



Australia-China relations summary

May 2018 edition

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

Ministerial and opposition engagement

Following [reports](#) in March of a diplomatic ‘freeze’ between Australia and the People’s Republic of China (PRC), Minister Bishop met her Chinese counterpart Wang Yi on the sidelines of a G20 foreign ministers’ meeting in Buenos Aires on May 21 for an hour-long discussion. Foreign Minister Julie Bishop [told](#) the ABC, ‘It was very warm, and candid, and a constructive discussion.’

However, a [statement](#) released by the Chinese Foreign Ministry offered a rather different assessment. In the statement, Minister Wang pointedly described the meeting as one to ‘exchange ideas on the bilateral relationship’ as opposed to a ‘formal bilateral meeting’.¹ He stated that the onus was on Australia to take steps to improve the relationship between the two countries:²

[I]f Australia sincerely wants bilateral relations to return to normal and wants to achieve their sustained and healthy development, it must abandon traditional thinking, remove its coloured glasses, view China’s development from a positive angle, and do more to promote bilateral cooperation rather than ‘recoil’.

The Chinese Foreign Ministry statement attributed to Minister Bishop the remark:³

In recent times, some negative reporting by Australian media has adversely affected the Australia-China relationship. I would like to clarify that these reports are inaccurate, and absolutely do not represent the Australian Government position.

While Minister Bishop has not corroborated that specific comment, she had on May 15 [stated](#) that some media were engaged in ‘profoundly misinformed commentary’ about the state of the Australia-China relationship. Fairfax Media’s Beijing correspondent [asserted](#) too that blaming the media for difficulties in the relationship ‘has been the consistent line to the Chinese from [the Department of Foreign Affairs and Trade (DFAT)]’.

When questioned about the differences in tone between the Australian and PRC accounts of the discussions, DFAT Secretary Frances Adamson [told](#) Senate Estimates on May 31 that there was a difference between the PRC’s public tone and its tone behind closed doors:

¹ Translation by Simone van Nieuwenhuizen, Project and Research Officer, Australia-China Relations Institute.

² Ibid.

³ Ibid.

I think [China's] public characterisation of the meeting in tone is consistent with the recent tone adopted in the Chinese media. But I do draw a distinction between that tone as depicted publicly and the tone that we discern through direct conversations with the Chinese.

When subsequently asked why such a tone had been adopted in public, Secretary Adamson said:

I think the Chinese very much want to encourage a respectful public discourse about their role in the region, about our bilateral relationship, and this is not unique to Australia. In China's relationships with a wide range of countries, similar language is used from time to time.

Minister Bishop [stated](#) that Minister Wang had invited her to visit Beijing this year for the annual Australia-China Foreign Ministers' Meeting. Prime Minister Malcolm Turnbull on May 18 [indicated](#) he would be visiting China 'later in the year'.

Trade Minister Steve Ciobo, who had earlier in the month travelled to Shanghai, had [requested](#) a meeting with his Chinese counterpart but was unsuccessful. Minister Ciobo was the first senior Australian minister to travel to China this year.

The Australian reported on May 21 that Shadow Defence Minister Richard Marles and Shadow Minister for Foreign Affairs Penny Wong are [planning](#) a visit to Beijing this year.

Senator Wong in an [interview](#) on May 21 [repeated her](#) criticisms of the Australian government's 'clumsy' approach to the Australia-China relationship, although did not place sole blame on the government for current tensions:

I think what we have seen from the Government to date is clumsiness, which has contributed to difficulties in the relationship.

Senator Wong called for consistency and 'clarity about where our interests come together and where they differ'.

Mr Marles, when [asked](#) about the Chinese Ministry's reference to Australia needing to take off its 'coloured glasses', stated, 'I do think there is work that needs to be done on the part of the government to repair its relationship with China.' However, Mr Marles added the qualification that:

[T]his is not about taking robust positions in relation to the South China Sea...In fact, it is absolutely essential that we do that. Nor is it about the foreign interference laws. It's really essential that we take robust positions there which are about asserting Australia's national interests.

He said:

Precisely because there are real complexities in the relationship with China there can be no room for gratuitous comment.

