Australia’s Strategic Perceptions of China: Hedging or Balancing?

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Since the beginning of the new century, China has gradually become the engine of world economic growth as well as an indispensable trading partner to most economies in the Asia-Pacific region. The United States is apprehensive, fearing that China might challenge or even overturn the regional order established after the Second World War. As an influential middle power in the region, Australia feels ambivalence toward the intensified competition between China and the US. On the one hand, it expects to share in China’s economic success; on the other hand, it is afraid of becoming too dependent on China economically. Meanwhile, Australia expects to strengthen its security alliance with the US while also developing its relationship with China. Given that, Australia has adopted a “hedging strategy” towards China, the impact of which on the bilateral relationship is of profound concern.

New Competitive Elements Emerged in the Region

The rise of China, and moreover the rise of Asia as a whole, generated a shift in global strategic focus from the previously dominant Atlantic region to the Asia-Pacific region. Given that, China has boosted its neighboring foreign strategy and advanced a series of policy recommendations, while the US remains worried that a China-centered regional order will take shape. Since

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the Obama administration came to power, it launched a “strategic rebalance to Asia”, interfering in regional affairs in East Asia not only economically and politically but also in regional security issues with a view to revive its regional influence.

Politically speaking, Obama and key US government officials changed their previous “disregard” towards East Asia and have paid frequent visits to countries in the region, including its traditional allies like Japan, the Republic of Korea, Australia, and the Philippines, as well as other new security partners such as India, Vietnam, Indonesia, Malaysia, Myanmar, and Cambodia. These visits aim to further expand the US’s political presence in the region. Obama also participates in many regional international organizations in East Asia to enhance influence.

Economically speaking, in the face of China’s rapidly growing impact on global markets, the Obama administration made a high-profile announcement of the “Trans-Pacific Partnership” (TPP) with a view to reshaping Asia-Pacific trade rules and so as to have a voice in the development of Eastern Asian economic integration. In security, the Obama administration exacerbates the disputes between China and Japan, Vietnam, the Philippines, and other countries concerning their maritime interests in order to further enhance the US’ military alliances with these countries and attract new security partners.

It is also worth mentioning that China and the US, both as major powers in the Asia-Pacific region, have broad space for mutually beneficial cooperation. In terms of sustaining the region’s stability and prosperity, the two powers share extensive common interests. They also cooperate with each other in climate change, nuclear issues in the Democratic People’s Republic of Korea and the Islamic Republic of Iran, counter-terrorism, counter-piracy, and securing international shipping routes. Moreover, they enjoy intense bilateral interaction in trade, frequent high-level visits, and far-reaching cooperation facilitates the development of their relations and ensures manageable competition between China and the US.
people-to-people exchanges. This mutually beneficial cooperation facilitates the development of their relations and ensures manageable competition between China and the US.

**Australia’s Ambivalent Policy towards China**

Australia is a close neighbor to Asia, so it is even oftentimes regarded as an Asian country, but it is more of a Western country in terms of culture, traditions, and psychological identity. The alienation from Asia in both culture and psychology always leads it to seek security protection from the British and the Americans. Before the Second World War, Australia had been reliant on Britain for security; after the war, its military alliance with the US was seen as a vital security guarantee. Economically speaking, Australia has benefited from US capital, market access, and technology. For decades, the US has been Australia’s largest trading partner, investor, and destination market.

Since the end of the Cold War and especially since the start of the new century, Australia has developed a closer economic relationship with China. China has gradually begun to supplant the US as Australia’s largest trading partner and destination market, so Australia’s booming economy was largely due to the sound economic development of China. Thus, Australia’s security interests, for the first time ever, have been decoupled from its economic ones.¹

There is much ambivalence among Australians when the country’s economic interests are separated. On the one hand, most Australians support the idea of developing economic and trade ties with China, believing that

On August 12, 2014, the annual Australia-United States Ministerial Consultations (AUSMIN) create a legal framework for the rotational deployment of up to 2,500 U.S. Marines to Darwin where they will conduct military exercises and training with their Australian counterparts.

China’s booming economy is an opportunity for Australia to attain even greater economic prosperity. But, on the other hand, Australia has doubts about close economic ties with China, particularly reflected in their concerns over China’s growing investment in Australia. Polls since 2009 suggest that most Australians believe that the government issues permissive investment licenses to China. 2 54% of respondents in another poll in 2012 believed that Australians should operate the mining and agriculture companies in the country and 51% thought that the growing investment from China would leave many Australian companies controlled or owned by Chinese. 3 In order

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to “manage and control” the investment from China, the Australian Treasury Department formulated the “Six National Safety Standards” regulating state-owned foreign investors. Australian Treasury officials even privately revealed to the US that the new standards aim to “adopt the toughest policy against China’s growing impact on the resource industry in Australia”.

