain open”.⁴⁸ Asked specifically whether it would be valuable for Australia to conduct freedom of navigation operations within 12 nautical miles of Chinese-claimed territory he replied,

⁴⁴ M. Turnbull, “Interview with Leigh Sales, 7.30”, transcript, 26 November 2015.

⁴⁵ M. Turnbull, “Australia and the United States: New responsibilities for an enduring partnership”, speech, Center for Strategic and International Studies, Washington DC, 18 January 2016.

⁴⁶ J. Bishop, doorstep interview, transcript, Australian Ambassador’s Residence, Tokyo, Japan, 16 February 2016.

⁴⁷ J. Bishop, interview with Tom Connell, Sky News, transcript, Beijing, China, 18 February 2016.

⁴⁸ D. Wroe, “US navy commander urges Australia to carry out patrols in disputed islands in the South China Sea”, *Sydney Morning Herald*, 22 February 2016.

“Yes.”⁴⁹ In response to Admiral Aucoin’s comments, Australian Defence Minister Marise Payne stated, “As Vice Admiral Joseph Aucoin said, freedom of navigation exercises are a matter for each individual country.”⁵⁰

In comments made to coincide with the release of Australia’s 2016 Defence White Paper, former Australian Defence Minister Kevin Andrews – at this point a backbencher following the change in Liberal Party leadership – on February 25 urged the Australian Government to conduct FONOPs within 12 nautical miles of disputed territory in the South China Sea.⁵¹ On the same day, in a speech to the Japan Institute of International Affairs, former Prime Minister Tony Abbott said that Australia should increase patrols in the South China Sea “because this is something that the United States should not have to police on its own.”⁵² The following week, on March 3, US Admiral Harry Harris, Commander of the US Pacific Fleet, spoke from New Delhi to revive the idea of a Quadrilateral Security Dialogue between the US, Australia, India and Japan. He called on the four nations to work together to counter powerful nations that “bully smaller nations through intimidation and coercion”, stating: “Exercising together will lead to operating together. By being ambitious, India, Japan, Australia and the United States and so many like-minded nations can aspire to operate anywhere in the high seas and the airspace above it.”⁵³ Australia did not react to these comments.

The start of 2016 also saw the Australian Opposition start to vocally lend its support for the proposal that Australia join US FONOPs in the South China Sea. On January 21 *The Australian* published an opinion piece written by Shadow Defence Minister Stephen Conroy with the headline ‘We should assist in policing the South China Sea’. He wrote, “other like-minded countries, including Australia, have an obligation to act in support of international law and norms in the South China Sea.”⁵⁴ On February 19 he stated, “We can sail legally, peacefully, through these alleged 12 mile-limits”. It was, however, unclear whether he meant with the United States or alone.⁵⁵ Former Australian Foreign Minister Bob Carr rejected this call for patrols by Senator Conroy, querying on Australian TV, “Supposing that we do run a patrol on our own or in the wake of an American vessel within the 12 nautical mile limit around one of these structures or one of the islands that China might’ve held for 40 years,

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ A. Greene, “South China Sea: Defence White Paper prompts Kevin Andrews to call for warships to test Beijing’s claims”, *ABC News*, 25 February 2016.

⁵² T. Abbott, Address to the Japan Institute of International Affairs, speech, Tokyo, Japan, 25 February 2016.

⁵³ E. Barry, “US proposes reviving naval coalition to balance China’s expansion”, *The New York Times*, 2 March 2016.

⁵⁴ S. Conroy, “We should assist in policing the South China Sea”, *The Australian*, 21 January 2016.

⁵⁵ A. Greene, “South China Sea: Opposition wants Australian warships to test 12-nautical-mile limits of contested Chinese islands”, *ABC News*, 19 February 2016.

what next? What do we do next and if the Chinese see that as an opportunity for further militarisation, which is to be regretted, then what do we then do?”⁵⁶