Foreign interference

On May 22, one day after Minister Bishop's meeting with her PRC counterpart, a Liberal backbench MP and chair of the Parliamentary Joint Committee on Intelligence and Security, Andrew Hastie, used parliamentary privilege in the Australian parliament to [name](#) a Chinese-Australian businessman, and donor to both major political parties, Chau Chak Wing, as the unindicted 'co-conspirator 3' (CC3) in a 2015 US court case regarding bribery of a former president of the UN General Assembly. Mr Hastie said:

In Australia it is clear that the Chinese Communist Party is working to covertly interfere with our media and universities and also to influence our political processes and public debates.

...

The central pillar of the government's counter foreign interference strategy is sunlight...It's time we applied sunlight to our political system and a person who has featured prominently in Australian politics over the past decade.

Fairfax Media reported that Mr Hastie's [stated](#) motivation for his speech was that:

I wanted to reset the way we look at China and their influence operations. I wanted to lay down markers in our democracy. China may be able to touch a lot of things but they can't touch our parliamentary sovereignty.

Mr Hastie had received the information regarding Chau Chak Wing from a briefing from US officials while on a trip to Washington. He tabled in parliament US State Department documents discussing Mr Chau's links to the Communist Party.

Prime Minister Turnbull in a press conference the following day [said](#) that he had no forewarning of Mr Hastie's address: 'The first I learned of Mr Hastie's remarks is when I heard them.' However, the Prime Minister defended Mr Hastie's 'right to speak on matters under parliamentary privilege' and noted that the allegations that were spoken of were 'not new'. Australian Security Intelligence Organisation (ASIO) Director-General Duncan Lewis [told](#) a Senate Estimates hearing on May 24 that Mr Hastie had had a 'speculative conversation' with a junior ASIO officer about his intention to address parliament on the matter, and that Mr Lewis himself had become 'personally aware' 'that there was some prospect...of [Mr Hastie] saying something about an hour and a half before he made the statement'.

A Fairfax-ABC investigation into Chinese influence in Australia had last year reported that Mr Chau was believed to be CC3.

Some members of both sides of politics, including Trade Minister [Ciobo](#) and Shadow Minister for Infrastructure Anthony [Albanese](#), defended Mr Chau. And neither the Liberal Party nor the Australian Labor Party has provided any [indication](#) they would be returning donations received from him.

Australian press [reported](#) on May 29 that some details had been leaked from a classified report [commissioned](#) by the Prime Minister in August 2016, the findings of which were the catalyst for the introduction of the new foreign interference legislation in December last year. While the Prime Minister in his introductory speech was careful to state that the legislation was not targeted at any one country, the only country of concern he spoke about with respect to activities in Australia was China. The classified report is said to [confirm](#) that China is deemed 'the country of most concern to Australia' and is also said to expose a decade-long attempt by the Chinese Communist Party to exert influence over Australian political parties. An unnamed intelligence source [told](#) one media outlet 'there had been infiltration at every layer of Australian Government, right down to local councils.'

One of the lead contributors to the classified report, former Fairfax China correspondent and former adviser to Prime Minister Turnbull, John Garnaut, on March 21 had provided [testimony](#) on Chinese influence before the US House Armed Services Committee. He said:

...China's activities have become too brazen and aggressive to continue to ignore. A re-evaluation is taking place in half a dozen established democracies around the world, including Australia and the United States.

On May 24 the ASIO Director-General [told](#) a Senate Estimates hearing that espionage and foreign interference was occurring on an 'unprecedented' scale – a repetition of his [assessment](#) in May last year. He said:

In some instances the harm from espionage and foreign interference is immediately in evidence, and in other instances ... the harm doesn't materialise for years and potentially for decades.

Attorney-General Christian Porter [announced](#) on May 30 a government review of national intelligence legislation, described as 'the most comprehensive review of intelligence legislation in Australia since the Royal Commission on Intelligence and Security in the 1970s.' The review, to be headed by former Defence Secretary and former ASIO head Dennis Richardson, will take 18 months to conduct.

The Attorney-General in a radio interview the same day [said](#):

We think it's very appropriate to step back and look at the whole system from top to tail...[P]eople only need wake up and read the newspaper every day to realise that what Duncan Lewis, the director-general of ASIO has said in parliamentary committees is true, we live in an unprecedented age of foreign interference, influence, espionage and domestic terrorism.

