



Australia-China relations summary

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

Military base on Vanuatu

On April 9 Fairfax Media, citing anonymous sources, [reported](#) that the People's Republic of China (PRC) and Vanuatu were engaged in talks about establishing a PRC military base in the Pacific state:

Fairfax Media can reveal there have been preliminary discussions between the Chinese and Vanuatu governments about a military build-up in the island nation.

While no formal proposals have been put to Vanuatu's government, senior security officials believe Beijing's plans could culminate in a full military base. The prospect of a Chinese military outpost so close to Australia has been discussed at the highest levels in Canberra and Washington.

While the report conceded the plan was mere 'ambition' on Beijing's part for the time being, it noted that PRC militarisation in Vanuatu 'would likely be realised incrementally, possibly beginning with an access agreement that would allow Chinese naval ships to dock routinely and be serviced, refuelled and restocked. This arrangement could then be built on.' The report then pointed to a new PRC-funded [wharf](#) in Vanuatu, saying it had the 'potential to service naval vessels'.

Prime Minister Malcolm Turnbull, when asked about the report on April 10, [stated](#):

We would view with great concern the establishment of any foreign military bases in those Pacific Island countries and neighbours of ours.

Foreign Minister Julie Bishop in an ABC Radio National interview the same day deflected questions around whether she harboured concerns about the prospect of a permanent PRC military base in the Pacific. She [said](#):

I remain confident that Australia is Vanuatu's strategic partner of choice.

Shadow Minister for Foreign Affairs Penny Wong [observed](#) that such a base was 'a potential game changer for the region and for Australia' which would have undesirable security and economic consequences for Australia and its regional neighbours. She said:

It would have, not only security, but economic consequences for the region and we should regard it as a wake-up call for Australia in terms of our position in the South Pacific and the leadership role we are expected to play and we need to play in that region.

...

[M]ilitarisation and competition in the region is not something that is conducive to the sort of stable and prosperous region that all of us want.

Vanuatu's Prime Minister and Foreign Minister both emphatically denied that any such talks had taken place.

On April 10 Vanuatu Foreign Minister Ralph Regenvanu [asserted](#):

No one in the Vanuatu government has ever talked about a Chinese military base in Vanuatu of any sort.

We are a non-aligned country. We are not interested in militarisation, we are just not interested in any sort of military base...in our country.

He also expressed displeasure with Australian reporting on the matter:

I'm not very happy about the standard of reporting in the Australian media.

I would hope the upsurge in the paranoia about China in Australia is not used to destroy or denigrate the good relationship Vanuatu has with Australia.

On April 12 Vanuatu Prime Minister Charlot Salwai released a statement to 'utterly refute' the Fairfax Media report, describing it as 'rather speculative and seemingly malicious in intent. He [said](#):

The government will fiercely oppose any attempt to build a military base in the country...

The Chinese embassy in Vanuatu also rejected the reports, with a spokesperson [calling](#) the base claim 'ridiculous' and 'impossible'.

Writing on the issue on April 16, the media director of the *Vanuatu Daily Post* group [remarked](#):

The main difference between Beijing and Canberra is that Beijing listens. For better or for worse, Chinese diplomats listen to what Pacific leaders want. Often enough, they give it to them.

And more often than not, Australian polities wait patiently for Pacific Islanders to finish speaking, then tell them what they need. There is a pervasive and deeply pernicious perception in the foreign policy establishment that Pacific voices don't count.

A few days earlier, on April 13, *The Australian* [pointed out](#) the disparity in official leader-to-leader face time afforded to heads of Pacific states by Australia and China, with Australia only having hosted two Pacific leaders as 'guests of government' since 2013.

This may be changing. When in London for the Commonwealth Heads of Government Meeting (CHOGM), Prime Minister Turnbull's first three leaders' meetings '[within hours of landing](#)' were with heads of South Pacific nations, including Vanuatu.

Prime Minister Turnbull [told](#) reporters at CHOGM that Vanuatu Prime Minister Salwai had provided him with assurances that the report on the military base was untrue:

[T]he Prime Minister of Vanuatu has made it very clear, quite unequivocally, the media reports about Chinese interest in establishing a military base in Vanuatu have no basis in fact so he has said those reports are absolutely untrue, that's what he said.

South China Sea ‘challenge’

On April 20 the ABC [reported](#) that three Australian warships travelling to Ho Chi Minh City had been ‘challenged’ by the Chinese navy in the South China Sea. The article said:

Three Australian warships were challenged by the Chinese military as they travelled through the disputed South China Sea earlier this month, the ABC can reveal.