Despite the ramping up in 2016 of appeals for more Australian engagement in the South China Sea, the Australian Government continued with what might be described as the pragmatic policy it had established for itself in terms of regional security – a policy that has, for the most part, enjoyed general support across domestic spheres. Former Australian Liberal Prime Minister John Howard in a speech on April 20 was emphatic in supporting a realist Australian policy, “I think this issue should continue to be dealt with in the patient but firm manner thus far exhibited by both Australia and the United States... Principles should not be compromised, but likewise we should guard against overreaction...”⁵⁷ The general public also appeared to view Australia’s current policy as an effective one and did not exhibit any vigorous support for a more hawkish stance. While a 2016 poll found that the majority of Australians were in favour of conducting FONOPs, it is worth noting that the question posed did not specify what *type* of FONOPs – for example, within the 12 nautical mile zone of Chinese-claimed territory or not, alone or with the US.⁵⁸ The same poll also found that 77 percent of the Australian public saw China as “more of an economic partner” than a military threat (15 percent) and the number of Australians considering it very likely or somewhat likely that China would pose a military threat to Australia fell nine percentage points in 2015 (39 percent) from the previous year (48 percent).^{59 60}

The Australia-China economic relationship

On economic links with China, Australia remains committed to strengthening bilateral ties. The Australia-China trade relationship is built on a strong foundation of different comparative advantages and complementary economies. Indeed, the two countries are more closely bonded by trade than any other linkage.

Chinese demand for Australian exports has traditionally been focused on resources as China underwent industrial development but as China rapidly becomes a more diversified economy, the nature of demand has evolved. The impact that China is now having on Australian services exports is unequalled by any other country. And Chinese enthusiasm for Australian services only continues to increase, with established demand in areas such as tourism and education continuing to grow and new areas of demand, such as financial

⁵⁶ ABC, Panel debate: Bob Carr, former Foreign Minister and Catherine McGregor, Defence Analyst, *ABC Lateline*, 3 March 2016.

⁵⁷ J. Howard, “Inaugural Asia Lecture”, speech, Griffith Asia Institute, Queensland, Australia, 20 April 2016.

⁵⁸ A. Oliver, “The Lowy Institute Poll 2016”, Lowy Institute for International Policy, 21 June 2016.

⁵⁹ A. Oliver, “The Lowy Institute Poll 2015”, Lowy Institute for International Policy, 16 June 2015.

⁶⁰ A. Oliver, “The Lowy Institute Poll 2014”, Lowy Institute for International Policy, 2 June 2014.

services, constantly emerging. In 2015 exports of financial services to China were worth A\$370 million.⁶¹ To put this in context, financial services exports were only worth A\$49 million in 2011 – an increase over 650 percent in four years. The value of services exports to China totalled A\$9.8 billion last year, up 19.8 percent from 2014. Services exports to other countries in 2015 also grew, but at less than half the pace.⁶²

Between 2010 and 2015, the total number of Chinese visitors to Australia more than doubled. In 2015, more than one million Chinese tourists arrived in Australia, an increase of 22 percent on 2014 arrivals. Spending by Chinese tourists in Australia totalled A\$7.7 billion, accounting for just over one-fifth of Australia's total international visitor spending, and more than double that of the UK at second place. Year-on-year spending by Chinese tourists grew 43 percent in 2015, double the growth rate of 2014.⁶³

But while the number of Chinese visitors to Australia continues to grow, Australia's share of China's global outbound tourism has fallen from 1.2 percent in 2000 to 0.8 percent now. In an effort to continue to tap more deeply into the Chinese market Australia is finessing its tourism strategy to cater to China's growing middle-class by focusing more on independent travellers as opposed to group tour packages, and to improve accessibility not just on the ground but in the planning and booking stages of the travel process. With only an estimated six percent of the Chinese population holding a passport, the potential is plain to see. On January 23 2015 a new air services agreement between Australia and China that would allow Chinese airlines "to almost triple their services to Australia over the next two years" and provided, for the first time, aviation capacity dedicated to China's second and third tier cities.⁶⁴ Australia's Minister for Tourism also suggested in December 2015 that Australia was considering bilingual road signs: "About 40 percent of Chinese tourists are choosing to self-drive so signage, roads, Wi-Fi and basic amenities are important".⁶⁵ In April 2016 during Australia Week in China, a new Australia.cn website was unveiled, optimised for smart phones – a medium that has a potential reach of half a billion Chinese users. Prime Minister Turnbull characterised this as "a very important step change in our marketing in Australia. It makes Australia more accessible. More available."⁶⁶ Tourism Australia and Air China also signed an A\$6 million agreement that week to continue conducting joint marketing activities.

