

# **The Great Australian China Debate: Implications for the United States and the World**

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Remarks delivered at the Sigur Center for Asian Studies  
George Washington University  
Washington DC  
Monday September 10 2018

Politics here in the United States has become somewhat too interesting of late, but unfortunately Australia in its own ways is becoming interesting too.

The situation on which I will reflect – the changing Australia-China relationship, especially on questions of geopolitics and foreign interference – is of course about much more than Australia and its own kind of political difficulties.

The Australian experience offers useful insights for a set of security and foreign policy problems shared by many countries in our Indo-Pacific region and globally.

How do we manage Chinese power and assertiveness in ways that lead neither to conflict nor capitulation?

How do we protect democratic institutions from foreign interference and influence – whether from the PRC or another power – in ways consistent with both national interests and national values, such as civil liberties, non-discrimination and an inclusive society?

And how do we distinguish different kinds of foreign involvement – how is, say, criminal interference distinct from mere influence, and how in response do we fashion and deploy suitable instruments of policy?

To understand all this, an important clue lies in a key line from the speech former Australian Prime Minister Malcolm Turnbull used to introduce the nation's legislative response last December.

*“... our rejection of covert, coercive or corrupting behaviour leads naturally to a counter-foreign-interference strategy that is built upon the four pillars of sunlight, enforcement, deterrence and capability.”*

It's a rich sentence, both conceptual and practical, worth unpacking and useful for any country considering analogous problems.

Three characteristics of what constitutes foreign interference: covert, coercive or corrupting behaviour.

And four pillars to the response: sunlight – that is, transparency - along with enforcement, deterrence and capability.

I will proceed as follows.

I will set out some characteristics of Australia, that help explain the particular China challenge we have and the national and regional context in which we are responding.

I will briefly touch on the story of the seemingly dramatic change of direction of the past two years, towards a relationship with China based more on security and sovereignty, balancing economic opportunity with heightened awareness of risk.

Australia has experienced full-scale controversies over foreign influence and interference, quite the full tapestry from political donations and propaganda through to social mobilisation, intimidation of individuals, alleged misuse of academic links, cyber intrusions and espionage.

Consideration will be given to the measures Australia has taken to limit associated risks – notably new legislation, two landmark Acts of Parliament passed in June.

There is also the matter of where Australia's experience fits in the wider strategic dynamic.

Why and how is Australia responding to Chinese power – and, frankly, to uncertainties about the Trump Presidency too - with its so-called Indo-Pacific strategy of deepening and diversifying many security relationships?

And how can other countries learn from – emulate or indeed avoid – the Australian experience in dealing with China?

## **What does China want with Australia?**

Up front, I will try to answer the obvious question: what does China want? If the PRC is involved in Australia's internal affairs, why? Why put at risk what had until recently seemed such a positive relationship?

Put simply, four reasons, beyond the obvious mutual benefits of an economic relationship.

Australia is a key US ally. The PRC would like to weaken the alliance.

Second, Australia has military, intelligence and capability secrets and technologies – our own, those jointly developed with the alliance and those that lie ahead through cutting-edge civilian or dual-use research – that the PRC seeks.

Third, Australia is an outspoken and independent power in the Indo-Pacific, whose criticism and solidarity-building resistance to Chinese power is noted and potentially followed by others.

And fourth, Australia is home to large communities of Chinese heritage which Beijing wishes to see as largely pro-PRC in their attitudes, or otherwise silent and passive on matters relating to the interests of the Chinese Communist Party.

Here Australia is a bellwether. If dissenting Chinese voices can be silenced in Australia, they can be silenced anywhere.

## **Seven myths about Australia-China relations**

Let me stay with numbers. I hope my remarks help us think again about seven myths that have been perpetuated about Australia and its relations with China.

Myth number one – the first myth is that we face some crude China choice, some fundamental decision about whether we go all the way in strategic terms with our top trade partner China or with our longstanding ally America.

That has become a somewhat caricatured notion, associated with the idea that shifting closer to China's orbit is either desirable or inevitable, which has outlived its analytical usefulness.

It continues to have no real traction within the Australian policy community.

The Australia-US relationship operates at many levels beyond the defence alliance.