The confrontations with the People’s Liberation Army are believed to have occurred as China was conducting its largest ever naval exercises in the hotly contested waters.

The article quoted an unnamed Australian defence official as characterising the exchange a ‘polite, but robust’ one.

When asked about the report, Prime Minister Turnbull and Foreign Minister Bishop did not confirm the occurrence of the incident but simply reiterated Australian policy with respect to freedom of navigation and disputed territory in the South China Sea. Prime Minister Turnbull [said](#):

[W]e maintain and practise the right of freedom of navigation and overflight throughout the world and, in this context, we’re talking about naval vessels on the world’s oceans, including the South China Sea, as is our perfect right in accordance with international law.

The Foreign Minister [said](#):

We have had a longstanding difference of opinion with China over the South China Sea, but our position has been consistent both publicly and privately and that is there are numerous claims to territory in the South China Sea. Those differences must be resolved peacefully and if necessary through the UN Convention on the Law of the Sea processes – negotiation, arbitration, conciliation. We do not support unilateral action that would raise tensions in the South China Sea. This is a position that we have consistently stated publicly and privately.

Defence Industry Minister Christopher Pyne [tamped down](#) the characterisation of the exchange as a ‘confrontation’:

I think ‘confrontation’ is somewhat of a tabloid-style description of what goes on in the South China Sea very regularly.

He told reporters:

From what I understand, in the normal course of events, questions are asked, sometimes more robustly than other times.

That doesn’t change our views about being able to navigate the South China Sea.

We will continue to do so along with the United States. We do it very, very regularly with all kinds of commercial vessels but also with our navy platforms.

Defence commentators appeared to [broadly agree](#) that the incident was not out of the ordinary.

Foreign interference

On April 26 Charles Sturt University academic Clive Hamilton provided a [statement](#) to the US Congressional-Executive Commission on China for a hearing on ‘Digital authoritarianism & the global threat to free speech’, telling them:

Beijing is ramping up its rhetoric against Australia in a calibrated campaign of psychological warfare. Beijing knows that it cannot bully the United States – in the current environment the consequences would be unpredictable and probably counterproductive – so it is instead pressuring its allies.

On the same day, the chair of the Commission, Republican Senator Marco Rubio, told *The Australian*:

Now the Chinese Communist Party is increasingly exporting its authoritarianism abroad, suppressing speech, stifling free inquiry and controlling the narrative. America, Australia and other like-minded nations must contend with the long arm of China and the growing threat it poses to our open, democratic systems.

The Australian Department of Home Affairs now houses a counter-espionage unit, with cabinet in mid-April approving the transfer of a senior ASIO official to act as a ‘national countering foreign interference coordinator’. *The Australian* [pointed out](#) that this is ‘a move that [elevates] the threat response to a similar footing as counter-terrorism.’

In a doorstep interview on April 18 Prime Minister [reiterated](#) Australia’s commitment to rolling out its foreign interference legislation:

That is why we are taking every step that we can with our foreign interference legislation to ensure that Australians, and Australians only, are the ones who influence Australian political processes. We make no apologies for and will not take a backward step from standing up for Australians right to determine their political processes, who’s elected to their parliament, how laws are debated and resolved. It is critically important that we do that and that is the right and indeed the duty of every sovereign state.

‘Tension’ in the Australia–China relationship

On April 18, Chinese Ambassador to Australia Cheng Jingye in a blunt [interview](#) with *The Australian* spoke of ‘systematic, irresponsible and negative remarks’ made by Australia on China, warning that this might have an adverse effect on trade relations in future:

If there is a growing lack of mutual trust, in the long run it may have some undesirable impact.

When asked about the Chinese Ambassador’s comments, Prime Minister Turnbull simply opted to underline the strength of the Australia–China economic relationship:

[W]e have a very strong economic relationship with China. It is, in fact, strengthening all the time. We are committed to a stronger relationship. From time-to-time there are differences in the relationship but if there are ups and downs then it’s from a very, very high base.

Trade has never been higher in any respect whether it is tourism, whether it’s international education, whether it’s the export of the finest food and commodities that Australia can produce.

The Prime Minister had, however, earlier [acknowledged](#) there exists ‘a degree of tension’ in the Australia-China relationship, telling radio station 3AW on April 12:

I would say that there has been, there is certainly some tension. There has been a degree of tension in the relationship, that has arisen because of criticism in China of our foreign interference laws.

On April 13 Finance Minister Mathias Cormann [said](#), ‘[T]here are a number of issues that need to be worked through at present.’

