

AUDITING THE AUSTRALIA-CHINA RELATIONSHIP

A Cross Country Study of Bilateral Relations with China

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FRONT COVER IMAGE:

Terracotta Warriors in Xi'an, Shaanxi, China. The Terracotta Army depicts the armies of Qin Shi Huang, the first Emperor of China, who unified China in 221. Although short-lived, the Qin dynasty had a lasting influence on China's development, indeed the word 'China' itself is thought to be derived from the word 'Qin'.

Image courtesy of Flickr user bachmon

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EXECUTIVE SUMMARY

This audit of the Australia-China relationship, commissioned by the Australia-China Relations Institute (ACRI) at the University of Technology Sydney, reveals that Australia's bilateral economic, diplomatic, cultural and defence ties with China are, overall, solid in comparison with those of Canada, France, Germany, New Zealand, Singapore, South Korea and the US. On no criteria included in this paper did Australia score exceptionally badly — as can be seen in *Appendix: Companion Table*. That said, nor did Australia perform exceptionally well in any particular criteria comparative to these seven countries.¹ This may come as a surprise, considering the sensationalist headlines that regularly appear in commentary in the Australian media. Beyond the headlines, Australia is effectively managing its relationship with China.

The following research shows that Australian exports to China, Chinese investment in Australia, the number of Chinese students enrolled in Australian universities, the China-Australia Free Trade Agreement (ChAFTA) and Australia-China defence cooperation are areas of comparative strength.

Australia's relationship with China is weakest in its diplomatic representation in China. Australian foreign direct investment in China presents a mixed picture and Australian exports to China are concentrated on a small range of goods. Further, were Australia under a Turnbull Government — or indeed under any government — to return to the hard line, 'Cold War' position taken by the Abbott Government in its first three months before it remodulated its position, there would be a deterioration of the Australia-China bilateral relationship.

It would appear from Prime Minister Turnbull's past comments on Australia-China relations that his government will continue the pragmatic China policy adopted by Mr Abbott from early 2014, resisting any domestic and international pressure to embrace an unnecessarily antagonistic approach towards China.

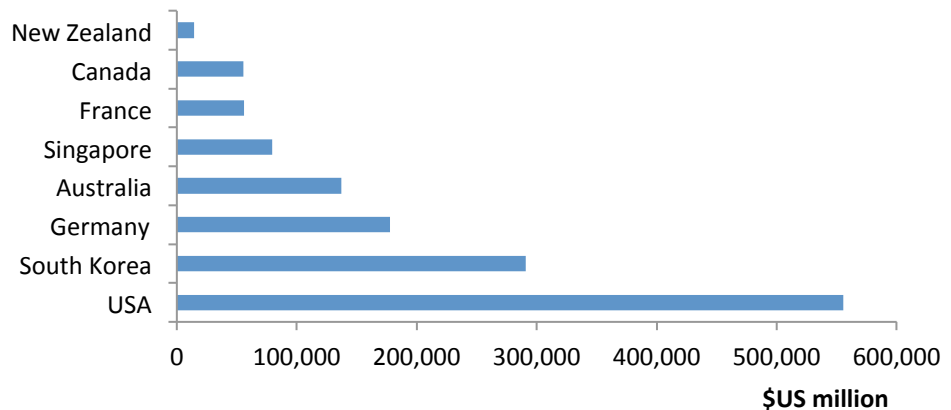
¹ To make effective comparisons, where possible this has used the same source to measure criterion across the nations studied. As a result, although sources such as the Australian Bureau of Statistics (ABS) may have more current country-specific data they have often not been included.

ECONOMIC AND TRADE RELATIONS

TRADE

With two-way trade totalling over \$US137 billion in 2014, Australia is China's seventh largest trading partner. Australian exports make up over 70 percent of this trade, with China buying \$US98 billion worth of Australian goods and services in 2014. In comparison, the value of US exports to China — \$US159 billion in 2014 — is only 62 percent higher than that of Australia despite the US having an economy 10 times the size of Australia's.²

Two way trade of goods and services with China, 2014
Source: CEIC Data



The value of Australian exports to China grew 63 percent between 2010 and 2014, a figure only exceeded by Canada, which recorded 70 percent growth, and New Zealand with growth of 153 percent. This growth in the value of Australian exports, though, occurred largely in 2010-2013, falling 0.39 percent between 2013 and 2014. Trade figures released for 2015 — not included in *Appendix: Companion Table* — also point to a drop in the value of Australian exports to China.³ The Australian Bureau of Statistics (ABS) reports that in the 12 months to June 2015, China was the destination for 31.7 percent of Australian exports, down from 36.7 percent at its peak in the 12 months to May 2014.⁴

This drop in the value of Australian exports to China resonates with fears of a slowdown in the Chinese economy and is

² CEIC Data, 2015, International Trade, China Premium Database; The World Bank, GDP (current \$US), World Development Indicators, 2015

³ Laurenceson, James, 'Exports to China are Struggling and We Need to do Better', *The Sydney Morning Herald*, May 20 2015

⁴ Jericho, Greg, 'Australia Should Brace for China's 'New Normal'', *The Drum*, August 19 2015

seemingly mirrored by a drop in the value of China's imports from other nations in this survey. South Korea recorded an 8.8 percent fall in the value of exports to China in August 2015 alone.⁵ However, while the value of Australian exports to China has fallen, the volume of Australian exports to China continues to grow, up around 17 percent in the year to November 2014.⁶ The fall in the total value of Australian exports is instead largely a reflection of falling commodity prices — and with it, Australia's terms of trade — with iron ore, for example, falling from \$US187 per tonne in February in 2011 to \$US47 per tonne in April 2015.⁷ This is in line with a Chinese economy that — although growing at its slowest pace in the last 24 years — in US dollar terms posted its highest ever annual growth in 2014, adding some \$US673 billion to annual GDP.⁸

All in all, considering the value and volume of their two-way trade, with China taking a greater percentage of Australian exports than any country has in more than 30 years, this audit finds that Australia and China have a very strong trade relationship. The stability of this relationship is confirmed by other measures, such as the number of trade disputes brought by China to the World Trade Organisation (WTO) dispute settlement mechanism and those brought against China. Australia, to date, has not taken disputes against China to the WTO, nor has China raised any disputes against Australia. This is in contrast with the US, France, Canada and Germany, all of which have had disputes raised against them by China in the WTO or have raised disputes against China. The US, for example, put 19 disputes against China to the WTO between 2005 and mid-2014. In the same period, the US had nine disputes raised against it by China. Australia has seen less conflict in trade relations with China compared to these nations.

'China takes a greater percentage of Australian exports than any country has in more than 30 years'

EXPORT CONCENTRATION

Appendix: Companion Table includes a bilateral export concentration index (China) — a Herfindahl-Hirschmann index. This measures the extent to which a nation's exports of goods to China are concentrated on a small number of core products or diversified more evenly across a wider array of products. The

⁵ Pham, Peter, 'South Korea: The Seoul of the World's Economy', *Forbes*, September 9 2015

⁶ Laurenceson, James, 'Why China Remains Our Best Hope to Repair Budget Woes', *The Conversation*, January 14 2015

⁷ Dunn, James, 'Chinese Economy Much More Than its Sharemarket', *The Australian Financial Review*, September 7 2015

⁸ Laurenceson, James, 'What Everyone Overlooked in China's GDP Numbers', *The Conversation*, January 27 2015

index ranges from zero to one, with one representing complete export concentration on a small number of products, that is, where a nation's entire export of goods to another nation — in this case, China — consists of just one good.

On this measure, it is clear that Australia, with a score of 0.52, has a high reliance on a small group of products in its exports to China. By comparison, New Zealand and Singapore, the nations with the next highest bilateral export concentration, both have a score of 0.33. Of the nations included in this survey, South Korea, Germany and the US have the most diversified exports to China, with scores of 0.19, 0.18 and 0.14 respectively.

The high concentration of Australian exports to China is not surprising, considering the domination of mineral resources such as iron ore, coal and natural gas in Australian exports. Iron ore accounted for 23 percent of the value of all Australian exports of goods and services in 2013-14 and China bought 76 percent of all Australian iron ore exports over that period. This means that in 2013-14, around 17 percent of all Australian export earnings came from the sale of one product — iron ore — to one nation — China.⁹

While in itself this high export concentration is not a sign of weakness, concentrating exports to China on a small group of products leaves Australia open to significant volatility in the value of its trade with China. This is especially apparent considering that the price of commodities — Australia's main exports to China — has historically been particularly volatile. The recent drop in the total value of Australian exports to China despite increasing export volumes is testament to the effect a fall in the price of key mineral exports, such as iron ore, can have on overall Australia-China trade.

It should be noted that this index does not include services exports. China is Australia's largest market for exports of services, representing 13 percent of all services exports in 2013-14, or \$AU7.5 billion.¹⁰ Although the value of Australian services exports to China continues to be dwarfed by goods exports, services exports are predicted to grow significantly with the ratification of ChAFTA. This will likely also result in an increased diversification of Australian exports to China.¹¹

'This means that in 2013-14, around 17 percent of all Australian export earnings came from the sale of the one product — iron ore — to one nation — China.'

⁹ Austrade, 'How Dependent are Australian Exports on China?', Trade and Investment Note, February 2015: 4

¹⁰ *ibid.*: 7-8

¹¹ Australia New Zealand Banking Group Limited, 'ANZ Opportunity China: The ChAFTA and Implications for Australian Businesses', March 2015: 9

FREE TRADE AGREEMENTS

ChAFTA, the Free Trade Agreement (FTA) between Australia and China, signed on July 17 2015, will give a significant boost to the Australia-China economic relationship. In securing this trade agreement, Australia has left the US, Germany, France and Canada behind, nations without FTAs with China. South Korea is expected to ratify its own FTA with China later this year.¹²

New Zealand and Singapore, however, have had FTAs with China since 2008 — signed on April 7 and October 23 respectively — giving businesses in these countries a significant advantage over Australian exporters for the past seven years. Nonetheless, ChAFTA will allow Australia equal, if not greater, access to Chinese markets than do China's FTAs with New Zealand and Singapore. Australian dairy farmers, for example, can export their products to China tariff-free under ChAFTA — like their New Zealand counterparts — but except for whole-milk powder, Australian dairy products are not subject to the export quotas applied to New Zealand.¹³ If ChAFTA leads to a growth in Australian agricultural exports to China, this could play a significant role in the diversification of Australian exports.

In the services sector, Australian services providers will be granted a level of access to mainland Chinese markets second only to that of Hong Kong and Macau.¹⁴ This is especially important considering that services such as finance, architecture, healthcare and tourism are predicted to play a growing part in future Australian exports to China.¹⁵

With ChAFTA, Australia has also secured 'most-favoured nation' status, ensuring that Australian businesses and consumers gain from any further trade liberalisation agreed to by China in future FTAs.¹⁶ Of the nations surveyed, only New Zealand has most-favoured nation status and this is restricted to construction,

¹² Although it should be noted that it took four years for the South Korea-US FTA to be ratified by the South Korean parliament, see Jeong, Hunny, 'Assembly Expected to Approve Korea-China FTA', *The Korea Herald*, June 7 2015

¹³ Barbour, Lucy, 'Trade Minister Says He'll Now Work on a Deal With India, After Signing of FTA With China', *Australian Broadcasting Corporation (ABC) Rural*, November 18 2014

¹⁴ Australia New Zealand Banking Group Limited, *op. cit.*: 9

¹⁵ Raby, Geoff, 'Transcript — Geoff Raby in Conversation with Bob Carr', *Australia-China Relations Institute*, June 22 2015

¹⁶ Garnaut, John, 'Australia Scores 'Most Favoured Nation' Provisions in FTA with China', *The Sydney Morning Herald*, March 13 2015

environmental, engineering, computer and tourism services.¹⁷ Only migration, air traffic control and navigation and government services are excluded from Australia's most-favoured nation provision.¹⁸

Australia's trade advantage may, though, be short-lived. China appears set to negotiate similar agreements with other trading partners in the near future. FTAs are currently under negotiation between China and Japan, Norway and the Gulf Cooperation Council nations.¹⁹

OTHER AGREEMENTS

The Australian Government's negotiation of a renminbi clearing bank, central bank currency swap facility and bilateral investment treaty (BIT) puts Australia on par with, or in a more favourable position than, the other nations included in this study. All nations surveyed in this study except the US have both BITs with China and access to a currency swap with the Chinese central bank. All nations in this survey except the US and New Zealand also have an offshore renminbi clearing bank operating in their borders. The US, in particular, compares poorly to Australia, with none of these three facilities despite the lobbying efforts of the US-China Business Council and the China Chamber of International Commerce.²⁰

