



Discussion Papers

Session I: What does China want from the region? How should Australia respond?

Prof. Nick Bisley

As the world's second largest economy and under the leadership of President Xi Jinping China now has both the capacity and the will to realise its long held international ambitions. However, the exact nature of the regional or global order to which China aspires and their practical implications remain unclear. What kind of region does China want? What role does it see for the United States in East Asia? Is China able and willing to pay the price, both financially and politically, to craft a different regional order? And most importantly, how compatible are China's ambitions with Australia's interests and how should Australia respond?

China has taken steps to shape its international environment. Whether it is President Xi's view that Asian peoples should manage Asian security, the hugely ambitious One Road One Belt and Maritime Silk Road initiatives, the Asia Infrastructure Investment Bank or its leadership of the Shanghai Cooperation Organisation, Beijing advocates a China-centric region that marginalises the US. But there does not appear to be a clear vision of the overarching order China wants.

China's ambitions have been most evident in its sophisticated efforts to reclaim around 3000 acres of land and establish military-grade runways and deep-water ports in disputed waters in the South China Sea (SCS). It has raised concerns that China intends to control navigation in the SCS and declare an Aerial Defence Identification Zone (ADIZ) over the SCS. Alongside the deployment of an oil rig within Vietnam's Exclusive Economic Zone, its unilateral declaration of an ADIZ in the East China Sea, and the frequent harassment of Japanese Self Defense Force aircraft and ships around the Senkaku/Diaoyu islands, a picture emerges of a China that is increasingly confident to assert its interests even at the expense of unsettling many in the region.

During President Xi's state visit to the US in September, he underlined that China would never seek expansion or hegemony. While gently rebuking the US for not taking up the offer of a 'new great power' relationship based on mutual respect he also sought to reassure Washington about China's regional role. This is in keeping with comments made by Foreign Minister Wang Yi in June: "we do not intend to form military alliances or drive any country out of the Asia-Pacific."

Yet views within the US towards China have hardened over the past year. In October the US Navy conducted a long-awaited freedom of navigation patrol in the Spratly archipelago within 12 nautical miles of one of the artificial islands China has constructed. The US has since announced plans to conduct further freedom of navigation patrols in the Spratlys at least twice a quarter. China responded by sending two of its own warships to the area to prevent further "trespassing". The US Government downplayed tensions emphasising that it regularly conducts similar patrols near features claimed by other countries in the SCS. A scheduled visit to China by the US PACOM Commander also went ahead as planned. However, during the ASEAN Defence Ministers' Meeting 'Plus' talks in November defence leaders failed to issue a joint communiqué due to disagreement over references to the SCS and intense lobbying of member states by both the US and China.

Australia's ability to manage potential conflict between its major strategic and economic partners has long been the subject of speculation. Following the US patrol, Defence Minister Marise Payne



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emphasised the rights of all states to freedom of navigation and overflight, and the "legitimate interest" of Australia in maintaining these rights, and ensuring unimpeded trade and respect for international law. The comments leave open the option of Australia conducting a freedom of navigation patrol through the disputed waters in the future. The Australian Government is keen not to reduce its lines of communication and cooperation with China. The Navy proceeded with long-planned live fire exercises with its Chinese counterpart in the days following the US patrol.

During the two years of the Abbott government, Australia took a sharp position in relation to China, emphasising Australia's commitment to the American conception of the region. This was most clearly articulated in the response to China's establishment of an East China Sea ADIZ in 2013. In June 2015 then Defence Minister Kevin Andrews floated the idea of an Australian freedom of navigation exercise to test China's resolve in the SCS. Although the government sought to leaven this with the conclusion of the FTA and joining the AIIB, overall, it was clear that Australia under Abbott saw China as a challenge to its long term strategic interests.

