

# PERSPECTIVE

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## **Australia's Second China Challenge**

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### **EXECUTIVE SUMMARY**

- Over the last quarter-century, the challenge posed by Australia's deepening economic ties with China for Australian strategic interests and policies has dominated security-related discussion of the bilateral relationship.
- In the last year, for the first time in the post-Cold War era, domestic security concerns about alleged Chinese state and proxies' efforts to influence inappropriately Australian society and politics have become a major media and political focus.
- These domestic security concerns are more nebulous, politically sensitive and prone to domestic partisanship than the strategic ones.
- Australia's strategic concerns with China motivated greater Australian security engagement with Southeast Asian states and ASEAN. These recent domestic security concerns may enhance Australian engagement with some Southeast Asian states

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*“The Government is concerned about growing attempts by foreign governments or their proxies to exert inappropriate influence on and to undermine Australia’s sovereign institutions and decision-making.”*

*2017 Foreign Policy White Paper, Australian Government, page 75.*

## ECONOMIC ORIGINS<sup>1</sup>

Economically, Australia has benefitted significantly from China’s post-Cold War rise. Australian trade statistics underline how deep this commercial relationship has become. In 2016-17, China accounted for over a quarter of total Australian merchandise trade, close to a third of total merchandise exports, and over four-fifths of Australian exports of iron ore. In fact, Australia’s trade with China was more than one and a half times larger than Australia’s trade with the US and Japan combined.

By comparison, in 2016, merchandise trade with China accounted for one-sixth of total trade for Southeast Asian countries, whose exports to China accounted for one-ninth of their total exports. Southeast Asian trade with the US and Japan combined was larger than with China.

**Table 1: Trade with China (\$millions, 2017 figures)**

	exports	share of total	imports	share of total	trade balance
<b>Australia</b>	76,687	33.0%	49,159	21.5%	+27,528
<b>Brunei</b>	271	4.0%	591	16.0%	-320
<b>Cambodia</b>	743	6.2%	5,495	38.2%	-4,752
<b>Indonesia</b>	22,941	13.6%	35,825	22.8%	-12,884
<b>Laos</b>	1,421	60.7%	1,511	39.1%	-90
<b>Malaysia</b>	27,356	12.6%	38,850	19.8%	-11,494
<b>Myanmar</b>	4,072	35.8%	5,667	33.5%	-1,595
<b>Philippines</b>	6,920	12.0%	16,741	18.7%	-9,821
<b>Singapore</b>	53,871	14.4%	45,183	13.8%	+8,833
<b>Thailand</b>	29,391	12.5%	45,038	20.0%	-15,647
<b>Vietnam</b>	30,663	17.4%	56,983	32.7%	-26,320

Source: CEIC Database

The Australian economy is also benefitting from significant migration and student inflows from China. The education of international students is Australia’s third largest export after iron ore and coal. In 2017, over 230,000 students from China studied in Australia, accounting for 29% of the international student total. Students from India were the second largest group at just under 88,000.<sup>2</sup> Australia is the third most popular destination for Chinese overseas students after the US and UK.<sup>3</sup> In 2016, people born in China were the third largest migrant group in Australia numbering 526,000 and accounting for 2.2% of the total Australian population.<sup>4</sup>

Foreign direct investment flows between China and Australia are more modest but growing. The stock of Chinese foreign direct investment in Australia was close to A\$42 billion in 2016, making China the fifth largest source of foreign direct investment for Australia. The stock of US foreign direct investment in Australia was close to five times larger than that of China. The stock of Australian foreign direct investment in China was A\$13 billion compared to A\$119 billion in the US.

## **THE FIRST CHALLENGE**

The manner of China's re-emergence as Asia's leading power poses numerous challenges to Australia's declared strategic interests. These range from China's erosion of the strategic primacy of the US in East Asia, China's unlawful activities in the South China Sea, and cyber attacks on the Australian government from servers located in China. A trio of Defence White Papers since 2009 have focussed their analysis and future capabilities purchases on these challenges.