⁶¹ Australian Bureau of Statistics, International trade: Supplementary information, calendar year, 2015, Australian Bureau of Statistics, last updated 23 May 2016.

⁶² Australian Bureau of Statistics, International trade: Supplementary information, calendar year, 2015, Australian Bureau of Statistics, last updated 23 May 2016.

⁶³ Tourism Australia, "New tourism campaign launched as part of Australia week in China", media release, 14 April 2016.

⁶⁴ W. Truss and A. Robb, "New air deal with China: 2015 off to a flying start for Australian tourism", joint media statement, Australian Government, 23 January 2015.

⁶⁵ AAP, "Translate Australian road signs to lure Chinese travellers, says tourism minister", *The Guardian*, 9 December 2015.

⁶⁶ M. Turnbull, Launch of Tourism Australia's new digital platform in China, speech, Shanghai, China, 14 April 2016.

Australian education services, dubbed “the quiet champion of Australian exports”,⁶⁷ has seen continuous significant growth in Chinese demand. In June 2016, there were 144,596 students from China enrolled in Australian schools and universities, up 17 percent from June 2015.⁶⁸ Chinese international students currently make up 28 percent of all international student enrolments.⁶⁹

January 2015-June 2016 also saw a series of ‘firsts’ marked in the Australia-China business and finance relationship, signaling strengthening regional cooperation and paving the way for better market access for both sides. Prime Minister Turnbull made his first official visit as Prime Minister to China from April 14-15 2016 and arrived in Shanghai on April 14, attending the culmination of Australia Week in China with more than a thousand Australian business representatives – the largest Australian business delegation making an overseas trip to date. The Boao Forum for Asia's Financial Cooperation Conference – previously held in London, Paris and Dubai – was held in Sydney for the first time from July 30-31 2015, a nod to Sydney's position as a renminbi trading hub. NSW Minister for Trade Stuart Ayres said, “I believe that Boao, over the next 25 years, will become a word that surpasses Davos when it comes to economic development and discussion amongst leaders across the globe.”

Among other notable business partnerships between Australia and China in January 2015-June 2016 was a deeper foray into joint e-commerce development with the launch of “Australian Mall”, a new channel on Chinese online direct sales company JD.com, China's second biggest retailer, in June 2015.

The China-Australia Free Trade Agreement

Ten years and 21 rounds of negotiations climaxed on November 17 2014 when Prime Minister Abbott and President Xi Jinping announced the conclusion of the China-Australia Free Trade Agreement (ChAFTA). Prime Minister Abbott said the agreement would “add billions to the economy, create jobs and drive higher living standards for Australians. Australian businesses will have unprecedented access to the world's second largest economy.”⁷⁰ Trade Minister Andrew Robb termed the deal “[b]y far the most comprehensive and ambitious agreement that China has struck with any country in the developed world.”⁷¹

⁶⁷ J. Myers, “5 things to know about China and Australia's economic ties”, World Economic Forum website, 11 April 2016.

⁶⁸ Australian Department of Education and Training, International student data, 2016.

⁶⁹ Ibid.

⁷⁰ T. Abbott, “Landmark China-Australia Free Trade Agreement”, media release, Australian Government, 17 November 2014.

⁷¹ A. Robb, “The China-Australia Free Trade Agreement”, speech, Sydney, Australia, 20 November 2014.

On June 17 2015 Minister Robb and Chinese Commerce Minister Gao Hucheng officially signed ChAFTA in Canberra. Prime Minister Abbott said, “[I]t will change our countries for the better, it will change our region for the better...”⁷²

Following its signing, progress on domestic implementation of ChaFTA stalled. The agreement was subject to a standoff between the Coalition Government and the Opposition Labor Party due to Opposition and trade union concerns that it was providing the Government “a potential backdoor means to drastically rewrite Australian working conditions.”⁷³ Opposition Leader Bill Shorten vowed to “fight to reinstate the safeguards that Abbott wants to tear up under the cover of the China FTA.”⁷⁴ Three issues were in contention: job security and protection for Australian workers, the upholding of Australian labour standards and conditions and the enforcement of Australian safety and skills standards. Labor Shadow Trade Minister Penny Wong said, “It’s quite clear that key safeguards that should have been included to ensure that jobs were available to Australians first have not been included.”⁷⁵ She went on to declare, “Labor will fight to ensure there are safeguards around ChAFTA’s temporary migration provisions because we believe trade should enhance local job opportunities, not put them at risk.”⁷⁶ These apprehensions created a deadlock that prevented the agreement immediately passing through the Australian Senate.