There is another unstated reason why Australia has doubts over investment from China, namely its skepticism towards China’s strategic purpose. China’s economic development is beneficial to Australia’s economy and prosperity, but Australians have not yet changed their long-standing prejudicial views of China. For them, China is still a “communist country” that used to develop foreign relations with Southeast Asian countries by “exporting revolutions”, which makes Australians wary of China. Moreover, the rapid development of China reminds Australians who are familiar with “realist” thinking of the historic potential for conflict when a change in polarity occurs within the international system.

China’s fast growing economy and its military strength are changing the regional order that was familiar to Australians. The rapid rise of China and the decline of American power indicates an end to the dominance of Anglo-Saxons civilization over Asia, which must be a cause for much concern in Australia. Besides this, Australians regard China’s diplomatic behavior over recent years as “domineering”, since it seems that China is reluctant to behave in line with international norms and rules. Considering China’s rapid military modernization, its foreign policies exacerbate concerns among Australians, making them believe that China is becoming a country with revisionist attitudes that challenge the existing regional order.4

Concerns and skepticism about China fuel Australia’s preference for joint efforts with the US to balance the impact of China. Australians believe

that the US-Australia alliance is the cornerstone of their national security, especially when the Asian order is undergoing significant transformation. The “Asia-Pacific Rebalancing” strategy laid out by the Obama administration has received support from Australia. It has agreed to the use of its northern Darwin Harbor as a rotational training site for the US Marine Corps, while the “US-Australia Forces Agreement” was signed in 2014 to facilitate US rotational training in Australia and enhance bilateral military cooperation. As for the maritime disputes in the East China Sea and South China Sea, Australia has done its utmost to keep in step with the US.

However, Australia faces risks in enhancing its military alliance with the US because this might incur China’s displeasure. In 2011, in response to the garrison agreement between the US and Australia, China’s Foreign Ministry declared its dissatisfaction, saying that “China and the US, as well as China and Australia, share a consensus to further conduct mutually beneficial cooperation, which has been expressed on many occasions to China by American and Australian leaders. We believe that all parties should act to boost mutual trust and enhance cooperation. China will not seek any military alliance and will maintain its own diplomatic ideas, namely upholding peaceful development and maintaining friendly and cooperative relations with other Asian countries”. In December 2013, in response to the irresponsible comments made by Julie Bishop, Australia’s new Foreign Minister, on the South China Sea Air Defense Identification Zone, Wang Yi, the Foreign Minister of China, bluntly expressed that, “comments made by Australia on the South China Sea Air Defense Identification Zone undermine our mutual trust and affect the sound development of the relationship between the two countries. The Chinese people are deeply disappointed by this.”


Australian scholars also oppose the country becoming too close to the US militarily because it does not secure Australia’s security when China is on the rise. Professor Hugh White at the Australian National University says that it is just a matter of time before China replaces the US as the world’s largest economy. With a decline in US dominance, the future development of Australia will be largely reliant on China. Given that, both Australia and the US must “adapt to” the rise of China, particularly taking China’s political and strategic interests seriously. He thinks that Australia should attempt to persuade the US to accept the shared leadership of China in order to promote peaceful coexistence and prevent the deterioration of China-US relations. “Neither do we want to live under the control of China, nor under the pressure of confrontation between China and the US.” If China-US relations deteriorate, Australia will face tremendous risks, and the act of picking either side will be “dangerous and costly”.

How should Australia reconcile both its security and economic interests? How can it strike a delicate balance between China and the US? What should Australia do to expand its diplomatic and strategic space?

**Australia’s Hedging Strategy towards China**

In order to find a way out of this dilemma, the Australian government has adopted a more delicate hedging strategy towards China over recent years. While deepening its relationship with China, Australia focuses on strengthening its economic and security ties with the US, and dedicates itself toward fostering economic and security relations with major regional powers including Japan and India. Meanwhile, it fully participates in multilateralism, expands its diplomatic space, and fully safeguards Australia’s interests.