Shadow Minister for Foreign Affairs Penny Wong in a *Sky News* interview on April 30 [repeated](#) her concern – articulated on several occasions this year including in [January](#) and [February](#) – about recent government rhetoric on China. She pointed to [comments](#) made by the Prime Minister in December last year, calling the language used ‘unnecessary’, and [comments made](#) by then-Deputy Prime Minister Barnaby Joyce and International Development minister Concetta Fierravanti-Wells earlier this year, terming their remarks ‘irresponsible’ and ‘clumsy’, respectively.

Senator Wong said:

It’s not a new thing for Australia’s national interest to be different to China’s national interest. That has historically been so and will continue to be so over time. There are times we agree and there times we disagree, it is always so.

How you manage that at a political level is important and I think the one factor I have observed in these last months is the tone and language from some of our political leaders has been unfortunate.

Former prime minister Kevin Rudd made similar observations, albeit using stronger language. He described the Prime Minister’s December comments as akin to ‘publicly punching the Chinese in the face’ in a *Sky News* [interview](#) on April 23. He said:

What Turnbull has done, I think for largely domestic political reason over the then-Dastyari affair, was then take out this huge flamethrower, point it at Beijing, hoping to catch the Labor Party in the crossfire, and try to as it were ignite a fire in the Australia-China relationship.

Well he certainly did that, and I think it’s time for sober heads and sober minds...to frankly douse the flames and get this relationship back on track.

Former Liberal Party politicians also proffered public comment on the current state of the Australia-China relationship this month. Former premier of Western Australia Colin Barnett [told](#) *The Australian* that relations with China were at a ‘low point’, saying:

The Chinese just want to be treated with a bit more respect than they feel they are receiving. With federal politicians from both sides and particularly the Prime Minister lashing out at foreign donations and the like, and some of the language used, they would have expected concerns like that to be conveyed in a more gentle and diplomatic way.

Former federal treasurer Peter Costello [described](#) the bilateral relationship as ‘strained’:

We go through these periods. It was strained during the Rudd years and we managed to patch things up again and it is strained at the moment and I hope that we manage to patch things up again.

It was [reported](#) by the *Australian Financial Review* that Beijing was ‘regularly refusing’ visas to government ministers. There has been no official confirmation of this by Australian officials, with China [rejecting](#) the claim as ‘nonsensical’. However, it is worth noting that there was no Australian ministerial representation at the Boao Forum for Asia this month, and there are no scheduled ministerial visits to China this year, apart from a November visit by Trade Minister Steve Ciobo who will be leading a delegation of businesspeople to a Shanghai import expo.

On April 30 former Australian ambassador to China Geoff Raby [labelled](#) the current Australia-China relationship a ‘mess’, stating that it is ‘at its lowest point since the bloody crackdown in Tian’anmen Square’, whilst also acknowledging that the relationship ‘has always been difficult to manage, but never more so than today’.

Business concerns

Businesses continue to express concern about the current state of the Australia-China relationship, fearing the costs that may be incurred if there is no timely improvement.

Especially vocal has been Andrew Forrest, founder of the Fortescue Metals Group. During this year’s Boao Forum for Asia, he [criticised](#) Australia’s major political parties’ recent handling of bilateral relations:

Each of the political parties have tried to score minuscule non-decided votes by creating China fear and that carries a cost to every single Australian.

...

I’m then simply looking back at both sides of government saying ‘stop trying to score points off China, it is doing us no good up here’. We need to be really careful about the sucker punch.

Australian Chamber of Commerce Shanghai CEO Udo Doring [said](#) that while businesses are continuing to trade ‘largely as normal’ at the moment, ‘There is no upside for business if the relationship continues to sour.’

National CEO of the Australia China Business Council Helen Sawczak made the [observation](#) that:

It’s obviously not comfortable for businesses to be operating in an environment where there are reports of government-to-government unhappiness.

Over 120 countries list China as their number one trading partner so we’re not as special as we like to think.

Malabar naval drills

On April 25, Indian media [reported](#) that Australia would not be participating in the India-US-Japan Malabar 2018 naval drills in June. Australia had taken part in the Malabar drills in 2007, but withdrew in parallel with their withdrawal from the quadrilateral security dialogue. Australia has approached India annually [since 2015](#) to re-join the drills.

In December last year Department of Foreign Affairs and Trade Secretary Frances Adamson [said](#), ‘Australia stands very willing to join Malabar should we be invited to do so.’ And in January this year Prime Minister Turnbull [stated](#) that discussions for Australia to join the drills were ‘progressing well’.