Former Secretary of State Hillary Clinton this month voiced concerns about PRC interference in Australia. On May 10, during a book tour in Australia, she [told](#) an audience in Melbourne:

I would hope that Australia would stand up against efforts, under the radar as we say, to influence Australian politics and policy. You must not let that happen. It is insidious.

She said, 'This is an urgent problem and one [Australia and the US] must confront immediately and together.'

She had previously touched on the issue during a [talk](#) in New Zealand on May 7, and later repeated her comments on an *ABC 7.30* [interview](#) and a Sydney [talk](#).

There were [reports](#) this month, too, of a [statement](#) provided to the US-China Economic and Security Review Commission in April by a former CIA analyst, Peter Mattis, on PRC interference in Australia. He told the commission:

Australia and New Zealand both face substantial problems with interference by the Chinese Communist Party. In both cases, the CCP has gotten very close to or inside the political core, if you will, of both countries.

...

In order to confront this problem, there's an issue of political will, and that means both in Australia and New Zealand...the United States can play a role by its support and pushing these governments to take this issue seriously and to keep the discussion going.

When [asked](#) by Radio New Zealand on May 28 what evidence he was basing the assessment – at least as far it pertained to New Zealand – Mr Mattis cited 'a great deal of news reporting done in New Zealand

as well as research work done by several New Zealanders'. When pressed further and asked, 'Have you looked at the actual manifestation of the so-called corruption of the New Zealand political core of the Chinese Communist Party?' Mr Mattis responded, 'I would say that one of the consequences is the desire to avoid offence and...getting the political relationship right'.

Mr Mattis in December last year had [said](#) Australia was one of the 'top' targets of the PRC's attempts to influence. He stated:

[T]he Chinese Communist Party may have been able to do a bit better job here simply because the reporting requirements on political donations have been looser than they are in other countries...

Former ambassador calls for foreign minister's resignation

Former Australian ambassador to China Geoff Raby, who now runs a business advisory firm based in Beijing, in an opinion piece on May 14 called for the Foreign Minister to be relieved of her position and replaced 'with someone better equipped for the demands of the job' in order to assist with improving relations between Australia and China.

He [wrote](#):

She angered China by making the most strident public comments on the South China Sea of any foreign minister and last year, in an utterly bizarre speech in Singapore, said China was not fit for regional leadership.

This built on a previous opinion piece, written on April 30, in which Mr Raby [said](#):

The Foreign Minister's, and hence her department's role in managing this critical relationship has become inconsequential.

Minister Bishop [labelled](#) Mr Raby 'profoundly ignorant ... about the level of engagement between Australia and China at present, and the state of the relationship.' Prime Minister Turnbull [defended](#) the foreign minister's performance, saying of Mr Raby's assessment, 'It's utterly wrong. Julie Bishop is doing an outstanding job.'

South China Sea

On May 2 *CNBC* [reported](#) that China had installed anti-ship cruise missiles and surface-to-air missile systems on Fiery Cross Reef, Subi Reef and Mischief Reef in the Spratly Islands.

When asked for her views on the development, Foreign Minister Bishop said that if the reports were accurate, then the government 'would be concerned because this would be contrary to China's stated aspiration that it would not militarise these features.'

Chinese President Xi Jinping had previously said that 'China does not intend to pursue militarisation' in the South China Sea during an [address](#) at the White House on September 25 2015.

The Foreign Minister added:

China, of course, has a unique responsibility as a permanent member of the United Nations Security Council, to uphold peace and security around the world. Any action to militarise unilaterally features in the South China Sea would go against that responsibility and that role.

On May 18 China [conducted](#) landing drills of long-range bomber aircraft, reportedly on Woody Island in the Paracel island group.

Defence Minister Marise Payne on May 21 [criticised](#) the move:

We urge all claimants to refrain from destabilising actions, including the deployment of advanced military equipment to disputed features.

Shadow Defence Minister Marles in an interview on May 23 [supported](#) Defence Minister Payne's assessment.

Minister Bishop [noted](#) in a radio interview on May 22 that she had raised the Australian Government's concerns about China's actions in the South China Sea with the Chinese Foreign Minister during their meeting on the sidelines of the G20.