Australia's mounting trade dependence on China and concerns in Canberra with China's challenges to the existing regional security order, for many, place Australia in an unprecedented grand strategic bind. Over the last quarter-century, a debate has simmered over whether Australia's growing trade dependence on China has, will or should lead to the reconsideration of Australia's strategic interests and policies in ways that favour Chinese strategic interests. Fears of Chinese economic punishment and the assessment that the rapid rise of Chinese power in relation to the US and Australia is irreversible weigh heavily on this debate. Successive Australian governments have denied this apparent bind arguing that Australia does not have to choose between its mounting trade dependence on China and support for the current regional security order underpinned for Australia by its alliance with the US.

So far, Australia's economic relations with China have continued to expand and deepen as have Australia's alliance relations with the US. Successive Australian administrations from both sides of parliament have publicly criticized Chinese activities in the South China Sea and East China Sea deemed as being destabilizing and corrosive for the regional security order. Yet, there has been no apparent Chinese economic retaliation.

This purported strategic bind actually has had three positive outcomes:

- Domestically, it has generally been a source of bipartisan agreement on seeking closer strategic relations with the US and Japan and closer economic and diplomatic relations with China, and not of partisan division or rancour.
- For Australia-China relations, it has contributed to Canberra and Beijing deepening military-to-military relations to show that security cooperation is possible and desirable despite these strategic differences. Since 2010, the Royal Australian Navy and the People's Liberation Army Navy have conducted a number of live fire exercises, including in the South China Sea.

- In Southeast Asia, it has motivated closer Australian engagement with ASEAN-led bodies and Southeast Asian states. Australia was a keen supporter of the establishment of the ASEAN Regional Forum. The Howard government signed the ASEAN Treaty of Amity and Cooperation, an ASEAN prerequisite for an invitation to the East Asia Summit. The biggest take away from the ASEAN-Australia Special Summit in March 2018 was the strategic partnership signed between Australia and Vietnam during the Vietnamese Prime Minister's trip down under to attend the Summit.

## THE SECOND CHALLENGE

On 5 June 2017, *Four Corners*, the Australian Broadcasting Corporation's leading investigative journalism programme, did its job well. That week's episode addressed the mounting concerns in Canberra about efforts by proxies, suspected and admitted, of the Chinese party-state to mobilize Chinese students in Australia to stifle dissent against the Chinese party-state, and to influence Australian politicians and political parties to support policy positions favoured by the Chinese party-state.<sup>5</sup> The programme brought to light long-held concerns in the Australian national intelligence community in a way these secretive government agencies cannot, invigorated a public and political debate about this domestic security issue, and contributed to a public political response. The sitting Coalition government promised new legislation by year's end to ban foreign donations to political parties.<sup>6</sup> The opposition Labor Party announced it would no longer accept donations from two business people in Australia born in China who were featured in the programme.<sup>7</sup> The Labor Senator Sam Dastyari, who was featured in this episode, resigned from Parliament in early December 2017.

Two recent public Australian government documents highlight these mounting concerns about foreign interference in Australia with China the most likely state of suspect. The 2017 Foreign Policy White Paper, for the first time, dedicates a whole sub-section to this domestic security concern. The inaugural National Security Strategy entitled *Strong and Secure: A Strategy for Australia's National Security* released in 2013 identifies espionage and foreign interference as the first of seven 'key national security risks'.