Contrary to established custom several senior Australian officials have made public comments about Australia's relations with China in 2015. DFAT Secretary Peter Varghese observed that China has "every right" to seek greater strategic influence to match its economic weight, but that the extent to which this can be peacefully accommodated will depend on China's international behaviour and the extent to which the existing order "intelligently" finds more space for China. He also suggested that Australia should be "alert to the need better to spread our economic risk". Defence Secretary Dennis Richardson expressed concern at the unprecedented speed and scale of China's land reclamation activities in the SCS. The Department of Prime Minister and Cabinet's secretary, Michael Thawley, said that China was "not ready or willing" to lead a new global order. He said Australia was in a "long-term struggle" for influence in the region and that it should have the capability to play a larger military role.

Tony Abbott's replacement by Malcolm Turnbull led many to assume a greater degree of moderation in Australian policy toward China. Yet, in one of his first forays into foreign policy Prime Minister Turnbull said China was "pushing the envelope" with its activities in the SCS and that responding to China's rise would require both diplomacy and balance. He has emphasised that Australia needs to "stand up for a rules based international order, which means the strongest power cannot just do whatever it likes." This was language that even the Abbott government had been unwilling to use. Notwithstanding some more judicious presentation, a considerable degree of continuity in Australia's approach to China is likely.

China is increasingly willing to assert itself in the international arena and use its greater political sway to promote its interests, particularly in the region. Australia's ability to manage the tensions that arise from these changing dynamics will directly test its strategic and diplomatic skills.

Questions for the session to consider:

- How will China use its power? How will China counterbalance American influence in the region?
- What can be expected of China as a regional actor if its economy falters?
- How should Australia respond to the changing regional dynamics? What options does it have? Deterrence? Accommodation? How closely should Australia follow US actions?
- What avenues of influence does Australia have in China and how can we utilise them most effectively in support of our interests?



Session II: China's economic environment under Xi Jinping: what are the implications for Australian business?

Prof. Hans Hendrischke

The Xi Jinping leadership assumed government with a 'new normal' economic policy and a structural reform agenda. Its main two features are reduced infrastructure investment and structural deregulation. This meant more reliance on domestic consumption, social spending and infrastructure spending focused on projects that increase productivity, such as urban transport. The result was a slow-down of GDP growth to a target range of 6 to 7 per cent and a decline in resources imports.

Does the new normal work? This depends on the ability to transfer control over allocation of assets to the market and enterprises through operating finance and equity markets and a growing private sector. Underlying reforms of public finance and business taxation, while out of the limelight, have enabled the growth of financial and equity markets. The state-owned banking sector is undergoing corporatisation and marketisation to shift its focus from serving the state-owned enterprise sector to serving the private sector and retail clients. The anti-corruption campaign, while seen as disruptive, is forcing out financial intermediation by local governments.

The private sector is expanding. The government has facilitated access to finance and markets (and decreased the red tape) enabling the growth of large national and global corporations, such as Alibaba, Wanda and Huawei. New large private enterprises are also emerging from the dismantling of large state-owned enterprise groups.

In this context, the 2015 stock market volatility was the result of the government's overconfidence in stock market development for corporate investors. The government's encouragement of small retail investors to cash in on growth damaged investor confidence in the stock market for investors. However, the role of equity markets, including the Stock Market, Private Equity, Venture Capital and Mass Finance, will continue to grow.

The new 13th Five Year Plan for 2016 to 2020 builds on these structural reforms. Its main elements are technical innovation, social consolidation and corporate globalisation. China aims to radically upgrade its manufacturing sector through phasing in a European inspired innovation program called China 2025 in order to avoid the 'middle income trap' of being stuck in labour intensive manufacturing. Agricultural innovation is driven by a closer integration of urban and rural areas which is supported by social measures such as the reform of residency restrictions.

The international consequences of structural reforms are new markets and new corporate actors. New markets are emerging in banking/finance, health, education and e-commerce. These are immature markets that will take experimentation to develop and are likely to be disruptive. These markets will be highly contested.

Other markets are opening up through China's regional economic expansion into Central Asia and Southeast Asia and the Asian Infrastructure Investment Bank.

New corporate actors emerging from China's structural reforms are large-scale private enterprises that have the means to invest and operate globally and are more open to cooperation than traditional state-owned enterprises.