The Foreign Minister during the same interview effectively ruled out joint freedom of navigation operations (FONOPs) with the US. When asked, 'What more can the US and Australia work on more cooperatively in [the South China Sea]?' she replied:

In relation to the South China Sea, we will continue to exercise our rights to freedom of navigation and overflight under international law. We will continue to support the rights of others to do so.

Trade Minister Ciobo, when asked in a *Sky News* interview on May 23 to [comment](#) on Minister Payne's characterisation of the bomber landing as 'destabilising', declined to endorse his colleague's comments despite being repeatedly pressed on the matter.

Minister Ciobo said he was 'not going to engaged in a commentary lecturing other countries about what they can and cannot do.' He said he was 'not going to engage in megaphone diplomacy with China on disputed territory.'

Asked whether 'China [should] be landing long-range bombers on a disputed island in the South China Sea' the Trade Minister said:

Well that's a decision for China.

On May 31 at Senate Estimates the Defence Minister was asked whether Minister Ciobo's comment that the landing of bombers in the South China Sea was 'a decision for China' reflected the government's position. Minister Payne [responded](#):

No, it means the government is concerned about the militarisation of those features.

On May 28 Liberal Senator Jim Molan, former chief of coalition operations in Iraq, [observed](#) that the South China Sea had effectively been ceded to China:

The Chinese will not be dislodged from the South China Sea short of all-out war.

On FONOPs he said:

The exercise of international rights to go through the South China Sea will be permitted by the Chinese until they don't want to permit them.

Therefore we need a new approach to our engagement with China. In Australia's case, the approach should be to welcome the rise of China from a position of national strength – military, economic and political, and effective governance.

Quad

The Australian Financial Review on May 13 wrote on a [report](#) commissioned by the US State Department which recommended support for the Quad to counter China's 'debtbook diplomacy' and economic coercion in the region.

On May 14 Singaporean Foreign Minister Vivian Balakrishnan was [asked](#) at a lecture hosted by the International Institute for Strategic Studies whether Singapore would be drawn into an expanded Quad. Minister Balakrishnan indicated that Singapore would not be joining up, stating:

[T]he strategic concept does not adequately address whether ASEAN would continue to be central to the region's architecture, and whether multilateralism and the rule of law would remain the order of the day.'

This follows on from reservations about the Quad expressed by Singapore's [Prime Minister](#) Lee Hsien Loong and [Defence Minister](#) Ng Eng Hen in March this year and November last year, respectively.

Indian navy chief Sunil Lanba, during a talk at the Vivekananda International Foundation in new Delhi on May 23, [stated](#) that the Quadrilateral ('Quad') – currently a joint dialogue involving Australia, India, the US and Japan – would not involve a military dimension. He said:

What do you think a military dimension will achieve? India is the only country in the Quad with a land border with China. In case of conflict...nobody will come and hold your hand.

Admiral Lanba also made reference to the economic dependency of other Quad countries on China:

There are dependencies of other nations involved. Australia's dependencies on China for economic benefits, the uncertainty of America when push comes to shove. We are not going down the route [of adding a military dimension to the Quad]. There are other avenues.

Foreign Minister Bishop on May 23 in an interview with Indian newspaper *The Hindu* [stated](#) that a second Quad meeting was in the process of being scheduled. This was [repeated](#) by a DFAT official during Senate Estimates on May 31: 'We are in the process of finalising timing for a second meeting'. Minister Bishop in her interview reiterated Australian interest in joining the annual Malabar naval exercises with India, the US and Japan.

The *Times of India* on June 6 [reported](#) that the Quad would be holding its second meeting on June 7 in Singapore, on the sidelines of an ASEAN meeting. The meeting would comprise senior officials 'at the joint secretary level'.

Airline carriers and references to Taiwan, Hong Kong, Macau

On April 25 the Civil Aviation Administration of China (CAAC) wrote to 44 airlines, including Qantas (extending to its subsidiary, Jetstar), demanding they adjust references to Taiwan, Hong Kong and Macau on their websites, apps and marketing materials that may imply they are territories independent of China. While Qantas has not made public the contents of the letter it received, it was reported that the letter issued to United Airlines and American Airlines [indicated](#) that non-compliance would result in a referral to 'the relevant cyber-security authorities'.