For instance, the United States and the EU remain by far our biggest economic investment partners. One year recently, American investment in Australia grew by more than the entire stock of Chinese investment there.

Investment involves trust and predictability. Trade is more about transaction.

Australia has actively redefined its region as the Indo-Pacific, not only because this two-ocean definition of the region is plainly where we belong.

But also because it a vast and multipolar place that by definition dilutes and complicates Chinese hegemonic ambitions, real or latent – in other words, an Indo-Pacific strategy helps transcend a narrow China choice.

That leads me to myth number two – that Australia has pushed back against Chinese domestic interference as some kind of proxy for allegiance to America in this age of Trump.

Not so.

We did not lead the international trend to reject PRC influence in order to impress America.

We did it for our own sovereign reasons, an independent foreign policy.

If anything, the United States has taken its cue from Australia on this issue – a reminder that good allies do their share of listening.

Myth number three – Australia's new effort to build resilience against foreign interference, and to build solidarity in speaking truth to China on the international stage, is simply some kind of national security takeover in Canberra.

Not so.

Caution about China is shared by our economic and foreign policy establishment too.

It has become a whole-of-government attribute, crossing the spectrum from defence to development assistance to domestic policy such as communications and national infrastructure.

It is not as if Australia was until recently entirely blind to the risks of our rapidly expanding economic and societal links with China. Nor is it the case that we are now comprehensively rejecting China. We are seeking a new balance and sustainability in the relationship.

In other words - and that lead us to myth number four – it is wrong to assume that things will revert suddenly to accentuate the positive with China just as soon as there is a change of government.

That, incidentally, is likely within eight months, to the centre-left Labor party from the current centre-right Liberal-National coalition.

Exhibit A. The parliamentary Labor Party has thrown full bipartisan support behind the new foreign interference and influence laws. They own the response, just as they wisely did not want to inherit an unresolved problem which had been highlighted by the China-related scandals around one of their own Senators.

Myth number five: There has been a simplistic view that Australia will bend on these issues – that is, by being more accommodating to China’s strategic preferences – because our economy, especially our trade in iron ore, tourism and education, is so exposed to China that Beijing’s economic coercion could devastate our standard of living.

Proper consideration of this matter requires a clear sense of the rather mixed track record of Chinese economic leverage against other countries – think for instance Japan, South Korea, the Philippines, Norway, Vietnam – and the self-harm China inflicts when it takes that path.

There is a case that our greater vulnerability is political rather than economic – reinforcing the need to win the narrative battle with politicians and the broader public. The events of the past year may prove to be a case in point.

Myth number six, Australia’s newfound resistance to actual or prospective PRC interference is either influenced by racism, or at the very least will unleash racist sentiment. If true, this would make such resistance unacceptable and unsustainable in a multicultural society.

Obviously there are real issues to manage around messaging and modulation. But I am confident that with careful outreach and public engagement, Australia's policy community can demonstrate that the national interest can be protected in a way that is inclusive and respectful of the rights of all Australians and not destructive of social cohesion or political moderation.

We have to keep distinguishing between the Chinese Communist Party and Australia's diverse Chinese communities.

Indeed, one reason to legislate against foreign interference is precisely to ensure that the democratic rights of all segments of Australian society are safeguarded – that no community is permitted to be subject to foreign state interference on account of its ethnicity.

And finally myth number seven, we did not need the new laws. This was perpetuated by critics of the new laws earlier this year, including some very prominent former politicians.

Interestingly, now that the laws are on the books – and have been refined through parliamentary committee consultations to reduce collateral damage to civil liberties – we are not hearing that line so much.

The fact is, Australia's legal framework was woefully inadequate. It is reasonable to speculate that Australia has not made much fuss about espionage and foreign interference in large part not because it was not happening but because our agencies were not empowered to respond.

My apologies if this sounds like inflicting a bit too much inside-the-Canberra-beltway on you, but it is important to convey a sense of the surprising complexity of the Australian situation and how, as a kind of bellwether state, it can inform the choices of other countries.

### **Australian interests and security**

All right, back now to Australia and some of its defining characteristics as a player on the tumultuous international stage.