Having these three initiatives in place facilitates greater trade and investment between Australia and China. That Australian banks can directly trade Chinese yuan for Australian dollars — Australia being only the third country to be allowed to do so — removes the need to use US dollars in international deals. This was found in a 2013 report by the Australia New Zealand Banking Group to significantly increase capital flow to Australia from China and better align the Australian and Chinese economies.²¹ Australia's BIT supports its economic relationship with China by setting the 'rules of the road' for foreign

'The US, in particular, compares poorly to Australia, with none of these three facilities'

¹⁷ See New Zealand Ministry of Foreign Affairs and Trade, 'Free Trade Agreement Between the Government of New Zealand and the Government of the People's Republic of China', 2008: 930

¹⁸ Department of Foreign Affairs and Trade, 'Free Trade Agreement Between the Government of Australia and the Government of the People's Republic of China. Part I: Scope and Definitions', 2015: 56-57

¹⁹ Brown, Kerry, 'Row Over China FTA Risks Backfiring Badly on Australia', *The Australian Financial Review*, September 1 2015

²⁰ see The US-China Business Council and China Chamber of International Commerce, 'Leading US and Chinese Business Organizations Support the Completion of a High-Standard US-China Bilateral Investment Treaty', November 3 2014

²¹ Australia New Zealand Banking Group Limited, 'Special Report: The AUD/CNY Direct Conversions: A Milestone for the RMB, but What Opportunities Does it Bring About?', April 10 2013

investment, giving Australian investors better and fairer access to Chinese markets. A currency swap between the Reserve Bank of Australia and the People's Bank of China — allowing an exchange of currency between the two of up to \$AU30 billion — supports trade and investment by further increasing opportunities to settle trade between Australia and China in Chinese renminbi.²² Having a currency swap was found by the Council on Foreign Relations to be a 'meaningful sign of trust between governments'.²³

Australia has also been accepted as a founding member of the Asian Infrastructure Investment Bank (AIIB) while Canada, Japan and the US did not apply for membership. Of the 57 founding members of the AIIB, Australia is now the sixth largest shareholder of the bank, contributing \$US3.7 billion to the bank with \$AU930 million of that as 'paid-in' capital.²⁴ Of the nations included in this audit, only Germany and South Korea are larger AIIB shareholders than Australia. Considering the diplomatic pressure the US Government reportedly placed on Australia and Western European allies to resist joining the bank, it would appear that the majority of nations involved in this study valued strengthening bilateral relations with China over maintaining solidarity with the US on this issue.²⁵

It should be noted, though, that Australia, South Korea, Germany and France all applied to be founding members of the AIIB in March 2015 before the March 31 deadline. Singapore and New Zealand, however, had already been approved as Prospective Founding Members in October 2014 and January 2015 respectively.²⁶

CHINESE INVESTMENT

According to the ABS, China's total investment in Australia was \$AU64.5 billion at the end of 2014, having risen from \$AU52

²² Reserve Bank of Australia, 'Media Release: Bilateral Local Currency Swap Agreement with the People's Bank of China', March 22 2012

²³ Council on Foreign Relations, 'The Spread of Central Bank Currency Swaps Since the Financial Crisis', accessed at [http://www.cfr.org/international-finance/central-bank-currency-swaps-since-financial-crisis/p36419#/#/](http://www.cfr.org/international-finance/central-bank-currency-swaps-since-financial-crisis/p36419#/) on May 3 2013

²⁴ Murray, Lisa, 'Joe Hockey Confirms Australia Will Share Seat on AIIB Board', *The Australian Financial Review*, June 29 2015

²⁵ Bisley, Nick, 'US Puts Australia on the Spot With Zero-Sum Game on China's Bank', *The Conversation*, March 18 2015

²⁶ Xinhua, 'Chronology of Asian Infrastructure Investment Bank', April 1 2015; Xinhua, 'New Zealand Becomes 24th Founding Member of AIIB', January 5 2015

billion at the end of 2013.²⁷ Of this, roughly half is foreign direct investment (FDI), that is, foreign investment undertaken with the 'objectives of obtaining or sustaining a lasting interest in (a foreign) enterprise and exercising a significant degree of influence in its management'.²⁸

It is difficult to find comparable investment information for the other nations included in this study as data collection methods and standards differ significantly between them. This thesis instead uses figures from CEIC Data on FDI flow — the value of FDI invested by one country in another over a given year — and FDI stock — total FDI in a country from another at a given point in time. It also uses figures from The Heritage Foundation on both the number of Chinese foreign contracts and investments over \$US100 million in each nation and the total value of these contracts and investments. While these measures do not cover all China's overseas investment to the nations studied, they provide a strong indication of overall investment levels.

On all of these measures, Australia is second only to the US as a destination for Chinese investment. Chinese FDI stock in Australia reached \$US24 billion by the end of 2014, representing 2.7 percent of China's total outward FDI stock. This compares to \$US38 billion of Chinese FDI stock in the US at the end of 2014, 4.3 percent of China's total outward FDI stock. Singapore came in third with \$US20.6 billion of Chinese FDI stock, 2.3 percent of China's total. No other nation studied represented more than one percent of China's total FDI stock.

In terms of the flow of Chinese FDI in 2014, Australia received \$US4 billion over the year — 4.8 percent of China's total FDI flows in 2014 — compared to \$US7.6 billion for the US — nine percent of China's total yearly FDI flow — and \$US2.8 billion for Singapore — 3.3 percent of China's total yearly FDI flow.

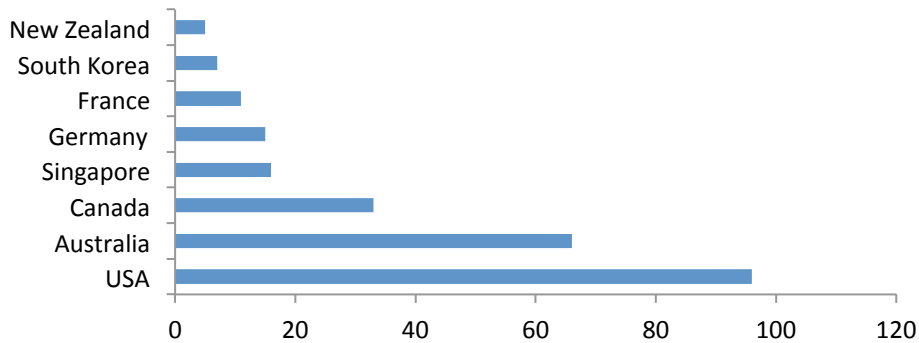
Between 2005 and mid-2014, there were 66 separate contracts and investments by Chinese firms valued at over \$US100 million directed to Australian companies, with a total value of \$US61 billion. This number is less than the 96 — with a total value of \$US72 billion — received by US companies, but double that of Canada, which came in at third of the nations studied with 33 contracts or investments, with a total value of \$US39 billion. That only seven Chinese contracts or investments over \$US100 million were directed towards South Korean firms despite South

²⁷ ABS, 'International Investment Position, Australia: Supplementary Statistics, 2014', May 8 2015

²⁸ ABS, 'Balance of Payments and International Investment Position, Australia, Concepts, Sources and Methods' Canberra, Australia, 1998

ECONOMIC AND TRADE RELATIONS

Korea recording more than double Australia's two-way trade with China in 2014 is testament to the relative appeal of the Australian market to Chinese investors.



Number of contracts and investments by Chinese firms over \$US100 million by country, 2005 to mid-2014
Source: The Heritage Foundation

This finding is bolstered by The Economist Intelligence Unit's assertion in 2014 that of the countries covered by this study, only Singapore and the US were more desirable destinations for Chinese FDI.²⁹ This further resonates with polling of Chinese business leaders commissioned by ACRI and released in March 2015, in which 74 percent of respondents said they saw Australia as an attractive or very attractive destination for foreign investments. This compares to 67 percent for Germany and the US, 61 percent for Canada, 55 percent for New Zealand and 47 percent for South Korea.³⁰

It is this attractiveness that has seen Chinese investment in Australia grow over 2,700 percent between 2004 and 2014 and 24 percent between 2013 and 2014.³¹ It should be noted, though, that despite this high growth, China still did not feature in the top five investor countries in Australia in 2014, according to the ABS. The total value of all Chinese investment in Australia of \$AU64.5 billion at the end of 2014 compares to the total value of all foreign investment in Australia of \$AU2.8 trillion. Chinese investment in Australia is just over two percent of total FDI stock in Australia.³²

It should also be noted that while Australia receives comparatively high levels of Chinese investment, Australia leads in the number of failed Chinese investments and contracts over \$US100 million between 2005 and mid-2014.³³ During this period, 21 proposed Chinese investments or contracts above

'It is this attractiveness that has seen Chinese investment in Australia grow over 2,700 percent between 2004 and 2014'

²⁹ The Economist Intelligence Unit, 'China Going Global Investment Index: A Report from The Economist Intelligence Unit', 2014: 8

³⁰ Australia-China Relations Institute, 'How Chinese Business Leaders View Australia', ACRI Poll, 2015b

³¹ ABS, 2015, *op. cit.*

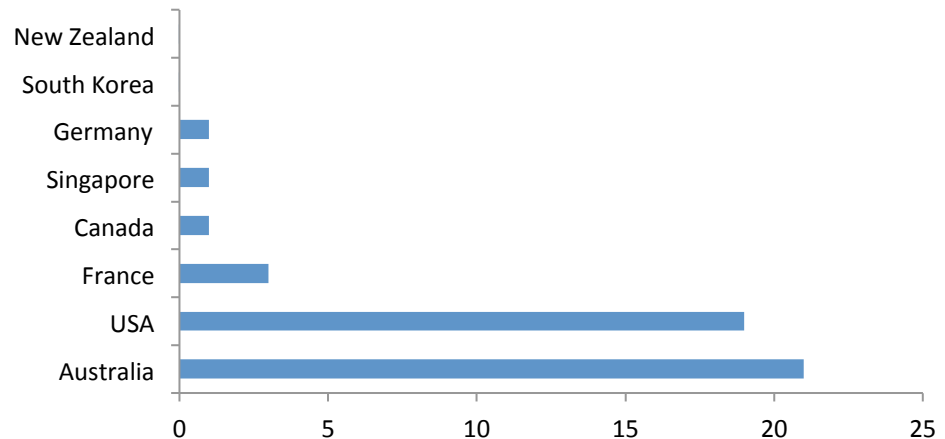
³² *ibid.*

³³ The Heritage Foundation, 'China Global Investment Tracker', 2014

\$US100 million with Australian firms failed. This compares to 19 for the US, three for France and one each for Canada, Singapore and Germany. In this period, South Korea and New Zealand had no failed Chinese investments or contracts over \$US100 million.

Number of failed contracts and investments by Chinese firms over \$US100 million by country, 2005 to mid-2014

Source: The Heritage Foundation



Despite this, Australia is considered by The Economist Intelligence Unit to be a less risky investment destination for Chinese firms than all nations in this survey except for Singapore and New Zealand.³⁴ This is backed up by surveys conducted by KPMG that in 2014 found Chinese investors to be optimistic about their business prospects in Australia, viewing Australian governments and business leaders as supportive of this investment. ACRI polling, too, confirms that despite a number of high-profile, failed Chinese investments in Australia, 81 percent of Chinese business leaders said that the Australian Government is welcoming of closer economic ties with China.³⁵

HUAWEI TECHNOLOGIES AND THE NBN

Citing a need to '(stand) up for Australia's national interests', in 2011, Australian Prime Minister Julia Gillard blocked Chinese telecommunications company Huawei from supplying Australia's National Broadband Network (NBN).³⁶ This decision followed a similar ban in the US and accusations that Huawei was involved in cyber espionage. No evidence was made publically available to back suggestions that Huawei posed a 'security threat' although the company is backed by large loans from the

³⁴ The Economist Intelligence Unit, *op. cit.*: 16

³⁵ Australia-China Relations Institute, *op. cit.* 2015b

³⁶ Bingemann, Mitchell, 'Gillard Defends Ban on Huawei Contracts', *The Australian*, March 30 2012; Carr, Jeffrey, 'Is Huawei a Security Risk?', *The Diplomat*, February 27 2011

Chinese Government.³⁷ Former Australian Foreign Minister Bob Carr wrote in 2014 that Chinese Foreign Minister Yang Jiechi told him that this decision move 'caused a noticeable drop in... strategic mutual trust'.³⁸

In 2013, then Communications Minister Malcolm Turnbull stated that he would review the government ban on Huawei, calling the Chinese company a 'very credible business'.³⁹ The following week, Prime Minister Abbott ruled out any review of the ban.⁴⁰

In New Zealand, however, Huawei was given permission to invest in government-funded broadband projects. In response to questions on Ms Gillard's ban, New Zealand Prime Minister John Key stated in April 2012 that he was 'comfortable with all current arrangements' with Huawei.⁴¹

INVESTMENT IN CHINA

At the end of 2014, Australia had investments of nearly \$AU58 billion in China. This figure rose from \$AU1.2 billion in 2004, growing over 54 percent in 2014 alone.⁴² This audit, however, uses the latest figures for FDI flow and stock from the United Nations Conference on Trade and Development (UNCTAD) as non-FDI investment data is not available for all included nations. As Australian investments mainly take the form of debt, and not direct investment, UNCTAD's statistics do not cover nearly 80 percent of total Australian investment in China. It is direct investment and not debt investment, though, that creates long-term partnerships. Thus, while Australia's total investment figures are not addressed in *Appendix: Companion Table*, measurements of FDI still give a clear insight into the relative strength of bilateral investment relations with China.