On August 5, Trade Minister Robb in an interview with Australian radio mounted a vigorous defence of ChAFTA. He said free trade agreements with countries in the Asia-Pacific region “are creating tens of thousands of jobs, and it is because we are opening up some of these markets in our region where all of this growth is taking place.”⁷⁷

After protracted negotiations between the two parties, the impasse was broken when the Government signalled their support for a modest list of protectionist measures regarding overseas workers tabled by the Labor Party in the Australian Parliament in October. The safeguards related to amendments to the Australian Migration Act 1958 – the ChaFTA provisions remained untouched. On October 21 the Labor caucus voted to support ChAFTA. The Australian Parliament passed the ChAFTA legislation on November 9 2015. The agreement entered into force on December 20 2015.

In the immediate lead up to ChAFTA’s signing, the agreement enjoyed strong support from the Australian public and Australian businesses. The Australian National Farmer's

⁷² D. Conifer, “Australia and China sign ‘history making’ free trade agreement after a decade of negotiations”, *ABC News*, 17 June 2015.

⁷³ V. Badham, “Happily ever ChAFTA? The China Australia Free Trade Agreement and what it means”, *Labor Herald*, 20 August 2015.

⁷⁴ B. Shorten, “Abbott’s free trade agreement with China threatens local job opportunities”, *The Australian*, 22 July 2015.

⁷⁵ P. Wong, Doorstop – Canberra, transcript, 19 August 2015.

⁷⁶ P. Wong, “Abbott misleads public on China FTA”, media release, 19 August 2015.

⁷⁷ A. Jones, Interview with Andrew Robb, *2GB Breakfast*, 5 August 2015.

Federation in a media release “[congratulating] Minister Andrew Robb and the Government on the signing of the China-Australia Free Trade Agreement” said the deal would “further cement Australian agriculture's place in the fastest growing and largest market in the world and will provide billions of dollars in export value to Australian farmers.”⁷⁸ A survey conducted by DHL in 2014 found that 61 percent of Australian exporters said ChAFTA would have a positive impact on their business, compared with 37 percent for the TPP.⁷⁹ A survey of more than 1500 Australians conducted by the Australia-China Relations Institute at the University of Technology Sydney in April 2015 found that the Australian public were of the view that out of all of Australia’s free trade agreements, ChAFTA would bring the biggest economic benefits. Forty-four percent of the public nominated ChAFTA, compared with 31 percent for the FTA with the US, 20 percent for the FTA with Japan and six percent for the FTA with Korea.

In December 2015 a joint study of Australia-China business engagement released by the National Australia Bank and the Australia-China Relations Institute found that the prospect of ChAFTA’s enactment had already had substantial impact on the intention of Chinese business to increase their focus on Australia, across all industry types. Seventy-five percent of surveyed Chinese firms stated that ChAFTA had “some effect” or “a significant effect” on their decision to increase business focus on Australia. Australian firms were more cautious in their appraisal, with 35 percent stating that the agreement had some or a significant impact on their business engagement intentions. Businesses in the Australian services sector professed to be the most positively impacted.⁸⁰

With ChAFTA’s entry into force, more than 85 percent of Australian goods exports to China are now tariff free. This will rise to 93 percent by 2019 and 97.9 percent by 2029. Tariffs on Australia’s A\$13 billion dairy industry will be progressively abolished. Tariffs on seafood will cease, and Australian beef farmers will gain from the abolition of tariffs of 12 to 25 percent. On wine, tariffs of 14 to 20 percent will be gone in three years (2019). Under ChAFTA Australian hospital, hotel and aged care facilities set up in China can now be wholly Australian-owned. ChAFTA also includes a Most Favoured Nation clause which is China's “most extensive...in any FTA to date”.⁸¹

Australia is already seeing positive yields from ChAFTA. For example, industry body Wine Australia reported that Australian wine exports to China June 2015-2016 were valued at A\$419 million, a 50 percent increase on the previous year. To put this into context, wine exports to the US, Australia’s biggest wine export market, grew by eight percent to A\$449

⁷⁸ National Farmers' Federation, “Farmers welcome signing of the China-Australia FTA”, media release, 17 June 2015.