A characteristic of global connectedness is that nations develop extensive interests that far outstrip their capabilities for the protection or advancement of those interests, at least on their own.

Australia is perhaps an extreme case. On the one hand, we are a substantial power – the world's 13<sup>th</sup> largest economy and also 13<sup>th</sup> highest defence budget.

On the other hand, we have an enormous amount to protect. Not only extensive territory, and oversight of a massive maritime and Antarctic zone.

But as a medium power our security, stability and prosperity relies heavily on a rules-based order, where the equal sovereignty of states is respected and differences are settled neither through force or coercion.

Moreover, those ideas of mutual respect, egalitarianism, free expression and rule of law inform also our domestic affairs – a multicultural federation of 25 million people, underpinned by liberal democratic freedoms and institutions.

In a connected world, no nation is an island, indeed no island is an island, so this Australia depends on lifelines – free but regulated flows of trade, investment, energy, information and people.

Until recently, we had not paid enough attention to the 21<sup>st</sup> century nature of national security – that there has been a breakdown of the boundary between international and domestic issues, whether on cyber and technology, on terrorism and radicalisation, or on political interference and geo-economic leverage.

The good news is that for some years now Australia has been trying to get its act together to protect and advance its national interests and values in a more difficult and uncertain world where that domestic-international nexus prevails.

This is a many-layered approach and is not simply about China or the foreign interference issue.

One of the under-rated achievements of Australian Governments in recent years has been the pursuit of a whole of nation effort to improve our resilience, based on the recognition that taking national security seriously is a prerequisite of the maintenance of liberal democracy and its benefits.

This includes the 2016 defence white paper setting out a costed modernisation of our military – with a focus on our maritime region.

It includes a cyber security strategy to bring industry and universities into the national effort.

It includes greater legislative powers and better Federal-State coordination on counter-terrorism, the reform of our national intelligence community, the establishment of a Home Affairs Department, the tightening of national security considerations in foreign investment decisions, the coordination of regional development assistance in ways more targeted to national interest objectives, and of course the new laws on foreign influence and interference.

There is a long way to go on all some of these fronts – there is especially more we can do to bring business and the broader community on board - but Australia is beginning to develop the capabilities of a serious medium power to face 21<sup>st</sup> century security challenges.

Prominent among these is the Australian Government’s foreign policy white paper, released last November.

This is no mere political pamphlet but a seriously thought-through statement both of policy and underlying analysis about where the world is headed, and Australia’s interests and options based on its place in that world, and informed by its national values.

This was a landmark whole-of-government document, which some striking elements:

It recognised the need to craft policy for alternative plausible futures for our region, including the prospect of US-China competition but also of US leadership not returning in the way we would like.

It recognised that, while China matters, so does the rest of Asia. It effectively rejected notions of a China-centric order.

Instead, it actively endorsed a multipolar Indo-Pacific strategy of deepening and diversifying other partnerships, including Japan, India and Indonesia, to complement – but not substitute for – the US alliance.

It quite convincingly connected our interests and our values, in ways that do not privilege the China relationship.

And it recognised that foreign policy begins at home, including with building national capability and resilience – and safeguarding sovereignty against foreign interference.

## **Australia and China**

LET me turn to the Australia-China relationship, where it has come from and where it is going.

There are some well-known characteristics.

China is by far Australia's largest trading partner, with two-way trade moving to the vicinity of 180 billion Australian dollars a year.

China overtook Japan a decade ago gain this status, the first time our top trading partner was not a security ally or the ally of an ally.

We enjoy a bilateral trade surplus. In Australian exports, this trade remains dominated by iron ore, but as China's growth slows, other aspects – notably education, tourism and agriculture – are increasingly important.

In particular, some Australian universities have been deeply reliant on fees from the rapid increase in Chinese students.

There is also a strong societal dimension to the relationship. Around 1.2 million Australians have Chinese heritage. Around half that number were born in the PRC, many of them recently arrived for study or business or careers.

But there are also well-established communities going back to our gold rush era of the 1850s.

We also have later arrivals from Hong Kong, Taiwan, Malaysia and Singapore and others wary of or downright opposed to the Chinese Communist Party – including Tibetans, Falun Gong practitioners and thousands granted political asylum, including after the Tiananmen Square massacre.