In contrast to Australia's comparatively high level of Chinese investment, Australia's performance in terms of FDI flow to China is mixed. In 2012 — the most recent year in UNCTAD's data — the flow of Australian FDI to China was \$US590 million. Higher

³⁷ Poling, Gregory, 'Who's Afraid of Huawei?', *The Diplomat*, April 10 2012

³⁸ Carr, Bob, *Diary of a Foreign Minister*, NewSouth Publishing, Sydney, Australia, 2014: 52

³⁹ Battersby, Lucy, and Wen, Phillip, 'Huawei a 'credible business': Malcolm Turnbull', *The Sydney Morning Herald*, October 25 2013

⁴⁰ Packham, Ben, 'Malcolm Turnbull Denies He's Victim of 'Slap Down' Over Huawei Cyber Security', *The Australian*, November 1 2013

⁴¹ New Zealand Parliament, 'Questions for Oral Answer: Broadband, Cyber-Security: Australian Concerns Regarding Huawei Technologies', April 4 2012

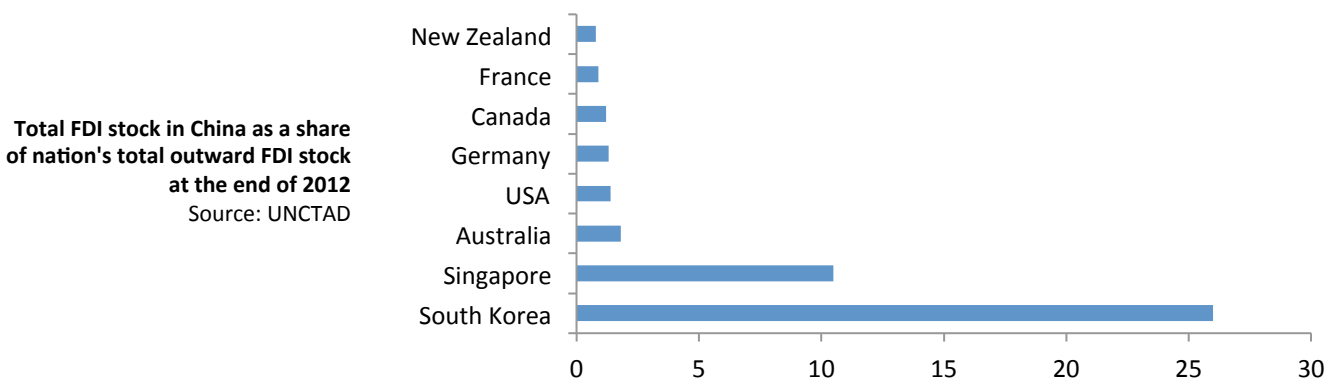
⁴² Laureceson, James, 'Why we Shouldn't be so Worried About China Buying the Farm', *China Spectator*, April 24 2015; ABS, *op. cit.*

than that of Canada, France and New Zealand, this figure is significantly smaller than Germany's \$US1.4 billion, the US's \$US2.6 billion, South Korea's \$US3 billion and Singapore's \$US6.3 billion.

In terms of total FDI stock in China, Australia's performance is also mixed. Australia's total FDI stock in China at the end of 2012 — \$US8.7 billion — is larger only than Canada's \$US8.3 billion and New Zealand's \$US149 million. The ABS does show that Australia increased its direct investment in China by five percent over 2014, pushing it to \$AU12 billion. Still, this compares with Australia's \$AU136 billion in total FDI stock in the US at the end of 2014, nearly 10 times the value of Australia's direct investment in China.⁴³

When this FDI is considered as a share of total FDI stock, though, Australia performs more strongly. At the end of 2012, according to UNCTAD, 1.8 percent of Australia's total outward FDI stock was in China, compared to 1.4 percent for the US, 1.3 percent for Germany, 1.2 percent for Canada, 0.9 percent for France and only 0.8 percent for New Zealand. However, 10.5 percent of Singapore's total FDI stock was in China at the end of 2012, as was 26 percent of South Korea's.

While Australia has invested a higher share of its FDI in China than most other nations surveyed, this is dwarfed by both Singapore and South Korea's equivalent figures.



Australia has also invested a lower share of total FDI in Chinese markets than China has in Australia. Although the ABS reports that Australia's direct investment stock in China rose to 2.2

⁴³ ABS, 2015, *op. cit.*

percent of its total FDI stock by the end of 2014, this is still lower than China's equivalent figure of 2.7 percent.⁴⁴

While Australia proportionally directs more of its FDI to China than most other countries in this survey, it is clear there is room for growth. ChAFTA — if ratified by the Australian Government — appears set to facilitate this increased Australian investment in China. The agreement gives Australian firms a greater ability to establish subsidiaries and operate in different sectors in China, such as health and aged care, architecture and legal and financial services. These areas are predicted to provide strong investment opportunities in coming years as the Chinese middle class grows by some 200 million people over the next 15 years and the country transitions to a consumption-driven economy.⁴⁵

STRONG AUSTRALIA-CHINA ECONOMIC TIES

Weaknesses in the trade and investment relationship between China and Australia should not be ignored. Growth in the value of Australian exports to China has stalled in the last year and the percentage of the total value of Australian exports taken by China has fallen. This is in part a reflection of the concentration of Australian exports to China on a small number of key goods, leaving Australia vulnerable to trade volatility. Australia also has a significantly smaller level of direct investment in China than both Singapore and South Korea. The comparatively high number of failed Chinese investments and contracts over \$US100 million in Australia demonstrates that this relationship is not without difficulties.

Still, China takes nearly 32 percent of Australia's exports, the two countries have recently signed a far-reaching FTA and Chinese direct investment in Australia is relatively high.⁴⁶ Chinese business leaders look to Australia as a reliable trade and investment partner and Australia's Chinese renminbi clearing bank, central bank currency swap facility and bilateral investment treaty demonstrate the depth and maturity of economic ties. It is clear from *Appendix: Companion Table* that Australia's economic relationship with China is, overall, strong.

'Although Australia proportionally directs more of its FDI to China than most other countries in this survey, it is clear there is significant room for growth'

⁴⁴ *ibid.*

⁴⁵ Walker, Tony, 'Azure Capital targets Wealthy Aussies and Institutions for China Fund', *The Australian Financial Review*, September 7 2015

⁴⁶ ABS, 2015, *op. cit.*

DIPLOMACY

STRATEGIC PARTNERSHIPS

The Australia-China bilateral relationship is classed as a 'Comprehensive Strategic Partnership'. This classification was upgraded from 'Strategic Partnership' in 2014 during Chinese President Xi Jinping's Australia visit as part of the 2014 G20 Summit. Although no official list has been published, China is unofficially recorded as having some 50 partnerships with countries and international organisations.⁴⁷ In 2012, a Chinese newspaper reportedly attempted to produce a list of China's strategic partnerships but was stopped by Chinese foreign ministry officials for fear of confusing and offending nations not considered 'strategic partners'.⁴⁸ This lack of information makes it difficult to define what is meant by 'strategic partnership', but it appears that Australia's 'Comprehensive Strategic Partnership' sits on the highest rung of such partnerships. It is a reflection of the Australian Government's growing enthusiasm for stronger ties with China that the Gillard Government in 2013 embraced a strategic partnership with China that John Howard reportedly declined as Prime Minister.⁴⁹

There is undoubtedly a large, symbolic element to these partnership classifications. When the Chinese Government upgraded its relationship with New Zealand from a 'Comprehensive Cooperative Relationship' to a 'Comprehensive Strategic Partnership' in November 2014, for example, there were few tangible changes. Rather, it was reported that this upgrade was made in response to the 2010 Wellington Declaration, announced by Secretary of State Hillary Clinton, which declared the relationship between New Zealand and the US a 'Strategic Partnership'.⁵⁰

No explanation has been forthcoming as to why France alone among the nations in this survey was accorded the extra status of a 'Close and Lasting' Comprehensive Strategic Partnership. A French penchant for rhetorical flourish perhaps accounts for this addition.

⁴⁷ Feng, Zhongping, and Huang, Jing, 'China's Strategic Partnership Diplomacy: Engaging with a Changing World', *European Strategic Partnerships Observatory*, Working Paper 8, 2014

⁴⁸ *ibid.*

⁴⁹ Carr, Bob, 'Australia and the China-US Relationships', *S. Rajaratnam School of International Studies Distinguished Public Lecture*, October 15 2014

⁵⁰ Young, Audrey, 'Our Strategic Partnership's Been Upgraded but China Can't Have Nonu', *The New Zealand Herald*, November 21 2014

DIPLOMATIC REPRESENTATION

Australia's diplomatic presence in China in terms of the number of embassies and consulates — a somewhat blunt measurement — is lower than most of the nations covered in this study. Australia has diplomatic offices in five Chinese cities, compared to France's seven and South Korea's nine. The number of Australian trade promotion agencies, too, although higher than many comparable nations, is lower than the size of Australia-China trade relations could be said to warrant.

A 2011 report by the Lowy Institute for International Policy into the Australian Department of Foreign Affairs and Trade (DFAT) argued that the department was 'overstretched', lacking sufficient representation in China.⁵¹ This report recommended the opening of at least two new consulates in China, as well as increasing the number of Australia-based diplomatic staff posted to China.⁵² In 2013 — the year China and Australia marked 40 years of diplomatic relations — the Australian Government did open a new Consulate-General in Chengdu, a central Chinese city in which Germany had maintained a Consulate-General since 2004.⁵³ Australian diplomatic representation across China is still lagging, though, with little sign of this changing in the near future; the government's 2015 announcement of four new Australian consulates did not include any in China.

Diplomatic staffing — as opposed to office numbers — has not been included in the table due to a lack of data. Nations are not inclined to reveal the numbers of diplomats posted in foreign countries at any given time. Nevertheless, although DFAT refused the author's request for China-specific figures, the department's 2013-2014 Annual Report notes that as of June 30 2014 there were 85 Australia-based diplomatic staff posted to North Asia.⁵⁴ North Asia includes South Korea, Japan and China. In contrast, the department lists some 127 Chinese diplomatic staff as being positioned in Australia.⁵⁵ This sizeable difference represents a significant imbalance in diplomatic representation between China and Australia.

'Australian diplomatic representation across China is still lagging, though, with little sign of this changing in the near future'

⁵¹ Oliver, Alex, and Shearer, Andrew, 'Diplomatic Disrepair: Rebuilding Australia's International Policy Infrastructure', *The Lowy Institute for International Policy*, 2011

⁵² *ibid.*

⁵³ von Hein, Matthias, 'Germany and China: A Special Relationship?', *Deutsche Welle*, July 4 2014

⁵⁴ Department of Foreign Affairs and Trade, 'Annual Report: 2013-14: Appendix 2: Staffing Overview', 2014

⁵⁵ Department of Foreign Affairs and Trade, 'Foreign Embassies and Consulates in Australia: China', 2015

LEADERSHIP VISITS

This audit includes the number of visits by the Chinese President to a nation and also the number of visits to China by a nation's head of state or government.⁵⁶ By this measure, Australia has a strong record. Chinese Presidents twice visited Australia in this period — President Hu Jintao in 2007 and President Xi Jinping in 2014.⁵⁷ France, Germany, South Korea and the US have all had more visits from the Chinese head of state. Considering the relative size of the German, French and US economies and populations, though, the difference is not particularly striking.

Australian Prime Ministers have visited China six times between 2005 and May 2015, which is higher than the corresponding figures for New Zealand, Singapore, Canada and the US. Australia's figure, though, is less than that of South Korea, France and Germany. French Presidents and German Chancellors have both visited China and met the Chinese President seven times.

