



Discussion paper for Inaugural National Meeting of China Matters Young Professionals

Session I

How should Australian business respond to China's regional ambitions?

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Australia-China relations have recently come under strain. This is due in large part to Australia's public disagreement with China's position on the South China Sea. In July 2016, a Permanent Court of Arbitration (PCA) ruling overwhelmingly invalidated China's 'historic claims' and island building activities in the South China Sea. China's refusal to accept the ruling has given credence to the idea that China may no longer be rising peacefully. Instead, it is attempting to challenge the regional 'rules-based order' (which Beijing believes systemically favours this order's strongest proponents such as the US and Australia) by courting ASEAN and other regional countries to act according to its preferred terms of strategic and economic engagement.

Roughly US\$5 trillion worth of trade passes through the South China Sea each year, including approximately 60 percent of Australia's total exports. Were China to use its dominance in the South China Sea to restrict trade flows, it would force Australia to re-route US\$20 billion worth of cargo per annum.¹ Concern over this prospect stems from instances when China has threatened to declare an Air Defence Identification Zone over the South China Sea, as it did over the East China Sea in 2013. However, the buildup of military activity in the South China Sea has thus far not restricted normal trade flows. China is unlikely to disrupt stable trade through the South China Sea given its dependence on this route for imports and exports; for example, 80 percent of its crude oil imports pass through these sea lanes.

The safe passage of goods through the South China Sea is fundamental to economic stability in the region and is the reason why Australia's business community should closely observe China's actions. Some commentary has suggested that the recent arrests of Crown Casino employees in China may be retribution for Canberra's disagreement with Beijing's claims in the South China Sea.² At this stage, however, this incident merely serves as a reminder that Australian businesses must be sensitive to shifts in China's political climate and its regulatory environment.

On a number of occasions, Chinese media outlets have rebuked the Australian government for calling on Beijing to abide by the PCA's ruling. Beijing could express its displeasure by mobilising its citizens and diaspora for purposes that impact Australia economically. Businesses must consider the potential of a sudden withdrawal of the Chinese market from key Australian products

¹ A Fensom 2016, '\$5 Trillion Meltdown: What If China Shuts Down the South China Sea?', *The National Interest*, 16 July

² G Raby 2016, 'In China's murky system, Crown may never know all the answers', *Australian Financial Review*, 19 October

or major exports such as education and tourism. For example, Chinese consumers staged a boycott of Japanese products in late 2012 when tensions over the East China Sea reached boiling point. More recently, in August 2016, swathes of Chinese tourists cancelled trips to South Korea after its deployment of the THAAD anti-missile system, which saw Korean retail stocks plunge. However, these economic sanctions were motivated by violations against Beijing's strategic interests, namely US military deployment on the Korean Peninsula and territorial disputes with Japan. Therefore, it may take more than Australia's megaphone diplomacy for Beijing to enact hugely disruptive economic sanctions against it.

In addition to China's strategic ambitions, it has growing economic ambitions which are reflected in its insatiable appetite for infrastructure investment. Launched in 2013, Beijing's One Belt One Road (OBOR) and Maritime Silk Road initiatives seek to build networks of land and maritime infrastructure connections between China and other continents. Only a few OBOR/Silk Road initiatives have been launched in Australia, including a streamlined shipping route along Australia's eastern seaboard to China's Rizhao Port. Australian businesses have been reluctant to sign up, however, due in part to the high risks involved in projects in developing economies and the uncertainty around the motivations behind Chinese state-owned investment. OBOR presents a major opportunity for financing much-needed infrastructure development throughout Northern Australia, as well as enhancing Australia's connectivity with ASEAN, which is the world's seventh largest economy as a single trading bloc. Australian businesses could capitalise on the fact that Chinese SOEs would rely heavily on Australian firms to provide capacity in professional services and project management.

While OBOR clearly presents opportunities for Australian businesses, these cannot be taken for granted. The lessons of China's behaviour in the region highlight the fact that Australian businesses should not be complacent. Rather, the business community must continue to increase its understanding of China and its motivations, as well as Australia's bilateral relationship with Beijing. Most importantly, Australian businesses cannot afford to be caught unaware of the potential for China's political and strategic ambitions to have major economic ramifications.

Questions

- How do China's strategic and economic ambitions affect Australian business?
- Are Australian businesses prepared for a disruption to the economic stability of the Australia-China relationship?
- How would a bilateral diplomatic crisis impact the Australian economy?
- Does China's 'One Belt One Road' strategy present more benefits or risks for Australian business and government?



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