The many vibrant Chinese communities in Australia make a great contribution to the economy and society, are overwhelmingly welcomed and respected by other parts of multicultural Australia, and are becoming more active in politics at all levels.

Alongside these economic and human foundations of the relationship, diplomatic and even security ties have made progress until fairly recently.

Australia recognised the PRC in 1972, and the two countries have built a web of dialogues and agreements. These reached high points in recent decades with the aspiration of a strategic partnership – whatever you choose that to mean – and the reality of a free trade agreement.

And in Australian popular opinion, there is a perception – perhaps an outsized one – that China is to be thanked for our economic wellbeing, our evasion of the full impact of the global financial crisis, and is already the dominant power in the world.

But alongside all of this, strategic trust has been lagging – and I think there is now a recognition among policymakers that it is, essentially, going to be impossible for the foreseeable future.

### **The reality check**

SO what happened? Let's call it the reality check.

The reality check is the realisation that spread through our policy community over the past few years of a few connected phenomena:

- China had changed. Or if it had not changed, then some disturbing core characteristics of the PRC had become undeniably apparent.
- China was not going to liberalise – indeed, under Xi Jinping it was going the other way.
- Chinese assertiveness, coercion and military modernisation were threatening the regional balance and rules-based order on which we depend.
- China was extending its capabilities and influence closer to Australia – the Indian Ocean, the South Pacific, Southeast Asia, and inside Australia itself.
- The PRC, the Chinese Communist Party and its proxies, had for many years been taking advantage of the openness of our liberal democracy through tactics of co-option and control, for instance through community organisations and

dominance of the Chinese language media in Australia. Confucius Institutes were the least of our worries.

- Pushing back would get more difficult and more disruptive the longer we waited.

The alarm was sounded, gradually, by intelligence agencies and a small number of highly persistent and professional investigative journalists in the mainstream media.

The watchdogs of a liberal democracy did their thing, to the point where the United Front Work Department of the Chinese Communist Party is now fairly much a household term in the Australian political discourse – as something to be very wary of.

Reasonably slow to heed the warnings was the political class.

A big part of the problem is that our political parties had become dependent on foreign funding.

In recent years the two largest donors to our major Labor and Liberal parties have been two Chinese-born billionaires.

According to media reports, those two, one a Chinese national and the other a naturalised Australian who retains prominent links to China, have been named in subsequent briefings provided to the political parties from our Australian Security Intelligence Organisation.

Even slower than political parties to perceive risk have been the business community and other constituencies, including universities, with a strong material interest in overlooking the downsides of a reliance on the PRC.

A quick chronology is instructive, tracking roughly 10 years that changed Australia-China relations.

We saw a persistent increase in Chinese donations to Australian political parties since 2006-07, spiking in each Federal election from 2007 to 2016.

An early wake-up call about influence and interference was the 24 April 2008, Olympic Torch Relay, in Canberra, where the Chinese Communist Party and its proxies orchestrated a rally of many thousands to, among other things, drown out and

intimidate human rights protests. Our sleepy national capital had never seen anything like it.

There was a bumpy time in Australia-China relations under the Kevin Rudd Labor government, including the arrest and jailing of an Australian mining executive in 2009, and PRC discomfort over our defence policy.

But tensions did not really become persistent for a few more years, until the combination of PRC assertiveness internationally and the debate about PRC activity domestically became impossible for the wider political class to ignore.

Here are some of the notable moments in that long reality check.

From 2013 onwards, Australia under a conservative Liberal-National Coalition government took an increasingly direct stance with China over the East China Sea and South China Sea tensions. We began to see orchestrated protest activity inside Australia on these issues.

In 2014, our think tank landscape changed with the establishment of the Australia China Relations Institute at a university in Sydney, with a \$1.8 million founding donation by a Chinese billionaire, from whom that think tank seems subsequently to have somewhat distanced itself.

During our 2016 election, it has been reported that this individual threatened to withdraw an offer of \$400,000 funding to our Labor party over its position on the South China Sea.

In August 2016, the Australian Government blocked the sale of a major piece of electricity infrastructure, Ausgrid, to a Chinese-dominated partnership. A media report has since claimed this decision was related to that infrastructure's reported support for our intelligence joint facilities with the United States.