As shown in *Appendix: Companion Table*, there have been a high number of state visits between the heads of state of China and South Korea. Between 2005 and May 2015, Chinese Presidents visited South Korea nine times and South Korean Presidents had also visited China nine times. Indeed, in the last 10 years, the Chinese President has visited South Korea more than any other nation in this survey. On a visit to Sydney in early 2015, delegates of a South Korean think tank stated that this figure is unprecedented in South Korea's modern history, suggesting that it reflected recent attempts by both nations to strengthen relations.⁵⁸

Greater high-level engagement between the Australian and Chinese Governments to complement the countries' strong economic relationship was the key recommendation of a report by Linda Jakobson, the founder of the public policy group, China Matters.⁵⁹ The annual leaders' meetings negotiated under the Gillard Government in 2013 went a long way in achieving this greater high-level engagement, with only the UK, Germany, Russia and the EU holding similar meetings with the Chinese

⁵⁶ In which this representative met the Chinese President

⁵⁷ Note that Australia's 2013 agreement on an annual leaders meeting does not factor into this measurement as the agreement as it involves meetings between the Australian Prime Minister and the Chinese Premier not the Chinese President

⁵⁸ This assertion was expressed in personal conversation between delegates of the South Korean think tank and the author

⁵⁹ Jakobson, Linda, 'Australia-China Ties: In Search of Political Trust', *The Lowy Institute for International Policy*, 2012

leadership.⁶⁰ The Australian Prime Minister and the Chinese Premier began these meetings in 2014, as did the Australian Treasurer and Minister for Trade and Investment with the Chinese Chairman of the National Development and Reform Commission. An annual strategic dialogue between the Australian and Chinese Foreign Ministers began in 2013. It is demonstrative of the growing strength of the Australia-China relationship that Australia has secured these meetings.

MERKEL GOES TO CHINA

Angela Merkel has travelled to China seven times since first being elected German Chancellor in 2005. As such, Merkel has met with the Chinese leadership more than any other European leader.⁶¹ Her visits are seen as building momentum behind the growing bilateral relations between the two countries.

This personal diplomatic effort by the German leader, however, came after a period of tension in Ms Merkel's first years as Chancellor. Chancellor Merkel attracted criticism for meeting with the Dalai Lama in 2007 and refusing an invitation to the opening ceremony of the Beijing Olympics in 2008.⁶² Since then, though, Sino-Germany relations have grown strongly.

China is Germany's largest trading partner outside Europe and Germany is China's largest trading partner in Europe.⁶³ Germany is also reported to be the Chinese Government's favoured diplomatic partner in the European Union, believing it to be 'less ideological'.⁶⁴ In terms of foreign policy, Germany joined China in 2011 in abstaining from voting on the United Nations Security Council resolution authorising military intervention in Libya.⁶⁵ Similarities in German and Chinese foreign policy were also on display at the G20 summit in 2010, when Germany joined China in refusing to reduce trade surpluses, reportedly 'scaring' US delegates.⁶⁶

⁶⁰ McDonnell, Stephen and Woodley, Naomi, 'Australia Locks in Annual Leadership Talks With China', *ABC*, April 10 2013

⁶¹ von Hein, Matthias, *op. cit.*

⁶² Pedroletti, Brice, 'When it Comes to China, Which Side is Germany On?', *The Guardian*, September 12 2013

⁶³ von Hein, Matthias, *op. cit.*

⁶⁴ Pedroletti, Brice, *op. cit.*

⁶⁵ Hoyng, Hans, Schlamp, Hans-Jürgen, Schmitz, Gregor Peter, and Zuber, Helene, 'Germany Acts Alone: Self-Important Approach Worries Berlin's Allies', *Der Spiegel*, August 31 2011

⁶⁶ *ibid.*

At home, Chancellor Merkel has been criticised for her perceived strong personal relationship with the Chinese. This was on display when the German Government strongly opposed any retaliatory measures being taken against China after Chinese firms were accused of ‘dumping’ solar panels on European markets. This was despite the fact that this initial complaint came from German manufacturers.⁶⁷

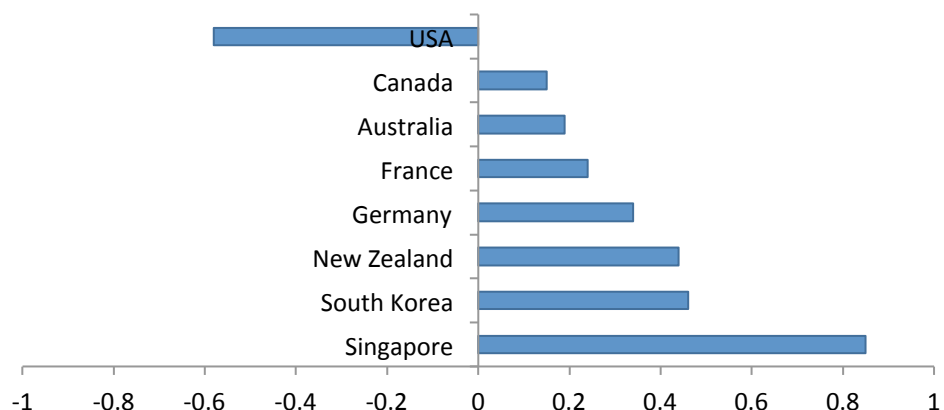
UN VOTING AFFINITY

This audit includes nations’ voting affinity in the UN General Assembly with China as a measure of the similarity of these nations’ foreign policy with China. The author and ACRI are not suggesting that Australia should align its voting record in either the UN General Assembly or the Security Council to improve ties with China. However, it is worth including information on voting affinity in this report simply as a piece of information relevant to the Australia-China relationship.

To measure voting affinity, all votes — including abstentions — between 2000 and 2012 in the UN General Assembly by the nations studied in this report are tallied and compared to corresponding votes by China over this period. A score is then given from one to negative one on voting affinity, with one signifying totally aligned voting and negative one indicating no voting similarity.

Voting Affinity with China in the UN General Assembly on a Scale of -1 to 1

Source: Voeten, Erik,
Strezhnev, Anton, and
Bailey, Michael



On this measure, Australia ranks in the bottom half of the nations studied. Australia’s score of 0.19 compares to that of New

⁶⁷ *ibid.*

Zealand's 0.44, South Korea on 0.46 and Singapore's 0.85.⁶⁸ The similarity in the voting patterns of Singapore, South Korea and New Zealand in the UN General Assembly and those of China suggests these nations have a stronger foreign policy alignment than China and Australia.

Australia's score — and thus the similarity of its voting to China's — is, however, greater than Canada's 0.15 and is especially higher than the US's -0.58. Between 2000 and 2012, more often than not, China and the US cast opposing votes in the UN General Assembly.

MEETING WITH THE DALAI LAMA

Classifying Tibet as a 'core national interest', the Chinese Government is critical of foreign nations' political leaders meeting with the Dalai Lama. The Chinese Government considers the Dalai Lama to be an 'unrepentant separatist'; government spokespeople often refer to the Tibetan spiritual leader as a 'wolf in sheep's clothing'.⁶⁹

A study by Andreas Fuchs and Nils-Hendrik Klann of the University of Göttingen, published in 2011, found that between 2002 and 2008, foreign nations were 'punished' with reduced exports to China of at least 8.1 percent for two years if senior political leaders officially met with the Tibetan spiritual leader.⁷⁰ When UK Prime Minister David Cameron attended a meeting with the Dalai Lama in 2012, it took 18 months for the Chinese Government to fully restore diplomatic relations with the UK, although in this period UK-China trade continued to increase.⁷¹

It is not surprising, therefore, that the leaders of many of the nations covered by this survey have avoided officially meeting the Dalai Lama. Since 2005, no New Zealand, South Korean or Singaporean head of government or state has officially met with the Dalai Lama. Former Prime Minister Helen Clark did unofficially speak to the Tibetan spiritual leader in 2007 in the

'More often than not, China and the US cast opposing votes in the UN General Assembly'

⁶⁸ Voeten, Erik, Strezhnev, Anton, and Bailey, Michael, 'United Nations General Assembly Voting Data', *Harvard Database*, V7, 2015

⁶⁹ Gladstone, Rick, 'Norway's Leaders Snub Dalai Lama in Deference to China', *The New York Times*, 07 May; Jacobs, Andrew, 'Obama's Prayer Breakfast Words to Dalai Lama Ruffle China and India', *The New York Times*, February 6 2015

⁷⁰ Fuchs, Andreas, and Klann, Nils-Hendrik, 'Paying a Visit: The Dalai Lama Effect on International Trade', *Journal of International Trade*, Vol. 91, No. 1, pp. 164-177, 2013

⁷¹ Stacey, Kiran, 'UK Admits China Relations Slow to Thaw After Dalai Lama Visit', *The Financial Times*, December 8 2013; Brown, Kerry, 'How China-UK Relations Have Evolved', *British Broadcasting Corporation*, June 15 2015

Brisbane airport departures lounge. The encounter, Prime Minister Clark later stated, was by ‘pure chance’.⁷²

Since 2005, the heads of state or government of Australia, Germany and France have all had one official meeting with the Buddhist leader. In comparison, Canada has had four such meetings — the Dalai Lama has been twice received by the Canadian Prime Minister and twice by the Canadian Governor General — and the US President has met with the Dalai Lama six times in the last 10 years. More than merely meeting the Dalai Lama, the Canadian House of Commons voted in 2006 to grant the Tibetan spiritual leader honorary Canadian citizenship and in 2011 agreed to resettle in Canada up to 1,000 Tibetans living in exile in northern India. This decision prompted a strong rebuke from the Chinese Government.⁷³

As a general trend, the number of political leaders meeting the Dalai Lama has dropped significantly since the late 2000s. Besides a meeting between the Dalai Lama and the Canadian Prime Minister in 2012, of the studied nations’ heads of state or government, only President Obama has met with the Tibetan spiritual leader since 2010. Even here, post-2008 meetings have been markedly more low-key. President George W. Bush received the Dalai Lama in the Oval Office, the symbolic heart of the US Presidency. President Obama, when meeting with the Dalai Lama in 2010, 2011 and 2014 — after refusing to meet the Dalai Lama in 2009 — did so privately in the Map Room of the White House, without any members of the press present.⁷⁴

‘As a general trend, the number of political leaders meeting the Dalai Lama has dropped significantly since the late 2000s.’

In February 2015, however, the Dalai Lama did meet publicly with the US President when both men attended the National Prayer Breakfast. The event received significant international media coverage and was strongly criticised by the Chinese Government. President Obama’s description of the Tibetan spiritual leader as a ‘good friend’ was reported in an editorial in Xinhua, the Chinese state-run news agency, as an attempt to ‘drive a nail into the hearts of the Chinese people’.⁷⁵ Regardless, contrary to the quite severe diplomatic ramifications of UK Prime Minister David Cameron’s meeting with the Dalai Lama, the Chinese Government’s reaction to meetings between the Tibetan spiritual leader and US Presidents has been largely rhetorical.⁷⁶

⁷² Ansley, Greg, ‘It’s Really Just Karma as Clark Meets Dalai Lama’, *The New Zealand Herald*, June 15 2007

⁷³ Canadian Broadcasting Commission, ‘Exiled Tibetans Start Move to Canada Under Resettlement Plan’, November 29 2013

⁷⁴ Tiezzi, Shannon, ‘China Warns Against Obama-Dalai Lama Meeting’, *The Diplomat*, February 4 2015a

⁷⁵ Jacobs, Andrew, *op. cit.*

⁷⁶ Tiezzi, Shannon, *op. cit.*

It does not appear that these meetings presented a particularly significant impediment to US-China relations.

TERRITORIAL DISPUTES

Of the nations studied, none have direct territorial disputes with China. South Korea and China, though, dispute which nations' exclusive economic zone (EEZ) covers what is known as leodo in South Korea, Suyan Rock in China and Socotra Rock internationally. This 'rock' is a submerged reef discovered in 1951 and located in an area of the East China Sea thought to hold significant oil reserves.⁷⁷ As a submerged reef, Socotra Rock cannot be claimed as territory by any country. However, as it sits between South Korea and China, both nations have claimed the reef since 1996 as being covered in their respective EEZs, a zone in which states have special rights, such as resource extraction.

Socotra Rock is currently controlled by the South Korean Government, which has maintained an unmanned research station raised above the reef since 2003.⁷⁸ In 2013, the Chinese Government included the reef in its declared air defence identification zone (ADIZ) over the East China Sea. This prompted an official protest from the South Korean Government. Still, a spokesman for the Chinese foreign ministry confirmed in late November 2013 that there was 'no territorial dispute'.⁷⁹ In January 2015, the two nations' governments began meeting to attempt to resolve the overlap between their claimed EEZs.⁸⁰ Sixteen rounds of negotiations have failed to find a settlement to this issue, but while it continues to cause tension, it does not appear to present a significant impediment to broader South Korea-China relations.⁸¹

CHINA'S SOUTH CHINA SEA ADIZ

Although there are no territorial disputes between China and the nations included in this survey, disagreements have still arisen over China's November 2013 declaration of an ADIZ over the

⁷⁷ Jun, Ji-Hye, 'ROK, US Navies to Conduct leodo Defense Training Today', *The Korea Times*, March 1 2015

⁷⁸ Rinehart, Ian, and Elias, Bart, 'China's Air Defense Identification Zone (ADIZ)', *Congressional Research Service*, CRS Report: Prepared for Members and Committees of Congress, 2015; Erickson, Andrew, and Monti, Michael, 'Trouble Ahead? Chinese-Korean Disputes May Intensify', *The National Interest*, February 20 2015

⁷⁹ Yonhap News Agency, 'China Says 'No Dispute' with S. Korea over leodo in New Air Zone', November 25 2013

⁸⁰ Yoon, Sukjoon, 'China-ROK Maritime Boundary Talks can Foster Safer Seas', *RSIS Commentary*, April 13 2015

⁸¹ Erickson, Andrew, and Monti, Michael, *op. cit.*

East China Sea. As *Appendix: Companion Table* shows, the US, Australia and South Korea strongly reacted to the Chinese ADIZ declaration. While Canada, France and Germany expressed concerns over the move, their reaction was limited and more neutral in tone. New Zealand and Singapore made no official comment.