⁷⁹ DHL Export Barometer 2014.

⁸⁰ National Australia Bank and Australia-China Relations Institute, NAB-ACRI Australia-China Business Engagement Index, 3 December 2015.

⁸¹ Australian Department of Foreign Affairs and Trade, Fact sheet: Trade in services, last updated 7 January 2016.

million over the same period.⁸² In a media release entitled “ChAFTA delivers for Australian business”, the Australian Trade Minister’s office announced that between January and March 2016, Australia’s A\$11.6 million worth of fresh lobster exports to China “were triple those of 12 months ago, and exceeded China’s entire 2015 imports of Australian lobster.”⁸³ The same release also stated that “[m]ilk powder and fresh cherry imports more than doubled”.⁸⁴

Some criticism has been levelled by Australian commentators about the imposition of non-tariff barriers – such as a levy on e-commerce products – since the enactment of ChAFTA as “against the spirit” of the agreement. Australian Trade Minister Steve Ciobo responded to this by noting that “the levy is imposed across all imports, not just Australian imports” and that “Australia, under the China-Australia Free Trade Agreement, still has a material market advantage – preferential market access over other competitor countries.”⁸⁵

Coming hot on the heels of the Comprehensive Strategic Partnership established between Australia and China in 2014, the market opening set in motion by ChAFTA signals a willingness on the parts of both countries to continue to work together and to deepen bilateral engagement. Enthusiasm for ChAFTA – for the results it has already and yielded to date, and for its further potential – in Australia remains strong, with former Minister Andrew Robb telling a Sydney newspaper, “We have something from China that no one else has, and it plays to all our strengths.”⁸⁶

The Asian Infrastructure Investment Bank

On October 31 2014 the Australian Government announced it would not join the China-led Asian Infrastructure Investment Bank (AIIB). This followed phone calls, reportedly, from US President Barack Obama and US Secretary of State John Kerry to Prime Minister Abbott.⁸⁷

Following President Xi’s November 14-19 2014 visit to Australia, however, the Government signalled second thoughts. After the conclusion of ChAFTA in November 2014, then-Trade Minister Andrew Robb stated Australia would sign up to the AIIB provided it met certain governance provisions. He added, “We will be encouraging Japan and the US to follow

⁸² Wine Australia, Wine Australia Export Report, June 2016.

⁸³ S. Ciobo, “ChAFTA delivers for Australian business”, media release, Australian Department of Trade, 2 May 2016.

⁸⁴ Ibid.

⁸⁵ S. Ciobo, Interview: ABC, The World, transcript, 12 April 2016.

⁸⁶ P. Hartcher, “Andrew Robb pushes aside pessimism and backs China”, *Sydney Morning Herald*, 9 April 2016.

⁸⁷ P. Coorey and L. Murray, “John Kerry to Tony Abbott: steer clear of China bank”, *Australian Financial Review*, 23 October 2014.

suit.”⁸⁸ On December 8 2014 Minister Robb announced in Beijing that “[i]t’s the wish of everyone in the cabinet, from the Prime Minister down” to join the bank.⁸⁹

The Abbott Government eased Australia into the AIIB in early 2015. Federal Cabinet endorsed Australia’s membership in principle on March 23,⁹⁰ provided the following best-practice principles were met: open membership and working closely with other international organisations; a high level of transparency; no restriction on the procurement of goods or services; sound banking principles and high lending standards; and merit-based recruitment.⁹¹ Prime Minister Abbott said, “We are certainly well and truly disposed to joining something which is in fact a genuinely multilateral institution with transparent governance, clear accountability and with major decisions made by the board.”⁹² On March 29 Australia stated it would sign a memorandum of understanding to join negotiations on how the bank would be set up.

The Australian Government announced on June 24 that Australia would become a founding member of the AIIB.⁹³ On June 29 in Beijing, Australia and 49 other countries participated in a signing ceremony of the articles of agreement. Australian Treasurer Joe Hockey said, “We are absolutely satisfied that the government arrangements now in place will ensure that there is appropriate transparency and accountability in the bank.”⁹⁴ Prime Minister Abbott commented that Australia joined the AIIB on “principle” despite American and Japanese concerns: “If you’re not able to proceed on the basis of principle, you’re proceeding on the basis of favouritism.”⁹⁵

Australia is the sixth largest shareholder in the bank – after China India, Russia, Germany and South Korea – and will contribute A\$930 million paid-in capital to the AIIB over five years.