What are the implications for Australia? Australia has experienced a downturn in resources trade and resources investment. From 2013/14 to 2014/14 Australian merchandise exports to China declined by



18.6 per cent. Chinese direct investment into Australia declined from its peak in 2012 by close to ten per cent year on year in 2013 and 2014 driven by a steep decline in resources investment that was partially offset by an increase in other areas such as commercial real estate.

However, there is positive news as well as challenges. Past the resources boom, Australia's economy is well equipped to cater for China's growing consumer and producer markets under new normal policies and the 13th Five Year Plan. Australia has competitive advantages in the services industries, in particular finance and education, as well as in agriculture and agribusiness and continues to be a strong global player in resources and infrastructure. Australian economic dependence on China is likely to increase across major industries. As the ACBC's 2014 Australia China Trade Report noted, China is our main avenue to enter global value chains. In these globally contested markets Australian businesses can only depend on their agility and competitive advantages.

In this changing economic environment, the role of the Australian government will also undergo adjustment by moving from providing technical support for business towards promoting strategic opportunities.

Technical government support in reducing trade barriers through ChAFTA, TPP and other agreements is crucial for integration in global value chains. Government action will also be in demand to support foreign direct investment in China, where Australian firms are exposed to the same forms of institutional discrimination and competitive pressure as investors from other countries and where an on-going coordinated approach is called for.

In addition, Australian governments will have to take a pro-active strategic role when it comes to creating strategic commercial opportunities. This relates to at least three areas.

- Lobby for a commercial role for Australian companies in the new Asian Infrastructure Investment Bank (AIIB). Australia was invited as one of the original participants because of its commercial and institutional maturity. This could be commercialised in future third-country projects by AIIB, AIIB projects in Australia as well as Australian service provision for AIIB.
- A pro-active role in structuring Chinese direct investments in Australia as well as Australian investment in China. Currently, government focus is on pre-entry regulation of Chinese investment through FIRB. A stronger focus on post-entry integration by for example calling for more joint venture arrangements is likely to gain support from Australian and well as Chinese businesses.
- Australian governments could market Australian national infrastructure projects for joint international development as is currently happening in Northern Australia.

Questions for the session to consider:

- How do Australian businesses need to adjust given the changes that have taken place as part of China's economic rebalancing?
- How have the regulatory, political and strategic decisions made since Xi Jinping came to power, including the anti-corruption campaign, affected the business environment for Australians and for Chinese foreign investors?
- Are there concrete measures the Australian government should contemplate to manage possible increased risks, or should they be solely managed by business?



Session III: The PRC's engagement with Australian society: how should Australia respond?

Eva O'Dea

The Olympic torch relay in 2008 was an eye-opener to many Australians because it revealed the extent of engagement by the government of the People's Republic of China (PRC) with Chinese student and community groups in Australia. People were taken aback at the sudden appearance of busloads of well organised, pro-PRC Chinese student groups in an attempt by the PRC embassy to out-number pro-Tibetan protest groups during the torch relay in Canberra.

The PRC government engages directly and indirectly with the Chinese community in Australia, including both Australian citizens of Chinese descent and temporary residents such as students. These engagement activities, run in part in collaboration with the PRC embassy and consulates as well as PRC provincial officials, include support for Chinese business, student and community groups, as well as involvement in Chinese language media in Australia. Many of these activities are in the realm of standard public diplomacy conducted by most countries and intended to promote favourable views of the PRC. However, the exact nature of this outreach and the intentions behind it are often opaque. In particular, uncertainty remains as to the extent to which community engagement via associations solely targeting the Chinese communities is used as a means of monitoring the activities of the Chinese diaspora and stifling discussion about issues deemed sensitive by the PRC government.

There exists a plethora – reportedly hundreds – of student, business and community associations serving the Chinese diaspora in Australia. They have differing objectives, affiliations, sources of funding and levels of activity. Many promote links with Chinese culture among Chinese Australians, raise money for charity work and disaster relief efforts in China and provide support for newer arrivals in Australia. They provide business and social networks, which are often utilised by community leaders to ensure enthusiastic welcomes for visiting Chinese dignitaries, such as the visit by President Xi Jinping in November 2014.