As described above, South Korea protested against China's unilateral declaration of its ADIZ and reportedly requested that the Chinese Government redraw its ADIZ boundaries to avoid overlapping with South Korea's EEZ.⁸² When Chinese officials refused, the South Korean Government extended the boundaries of its own ADIZ in December 2013 to cover Socotra Rock.⁸³ The South Korean Government was, though, reportedly informed of China's decision to expand its ADIZ some days before it was publicly announced. Indeed, South Korea also consulted the Chinese Government before it announced the expansion of its own ADIZ.⁸⁴ It appears that beyond the rhetoric, the South Korean and Chinese Governments did not wish this issue to cause significant damage to their relationship. Regardless, the strength of South Korea's protest does suggest that the country is unwilling to completely subordinate territorial interests to its broader relationship with China.⁸⁵

Australia's response to the Chinese ADIZ stands out for the strength of its language and its public nature, reflecting a harder line in the Abbott Government's China policy during its first three months in power. The Australian Government announced on November 26 2013 that it had called in the Chinese Ambassador to Australia, Ma Zhaoxu, to 'convey the Australian Government's concerns' over China's 'sudden announcement' of an ADIZ.⁸⁶ In response to this action the Chinese Foreign Minister, Wang Yi, stated that Australia's position 'jeopardised bilateral mutual trust'.⁸⁷ Former Australian Ambassador to China Stephen FitzGerald stated at the time that he had never seen a senior Chinese official 'air a disagreement in this way'.⁸⁸ Indeed, of all

⁸² Arirang News, 'Korea Calls for Re-drawing of Air Zone, China Rejects', November 30 2013

⁸³ Japan has also included the submerged reefs in its ADIZ since 1969

⁸⁴ Kim, Ji-hyun, 'China Informed Seoul of Air Defense Zone', *The Korean Herald*, November 25 2013

⁸⁵ Erickson, Andrew and Monti, Michael, *op. cit.*

⁸⁶ Australia-China Relations Institute, 'China Policy Under the Abbott Government', ACRI Facts, 2015a

⁸⁷ Murdoch, Scott, 'Angry China Rebukes Julie Bishop Over East China Sea Dispute', *The Australian*, December 7 2013

⁸⁸ Jaivin, Linda, 'Japan, China, Senkaku, Diaoyu: Why is Australia Taking Sides in the East China Sea?', *The Monthly*, February 2014

countries that voiced concerns over the ADIZ declaration, Australia alone received such criticism.⁸⁹

The US Government also spoke out against the Chinese ADIZ declaration, with Vice President Joe Biden informing President Xi Jinping while in Beijing on December 4 2013 that the US did not recognise the ADIZ. The Vice President also called on China to avoid enforcing it. Mr Biden did not, however, publicly ask for Beijing to withdraw its announced ADIZ and unlike South Korea and Australia, the US did not lodge an official protest.⁹⁰ However, in late November 2013, White House officials confirmed that the Senkaku/Diaoyu Islands — islands disputed by China and Japan that were included in China's declared ADIZ — were covered under the Japan-US Security Treaty.⁹¹ Although the US professes neutrality on the ownership of the Senkaku/Diaoyu Islands, this announcement was interpreted internationally as a signal of the US Government's opposition to China's ADIZ and opposition to Chinese territorial claims in the East China Sea.⁹²

The reaction from the German, Canadian and French Governments was limited. A German Government spokesperson stated the ADIZ 'raised the risk of an armed incident between China and Japan'.⁹³ Canadian Foreign Minister John Baird expressed the Government of Canada's 'concern' about the ADIZ announcement.⁹⁴ The French Foreign Ministry communicated a similar sentiment.⁹⁵

POSITION ON SOUTH CHINA SEA DISPUTES

As *Appendix: Companion Table* shows, all nations included in this survey — even those that reacted strongly to China's ADIZ declaration in the East China Sea — maintain official neutrality on territorial disputes in the South China Sea. This, however, does not fully reflect the degree to which some of these nations have criticised the Chinese Government's actions in the area. This criticism was on clear display at the June 2015 Shangri-La

⁸⁹ *ibid.*

⁹⁰ Landler, Mark, 'Biden Urges Restraint by China in Airspace Dispute', *The New York Times*, December 4 2013

⁹¹ The Japan Times, 'Criticism of China's ADIZ Increases; Japanese Airlines do a Policy U-Turn', November 27 2013

⁹² Singh, Bhubhindar, 'Obama, the Senkaku/Diaoyu Islands, and the US-Japan Security Treaty', *The National Interest*, May 12 2014

⁹³ The Japan Times, *op. cit.*

⁹⁴ Manicom, James, 'When China Seized Control of Airspace, Why Was Canada Quiet?', *The Globe and Mail*, December 4 2013

⁹⁵ Central News Agency, 'The East China Sea Air Defence Identification Zone: France Calls on all Parties to Exercise Restraint (in Mandarin)', November 27 2013

‘Senior Colonel Zhou Bo called Mr Carter’s ‘harsh criticism’ groundless’

Dialogue — an annual security forum held in Singapore attended by military representatives and defence ministers mainly from Asian-Pacific states. Chinese land reclamation in the South China Sea, especially at Fiery Cross Reef, emerged as ‘the talking point of the dialogue’.⁹⁶ In the lead up to the event, the US had been conducting flights by surveillance aircraft close to Fiery Cross Reef and senior US Government officials had been outspoken in their criticism of China’s island-building activities.⁹⁷ US Secretary of Defense Ashton Carter was one of the strongest critics, arguing in May 2015 that the Chinese Government was ‘out of step’ with international and regional opinion.⁹⁸

During his speech at the Shangri-La Dialogue, Secretary Carter called on all parties to halt land reclamation. Mr Carter confirmed that the US views the seas surrounding the reef as international waters, stating that, ‘turning an underwater rock into an airfield simply does not afford the rights of sovereignty’.⁹⁹ He confirmed that as a result, US military ships and aircraft would continue operations in the area.¹⁰⁰ Representative of the Chinese People’s Liberation Army, Senior Colonel Zhou Bo, called Secretary Carter’s ‘harsh criticism’ groundless, suggesting that the US’s military actions in the region were undermining stability.¹⁰¹

Despite this surprisingly direct encounter between Senior Colonel Zhou and Secretary Carter, Mr Carter’s speech was less confrontational than had been expected. Secretary Carter highlighted the US Government’s desire to continue strengthening the US-China defence relationship — as did Senior Colonel Zhou Bo. It appears that although the US is trying to convey strength on the issue of territorial disputes in the South China Sea, it is simultaneously attempting to avoid the matter damaging broader US-China relations.

New Zealand Defence Minister Gerry Brownlee did not follow the lead of the US in calling on all parties to stop reclamation activities. Instead, Mr Brownlee merely expressed New Zealand’s desire to ‘better understand the intentions of countries undertaking reclamation (in the South China Sea)’.¹⁰² Mr

⁹⁶ Graham, Euan, ‘Though a Glass, Darkly: ‘Transparency’ Over-Sold at Shangri-La Dialogue’, *The Lowy Interpreter*, 2015

⁹⁷ *ibid.*

⁹⁸ Carter, Ash, ‘U.S. Pacific Command Change of Command’, *PACOM News*, May 28 2015

⁹⁹ Rosenberg, Matthew, ‘Building of Island is Debated, but China and U.S. Skirt Conflict at Talks’, *The New York Times*, May 30 2015

¹⁰⁰ Carter, Ash, *op. cit.*

¹⁰¹ Rosenberg, Matthew, ‘Building of Islands is Debated, but China and U.S. Skirt Conflict at Talks’, *The New York Times*, May 30 2015

¹⁰² International Institute for Strategic Studies, ‘Transcript — Strengthening Regional Order in the Asia-Pacific: Gerry Brownless’, May 30 2015

Brownlee also encouraged the full implementation of the Declaration of Conduct for the South China Seas between the Association of Southeast Asian Nations (ASEAN) and China.¹⁰³ This 2002 agreement called for ‘a peaceful and durable solution of differences and disputes among countries concerned’ and promised the adoption of an official ‘code of conduct’.¹⁰⁴ Mr Brownlee’s position follows a long-standing policy by the New Zealand Government to avoid direct criticism of China’s foreign policy, outlined in a recent ACRI report.¹⁰⁵

Singaporean Prime Minister Lee Hsien Loong, too, did not condemn island-building activities, stating that, ‘non-claimant countries cannot take sides on the merits of rival claims’.¹⁰⁶ The Singaporean Prime Minister further stated that ‘China and ASEAN should conclude a Code of Conduct on the South China Sea as soon as possible’ and that all parties should ‘adhere to international law, including the United Nations Convention on the Law of the Seas’.¹⁰⁷ The South Korean Government has also supported implementing ‘fully and effectively’ the 2002 ASEAN-China agreement, resisting calls by the US Assistant Secretary of State in June 2015 to ‘speak out’ against Chinese land reclamation.¹⁰⁸

At the Shangri-La Dialogue, Australian Defence Minister Kevin Andrews also highlighted Australia’s support for the ASEAN-China Code of Conduct. Minister Andrews was, though, considered to be more direct than others at the dialogue in his criticism of land reclamation by ‘all parties’ in the South China Sea.¹⁰⁹ The Minister further stated that if China declared an ADIZ in the region Australia would continue to fly military aircraft through the area.¹¹⁰ That the HMAS Perth was visiting Thailand and Cambodia in the South China Sea during the Minister’s speech was reported as underscoring Australia’s apparent resolve to resist Chinese attempts at strengthening claims in the South China Sea through land reclamation.¹¹¹ Minister Andrews’

¹⁰³ *ibid.*

¹⁰⁴ Association of Southeast Asian Nations, ‘Declaration on the Conduct of Parties in the South China Sea’, 2002

¹⁰⁵ Australia-China Relations Institute, ‘New Zealand’s China Policy: Building a Comprehensive Strategic Partnership’, 2015c

¹⁰⁶ Prime Minister’s Office Singapore, ‘Transcript of Keynote Speech by Prime Minister Lee Hsien Loong at the Shangri-La Dialogue on 29 May 2015’, 2015

¹⁰⁷ *ibid.*

¹⁰⁸ The Korea Herald, ‘S. Korea Urges Easing of Tensions in South China Sea’, June 2 2015a; *The Korea Herald*, ‘U.S. Calls for S. Korea to Speak Out Against China’s Behaviour in South China Sea’, June 4 2015b

¹⁰⁹ Department of Defence, ‘Minister for Defence — 114th IISS Asia Security Summit: The Shangri-La Dialogue, Singapore: Transcript’, May 15 2015

¹¹⁰ Wroe, David, ‘South China Sea: Australia Will Ignore Chinese Air Defence Zone, Says Kevin Andrews’, *The Sydney Morning Herald*, June 1 2015

¹¹¹ *ibid.*

comments followed those by DFAT Secretary Peter Varghese only a week earlier on June 9 while in India for the trilateral talks with Indian and Japanese officials. Mr Varghese, Australia's 'top diplomat', stated that, 'it's the pace and the scale of China's reclamations which is causing some anxiety in the region'.¹¹²

Nevertheless, while these comments and those of Minister Andrews at the Shangri-La Dialogue were relatively assertive, it is clear that after an initial hard line in its China policy, the Abbott Government remodulated its language and pursued a less confrontational approach. In his visit to China in April 2014, Prime Minister Abbott spoke of being in China not to 'do a deal, but to be a friend... to reassure the Chinese Government that we are open for business'.¹¹³

It is too early to say whether Australia's China policy under Prime Minister Malcolm Turnbull will undergo a significant change. Mr Turnbull has previously stated on the South China Sea that, 'China needs to be more transparent in its goals in the region', and further, that there is 'little doubt that the tough line taken [by the Chinese Government] on the disputed islands and reefs has been quite counter-productive'.¹¹⁴ Prime Minister Turnbull is also on the record as stating that Australia needs to be aware of 'the reality that our national interest requires us to truly (and not just rhetorically) maintain both an ally in Washington and a good friend in Beijing'.¹¹⁵ These statements may not fully reflect China policy under Mr Turnbull, but they do strongly suggest a continuation of a more neutral, balanced approach to China.