Chinese foreign investment in Australia

China invested A\$7.8 billion in Australia in 2015, resulting in an accumulated stock of foreign investment by China in Australia of A\$74.9 billion and ranking China seventh in net inflows to the country.⁹⁶ According to a joint report by KPMG and the University of Sydney, commercial real estate had attracted the largest proportion of Chinese investment – almost 50 percent –

⁸⁸ S. Balogh “Business Backs Andrew Robb on Bank Proposal”, *The Australian*, 25 November 2014.

⁸⁹ R. Callick, “Australia will join Asian Infrastructure Investment Bank”, *The Australian*, 8 December 2014.

⁹⁰ J. Massola, “Cabinet approves Australia signing on to China-led Asia Infrastructure Investment Bank”, *Sydney Morning Herald*, 25 March 2015.

⁹¹ J. Hockey, Opening remarks at the Australia China Business Council: Canberra Networking Day, speech, Canberra, Australia, 25 March 2015.

⁹² T. Abbott, Joint doorstep interview, transcript, Canberra, Australia, 25 March 2015.

⁹³ J. Hockey and J. Bishop, “Australia to join the Asian Infrastructure Investment Bank”, joint media release, Australian Government, 24 June 2015.

⁹⁴ P. Wen, “Joe Hockey signs Australia on with China’s bank”, *Sydney Morning Herald*, 29 June 2015.

⁹⁵ H. Fern Tan, “Asian Infrastructure Investment Bank: Australia sixth-biggest shareholder in China bank”, *ABC News*, 29 June 2015.

⁹⁶ Australian Department of Foreign Affairs and Trade, Trade and investment – Which countries invest in Australia, last updated May 2016.

followed by renewable energy and healthcare. Investment in infrastructure ranked fifth and agribusiness ranked seventh.⁹⁷ Australians acquired Chinese assets worth A\$10.5 billion in 2015, bringing Australia's total stock of Chinese assets up to A\$70.2 billion. China was the fifth leading investment destination country for Australia that year.⁹⁸

January 2015-June 2016 saw robust debate in Australian political and academic spheres on Chinese investment in Australia – in residential real estate, for example – but particularly in the area of Australian agriculture and strategic infrastructure. Foreign investment has long been a generator of public debate in the country (Japanese foreign investment, for example, was subject to deep-seated suspicion and populist agitation in the 1980s) and while the tone ebbs and flows, the 2015-2016 timeframe saw concerns about Chinese investment contributing to the tightening of Australia's foreign investment review framework.

On October 13 2015 Australia's Northern Territory Government signed an A\$506 million deal with the Chinese privately-owned Shandong Landbridge Group to lease the Port of Darwin for 99 years. The deal afforded Landbridge an 80 percent ownership stake. Northern Territory Chief Minister Adam Giles termed it "a fantastic outcome for the Territory".⁹⁹

The arrangement caused consternation among some members of the Australian security establishment who viewed the transaction as one that went beyond the purely commercial. One commentator asserted, "Infrastructural investment and control over that infrastructure are key in extending Chinese power across the region... Chinese control of the port of Darwin marks just the beginning – the so-called "dragonhead" – of PRC economic domination of northern Australia."¹⁰⁰ The Northern Territory Government rebuffed this notion, with one minister stating, "[Y]ou can't just pick the port up and take it away... A good deal was made for Territorians and it's going to see the port grow substantially in the next few years."¹⁰¹

The lease of the port also generated some criticism about the fact that the deal was not made in consultation with the United States. Former US Deputy Secretary of State Richard Armitage proclaimed he was "stunned" that Australia had not included the US in their deliberations over the sale of the port.¹⁰² President Obama, in a meeting with Prime Minister Turnbull on November 19, expressed concern over Australia failing to inform the Americans of their plans. President Obama was reported to have said he only found out about the

⁹⁷ KPMG and the University of Sydney, "Demistifying Chinese investment", April 2016.