This letter follows a similar missive from the CAAC in January directing airlines to check their online references to Taiwan, Hong Kong and Macau and correct any 'errors'. That month the PRC took action against the Marriot hotel group, [blocking](#) the group's website and app for one week after it had listed Taiwan, Hong Kong, Macau and Tibet as separate countries in an email survey.

The US White House Press Secretary issued a [statement](#) on May 5 branding the CAAC's ultimatum 'Orwellian nonsense', stating that the US 'strongly objects to China's attempts to compel private firms to use specific language of a political nature in their publicly available content.'

Australia also expressed objection to the letter of demand, albeit in more diplomatic terms.

Foreign Minister Bishop stated on May 7, 'The Australian government remains committed to a one-China policy', but [added](#):

The terms that private companies choose to list destinations are a matter for them. There should be no pressure from governments, whether ours or others, that threatens the ordinary operations of business.

She [repeated](#) this on May 24.

Shadow Minister for Foreign Affairs Penny Wong agreed with Minister Bishop, [telling](#) *The Sydney Morning Herald* that it was 'entirely a matter for Qantas, or any other company, how it chooses to best promote the destinations it flies to'.

The CAAC was said to have set May 25 as a deadline for compliance for airlines, but have now [extended](#) the timeframe up to July 25 for some, including Qantas, who applied for an extension. Qantas has not provided any indication it will contest the matter.

18 of the 44 airlines written to by the CAAC have complied to date. The CAAC [said](#) on May 25 that all airlines contacted have undertaken to modify their materials.

China and the Pacific

Fairfax Media reported in April that the PRC and Vanuatu were engaged in 'preliminary [discussions](#) about establishing a PRC military base in the Pacific state. While these reports were [unequivocally](#) denied by Vanuatu and the PRC, the prospect was cause for consternation in Australia.

Shadow Defence Minister Richard Marles in a [speech](#) to Washington's Centre for Strategic and International Studies on May 3 said that the 'very idea [of a PRC military base in the Pacific] of it must be a wake-up call for Australia'. He signalled that the Pacific would be a priority for a Labor government:

China is spreading its wings and asserting itself within a region that includes the Pacific. It's been doing this for some time. We can complain but we are unlikely to change China's direction.

...

In truth it is for Australia to earn its natural place as the partner of choice for these nations. The nations of the Pacific want to partner with us but not if we assume the partnership is by right.

Business concerns

The Australian business community continues to express concerns about the current state of the relationship between Australia and China and the toll it has taken on their business interests.

On May 29 head of the Australian Chamber of Commerce in Shanghai, Udo Doring, said that ‘the political commentary out of Australia is unhelpful to those working in China’. He stated:

Our view and the view of our members is that we have nothing to gain and everything to lose if the bilateral relationship continues to worsen.

Star Entertainment Group CEO Matt Bekier also [characterised](#) the political environment and debate as ‘not helpful’.

Andrew Forrest, founder of the Fortescue Metals Group, having last month [called on](#) Australian politicians to recalibrate their China rhetoric, [criticised](#) the Australian media’s coverage of China during a press conference with the Foreign Minister on May 15:

When it gets reprinted in China it does break my heart.

[Australian media outlets] don’t have government endorsement, they are not the government voice, they are business people trying to sell a few newspapers.

Australian winemakers and beef exporters appear to be feeling the effects of the current tensions in the Australia-China bilateral, with some Australian winemakers, including Treasury Wine Estates, [experiencing](#) seemingly unusual processing delays at Chinese customs. An agreement to expand access for Australian chilled beef and frozen beef exporters, signed during Chinese Premier Li Keqiang’s visit to Australia last year, also appears to have stalled. The Australian Meat Industry Council’s chief executive [observed](#) that while ‘[o]ur Chinese counterparts haven’t informed us of any major issues...[t]he process has certainly slowed in regards to information going backwards and forwards’.

In addition to wine and beef, DFAT’s North Asia division head [stated](#) that ‘[t]here have been rumours in the marketplace’ about other Australian export sectors that have recently been experiencing hurdles with respect to Chinese market access, but that DFAT was ‘unaware of any specific problem’.