This paper does not seek to assert that Australia should avoid all criticism of Chinese foreign policy. It does highlight, however, that antagonistic language can damage the Australia-China relationship. This paper also makes apparent that while the Australian Government continues to raise concerns about elements of Chinese foreign policy, it is clear that Australia and China have come a long way since Whitlam 'went to China' in 1971. This audit underscores that the two nations' bilateral relationship has since grown and matured.

¹¹² Haider, Suhasini, 'China's Actions Cause for Concern: Australia', *The Hindu*, June 9 2015

¹¹³ Abbott, Tony, 'Address to Boao Forum for Asia', April 10 2014

¹¹⁴ Turnbull, Malcolm, 'Assessing the Future of the Asia-Pacific — US/Australia Dialogue', accessed on 15 September 2015 at malcolmturnbull.com.au/media/future-of-the-asia-pacific

¹¹⁵ Turnbull, Malcolm, quoted in McDonald, Hamish, 'The Cosy Ties that May End up Costing Us', *The Sydney Morning Herald*, December 3 2011

DEFENCE

The strength of defence relations between nations is difficult to assess. In *Appendix: Companion Table*, the criterion chosen to measure defence ties is the number of military exercises involving the studied nations and China between 2007 and 2014. These figures are taken from the US Department of Defense's 2015 Annual Report to Congress on the Chinese military, White Papers from the Chinese Ministry of Defence and media releases from various nations' defence ministries. The results show that Australia leads the nations studied in the number of military exercises with China, participating in 14 such exercises between 2007 and 2014. This compares with 12 for the US and nine for Singapore, the nations with the next highest numbers. Operation Kowari — held in Northern Australia between Australia, the US and China in late 2014 — in particular, is highlighted as helping strengthen the defence relationship between Australia and China.¹¹⁶ Australia has a strong record of defence exchanges and exercises with China. The Australian navy was the first Western navy to hold live fire exercises with the Chinese navy in November 2010 and Australia was the first Western country to hold a humanitarian and disaster relief exercise with the Chinese military in 2011.¹¹⁷

'Australia was only the second nation to negotiate an annual defence dialogue with China at the four-star level.'

Australia and China have a number of bilateral agreements that have further formalised and strengthened defence relations. In 1998, Australia and China began holding an annual Defence Strategic Dialogue between the Australian Department of Defence and the Chinese People's Liberation Army. Australia was only the second nation to negotiate an annual defence dialogue with China at the four-star level.¹¹⁸ It was announced in 2013 that an inaugural Strategic Policy Exchange, bringing together officials from the two nations' defence forces, would be held, as well as the inaugural Australia-China Military Friendship and Culture Week in Canberra.¹¹⁹ In December 2014, it was reported that China and Australia had agreed to further boost military relations following visits to China that year by the Australian Defence Minister, Chief of the Defence Force, the

¹¹⁶ Medcalf, Rory, 'Australia-US-China Military Exercise Challenges Assumptions', *The Lowy Interpreter*, October 9 2014

¹¹⁷ Adamson, Frances, 'Speech to the Australian Studies Centre, People's University', Beijing, China, January 16 2013

¹¹⁸ *ibid.*

¹¹⁹ Department of Defence, 'Defence White Paper 2013', Canberra Australia, 2013: 61

Chiefs of Navy, Air Force and Army and the Secretary of the Department of Defence.¹²⁰

The Australian and Chinese militaries have worked closely over the search for missing Malaysian Airlines flight MH370, as well as on anti-piracy and anti-terrorism endeavours and educational exchanges. According to Chinese state media, Australian Secretary of Defence Dennis Richardson stated in December 2014 that 45 items of cooperation or exchange between the Chinese and Australian militaries had been launched that year, accounting for much of Australia's military coordination with foreign forces.¹²¹ The Vice Chairman of China's Central Military Commission, Fan Changlong, was quoted as asserting that Australia-China defence relations represented 'a new high of mutual political trust between our countries' as 'military ties forge an important part of bilateral ties'¹²²

Notable in *Appendix: Companion Table* is that despite the strong broader bilateral relationship between China and South Korea, only four joint military exercises occurred between the two nations between 2007 and 2014. Although Chinese Defence Minister Chang Wanquan recently lauded the 'sound military-to-military relations' between China and South Korea, China's support for North Korea and the strong US military presence in South Korea create barriers to stronger military ties.¹²³ The Chinese Government's failure to condemn both the 2010 sinking of the South Korean corvette — the Cheonan — by the North Korean military and the later North Korean shelling of South Korean Yeonpyeong Island may help to explain why South Korea and China have held comparatively few joint exercises.¹²⁴

CHINA-SOUTH KOREA RELATIONS: HISTORICAL TENSION

Beijing's recent commemoration of Korea's anti-colonial fight against the Japanese and its focus on Japanese atrocities in World War II has successfully highlighted the two nations' shared history. Indeed, Chinese President Xi Jinping described

¹²⁰ Xinhua, 'China, Australia Agree to Boost Military Ties', December 3 2014

¹²¹ *ibid.*

¹²² *ibid.*

¹²³ Tiezzi, Shannon, 'China and South Korea's Lagging Military Ties', *The Diplomat*, 13 May; Xinhua, 2015, 'China's Defense Chief Meets ROK Army Chief', May 12 2015b

¹²⁴ This view was expressed to the author by members of a South Korean think tank delegation

bilateral relations between South Korea and China in July 2014 as at 'their best in history'.¹²⁵

This history, however, has often been tense and the historical narratives presented by the Chinese and South Korean Governments often clash. China's involvement in the Korean War and the Chinese Government's support for the nuclear-armed North Korea, in particular, continue to prevent the development of stronger bilateral relations.

Chinese textbooks place much of the blame for the outbreak of the Korean War on South Korea while many South Koreans blame Chinese Government support for the continued rule of the Kim family in North Korea.¹²⁶ These irritants to the South Korea-China relationship seem unlikely to be resolved anytime soon.¹²⁷

¹²⁵ Xinhua, 'Chinese President Says China-S. Korea Ties at Best in History', July 4 2014

¹²⁶ Erickson, Andrew and Monti, Michael, *op. cit.*

¹²⁷ Kwon, Yong, 'Korea and China's Clashing History', *The Diplomat*, July 11 2014

CULTURAL RELATIONS

Cultural and civil society links between nations augment the 'harder' areas of bilateral relations, such as state-to-state diplomacy, economics and defence. Cultural ties, here measured by tourism flows, student numbers, Chinese migration and opinion polling, present a comparatively strong view of the Australia-China relationship.

EDUCATION

In 2013, there were 87,980 Chinese students studying in Australian tertiary institutes.¹²⁸ This figure compares very favourably with the other nations studied in this paper. Although the US far outstrips Australia with 222,474 Chinese students, Australia — with a fourteenth of the population of the US and a fraction of the number of universities — has had strong success in attracting Chinese students.¹²⁹ South Korea, third amongst the nations studied in its number of Chinese tertiary students, had only half Australia's figure.

The number of Confucius Institutes in nations can also be used to measure education links with China — the Chinese Government funds Confucius Institutes to cultivate a better global understanding of Chinese culture. As of May 2015, Australia had 12 Confucius Institutes in universities across the country. This compares to 96 for the US, 19 for South Korea, 14 for Canada and three for New Zealand. Nevertheless, accounting for relative size of the populations and numbers of universities, Australia performs respectfully.

MIGRATION

Finding comparable measurements of the number of Chinese migrants and ethnic Chinese citizens across the nations covered by this study is problematic as few nations publically release these statistics. *Appendix: Companion Table* uses figures from the UN Population Division, the Taiwanese Overseas Community Affairs Council (OACA) and various academic sources. These figures place Australia as fourth among the nations studied in this survey in terms of the number of Chinese-born residents,

¹²⁸ United Nations Educational, Scientific and Cultural Organization, 'Education: Inbound Internationally Mobile Students by Country of Origin: China', accessed at <http://data.uis.unesco.org/> on September 3 2015

¹²⁹ *ibid.*; The US National Centre for Education Statistics recorded 2,870 '4-year colleges' in 2010-2011 compared to 43 universities in Australia listed by the Australian Government's Future Unlimited website

ethnic-Chinese residents and the number of Chinese migrant arrivals between 2005 and 2010.

As of mid-2013, there were 447,407 Chinese-born residents in Australia with 151,000 Chinese citizens migrating to Australia between 2005 and 2010.¹³⁰ Only Canada, South Korea and the US have higher figures. The OACA, similarly, estimates that there are 950,000 ethnic Chinese in Australia, putting Australia behind Canada, Singapore and the US.¹³¹ These high numbers demonstrate the depth of cultural links between Australia and China.

PUBLIC OPINION

Surveying public opinion on the overall favourability of different nations is an effective way of gauging the strength of the person-to-person element of a bilateral relationship. Polling conducted by ACRI in 2015 of Chinese business leaders showed overwhelmingly positive views on Australia, with 93 percent of respondents viewing Australia favourably or very favourably.¹³² This puts Australia behind Canada and Germany, but above New Zealand, Singapore, South Korea and the US. France was not included in this survey.

The best comparison of public views on China is provided by Pew Global surveys. Pew figures are not available for New Zealand or Singapore, though, which have been substituted in this survey for polling by Asia New Zealand Foundation and the Asian Barometer Survey, Wave III respectively.¹³³ Of the nations included in this report, Singapore had the most favourable public opinion on China with 79 percent of respondents having a positive view of China's impact upon their nation.¹³⁴ This was followed by New Zealand, which gave China a 'warmth rating' of 68.¹³⁵ Australia sits in third place, with Pew finding 58 percent of respondents have favourable views of China.

'Polling conducted by ACRI in 2015 of Chinese business leaders showed overwhelmingly positive views on Australia'

¹³⁰ UN Population Division: International Migration, 'International Migrant Stock: By Destination and Origin', UN Department of Economic and Social Affairs, 2013

¹³¹ Abel, Guy, and Sander, Nikola, 'Quantifying Global International Migration Flows', *Science*, Vol. 343, No. 6178, pp. 1520-1522, 2014

¹³² Australia-China Relations Institute, *op. cit.* 2015b

¹³³ The figures for New Zealand were collated by asking respondents to rate their feelings of warmth for China on a scale of 1-100

¹³⁴ Chu, Yun-han, Kang, Liu, and Huang, Min-hua, 'How East Asians View the Rise of China', *Journal of Contemporary China*, Vol. 24, No. 93, pp. 398-420, 2015

¹³⁵ Asia New Zealand Foundation, 'New Zealanders' Perceptions of Asia and Asian Peoples — 2014 Annual Survey', 2015

56 percent of South Korean respondents, 47 percent of Canadians and French and 35 percent of US respondents viewed China favourably. Only 28 percent of Germans had a favourable view of China, a figure that jars with Germany's otherwise strong engagement with China.

TOURISM

Tourism is an important cultural asset and has been asserted to help reduce tension between nations by building person-to-person linkages.¹³⁶ Australia has a strong history of bilateral engagement with China on tourism. In 1999, Australia was accorded 'approved destination' status, officially allowing Australia to be a destination for Chinese guided tour groups.¹³⁷ The importance of the tourism relationship between Australia and China is further acknowledged in the annual Australia-China Tourism Dialogue. This was established as part of the five-year Memorandum of Understanding between the Australian Government and the China National Tourism Administration, signed in April 2011.¹³⁸

Measured by annual Chinese tourist arrivals, Australia sits in the lower half of the nations studied in this survey. 715,300 Chinese tourists arrived in Australia in 2013 — the latest year that internationally comparable numbers are available — according to Euromonitor. This figure, which has increased to 877,400 in 2014, according to Tourism Australia, was lower than those of South Korea's 3.7 million, Singapore's 2.3 million, the US's 1.9 million, France's 1.6 million and Germany's 890,000. Australia had twice Canada's number of Chinese visitors in 2013 and more than three times that of New Zealand.¹³⁹

Although Australia has lower figures than other countries in this survey, Australia has seen a rapid increase in the number of Chinese tourists in recent years, with growth of 18.4 percent between February 2014 and February 2015.¹⁴⁰ Further, the coordination of tourism between the Chinese and Australian

'Measured by annual Chinese tourist arrivals, Australia sits in the lower half of the nations studied in this survey.'