First, efforts should be made to further strengthen its political, cultural, and people-people exchanges with China. Australia has maintained a

relatively friendly political relationship with China among the major Western powers. Since the establishment of diplomatic relations between China and Australia in 1972, the relationship has developed rapidly through frequent high-level visits. In 2013, when Prime Minister Julia Gillard was in office, the “strategic partnership” between China and Australia was formed and a regular annual meeting mechanism between the Prime Ministers of the two states was set up, which has greatly enhanced their political relationship. In November 2014, during President Xi Jinping’s visit to Australia, he and Tony Abbott, Australia’s new Prime Minister, reached an agreement to upgrade the China-Australia relationship to a “comprehensive strategic partnership”, which deepens their political relationship.

Economic and trade relations have always been the driving force in their bilateral relationship. From 1990 to 2014, the bilateral trade volume between China and Australia has surged from less than 3.1 billion Australian dollars to nearly 160 billion Australian dollars. In 2014, Australia’s total trade volume with China is equivalent to that of Japan, the US, and the Republic of Korea combined (the second, third, and fourth largest trade partners respectively), accounting for 23.9% of Australia’s total. The export volume to China is 5% more than that of Japan, the Republic of Korea, and the US combined, accounting for 32.5% of Australia’s total. Since taking office, Prime Minister Abbott has further enhanced the economic and trade relationship with China. In November 2014, the two countries announced the completion of the negotiations regarding the China-Australia free trade zone, and the final free trade zone agreement was signed on June 17, 2015. According to the agreement, after the transitional tax reduction period, both the tax item ratio and the zero-tariff trade volume in Australia will eventually reach 100%; meanwhile, the tax item ratio and the trade volume of zero-tariff items in China will reach 96.8% and 97% respectively. Australia promises that its service sector will be opened up to China by

issuing negative lists as soon as the agreement comes into effect, and China will open its service sector to Australia by issuing positive lists. In the field of investment, the two sides will provide most favored nation treatment for each other since the agreement came into effect, while Australia will lower its review standards towards Chinese investors and facilitate their investment in Australia. Besides this, the agreement will make provisions for bilateral cooperation covering more than a dozen fields including e-commerce, government procurement, intellectual property rights, and competition.9

In March 2015, after months of consideration and trade-offs, Australia finally decided to join the China-led Asian Infrastructure Investment Bank and participated in China’s “Belt and Road” Initiative, demonstrating the determination of the new government of Australia to develop economic and trade ties with China.

In terms of cultural exchange, during President Xi Jinping’s visit in 2014, the Australian government announced that the “New Colombo” plan would be launched in China in 2015 to enhance student exchange between the two states, and the China-Australia state/provincial leaders exchange would be set up.

Australia believes that maintaining close political, cultural, and people-to-people exchanges with China will not only reassure China about the concerns over the military alliance with the US to some extent, but also act as a bridge in China-US relations, leading such a relationship towards sound development and minimizing the negative impact of the strategic competition between China and the US.

Second, Australia will develop economic and trade relations with other Asia-Pacific countries, including the US, Japan, the Republic of Korea, India, and ASEAN countries to realize diversified economic and trade relations. Australia has benefited greatly from the economic growth of China, but it does not “place all its eggs into one basket”. Apart from developing close

economic and trade ties with China, Australia also focuses on developing such relations with other influential economies in the Asia-Pacific region. Among Australia’s foreign trade relations, Japan and the US are the second and third largest trading partners respectively, accounting for 10.8% and 8.7% of its total.\textsuperscript{10} The US, Singapore, and Japan are its major investors, making up 26.7%, 5.3%, and 2.5% of its total investment in 2014.\textsuperscript{11} Australia was one of the earliest Asian countries to sign a free trade zone agreement with the US and also took the lead in joining the US-led TPP as one of the first TPP negotiators. In 2014, Australia completed its free trade zone negotiations with the Republic of Korea and Japan, while accelerating that with India. Australia also shows interest in the ASEAN-led “10+6” Regional Comprehensive Economic Partnership (RCEP). Australia is also one of the few countries that have completed free trade zone negotiations with most major Asia-Pacific economies including China, the US, Japan, and the Republic of Korea while participating in TPP and RCEP negotiations as a Asia-Pacific country, which demonstrates Australia’s devotion to diversified economic and trade relations.

Third, the military alliance with the US should be strengthened. Military ties with the US have always been regarded as the most important foreign defense relation for Australia. In the context of a rising China and the changing geopolitical architecture, the Australia-US military alliance is more so seen as an essential cornerstone to balance China’s impact and ensure Australia’s security interests. Australia’s 2009 National Defense While Paper said that, “since the second World War, Australia’s (global) strategic outlook and defense plan have been based on the global distribution of power, especially rooted in America’s strategic advantage as the United States has always acted as a stabilizer around the world and in the Asia-Pacific region.