Some of the larger, better funded and more active organisations include the Australian Council for the Promotion of Peaceful Reunification of China (ACPPRC) and the Australia-China Economic, Trade and Cultural Association (ACETCA). The ACPPRC has recently established a youth organisation, while other student groups such as the Chinese Students and Scholars Association and the Australian Chinese International Students Club also serve the Chinese student community. These associations are reported to receive assistance, including financial support for events, from the Chinese consulates. Many organisations have a negligible or non-existent online presence. Non-Chinese are notable for their absence (beyond an honorary capacity) in nearly all of these associations.

The role of the PRC government in Confucius Institutes (CIs) has also attracted controversy. There are currently 13 CIs and 35 Confucius Classrooms in Australia. While they provide teaching in Chinese language and culture, their association with the PRC Ministry of Education, which provides significant funding to the CIs, could be a potential threat to academic independence. The focuses and nature of operation of CIs in Australia vary depending on the terms agreed between the host university and the PRC Ministry of Education and the ability of the CI director to ensure the institute is run according to Australian governance standards. Within Australia, there are anecdotal reports of CIs providing a platform for the PRC authorities to monitor academics, particularly those of Chinese background. In effect, however, the outreach ability of CIs in the broader Australian society may well be fairly marginal.



The PRC government's ability to influence the Chinese community in Australia is perhaps at its most effective through its involvement in Chinese language media. The dominant players in Australia's Chinese language media landscape are the Sydney-based Chinese Newspaper Group, which owns nine newspapers across the country, and Melbourne-based Austar International Media Group, which owns eight newspapers and a number of Chinese language radio stations. Journalistic standards are arguably lacking at the smaller, commercially-driven Chinese language publications, and cross promotion with the business interests of owners is common.

Austar International has a sourcing agreement with China Radio International, an affiliate of the PRC Central Propaganda Department. In addition to providing a platform for content from Chinese state media, this arrangement means that content from sources disliked by the PRC government, such as the BBC World Service, is not broadcast. The influence of journalists from mainland China in SBS's mandarin radio service has also increased in recent years. Consequently, stories are increasingly covered in ways that are sympathetic to the PRC government and topics deemed sensitive or controversial are often ignored. Among those familiar with the Chinese language media there is a view that minority community media should receive more resources from the Australian government and that this would decrease the need for external sourcing deals.

Migrants and students from mainland China are now dominant in Australia's Chinese community. As the Chinese community grows, it is all the more important to understand the ways in which the PRC government engages directly with community members, monitors potential sources of dissent, and fosters patriotism towards the mainland, including among Australian citizens of Chinese descent. As John Fitzgerald notes, the outreach activities of the PRC government with Australia's Chinese community are afforded greater significance because they are being conducted in the absence of an Australian government strategy to sufficiently engage the Chinese Australian community as Australians. This is compounded by the lack of a clear strategy to engage with Chinese students while they are in Australia. The majority of Chinese international students graduate with little or no understanding of Australian social and political systems and values. While these students are regarded as an important source of income for Australian universities, they should also be valued as people who upon graduation could be friends of Australia and everything Australia stands for.

Questions for the session to consider:

- What should the Australian government do to address the monitoring activities of the PRC government in Australia and its attempts to influence Chinese Australians?
- How should the Australian government reach out to Chinese students and the broader Chinese-Australian community to counter the influence of the PRC government? Should it be more involved as a regulator and funder in Chinese language media?
- What would a constructive role by the Australian government in the Chinese Australian community entail? Should it more actively seek to cultivate a sense of Australian identity among Australia's Chinese diaspora?
- Should administrators and faculty at Australian universities be made more aware that organisations representing the interests of the PRC attempt to influence their Chinese students? What measures should universities take to address this?
- How should Australian governments and universities seek greater transparency among Chinese associations?