¹³⁶ See, among others, Kelly, Ian, 'Peace Through Tourism: An Implementation Guide', *Journal of Tourism and Peace Research*, Vol. 2, No. 2, pp. 32-49, 2012; Moufakkir, Omar, and Kelly, Ian, *Tourism Progress and Peace*, CABI, Wallingford, UK, 2010

¹³⁷ Laws, Eric, and Pan, Grace, 2003, 'Tourism Development of Australia as a Sustained Preferred Destination for Chinese Tourists', *Asia Pacific Journal of Tourism Research*, Vol. 8, No. 1, pp. 37-47:37

¹³⁸ Department of Foreign Affairs, 'International Tourism Engagement', accessed on May 20 2015 at

<http://dfat.gov.au/trade/topics/pages/international-tourism-engagement.aspx>

¹³⁹ Euromonitor, 'Tourism Flows Inbound in (various nations)', 2015

¹⁴⁰ Tay, Huey Fern, 'Visas for Chinese Tourists: Mainland Chinese Enthused About Longer Visas Included in FTA', *ABC*, June 19 2015

Governments suggests the Australia-China bilateral tourism relationship is strong. Of particular note is that ChAFTA, when ratified, will bring Australia in line with the US, Singapore and Canada in granting Chinese tourists multiple entry, 10-year visas, up from the previous one-year.¹⁴¹ It is hoped that this will lead to an increase in the numbers of Chinese tourists visiting Australia.

Regardless, while the Eiffel Tower and the Empire State Building may be at the top of the list for Chinese tourists, the Australian outback is at the very least more popular than New Zealand's Middle Earth.

¹⁴¹ *ibid.*

A RELATIONSHIP IN CONTEXT

Australian media coverage of the Australia-China relationship can be mercurial. Headlines in June this year on Australia's public broadcaster, the *ABC*, seemed close to a call to arms: 'We Must Prepare for China's Historic Defence Plan'.¹⁴² A week later, the *ABC* ran a story suggesting that Australia's dairy industry was on the cusp of a 'golden era' thanks to ChAFTA.¹⁴³ In early February this year, *The Australian* told readers that Australia was set to benefit from China's 'biggest-ever overseas investment program'.¹⁴⁴ A month later, *The Sydney Morning Herald* ran an opinion piece by Political and International Editor Peter Hartcher comparing China to the Islamic State.¹⁴⁵

The volatility of the Australian media on stories involving China posits relations between Australia and China as exceptional or fragile, sometimes overlooking weaknesses, sometimes downplaying successes. This research paper rejects this narrative. Compared to the seven other nations covered in this study, Australia has a solid overall bilateral relationship with China but areas for improvement remain.

Australia's diplomatic representation in China is weaker than many of the nations included in this report. Australian direct investment in China, while higher than many nations in this survey, is significantly lower than that of South Korea and Singapore, especially considering Australia attracts high levels of Chinese investment. ChAFTA, if ratified, should help facilitate more Australian investment in China and bring more balance to the Australia-China investment relationship. In a similar way, ChAFTA is also forecasted to help Australian exporters diversify exports to China from the current reliance on a small number of key goods. This is especially true for Australian services exporters.

If the Australian Government under Malcolm Turnbull, or any Prime Minister, were to return to the hard line on China that was seen in first three months of the Abbott Government, it could cause significant tension in the Australia-China relationship.

¹⁴² Heinrichs, Raoul, 'We Must Prepare for China's Historic Defence Plan', *ABC*, June 5 2015

¹⁴³ Lee, Tim, 'China's Growing Thirst for Dairy Heralds Golden Era for Australian Farmers, Analysts Say', *ABC*, June 14 2015

¹⁴⁴ Murdoch, Scott, and Hepworth, Annabel, 'Australia to Benefit as China Embarks on Biggest-Ever Overseas Investment Program', *The Australian*, February 3 2015

¹⁴⁵ Hartcher, Peter, 'IS, Russia, China: All Fascist States', *The Sydney Morning Herald*, March 3 2015

None of this should overlook, though, that Australia has strong trade, tourism, education, cultural and — perhaps surprisingly — defence ties with China. Australia is China's seventh largest trading partner, educates a large number of China's youth and has been involved in more military exercises with China than any other nation studied. It has been a policy of successive governments since Gough Whitlam's election in 1972 to broaden, deepen and institutionalise engagement with China. As this report highlights, this policy has been largely successful. Today, beyond the headlines, the Australia-China relationship is in good shape.

ABOUT THE AUTHOR

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APPENDIX: COMPANION TABLE

The following table compares Australia, Canada, France, Germany, New Zealand, Singapore, South Korea and the USA on a range of economic, diplomatic, defence and cultural criterion to measure their relationship with China.

ECONOMIC CRITERION

Ranking of Trading Partner for Mainland China*		Source	Date
Australia	7	CEIC Data	2014
Canada	21	CEIC Data	2014
France	20	CEIC Data	2014
Germany	6	CEIC Data	2014
New Zealand	44	CEIC Data	2014
Singapore	12	CEIC Data	2014
South Korea	4	CEIC Data	2014
USA	1	CEIC Data	2014

*Figures includes Hong Kong as mainland China's second-largest trading partner

Value of Chinese Imports (\$US million)		Source	Date
Australia	39,127	CEIC Data	2014
Canada	30,012	CEIC Data	2014
France	28,717	CEIC Data	2014
Germany	72,744	CEIC Data	2014
New Zealand	4,742	CEIC Data	2014
Singapore	48,856	CEIC Data	2014
South Korea	100,420	CEIC Data	2014
USA	396,148	CEIC Data	2014

Value of Exports to China (\$US million)		Source	Date
Australia	98,084	CEIC Data	2014
Canada	27,140	CEIC Data	2014
France	27,140	CEIC Data	2014
Germany	105,055	CEIC Data	2014
New Zealand	9,505	CEIC Data	2014
Singapore	30,817	CEIC Data	2014
South Korea	190,391	CEIC Data	2014
USA	159,187	CEIC Data	2014

**Bilateral Export Concentration Index (China)
on a Scale of 0 to 1****

		Source	Period
Australia	0.517	UNCTAD	2012
Canada	0.198	UNCTAD	2012
France	0.23	UNCTAD	2012
Germany	0.179	UNCTAD	2012
New Zealand	0.334	UNCTAD	2012
Singapore	0.331	UNCTAD	2012
South Korea	0.191	UNCTAD	2012
USA	0.143	UNCTAD	2012

** Where 1 represents complete export concentration on a small number of products

Total Two-Way Trade with China (\$US million)

		Source	Date
Australia	137,211	CEIC Data	2014
Canada	55,264	CEIC Data	2014
France	55,857	CEIC Data	2014
Germany	177,799	CEIC Data	2014
New Zealand	14,247	CEIC Data	2014
Singapore	79,673	CEIC Data	2014
South Korea	290,811	CEIC Data	2014
USA	555,335	CEIC Data	2014

Growth of Nation's Imports from China

		Source	Period
Australia	43.67 percent	CEIC Data	2010-2014
Australia	6.47 percent	CEIC Data	2013-2014
Canada	35.08 percent	CEIC Data	2010-2014
Canada	10.11 percent	CEIC Data	2013-2014
France	3.82 percent	CEIC Data	2010-2014
France	7.48 percent	CEIC Data	2013-2014
Germany	6.84 percent	CEIC Data	2010-2014
Germany	7.98 percent	CEIC Data	2013-2014
New Zealand	71.53 percent	CEIC Data	2010-2014
New Zealand	2.72 percent	CEIC Data	2013-2014
Singapore	50.91 percent	CEIC Data	2010-2014
Singapore	7.51 percent	CEIC Data	2013-2014
South Korea	45.92 percent	CEIC Data	2010-2014
South Korea	4.16 percent	CEIC Data	2013-2014
USA	39.80 percent	CEIC Data	2010-2014
USA	14.74 percent	CEIC Data	2013-2014

APPENDIX: COMPANION TABLE

Growth of Nation's Exports to China		Source	Period
Australia	62.55 percent	CEIC Data	2010-2014
Australia	-0.39 percent	CEIC Data	2013-2014
Canada	69.56 percent	CEIC Data	2010-2014
Canada	0.16 percent	CEIC Data	2013-2014
France	58.65 percent	CEIC Data	2010-2014
France	17.45 percent	CEIC Data	2013-2014
Germany	41.22 percent	CEIC Data	2010-2014
Germany	11.49 percent	CEIC Data	2013-2014
New Zealand	153.11 percent	CEIC Data	2010-2014
New Zealand	15.19 percent	CEIC Data	2013-2014
Singapore	24.87 percent	CEIC Data	2010-2014
Singapore	2.83 percent	CEIC Data	2013-2014
South Korea	37.54 percent	CEIC Data	2010-2014
South Korea	4.02 percent	CEIC Data	2013-2014
USA	55.97 percent	CEIC Data	2010-2014
USA	4.35 percent	CEIC Data	2013-2014

Free Trade Agreement With China		Source	Signed
Australia	Yes	Australian DFAT	2015
Canada	No	Canadian DFATD	
France	No	France MAEDI	
Germany	No	Deutschland AA	
New Zealand	Yes	New Zealand MFAT	2008
Singapore	Yes	Singapore MFA	2008
South Korea	Yes	ROK MFA	2015
USA	No	US DoS	

Free Trade Agreement Includes Most Favoured Nation Status		Source	Signed
Australia	Yes	Australian DFAT	2015
New Zealand	Yes	New Zealand MFAT	2008
Singapore	No	Singapore MFA	
South Korea	No	ROK MFA	

Bilateral Investment Treaty With China		Source	In Force
Australia	Yes	UNCTAD	1988
Canada	Yes	UNCTAD	2014
France	Yes	UNCTAD	2010
Germany	Yes	UNCTAD	2005

New Zealand	Yes	UNCTAD	1989
Singapore	Yes	UNCTAD	1986
South Korea	Yes	UNCTAD	2007
USA	No	UNCTAD	
Nation has Central Bank Currency Swap		Source	Agreed in
Australia	Yes	Australian DFAT	2012
Canada	Yes	Canadian DFATD	2014
France	Yes (Euro Area)	France MAEDI	2013
Germany	Yes (Euro Area)	Deutschland AA	2013
New Zealand	Yes	UNCTAD	2011
Singapore	Yes	UNCTAD	2008
South Korea	Yes	ROK MFA	2008
USA	No	US DoS	
Nation is Founding Member of AIIB		Source	Approved in
Australia	Yes	Australian DFAT	2015
Canada	No	Canadian DFATD	
France	Yes	France MAEDI	2015
Germany	Yes	Deutschland AA	2015
New Zealand	Yes	New Zealand MFAT	2015
Singapore	Yes	Singapore MFA	2014
South Korea	Yes	ROK MFA	2015
USA	No	US DoS	
RMB Clearing Bank Operating in Nation		Source	Agreed in
Australia	Yes	Australian DFAT	2014
Canada	Yes	Canadian DFATD	2014
France	Yes	France MAEDI	2014
Germany	Yes	Deutschland AA	2014
New Zealand	No	New Zealand MFAT	
Singapore	Yes	Singapore MFA	2013
South Korea	Yes	ROK MFA	2014
USA	No	US DoS	
Nation's FDI Stock in China (\$US million) / Share of Nation's Total FDI Stock in China		Source	Date
Australia	8,705 / 1.8 percent	UNCTAD	2012
Canada	8,336 / 1.2 percent	UNCTAD	2012
France	11,519 / 0.9 percent	UNCTAD	2012
Germany	19,762 / 1.3 percent	UNCTAD	2012
New Zealand	149 / 0.8 percent	UNCTAD	2012

APPENDIX: COMPANION TABLE

Singapore	59,261 / 10.5 percent	UNCTAD	2012
South Korea	52,892 / 26 percent	UNCTAD	2012
USA	70,190 / 1.4 percent	UNCTAD	2012
Nation's Total FDI Flow to China (\$US million)		Source	Period
Australia	590	UNCTAD	2012
Canada	468	UNCTAD	2011
France	169	UNCTAD	2012
Germany	1,451	UNCTAD	2012
New Zealand	19	UNCTAD	2012
Singapore	6,305	UNCTAD	2012
South Korea	3,038	UNCTAD	2012
USA	2,598	UNCTAD	2012
Chinese FDI Stock in Nation (\$US million) / Share of China's Total FDI Stock in Nation		Source	Period
Australia	23,882 / 2.71 percent	CEIC DATA	2014
Canada	7,789 / 0.88 percent	CEIC DATA	2014
France	8,445 / 0.96 percent	CEIC DATA	2014
Germany	5,785 / 0.66 percent	CEIC DATA	2014
New Zealand	962 / 0.11 percent	CEIC DATA	2014
Singapore	20,640 / 2.34 percent	CEIC DATA	2014
South Korea	2,772 / 0.41 percent	CEIC DATA	2014
USA	38,011 / 4.31 percent	CEIC DATA	2014
Total Chinese FDI flow to Nation (\$US million) / Share of China's Total FDI Flow to Nation		Source	Period
Australia	4,049 / 4.76 percent	CEIC DATA	2014
Canada	904 / 1.06 percent	CEIC DATA	2014
France	406 / 0.48 percent	CEIC DATA	2014
Germany	1,439 / 1.69 percent	CEIC DATA	2014
New Zealand	250 / 0.29 percent	CEIC DATA	2014
Singapore	2,814 / 3.31 percent	CEIC DATA	2014
South Korea	549 / 0.65 percent	CEIC DATA	2014
USA	7,596 / 8.94 percent	CEIC DATA	2014
Number of Investments and Contracts by Chinese Firms Over \$US100 million in Nation		Source	Period
Australia	66	The Heritage Foundation	2005-mid 2014
Canada	33	The Heritage Foundation	2005-mid 2014
France	11	The Heritage Foundation	2005-mid 2014
Germany	15	The Heritage Foundation	2005-mid 2014

