AUSTRALIA AND CHINA: FRIENDS OR FOES? IMPLICATIONS FOR SECURITY IN THE INDO-PACIFIC REGION
Abstract

Aim: The research aims to delineate and explain the state of bilateral relations between Australia and China in the context of the stability of the Indo-Pacific region.

Methods: The main tools used to achieve the objectives mentioned above include the analysis of primary and secondary sources: literature, official statements, diplomatic and quantitative data from governmental sites, and statistical research.

Results: Reliable and balanced bilateral relations between the People’s Republic of China, the most significant regional power, and Australia, the most influential Western outpost in the Indo-Pacific, are sine qua non condition of stability in the region. However, within the last decade, there was far too much uncertainty and hostility between the two parties to pass unnoticed: trade and investment restrictions on Chinese companies, not to mention political tensions due to unprecedented Chinese interference in Australia’s domestic affairs. The article analyzes bilateral Sino-Australian relations, including political, economic, and social dimensions, in the context of regional security issues.

Conclusions: Relations between China and Australia are underpinned by their strong economic interdependence on the one hand and Australia’s security alliance with the U.S. on the other. While concerns over trade tensions may soon be over, Australia must accommodate the reality of China’s more active presence in the Indo-Pacific region.

Keywords: China, Australia, Indo-Pacific, cooperation, security, trade, investment

Introduction

Reliable and balanced bilateral relations between the People’s Republic of China (PRC or China), the most significant regional power, and Australia, the most influential Western outpost in the Indo-Pacific and a significant regional power, are sine qua non condition of stability in the region. Yet, within the last decade, there was far too much uncertainty and hostility between the two parties to pass unnoticed: trade and investment restrictions, not to mention political tensions due to unprecedented Chinese interference in Australia’s domestic affairs. The article analyzes bilateral Sino-Australian relations, including political, economic, and social dimensions, in the context of regional security issues. As a result of the research, conclusions are drawn regarding the implications for security in the Indo-Pacific.
Field studies on Sino-Australian relations are scarce, especially in Poland. The researchers usually concentrate on China’s economic development and the challenges posed to the global economy by a rising superpower (deLisle & Goldstein, 2017; Dittmer & Yu, 2010; Economy, 2018) or its political power and the unavoidable confrontations with the international system (Liu Mingfu, 2015; Miller, 2017). There are numerous studies devoted to different aspects of China’s global commitment, analyzing the Sino-American rivalry (Shambaugh, 2012, 2013), the European dilemmas concerning bilateral trade and investment in the light of human rights violations in Xinjiang (Cabestan, 2010; Financial Times, 2021; Miller, 2017) or the challenges to international security (Cole, 2016; Norris, 2016) energy security, and naval power—all interactive and major influences on China’s future and its relations with the United States. A decade and a half into the twenty-first century, Beijing requires reliable access to energy resources, the navy to defend that access, and foreign policies to navigate safely toward its goals. Most importantly, the People's Liberation Army-Navy (PLAN). However, the relationship between China and Australia remains neglected as it seems irrelevant to global security in the geographically distant European Union.

This study aims to present the issue of regional security in the Indo-Pacific in light of the challenged bilateral relationship between China and Australia. Given sustained tension, the research hypothesis was formulated as follows: comprehensive Sino-Australian cooperation is crucial for the stability of the Indo-Pacific. In order to verify the hypothesis, the following research questions were formulated: 1. What are the cornerstones of the Sino-Australian relationship? 2. What are the contentious issues that undermine peaceful cooperation? 3. What is the impact of bilateral China-Australia relations on the Indo-Pacific region, and how can it be improved?

Three main research fields were distinguished as part of the effort to verify the hypothesis. The first part of the research concerns the sectors of bilateral cooperation between China and Australia, particularly emphasizing China’s engagement on the continent. The second part focuses on the problems between partners within the last decade. Finally, in the third part of the study, bilateral Sino-Australian relations are analyzed in the context of the Indo-Pacific region. The region includes the countries lying in the basin of the Indian and Pacific Oceans;
however, for the purposes of the analysis, the scope of research was limited to the central part of the region – countries important in Australia’s foreign policy.

To achieve the above-mentioned goals, qualitative methods were used: analyses of official documents, statistical data as well as studies, and reports of Polish – and English-language literature, as well as the method of logical reasoning necessary to identify the relationship between China-Australia bilateral relations and the stability of the Indo-Pacific.

**AUSTRALIA AND CHINA: THE STATE OF COOPERATION**

As a significant regional power, Australia remains a point of reference in China’s strategy towards the Indo-Pacific. Since the establishment of diplomatic relations in 1972, the bilateral relationship was based on strong economic and political links. During Xi Jinping’s visit to Australia in 2014, the leaders agreed that both countries enjoy a comprehensive strategic partnership strengthened by Australia’s recognition of the one-China policy.