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\textsuperscript{10} Australian Department of Foreign Affairs and Trade, “Australia’s Trade in Goods and Services 2013-2014”.
\textsuperscript{11} Australian Department of Foreign Affairs and Trade, “International Investment Australia 2013,” October 2014, p.5.
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in particular”.¹² In Australia’s first national security strategy report in 2012, the Gillard government emphasized once again that the US-Australia alliance is the most important security relationship for Australia, and it is also the cornerstone for Australia’s security and prosperity. Besides this, “the value of such an alliance not only embodies the national defense but also boosts our security and prosperity. The US is essential to world economic growth and prosperity, providing a rule-based world order”.¹³ It is due to the focus on its military alliance with the US and concerns over the rise of China that the Australian government enthusiastically supports Obama’s rebalancing strategy, agreeing that 2,500 US Marines receive rotational training in Australia’s northern harbors, and enhancing cooperation in the fields of intelligence, space, military research, and others. In May 2013, the two sides signed the US-Australia Defense and Trade Cooperation Agreement to enhance bilateral military technology exchanges and ensure that the two militaries have access to “the best technology in the quickest way”. In August 2014, the US and Australia signed the Forces Agreement concerning US Marine Corps’ rotational garrison arrangements in the Darwin Harbor and that of the US Air Force in Northern Australia.¹⁴ From the press release, the US Marine Corps and the US Air Force, according to the agreement, will be allowed to station and receive training in Northern Australia over the next 25 years and US-Australia cooperation regarding ballistic missile systems will be enhanced.¹⁵ Furthermore, Australia will facilitate its policy coordination concerning the East China Sea and South China Sea with the US. During the Shangri-La Dialogue in May 2015, the joint statement released by the defense ministers of Australia, Japan, and the US flagrantly involved the South China Sea and the East China Sea, declaring their common interests

in safeguarding peace and stability, observing international law, securing freedom of navigation, and ensuring unhindered access to business activities in these waterways. They firmly oppose unilateral acts to change the status quo by force and expressed their serious concern over China’s reclamation activities in the South China Sea, urging all parties concerned to maintain restraint, cease reclamation, and take measures to ease tensions instead of undertaking unilateral actions to escalate it, and calling for an early agreement on the South China Sea Code of Conduct between ASEAN states and China.16

While emphasizing the importance of the US-Australia military alliance in maintaining the security of Australia, it also attaches great importance to its own military strength. The 2009 National Defense White Paper stressed that, in defending the country and safeguarding its unique strategic interests, Australia relies on its own military strength. In order to fulfill essentials tasks, a stronger military force is required, particularly its maritime military power.17 The Abbott government declared a gradual increase of military expenditures to 2% of GDP by 2024. At present, Australia’s new National Defense White Paper is underway and is scheduled for release in mid-2015. Australia is also making preparations for the new ten-year defense capability plan and the national defense industrial policy statement to re-examine its defense capability.18

Fourth, efforts should be made to promote bilateral military cooperation and exchange between Australia and Japan, India, and other Asian countries. Developing security partnerships with Asian countries is a vital measure taken by Australia to respond to the shift of power in Asia. After the Cold War, Australia has gradually strengthened its security contacts with Japan by regarding it as the closest friend and strongest supporter of

Australia in Asia. Since the start of the new century, security cooperation between the two countries has been more institutionalized. In March 2007, the security cooperation joint statement laid out by Australia and Japan declared that their cooperation in military exercises, training, humanitarian aid, and other fields will be reinforced. In 2010, the two sides signed the Acquisition and Cross-Servicing Agreement (ACSA) to intensify cooperation in the aforementioned fields, which came into force in January 2013. In 2012, the two countries signed the Information Security Agreement (ISA) to promote their exchange of strategic information. In July 2014, the Defense Equipment and Technology Transfer Agreement was signed to drive joint research, development, and production of defense equipment, and meanwhile a Joint Committee was set up to decide the available mutually transferred defense equipment and technology.\(^\text{19}\) The Abbott government also invited Japanese enterprises to participate in Australia's bidding process on its next generation submarine building and showed great interest in Japan's advanced diesel-powered submarine.\(^\text{20}\) Besides this, there have been five rounds of “2+2” ministerial conferences between the foreign ministers and defense minters of Australia and Japan since 2007. In their 2014 meeting, both sides said that they would further continue their defense and security cooperation, especially the joint military exercise to enhance their military compatibility. They would also reinforce cooperation in disaster relief, humanitarian assistance, and UN peacekeeping activities.\(^\text{21}\)

Australia also reinforces its political and defense relationship with India. Since 2008, Australia has been active in expanding its defense dialogue and practical cooperation with India, mainly maritime security cooperation in the Indian Ocean. In 2009, the two sides signed a Joint Security Declaration


to identify defense dialogue, information exchange, and regional policy coordination, as well as eight other areas, for discussion at the multilateral level. In September 2014, during Abbott’s visit to India, the two sides signed the Peaceful Use of Nuclear Energy Memorandum, in which Australia agreed to export the uranium fuel required to develop nuclear reactors to India. Although the agreement does not cover the military field, given Australia’s sensitivity to nuclear proliferation, it indicates its focus on developing relations with India.