In August 2016, the Australian Government commissioned a classified report on foreign interference, led by former prime ministerial adviser and journalist John Garnaut.

In September 2016, extraordinary revelations began to emerge about payments from Chinese and Chinese-Australian business figures to a high-profile Labor Senator, Sam Dastyari – and about his overt support for China's policy on South China Sea. After sustained pressure, he stepped down from his shadow ministerial role.

Russian interference in the US Presidential election further galvanised our security agencies in thinking about how to protect our own democratic institutions.

In early 2017, Australia-China relations entered a new troubled phase, when a visit to Australia by Chinese premier Li Keqiang, failed to secure Parliamentary ratification for a bilateral extradition treaty or official agreement on a comprehensive Belt and Road MOU.

At the same time, Sydney-based academic Dr Feng Chongyi was detained in China – and later revealed he was interrogated about dissident networks in Australia. This was, among other things, a signal of intimidation to Chinese-origin communities in Australia.

Then on the 5<sup>th</sup> of June 2017, the respected Australian Broadcasting Corporation investigative television program Four Corners and Fairfax newspapers released their landmark report titled *Power and Influence*.

Parts of this reporting were controversial – indeed, a few aspects remain subject to litigation in Australia from a Chinese Australian billionaire.

The reporting was nonetheless an important moment towards a new political awareness and consensus.

Both major parties announced they were no longer accepting donations from the two billionaires, and the government announced it was conducting an internal review with a view towards foreign influence, interference and counter-espionage legislation.

Meanwhile a drumbeat of media revelations continued.

ASIO became more direct in its public reporting of concern about foreign interference, making it clear repeatedly in its annual reports to parliament that such activity had reached levels as high as, or higher than, seen during the Cold War.

In November 2017, our Foreign Affairs White Paper was released, confirming our independent foreign policy.

In December 2017: Senator Sam Dastyari resigned from parliament after further revelations that he had provided a Chinese billionaire donor with what was, in effect, counter-intelligence advice.

Also in December 2017, the foreign influence and foreign interference Bills were introduced to Parliament. What our then Prime Minister said at that point was important – I will come back to that.

Also in December 2017, in the tight by-election for a crucial parliament seat, an alleged instance of foreign interference occurred, through a widely-circulated message encouraging Chinese Australians to vote against the supposedly anti-China government. Separately, the Labor candidate openly accused the government of anti-China racism.

Through the first half of this year, the debate proper gathered pace, quite heatedly, during the formal consultative process for the draft laws. Politicians, vested interests, lobby groups, community groups, industry, universities, media and prominent academics all weighed in.

It had its low points. Notably, and regrettably, former Prime Minister Kevin Rudd claimed to see “anti-Chinese jihad and neo-McCarthyism” and the vice chancellor of one university – not mine – accused the government of “Sinophobic blatherings”.

But the strong language was not all from one side. In February 2018 came publication of an extraordinary book, *Silent Invasion: China's Influence in Australia*, by public ethics academic Clive Hamilton. This was a critical, refreshing and in some places overdone intervention from the Left, highlighting the risk to democratic institutions, civil liberties and national sovereignty.

This provoked the publication of rival petitions by Australian academics, one attacking the perceived anti-China racism of the gathering debate, the other emphasising that the debate had to be had – while also acknowledging the need to reassure Chinese Australians and to prevent xenophobia.

Meanwhile, attention began to turn beyond Australia's borders again, as reports emerged of Chinese interest in establishing a military presence in the South Pacific.

By mid-year, the Australian parliamentary system worked. A bipartisan committee recommended many changes to the draft laws to accommodate justified concerns over civil liberties, and on 28 June 2018 the historic new foreign influence and foreign interference/espionage laws passed in the Australian Parliament.

At the same time, concerns had mounted in the business, political and policy establishments that the PRC was indeed seeking to coerce Australia economically and diplomatically, by withholding high-level visits and certain business approvals.

So it was that when on 7 August, Prime Minister Turnbull went to a university to give a moderately positive speech on Australia-China relations, this was hailed by some as a ‘reset’ and the end of the national security dominance of the relationship.