Belt and Road Initiative

On May 18 Minister Ciobo in a [speech](#) to a business audience in Shanghai [reiterated](#) that the Belt and Road Initiative (BRI) presented opportunities for Australian business in China and third countries. While he noted that Australia welcomed the potential the BRI presented to boosting regional infrastructure, he provided no indication that Australia would sign up as a participant to the BRI.

Research collaboration

In a follow-up to [claims](#) made by Charles Sturt University academic Clive Hamilton in *The Australian* last year that the Australian Research Council (ARC) was ‘funneling Australian taxpayer funds into research with applications to China’s advanced weapons capacity through its linkage program’, the ARC [told](#) a Senate committee that they found ‘no cause for concern regarding the identified ARC-funded projects’ compliance with the [Defence Trade Controls] Act.’

A [review](#) of the Defence Trade Controls Act is currently being undertaken to ‘consider the adequacy of both safeguards of national defence capability and its operation to prevent trade and collaboration

that could advance the military capabilities of potential adversaries or see the transfer of technology that would not be in Australia's national interests.' The review is expected to be completed in six months time.

NSW Confucius Classrooms review

It was [reported](#) on May 8 that the New South Wales (NSW) Government is conducting a review into the Confucius Institute housed within its Department of Education. The Confucius Institute, which operates with funding from the Chinese Ministry of Education's Office of Chinese Language Council International (Hanban), [administers](#) 13 Confucius Classrooms in NSW. The Confucius Classrooms provide Chinese language and culture education.

A spokesperson for the NSW Education Minister [said](#):

The Department of Education's relationship with the Confucius Institute is currently under review to ensure that there are no inappropriate influences from foreign powers.

The former head of strategic analysis of the Office of National Assessments, and non-resident senior fellow at a Washington-based think tank, Ross Babbage, in December 2017 had [called](#) for a review of the arrangement.

Taiwanese flags covered up in Queensland

On May 10 it was [reported](#) that the Rockhampton Council in Queensland decided to cover up a small painting of two Taiwanese flags accompanied by the Chinese characters for 'Taiwan' by two Taiwan-born students from a local school. The painting had been made on a bull statue that 'celebrates the cultural diversity of the Rockhampton community' in the lead-up to a beef expo.

Rockhampton's mayor said that the paintings were covered up after the Chinese vice-consul in Brisbane lodged a complaint about them to the council.

In a letter [explaining](#) the decision, the mayor said:

Council's actions reflect Australian foreign policy.

...

I wasn't personally involved in what happened. That said, while I may have wished I had been briefed, I can't honestly say I would have done anything different.

Trade

By James Laurenceson

Australia's education sector looks to be feeling the cooling of bilateral relations since the beginning of 2017. In the year through March, the growth in commencing students from China dropped to single digits but remained a respectable 9.7 percent. But data on student visa grants confirms the pipeline for the second half of 2018 and 2019 to be a looming problem. At this time last financial year, visa grants were growing at 15.8 percent. Now it's less than half this, 6.4 percent. For postgraduate research students the turnaround is even greater, going from a positive 15.4 percent to contracting by 5.2 percent. If only students applying for visas from China are considered (rather than also including those already onshore) the numbers are even worse. In the space of just one year, growth of 17.2 percent has ground to a virtual halt at just 1.7 percent.

This month the Australian Bureau of Statistics (ABS) published data on foreign investment for 2017. Chinese investment in Australia recorded a large fall in net terms of \$17.9 billion. The caveat is that this wasn't due to a fall in direct investment, such as when a Chinese company builds an apartment block or acquires an existing Australian business. In fact, Chinese direct investment in Australia was \$3.0 billion, up from \$2.0 billion in 2016. The overall fall was due to the category of "other investment liabilities", which comprises loans, currency and deposits. The fact the Chinese currency has strengthened against the Australian dollar over the past year is one likely driver. Australian investment in China also recorded a large fall in net terms of \$9.9 billion. Australian direct investment in China slumped by \$1.9 billion, the second consecutive year that this category of investment has gone backwards. The summary is that the two-way investment stock fell from \$167.1 billion to \$142.1 billion, and Australia now has a larger volume of investment in China than China has in Australia: \$77.1 billion versus \$65.0 billion.

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