Fifth, establishing a multilateral system should be encouraged in the Asia-Pacific region. As an influential middle power in the region, Australia also actively participates in the development of political, economic, and security policies at the multilateral level to increase its impact and takes the lead in creating a favorable environment. As the founding member or one of the first participants of APEC, the ASEAN Regional Forum, and the East Asia Summit, Australia is also an active participant in the Shangri-La Dialogue, ASEAN Defense Ministers Meeting, and other regional security forums. Aside from this, it works to be involved in the Asia-Pacific region’s economic integration through joining the Asia Infrastructure Investment Bank, RCEP, and TPP negotiations.

**Conclusion**

Mark Beeson and many other Australian scholars pointed out that, in the context of America’s rebalancing strategy, Australia, as a middle power standing between China and the US, must work on seeking balance between economic growth and strategic demand. “Luckily, up to now, there is no need for Australia to pick a side between China and the US”.22

Looking to the future relationship between China and Australia, it is predictable that economic and trade cooperation will remain the pillar of their bilateral relations. Since Australia joined the China-led Asia

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Infrastructure Investment Bank and signed the Free Trade Zone Agreement with China, their economic cooperation as well as the economic and trade relationship, will be greatly improved. Meanwhile, their cooperation in the service trade and finance will deepen, fostering a mutually beneficial interest community.

People-to-people exchanges will become a highlight in the bilateral relationship between China and Australia. China has the largest body of overseas students in Australia, reaching over 200,000 Chinese students. China also has the largest number of tourists in Australia, totaling more than 1 million. During President Xi Jinping’s visit to Australia in 2014, the two sides consented to set up a state/provincial leader exchange and cooperation mechanism. China has built new Chinese Culture Centers and Confucius Institutes. Both China and Australia recognize each other’s academic credentials and Australia has simplified its visa formalities for Chinese citizens. All these measures will promote people-to-people exchange and consolidate public support for their relationship.

However, in the field of politics and security, especially in terms of regional maritime disputes, it is likely that Australia will stand in line with the US and ASEAN in the future. In the past year or so, the Foreign Minister, Defense Minister, and other Australian officials changed their previously cautious attitude about the East China Sea and South China Sea, and explicitly criticized China. Meanwhile, they consolidated Australia’s position with the US, Japan, and other countries. It is obvious that these words and deeds are inconsistent with the established political framework of China-Australia’s “comprehensive strategic partnership” and undermined the two countries’ strategic trust and settlement of regional hotspot issues. It also goes against Australia’s existing role of being constructive in China-US relations.
67 The “Belt and Road”: Will Chinese Dragon and Indian Elephant Walk Separately or Tango Together? Gan Junxian

India holds a crucial position in the “Belt and Road” initiative. How India sees the “Belt and Road” and whether it will participate in the construction still remain to be seen. This article analyzes India’s attitude toward the “Belt and Road” and the possibility of China and India joining hands for future cooperation.

84 The Need for Maritime Crisis Management Systems in Northeast Asia Sukjoon Yoon

This paper aims to explain why in the Northeast Asian Seas, where there are various deep-rooted maritime conflicts and contingent disputes, there is a desperate need for Maritime Crisis Management Systems (MCMSs) in addition to the Maritime Confidence Building Measures (MCBMs) which are already being implemented.

100 Australia’s Strategic Perceptions of China: Hedging or Balancing? Wei Zongyou

As an influential middle power in the Asia-Pacific region, Australia feels ambivalence toward the intensified competition between China and the US. To maximize its national interests, Australia has adopted a “hedging strategy” towards China, the impact of which on the bilateral relationship is of profound concern.

115 China-ASEAN Poverty Reduction Cooperation: Characteristics and the Way Forward Ju Hailong & Shao Xiancheng

Poverty reduction cooperation has been a solid foundation for the development of China-ASEAN relations. In this article, the authors attempt to expound what makes Chinese assistance unique and how China can become an even more popular aid provider in assisting less developed ASEAN members.