Earlier incidents of suspected Chinese interference in line with the more current examples covered in the *Four Corners* programme, likely contributed to these public expressions of government concern. These included the following:

- In 2005, Chen Yonglin, an official at the Chinese consulate in Sydney, defected and was issued a protection visa. Chen claimed that as part of his consular responsibilities he engaged with a large network of informants on sources of dissent against the Chinese party-state in Australia and used this information against alleged dissenters;
- In 2008, through the Chinese Students and Scholars Association (allegedly linked to the Communist Party of China's United Front Work Department<sup>8</sup>), thousands of Chinese students were mobilized to demonstrate in favour of the Chinese party-state during the Olympic Torch relay leg in Canberra;

- In 2010, a sitting Liberal National Party member from Queensland, Michael Johnson, was expelled from his party after an internal investigation that included “the allegation that Johnson sought a \$12 million commission for brokering a deal in Australia between a Chinese conglomerate and a Queensland coal company;”<sup>9</sup>
- In 2013, the Chinese business person in Australia later linked to Sam Dastyari’s downfall donated A\$1.8 million to establish the Australia-China Relations Institute at the University of Technology Sydney. The University of Technology Sydney’s China experts have long been a source of critical analysis of the Communist Party of China and Chinese state. The Australia-China Research Institute’s approach to China and Australia-China relations is very different from this tradition. Hyperbolically, the Institute’s inaugural director and former Labor foreign minister and Premier of New South Wales Bob Carr claimed that Australia has “declared rhetorical war on China.”<sup>10</sup>

## 2 OVERLAPS

Suspected political interference in Australia by alleged proxies of the Chinese party-state includes efforts to influence Australian strategic interests and policies. As reported in the *Four Corners* programme, Sam Dastyari was accused of promoting a policy position on the South China Sea disputes much more in line with the preferences of the Chinese party-state than the position of the Australian Labor Party and its shadow defence minister. There are two key similarities or overlaps between Australia’s strategic challenge and Australia’s domestic security challenge in relation to China:

1. The growing economic relationship between the two countries is very relevant to the domestic security challenge. The popularity of Australia as a destination for Chinese students and emigrants from China means that efforts by the Communist Party of China to monitor and engage Chinese citizens in Australia will require significant human resources. The large number of Chinese students and migrants also presents groups like the Chinese Students and Scholars Association and the Australian Council for the Promotion of the Peaceful Reunification of China (another group with alleged links to the United Front Work Department<sup>11</sup>) with a large pool from which to draw members, as indicated by the size of the 2008 demonstration in Canberra. Fears of a Chinese economic backlash against the political and public discussion about alleged Chinese influence operations in Australia stalk the corridors of many Australian educational institutions.<sup>12</sup>
2. As with the strategic challenge, the domestic security challenge is expected to grow along with China’s rising power and economic relations with Australia. A recent report on the 19<sup>th</sup> Party Congress in China by Gerry Groot suggests why this Australian concern is valid due to changes in China. According to Groot, President Xi “has reemphasized the role of the UFWD within the CCP, expanded its size, raised its status, endorsed it by making his presence at the 2015 United Front Work Conference clear and extended, and appointing himself head of the *Small Leading*

*Group in United Front Work.” Moreover, “ the recent public extension of the Department’s efforts to any place with a sizeable population of Chinese emigrants, students or even visitors, also means it is now relevant to many foreign governments.”<sup>13</sup> Recent Chinese party-state blurring of the distinction between Chinese citizens outside China and ethnic Chinese people who are not citizens of China, and culturalist appeals to this much larger group for support for the Chinese party-state, further exacerbates this challenge.<sup>14</sup>*

## **2 DIFFERENCES**

Despite the nascent nature of the public and political debate about Chinese influence operations in Australia, two important and worrying differences are clear from Australia’s strategic China challenge. Their implications in Australia and for Australia-China relations will likely be greater than the two overlaps.

*First*, the public and political debate clearly influenced the first federal by-election after the resignation of Sam Dastyari in worrying ways for Australian politics and Australia-China relations. In December 2017, a federal by-election was held in Bennelong in New South Wales, a voting district with a much higher share of Chinese migrant voters than the national average. An anonymous letter addressed to ‘Chinese Australian’ voters calling for recipients to vote against the Liberal incumbent John Alexander was distributed anonymously and widely. The Labor candidate Kristina Keneally accused Liberal Prime Minister Turnbull of being “China-phobic” during the campaign and promised to “stand up for the Chinese community in Bennelong”.<sup>15</sup> Some influential local Chinese language media outlets available in Bennelong adopted a similar line during the campaign.<sup>16</sup> While Alexander held onto his seat, he suffered a 4.8% swing against him and in favour of the Labor candidate, after Alexander had increased his margins of victory in the 2013 and 2016 elections.