⁹⁸ Australian Bureau of Statistics, International investment position, Australia: Supplementary statistics, 2015, May 2016.

⁹⁹ Northern Territory Chief Minister and Landbridge Group, "NT Government selects Landbridge as its partner for the Port of Darwin", joint media release, 13 October 2015.

¹⁰⁰ G. Wade, "Port of Darwin: This is about more than China's economic interest", *ABC News*, 24 November 2015.

¹⁰¹ AAP, "Senate to inquire into Darwin port deal", *news.com.au*, 19 November 2015.

¹⁰² J. Kehoe and L. Tingle, "US 'stunned' by Port of Darwin sale to Chinese", *Australian Financial Review*, 17 November 2015.

decision on reading *The New York Times* and that Washington should be given “a heads up about these sorts of things”.¹⁰³

During a press conference on the same day Prime Minister Turnbull seemed unfazed, stating, “The fact that the Darwin port was being privatised was not a secret. It was announced publicly early last year. It was very, very well known. The fact that Chinese investors were interested in investing in infrastructure in Australia is also hardly a secret.”¹⁰⁴ Prime Minister Turnbull also joked, “[T]he President and I talked, he recalled with great affection when we discussed the importance of subscribing to the [*Northern Territory News*]”.¹⁰⁵

Nonetheless, debate continued apace on whether the Australian Government’s foreign investment review framework needed to be further tightened on national security grounds, and momentum gathered on calls for more government scrutiny of foreign acquisition of strategic assets. The Australian Senate on November 25 passed a motion establishing an inquiry into Australia’s foreign investment review framework in order to consider “whether there ought to be any legislative or regulatory changes to that framework to ensure Australia’s national interest is being adequately being protected.”¹⁰⁶

One witness providing testimony reflecting on the Darwin port decision to the Senate inquiry said, “There have been indications in previous annual reports of the Darwin Port Authority that up to 100 or more naval ship visits take place, into the port, every year. I would see that as 100 intelligence-gathering opportunities, in terms of the interest China would have, in finding out big things and little things about how naval forces operate.”¹⁰⁷

These concerns about the security implications of the lease, even given the use of the port by US marines on rotation through Darwin, were rejected wholesale by heads of the Australian Department of Defence, the Australian Security Intelligence Organisation and the Australian Defence Force. Australian Defence Secretary Dennis Richardson told the Senate inquiry, “[T]he notion that Landbridge’s lease in Darwin somehow or other is part of a broader strategic play by China, and this gives the PLA Navy access to Darwin, is simply absurd.”¹⁰⁸ Academic experts largely supported this line of analysis. Professor Hugh White of the Australian National University said, “[O]perating the port would give China few chances

¹⁰³ P. Coorey and L. Tingle, “‘Let us know next time’: How Obama chided Turnbull over Darwin port sale”, *Australian Financial Review*, 18 November 2015.

¹⁰⁴ M. Turnbull, Doorstop interview, transcript, Manila, Philippines, 19 November 2015.

¹⁰⁵ *Ibid.*

¹⁰⁶ Australian Senate Standing Committee on Economics, Foreign investment review framework, Parliament of Australia, 2016.

¹⁰⁷ Australian Economics References Committee, Foreign investment review framework, Parliament of Australia, 15 December 2015.

¹⁰⁸ *Ibid.*

to collect intelligence that they could not collect in other ways.”¹⁰⁹ Dr Greg Austin of the Australian Defence Force Academy called the fears “overblown and overhyped.”¹¹⁰

Despite experts and government officials testifying in favour of the soundness of the Darwin port decision, the anxieties it brought to the fore resurfaced during the Australian government’s review of a second bid for the S. Kidman and Co. pastoral empire – a private landholding of 100,000 square kilometres with 11 cattle stations (including Anna Creek Station, the world’s largest at 23,000 square kilometres) running some 200,000 cattle. The property was initially listed for sale in April 2015 and a first bid rejected in November 2015. On April 29 2016 Australian Treasurer Scott Morrison announced his preliminary decision to block Chinese-listed company Dakang’s A\$370 million takeover offer: “Given the size and significance of the Kidman portfolio I am concerned that the acquisition of an 80 percent interest in S. Kidman & Co Limited by [Dakang] may be contrary to the national interest.”¹¹¹ Treasurer Morrison cited three reasons for the decision: (1) the size of the portfolio was too large, (2) Australian competitors were locked out due to 11 of the Kidman properties being sold as one aggregated asset, and (3) the deal might undermine public support for foreign investment in Australian agriculture.¹¹²