Not so – it was merely a necessary modulation, a rebalancing, but the government has not walked back from any of its national security measures.

This was borne out two weeks later, when on 23 August the Australian Government announced restrictions on certain foreign involvement in the nation’s upcoming 5G network, effectively banning Chinese giants Huawei and ZTE.

Here is what the then Treasurer Scott Morrison said on the Huawei 5G decision:

*“A long history of cyber incidents shows cyber actors target Australia and Australians. Government has found no combination of technical security controls that sufficiently mitigate the risks.*

*“The government considers that the involvement of vendors who are likely to be subject to extrajudicial directions from a foreign government that conflict with Australian law, may risk failure by the carrier to adequately protect a 5G network from unauthorised access or interference.*

*“This applies equally to all carriers, consistent with government’s long-standing commitment to a level playing field in the sector.”*

The next day, for entirely separate reasons related to Australia’s own political troubles, Turnbull stepped down as PM, to be replaced by Morrison – who will clearly show continuity on national security issues.

### **What next?**

The Australia-China relationship has been through a bruising time and a necessary reality check. So it makes sense now to focus on rebalancing things, on moving forward under the conditions of the new normal that has been established.

Still there are some real challenges ahead.

A key objective for the Australian Government should be to convey reassurance, a continued modulation of the debate as signalled by then Prime Minister Turnbull's speech at the University of New South Wales - but without retreating from the hard-won national security gains that have been made.

There should be reassurance to the PRC in terms of emphasising that what Australia wants is a relationship of mutual respect. No doubt there will be future phases of tension, including in the aftermath of the Huawei decision and with other investment decisions looming.

So we will need consistency and discipline in policy and the way it is signalled at high levels by government.

Bear in mind for instance that new difficulties are on the horizon in Australia's neighbourhood, where Xi Jinping's presence at the APEC Summit in Port Moresby will signal a grand debut for new levels of PRC activity and influence in the South Pacific.

Domestically, there needs to be sustained reassurance and outreach to Chinese Australian communities, that the legislation is not targeted at them. Indeed, it is for their protection in an Australia where all are protected equally from foreign interference.

Sooner or later the question will arise of potential prosecutions under the new laws, and how those may be handled. The agencies should act only when they are extremely confident of the case they can make.

And it may even be that the new laws achieve their effects overwhelmingly through deterrence and that prosecutions do not eventuate.

The Australian Government will need to keep improving its outreach to the business community and state capitals. There remains a gap between Canberra and the states and territories in their perception of the problem and its nature.

There is also the important unfinished business of legislating a ban on foreign political donations. A foreign political donations ban is the missing third pillar of the legislative framework commenced with the foreign influence register and interference/espionage laws.

Another pending challenge is about emerging technologies, and how we protect those and minimise risk in our university and research sectors, without collateral harm to legitimate international research collaborations for the advancement of knowledge.

Australia and the United States would do well to closely monitor each other's fast-evolving debates and policy responses on this issue, not least because of the longstanding closeness of our own university sectors.

Still on the alliance dimension, Australia should work to maintain some degree of distinction between our sovereign pushback against PRC interference and the more comprehensive US-China strategic competition that is developing.

It could be that, having initially sounded the alarm on the PRC interference issue, Australia is now well-placed to advise its US friends on moderating their internal debate, so that the US policy response is not counterproductively crude.

I am going to close by quoting the man who was until very recently our Prime Minister Malcolm Turnbull. However else history judges him, Turnbull will I think be recognised in time for his leadership, however initially reluctant, in changing the way Australia engages with China, in the direction of sovereignty, security, and self-respect, a prerequisite of mutual respect.

Turnbull was criticised, rightly I think, for his rhetorical excess, when introducing Australia's foreign interference laws as an example of Australian people standing up for their sovereignty, in making an allusion to Chairman Mao's supposed remark in 1949 that the Chinese people had 'stood up'. He didn't need to say that, or repeat it the next day in rather imperfect Mandarin.

It's a shame, because far more important and profound is the line that came before it in a significant speech, replete with context and worth reading in full:

*"Our relationship with China is far too important to put at risk by failing to clearly set the terms of healthy and sustainable engagement."*

Thank you.