The Labor campaign in Bennelong reflected two more general China-related partisan claims. The Australian Labor Party, and particularly the New South Wales branch, pride themselves as the founder of Australia’s relations with China, and view the Liberal Party as being more negative towards China. In 1966, the Liberal government of Harold Holt opened an embassy in Taiwan. In July 1971, Labor opposition leader Gough Whitlam, himself from New South Wales, travelled to China extolling the benefits for Australia of shifting diplomatic recognition from Taiwan to China. During the election campaign in 1972 that brought Whitlam to power, critics of Whitlam’s recent trip to China dubbed him the ‘Manchurian Candidate.’<sup>17</sup> The Labor Party won the 1972 election and in that same year the Whitlam government established diplomatic relations with China. Labor’s Kevin Rudd, a Mandarin speaker, would face the same Manchurian Candidate barbs 37 years later in the 2009 campaign that brought him to power.

In a similar name-calling vein, Sam Dastyari has been labelled as “Sichuan Sam” and “Shanghai Sam.” Many in the Australian Labor Party, and particularly the New South Wales branch, believe that the Turnbull government came down hard on Dastyari in the aftermath of the *Four Corners* programme for partisan rather than principled reasons. The Turnbull-led Coalition government has trailed the Bill Shorten-led Labor opposition for

many months in the opinion polls with the consensus view that the next federal election will see Labor return to power. The second half of 2017 was also the peak of the parliamentary citizenship imbroglio that affected more, and more senior, Liberal and National parliamentarians than Labor ones. Attacking Dastyari as an alleged tool of Chinese influence was seen by many on the Labor side as opportunistic and unprincipled.

*Second*, it is hard to see how the current public and political debate led now by the Turnbull government can be used as a means for closer and broader cooperation with China. The very nebulous and deniable nature of these concerns make any ‘win-win’ outcome for Australia-China relations hard to imagine. The Australian intelligence agencies at the centre of these concerns cannot engage in the public and political debate nor can they share their information with their Chinese counterparts. As is to be expected, the Chinese government and state and party media have vehemently denied any interference while their suspected proxies have denied these accusations.

### **SOUTHEAST ASIAN EFFECTS**

These Australian domestic security concerns with China have motivated closer bilateral cooperation with other states that have similar concerns, including New Zealand and the United States. Southeast Asian states with congruent concerns and trusted relations with Australia including Singapore may find this a new area of mutually beneficial cooperation.

These Australian concerns are not likely to lead to closer Australian engagement in those ASEAN-led bodies that include Australia. China, the source of these Australian concerns, is a member in these bodies as well. The Trilateral Strategic Dialogue between Australia, the US, and Japan established in 2005 is a more useful platform for Australia to address its security concerns with China, as is the long-standing and tested ‘Five Eyes’ intelligence sharing network between the US, the UK, Canada, Australia and New Zealand.

<sup>1</sup> This Perspective benefitted greatly from an ISEAS-funded research trip to Sydney and Canberra in late 2017 and from the author’s professional engagement with the Australian national security community over the last fifteen years.

<sup>2</sup> “International Student Enrolment Data 2017”, Department of Education and Training, Australian Government, [https://internationaleducation.gov.au/research/International-Student-Data/Documents/INTERNATIONAL%20STUDENT%20DATA/2017/2017Dec\\_0712.pdf](https://internationaleducation.gov.au/research/International-Student-Data/Documents/INTERNATIONAL%20STUDENT%20DATA/2017/2017Dec_0712.pdf)

<sup>3</sup> “More Chinese students return from overseas in 2016”, *Xinhua*, 1 March 2017, [http://english.gov.cn/state\\_council/ministries/2017/03/01/content\\_281475581664446.htm](http://english.gov.cn/state_council/ministries/2017/03/01/content_281475581664446.htm)

<sup>4</sup> “Over 28 per cent of Australians born overseas”, Australian Bureau of Statistics, 30 March 2017, <http://www.abs.gov.au/ausstats/abs@.nsf/lookup/3412.0Media%20Release12015-16>. This number includes both migrants who are permanent residents or have become Australian citizens.