New Zealand	5	The Heritage Foundation	2005-mid 2014
Singapore	16	The Heritage Foundation	2005-mid 2014
South Korea	7	The Heritage Foundation	2005-mid 2014
USA	96	The Heritage Foundation	2005-mid 2014

Value of all Investments and Contracts by Chinese Firms Over US\$100 million in Nation (\$US million)

		Source	Period
Australia	61,260	The Heritage Foundation	2005-mid 2014
Canada	39,380	The Heritage Foundation	2005-mid 2014
France	10,640	The Heritage Foundation	2005-mid 2014
Germany	5,850	The Heritage Foundation	2005-mid 2014
New Zealand	2,000	The Heritage Foundation	2005-mid 2014
Singapore	10,070	The Heritage Foundation	2005-mid 2014
South Korea	4,700	The Heritage Foundation	2005-mid 2014
USA	71,910	The Heritage Foundation	2005-mid 2014

Number of Failed Investments and Contracts by Chinese Firms Over \$US100 million in Nation

		Source	Period
Australia	21	The Heritage Foundation	2005-mid 2014
Canada	1	The Heritage Foundation	2005-mid 2014
France	3	The Heritage Foundation	2005-mid 2014
Germany	1	The Heritage Foundation	2005-mid 2014
New Zealand	0	The Heritage Foundation	2005-mid 2014
Singapore	1	The Heritage Foundation	2005-mid 2014
South Korea	0	The Heritage Foundation	2005-mid 2014
USA	19	The Heritage Foundation	2005-mid 2014

Number of WTO Disputes Against China by Nation

		Source	Date
Australia	0	WTO	Current
Canada	3	WTO	Current
France	7	WTO	Current
Germany	7	WTO	Current
New Zealand	0	WTO	Current
Singapore	0	WTO	Current
South Korea	0	WTO	Current
USA	16	WTO	Current

APPENDIX: COMPANION TABLE

Number of WTO Dispute Raised by China Against Nation

Nation		Source	Date
Australia	0	WTO	Current
Canada	0	WTO	Current
France	4	WTO	Current
Germany	4	WTO	Current
New Zealand	0	WTO	Current
Singapore	0	WTO	Current
South Korea	0	WTO	Current
USA	9	WTO	Current

Ranking of Nation by The Economist Intelligence Unit's China Going Global Investment Index

Nation		Source	Date
Australia	4	EIU	2014
Canada	5	EIU	2014
France	24	EIU	2014
Germany	13	EIU	2014
New Zealand	18	EIU	2014
Singapore	2	EIU	2014
South Korea	16	EIU	2014
USA	1	EIU	2014

DIPLOMATIC CRITERION

Chinese Bilateral Classification

Nation	Classification	Source	In Force
Australia	Comprehensive Strategic Partnership	Australian DFAT	2014
Canada	Strategic Partnership	Canadian DFATD	2005
France	Close and Lasting Comprehensive Strategic Partnership	France MAEDI	2014
Germany	All-Dimensional Strategic Partnership	Deutschland AA	2014
New Zealand	Comprehensive Strategic Partnership	New Zealand MFAT	2014
Singapore	None	Singapore MFA	
South Korea	Strategic Partnership	ROK MFA	2008
USA	None	US DoS	

Number of Embassies and Consulate-Generals

Nation		Source	Date
Australia	5	Australian DFAT	Current
Canada	5	Canadian DFATD	Current
France	7	France MAEDI	Current
Germany	6	Deutschland AA	Current

New Zealand	4	New Zealand MFAT	Current
Singapore	6	Singapore MFA	Current
South Korea	9	ROK MFA	Current
USA	7	US DoS	Current
Number of Trade Promotion Agencies		Source	Date
Australia	11	Australian DFAT	Current
Canada	11	Canadian DFATD	Current
France	6	France MAEDI	Current
Germany	4	Deutschland AA	Current
New Zealand	6	New Zealand MFAT	Current
Singapore	9	Singapore MFA	Current
South Korea	18	ROK MFA	Current
USA	7	US DoS	Current
Number of Visits from Chinese Head of State***		Source	Period
Australia	2	Australian DFAT	2005-May 2015
Canada	2	Canadian DFATD	2005-May 2015
France	3	France MAEDI	2005-May 2015
Germany	3	Deutschland AA	2005-May 2015
New Zealand	1	New Zealand MFAT	2005-May 2015
Singapore	5	Singapore MFA	2005-May 2015
South Korea	9	ROK MFA	2005-May 2015
USA	4	US DoS	2005-May 2015
Number Visits to China by National Head of State or Government***		Source	Period
Australia	6	Australian DFAT	2005-May 2015
Canada	3	Canadian DFATD	2005-May 2015
France	7	France MAEDI	2005-May 2015
Germany	7	Deutschland AA	2005-May 2015
New Zealand	4	New Zealand MFAT	2005-May 2015
Singapore	5	Singapore MFA	2005-May 2015
South Korea	9	ROK MFA	2005-May 2015
USA	4	US DoS	2005-May 2015
***In which the head of state or government met with the Chinese President			
Number of Prime Ministerial Level or Higher Meetings With Dalai Lama		Source	Period
Australia	1	Dalai Lama Webpage	2005-May 2015
Canada	4	Dalai Lama Webpage	2005-May 2015
France	1	Dalai Lama Webpage	2005-May 2015

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Germany	1	Dalai Lama Webpage	2005-May 2015
New Zealand	0	Dalai Lama Webpage	2005-May 2015
Singapore	0	Dalai Lama Webpage	2005-May 2015
South Korea	0	Dalai Lama Webpage	2005-May 2015
USA	6	Dalai Lama Webpage	2005-May 2015

Voting Affinity with China in the UN General Assembly on a Scale of -1 to 1****

		Source	Period
Australia	0.19	Voeten, E.	2000-2012
Canada	0.15	Voeten, E.	2000-2012
France	0.24	Voeten, E.	2000-2012
Germany	0.34	Voeten, E.	2000-2012
New Zealand	0.44	Voeten, E.	2000-2012
Singapore	0.85	Voeten, E.	2000-2012
South Korea	0.46	Voeten, E.	2000-2012
USA	-0.58	Voeten, E.	2000-2012

**** On a scale of 1, which represents perfect voting affinity, to -1, which represents no voting similarity. Formulated using 'yes' and 'no' votes and abstentions

Response to Chinese ADIZ: Strong Reaction; Limited Reaction; No Official Position

		Source	Date
Australia	Strong Reaction	Australian DFAT	2014
Canada	Limited Reaction	Canadian DFATD	2014
France	Limited Reaction	France MAEDI	2014
Germany	Limited Reaction	Deutschland AA	2014
New Zealand	No Official Comment	New Zealand MFAT	2014
Singapore	No Official Comment	Singapore MFA	2014
South Korea	Strong Reaction	ROK MFA	2014
USA	Strong Reaction	US DoS	2014

Position on East and South China Seas Territorial Disputes

		Source	Date
Australia	Neutral	Australian DFAT	Current
Canada	Neutral	Canadian DFATD	Current
France	Neutral	France MAEDI	Current
Germany	Neutral	Deutschland AA	Current
New Zealand	Neutral	New Zealand MFAT	Current
Singapore	Neutral	Singapore MFA	Current
South Korea	Neutral****	ROK MFA	Current
USA	Neutral	US DoS	Current

**** South Korea does have an outstanding dispute with China on the Socotra Rock, but this is a dispute of Exclusive Economic Zones, not territory

DEFENCE CRITERION

Number of Military Exercises in Which Nation has Participated with China		Source	Period
Australia	14	US DoD, Chinese MoD	2005-2014
Canada	1	US DoD, Chinese MoD	2005-2014
France	7	US DoD, Chinese MoD	2005-2014
Germany	0	US DoD, Chinese MoD	2005-2014
New Zealand	7	US DoD, Chinese MoD	2005-2014
Singapore	9	US DoD, Chinese MoD	2005-2014
South Korea	4	US DoD, Chinese MoD	2005-2014
USA	12	US DoD, Chinese MoD	2005-2014

CULTURAL CRITERION

Number of Visits by Chinese Tourists		Source	Period
Australia	715,300	Euromonitor	2013
Canada	347,100	Euromonitor	2013
France	1,571,000	Euromonitor	2013
Germany	888,200	Euromonitor	2013
New Zealand	228,900	Euromonitor	2013
Singapore	2,269,900	Singapore Tourism Board	2013
South Korea	3,785,100	Euromonitor	2013
USA	1,857,900	Euromonitor	2013
Number of Confucius Institutes		Source	Date
Australia	12	Hanban	Current
Canada	13	Hanban	Current
France	16	Hanban	Current
Germany	14	Hanban	Current
New Zealand	3	Hanban	Current
Singapore	1	Hanban	Current
South Korea	19	Hanban	Current
USA	96	Hanban	Current
Number of Chinese Students in Tertiary Education		Source	Date
Australia	87,980	UNESCO	2013
Canada	34,602	UNESCO	2012
France	25,234	UNESCO	2013

APPENDIX: COMPANION TABLE

Germany	19,441	UNESCO	2013
New Zealand	12,219	UNESCO	2013
Singapore	36,000****	Yeoh, B. and Lin, W.	2008
South Korea	43,698	UNESCO	2013
USA	225,474	UNESCO	2013

**** The Singaporean Government does not release figures on international student enrolment — this number is based of an estimate of 2008 numbers

Percentage of Chinese Business Leaders with Favourable/Unfavourable Impression of Nation

		Source	Date
Australia	93/6	ACRI	2015
Canada	96/2	ACRI	2015
France	N/A		
Germany	98/1	ACRI	2015
New Zealand	92/5	ACRI	2015
Singapore	92/7	ACRI	2015
South Korea	84/14	ACRI	2015
USA	81/17	ACRI	2015

Percentage of Chinese Business Leaders that Believe Nation is China's Close Ally or Friend/Enemy

		Source	Date
Australia	59/7	ACRI	2015
Canada	67/4	ACRI	2015
France	N/A		
Germany	72/1	ACRI	2015
New Zealand	70/1	ACRI	2015
Singapore	73/4	ACRI	2015
South Korea	59/7	ACRI	2015
USA	30/35	ACRI	2015

Percentage of Citizens with Positive View of China

		Source	Date
Australia	58	Pew Global	2013
Canada	47	Pew Global	2013
France	47	Pew Global	2014
Germany	28	Pew Global	2014
New Zealand	68	ASIANZ	2014
Singapore	79	ABS Wave III	2013
South Korea	56	Pew Global	2014
USA	35	Pew Global	2014

Number of Ethnic Chinese Residents in Country

		Source	Date
Australia	950,000	OCAC	2014
Canada	1,580,000	OCAC	2014
France	500,000	OCAC	2014
Germany	110,000	OCAC	2011
New Zealand	170,000	OCAC	2014
Singapore	2,870,000	OCAC	2014
South Korea	180,000	OCAC	2014
USA	4,550,000	OCAC	2014

Number of Chinese-Born Residents in Country

		Source	Date
Australia	447,407	UN Population Division	2013
Canada	639,813	UN Population Division	2013
France	93,269	UN Population Division	2013
Germany	74,251	UN Population Division	2013
New Zealand	114,514	UN Population Division	2013
Singapore	380,766	UN Population Division	2013
South Korea	656,846	UN Population Division	2013
USA	2,246,840	UN Population Division	2013

Number of Chinese Migrant Arrivals in Country

		Source	Period
Australia	150,947	Abel, G. and Sander, N.	2005-2010
Canada	163,196	Abel, G. and Sander, N.	2005-2010
France	34,282	Abel, G. and Sander, N.	2005-2010
Germany	27,203	Abel, G. and Sander, N.	2005-2010
New Zealand	36,964	Abel, G. and Sander, N.	2005-2010
Singapore	49,128	Abel, G. and Sander, N.	2005-2010
South Korea	216,747	Abel, G. and Sander, N.	2005-2010
USA	615,536	Abel, G. and Sander, N.	2005-2010



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