The Australian Department of Defence [confirmed](#) on April 30 that Australia would not be joining the 2018 drills.

An unnamed senior Indian Ministry of Defence official was quoted in *The Hindu* as [saying](#) that ‘the decision to include anyone outside of the three (US, Japan, India) would be taken by the Prime Minister’s Office and Ministry of External Affairs in consultation with the Ministry of Defence.’

Withdrawal of US ambassadorial nominee to Australia

Around April 23 the Trump administration notified Prime Minister Turnbull of its intention to [withdraw](#) its nominee for the position of US Ambassador to Australia, Pacific Command chief Harry Harris, in favour of appointing him to the ambassadorial post in South Korea. The Prime Minister said:

I’m disappointed that Harry’s not coming because he is a really good friend and I think Harry will be disappointed that he is not coming to Canberra too because he loves Australia.

But look he is a guy of enormous experience and ability and given the situation on the Korean Peninsula, given the tensions there I can well understand why the President has decided that the admiral’s expertise and experience is going to be put to better use in Korea than in Australia.

Admiral Harris is noted for his vocal stance against Chinese assertiveness in the South China Sea and concerns about the implications of China’s technological advances.

On North Korea he has previously [stated](#), ‘Beijing has exponentially more influence on Pyongyang than anyone else. In my opinion, that makes China the key to a peaceful outcome on the Korean Peninsula.’ He has also [said](#), ‘[T]he fact remains that China is as responsible for where North Korea is today as North Korea itself.’

No names have been put forth as yet with respect to a replacement nominee for the Canberra role. The position has now been vacant for 19 months, although Australia is far from alone in this regard – of 188 US ambassadorial positions, just under 50 [remain vacant](#).

North Korea

In welcoming the Korea summit, Prime Minister Turnbull [praised](#) China’s participation in sanctions against North Korea:

Donald Trump has taken a very, very strong, hard line on the denuclearisation issue and he has been able to bring in the support of the global community and, in particular, China.

You have to give great credit to President Xi Jinping and China for enforcing the sanctions.

Defence

On April 28 former head of the Department of Prime Minister and Cabinet, Michael Keating, [called](#) for Australia to boost its submarine force in order to present a ‘credible deterrent’ against attack, citing China’s rapid militarisation efforts as one motivating factor:

Given the rapid increase in its defence budget, China may be able to present a credible threat in our region by the mid-2020s. This is not to say that China has any intention of attacking Australia and it is overwhelmingly in both countries’ interests to maintain a harmonious relationship. But wars can

happen by default; were there to be a conflict over Taiwan, for example, who knows where that would end. Australia should develop, with some urgency, a strategy to defend itself in a conflict with a great power.

And toward the end of April, a [report](#) released by Washington's Centre for Strategic and International Studies called for the Turnbull government to consider US warships and attack submarines be stationed in Perth in response to China's maritime infrastructure expansion in the region.

Trade

By James Laurenceson

After concerns about Chinese tourism and student numbers last month, new data are reassuring with respect to the former. When arrivals during the Chinese New Year 2018 period are accounted for, annual Chinese visitor numbers are up a robust 13.2 percent on a year earlier. For the first time the number of Chinese tourists exceeded those from New Zealand as Australia's most important source country, albeit expenditure of those from China have long eclipsed their New Zealand counterparts. In 2017 Chinese tourists spent \$10.4 billion, up 14 percent on a year earlier, while those from New Zealand only parted with \$2.7 billion, down 8 percent.

Trends with respect to students are less clear. Commencing Chinese students are up an impressive 15 percent on a year ago. But there's a potential pipeline issue: Chinese students commencing their studies this semester settled on Australia as a destination and applied for their student visa some time ago. New student visa grants data are more concerning. This financial year through to February, visas granted to Chinese students for entry to Australian higher education institutions are only up by 6 percent, compared with more than 13 percent over the same period last year. And that slower growth is being driven almost entirely by Chinese students already in Australia. Those applying from China are up by just 1 percent, down from 16 percent at the same time last year. The growth rates for Chinese students seeking to enter Australia's Postgraduate Research Sector and the Schools Sector are negative.

Moving away from tourists and students, the headline trade numbers this month are testament to how important non-mining goods have become in Australia's export good mix to China. Despite the value of mining goods falling at an annualised rate of nine percent, the total value of goods exports still increased on the back of non-mining goods, up at an annualised 46.2 percent. Australia has never exported a more diversified basket of goods to China than it is doing right now.

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