<sup>5</sup> “Power and influence”, *Four Corners*, Australian Broadcasting Corporation, 5 June 2017, <http://www.abc.net.au/4corners/power-and-influence-promo/8579844>

<sup>6</sup> “Brandis reveals plans to curb unprecedented foreign influence on politics”, *The Guardian*, 14 November 2017, <https://www.theguardian.com/australia-news/2017/nov/14/brandis-reveals-plans-to-curb-unprecedented-foreign-influence-on-politics>

<sup>7</sup> Andrew Tillett, “Chinese political influence sparks espionage, foreign interference law changes”, *Australian Financial Review*, 6 June 2017, <http://www.afr.com/news/chinese-political-influence-sparks-espionage-foreign-interference-law-changes-20170605-gwl5ue>

<sup>8</sup> Mark C. Eades, “China attempts to censor Western universities”, *Foreign Policy Association*, 12 March 2017, <https://foreignpolicyblogs.com/2017/03/12/china-attempts-to-censor-western-universities/>

<sup>9</sup> Emma Chalmers, “LNP expels Ryan MP Michael Johnson but he’ll run to keep his \$65k-a-year super”, *The Courier Mail*, 20 May 2010, <http://www.couriermail.com.au/news/lnp-tipped-to-expel-ryan-mp-michael-johnson/news-story/b792a889f965feaaf0383914214ed06f?sv=1f58816eaf37047d21a72cd435fa97c8>

<sup>10</sup> Bob Carr, “Why has Australia declared rhetorical war on China?”, 22 September 2017, <http://www.australiachinarelations.org/content/why-has-australia-declared-rhetorical-war-china-0>

<sup>11</sup> “ASIO investigation targets Communist Party links to Australian political system”, *ABC News*, 6 June 2017, <http://www.abc.net.au/news/2017-06-05/asio-china-spy-raid/8589094>

<sup>12</sup> Ryan Manuel, “China is furious and Australia should expect more backlash after questioning its influence”, *ABC News*, 14 December 2017 <http://www.abc.net.au/news/2017-12-14/china-backlash-australia-questions-of-political-interference/9258462>

<sup>13</sup> Gerry Groot, “United Front Work after the 19<sup>th</sup> Party Congress”, *China Brief*, Jamestown Foundation, 22 December 2017, <https://jamestown.org/program/united-front-work-19th-party-congress/>

<sup>14</sup> For more information on this blurring and its local effects, please see Leo Suryadinata, *The Rise of China and the Chinese Overseas*, Singapore: ISEAS, 2017, <https://bookshop.iseas.edu.sg/publication/2208>

<sup>15</sup> Cited in Mark Tobin and Lucy Carter, “Bennelong by-election: Liberal John Alexander wins, Labor buoyed by swing”, 17 December 2017 *ABC News*, <http://www.abc.net.au/news/2017-12-16/liberal-john-alexander-to-win-bennelong-by-election-antony-green/9265316>

<sup>16</sup> Nick O’Malley and Alex Joske, “Bennelong byelection: Tone of Sydney’s Chinese media shifts amid foreign interference furore”, *Sydney Morning Herald*, 13 December 2017, <https://www.smh.com.au/politics/federal/bennelong-byelection-tone-of-sydneys-chinese-media-shifts-amid-foreign-interference-furore-20171212-h03i8e.html>

<sup>17</sup> Timothy Kendall, *Within China’s orbit? China through the eyes of the Australian Parliament*, Canberra: Australian Parliamentary Library, 2008, p. 64, <https://www.aph.gov.au/binaries/library/pubs/monographs/kendall/chaptertwo.pdf>

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