The Australian Opposition Labor Party spoke out against the Treasurer’s decision. On April 29 Shadow Trade Minister Penny Wong termed it an “extraordinary intervention” that would send “wrong messages to global investors”.¹¹³ She told Australian radio: “We need foreign investment because we have not previously, nor will we be in the future, be able to fund all of our investment needs with domestic capital...So what we want is to make sure we have a clear and consistent position when it comes to foreign investment.”¹¹⁴ When asked if the Treasurer’s decision would have been made against an American, Canadian or British bid Senator Wong replied: “[Y]ou also see, frankly, a discriminatory policy in respect to our Asian free trade partners, who have much more onerous foreign investment scrutiny than do the United States. Now that demonstrably is discriminatory and different.”¹¹⁵ South Australian Labor Premier Jay Weatherill also observed, “I don’t think we’d be having this discussion if it were an American or a UK investor.”¹¹⁶ Senator Wong’s argument appeared to be the settled Labor position as opposed to an April 21 statement from Labor Party leader Bill Shorten,

¹⁰⁹ H. Clark, “Chinese investment and Australia’s national security”, *The Diplomat*, 2 December 2015.

¹¹⁰ G. Austin, “Yes, a Chinese company leased Darwin Port. So what?”, *The Diplomat*, 19 November 2015.

¹¹¹ S. Morrison, Press conference, transcript, Canberra, Australia, 29 April 2016.

¹¹² *Ibid.*

¹¹³ P. Wong, C. Bowen and J. Fitzgibbon, “Statement on Treasurer’s preliminary decision involving S. Kidman & Co”, joint media release, Australian Government, 29 April 2016.

¹¹⁴ F. Kelly, “Penny Wong on the blocked sale of S. Kidman and Co”, *ABC Radio National Breakfast*, 2 May 2016.

¹¹⁵ *Ibid.*

¹¹⁶ Daniel Wills, “Treasurer’s decision to block sale of Kidman cattle empire to Chinese buyer is ‘xenophobic’, Jay Weatherill”, *The Advertiser*, 2 May 2016.

who said, “I have a general reservation about just putting everything up on the market to sell everything. It makes me feel uneasy.”¹¹⁷

Ultimately, the Kidman decision reflects significantly heightened pressure on Australia’s foreign investment review processes. Former Australian Security Intelligence Organisation (ASIO) head David Irvine was appointed to Australia’s Foreign Investment Review Board (FIRB) on December 15 2015 to give a national security slant to FIRB decisions and ostensibly allay some of the trepidation previously vocalised by defence hawks. But as fears continue to swirl, tougher restrictions on investment continue to be demanded. However, both major Australian parties went into the May 2016 election supportive of foreign investment and have not, at this stage, indicated a willingness to further constrict the system or put in place additional, country-specific, controls. The Australian public also appear to be broadly supportive of foreign investment, even in the contested area of agriculture. For example, in 2015 a joint study by the Australia-China Relations Institute and the Centre for the Study of Choice at the University of Technology Sydney found that the Australian public’s predominant concern when foreign companies invest in Australia’s agricultural sector is the share of foreign ownership that will result, not the dollar value of the deal or the country the money is originating from. The poll also highlighted that the public were indifferent as to whether the foreign company investing was government or privately owned.¹¹⁸

Conclusion

Australia-China relations during January 2015 to June 2016, though not without challenges, were generally stable, with both countries remaining broadly committed to working together to strengthen bilateral architecture across a range of fora. Sensitivities and differences in the relationship were, and continue to be, worked through with dialogue and diplomacy.

There is, of course, ample scope in the relationship for expansion in the breadth and depth of engagement. But with both countries willing to work on enhancing cooperation, mutual trust and understanding, there remains great potential for the future of the relationship.

¹¹⁷ B. Shorten, Radio interview with Neil Mitchell, 3AW, transcript, 21 April 2016.

¹¹⁸ J. Laurenceson, P. Burke and E. Wei, “The Australian public’s preferences over foreign investment in agriculture”, *Agenda*, vol 22, no 1, 2015.