China remains Australia’s largest trading partner in goods and services. Since 2015, the China–Australia Free Trade Agreement (ChAFTA) has given benefits to both partners (Australian Government, 2022): as a result, the total trade turnover between China and Australia almost doubled from US$114 billion in 2015 to US$221 billion in 2022 (International Trade Centre, 2023). In 2022, China was Australia’s largest export destination, absorbing 25% of exports valued at US$104 billion, and its largest supplier, with an import value of US$77 billion (Figure 1, 2). Unlike other countries, Australia has no trade deficit in bilateral cooperation with China, though its companies, especially from the mining industry, are highly reliant on Chinese clients.

Surprisingly, developing China supplies machinery, electronics, and textiles, while developed Australia exports to China minerals (iron ores, petroleum gases, coal, copper, aluminum) and agricultural products (The Growth Lab at Harvard University, 2023). At the same time, Australia is China’s seventh trade partner and the fifth source of imports (behind Taiwan, South Korea, Japan, and the U.S.), providing 4% of the global total, chiefly
key components for industry, such as iron ore –Australia covered 62% of China’s iron ore imports in 2019-20 (Smyth, 2020).

**Figure 1.** *Australia’s trade with China in 2010-22 (USD bn)*

**Figure 2.** *Australia’s exports in 2010-22 (USD bn)*

Source: Own elaboration based on ITC data

**Figure 3.** *China’s investment in Australia in 2005-22 (USD bn)*

Source: Own elaboration based on ITC data

Chinese foreign direct investment stock in Australia has grown in recent years, reaching $46.3 billion (2021), mainly in infrastructure, services, and agriculture. Australia has abundant natural resources sought by China; thus,
the Chinese investments first included the acquisitions of metals and mining corporations (i.e., Rio Tinto, Felix Resources, Gloucester Coal, Extract Resources). Greenfield investments have reached US$15.65 billion and are concentrated in a few sectors: metals (US$5.9bn), with a massive investment in steel production, energy (US$4.55bn), with most wind and solar power plants, and, finally, in real estate (US$3.94bn). The Chinese investment may have reached over US$105 billion since 2005 (The American Enterprise Institute, 2023). Yet, the investment flow has decreased since 2016 (Figure 3).

Community and cultural links play a vital role due to the large Chinese community in Australia, accounting for 5.5% of the total population. At the 2021 census, over 1.39 million Australian residents identified themselves as having Chinese ancestry (Australian Bureau of Statistics, 2021a). Mandarin is the second most spoken language after English, and since the 2000s, Australia has become an attractive destination for young Chinese wanting to study overseas. According to the Department of Education, in 2002-20, precisely 629,367 students from China attended Australian universities, constituting by far the largest group within the academia. The numbers have decreased after the pandemic: in 2019, there were almost 212,000 Chinese students in Australia, while in 2022, their number fell to 156,217, yet they constituted 25% of all international students (Australian Government, 2023b). The large cohort raised concerns in the media over the dependence on Chinese tuition or, more precisely, what will happen when the Chinese students disappear, as international education is Australia’s fourth-largest export industry, with China the most significant source of fee-paying students (Needham, 2021). Before the pandemic, China was Australia’s second-largest market by arrivals, after New Zealand, with 1.82 million visits to Australia from Chinese nationals, contributing to the Australian economy and increasing bilateral understanding (Australian Bureau of Statistics, 2021b).

From China’s perspective, Australia has many advantages. Its geographic proximity and a natural propensity to East-Asian countries make it a perfect partner. China and Australia have neither historical grudges nor fundamental conflicts of interest, and their economic interests are highly complementary (Zhou, 2023, p. 228). Yet its historically strong ties with Western democracies, particularly regarding the U.S., make cooperation more difficult. On the contrary, Australia’s
view of China is negative: its economic, diplomatic, and military expansion in the Indo-Pacific is perceived as a threat to Australia’s strategic interests.

**FRIENDS OR FOES?**

Sino-Australian cooperation has been developing well, yet asymmetrically. While Australia has limited its interests to economic benefits, China has been taking advantage of the openness of Western society and building influence on the continent through strategic investment, trade dependence, and people-to-people ties in media and educational outposts.

The problems started in 2017 when Australia raised concerns over China’s entanglement in its domestic politics by giving financial donations to political parties. Media charges were backed by the report of an electoral commission, which revealed that 80% of all foreign donations to Australian parties, equalling A$12.6 million in 2000-16, with spikes in election years, were linked to China (Gomes, 2017). Further investigation revealed that political donations were made by people of Chinese ancestry born in the PRC, who continued connections with the PRC and links with the Communist Party of China (CPC) (Tham, 2017). Other coercive actions attributed to China include using espionage and cyber intrusions to hack the Australian parliament (Vaughn, 2023, p. 10) or the efforts to purchase or lease Australia’s critical infrastructure, i.e., port facilities in Darwin (Zu, 2022). In addition, some incidents in Australian universities were reported, such as the persecution of Hong Kong protesters on Australian campuses or diplomatic pressure on a university to retract an academic paper on COVID-19 (Zhou, 2019; Anderson et al., 2021). It became apparent that China tries to control the diaspora through emotional calls to *flesh and blood* ties to the motherland or financial resources directed towards selected overseas Chinese groups and individuals deemed valuable to Beijing’s cause (Kynge et al., 2017). The official political line of CPC is channeled abroad through Australian Chinese-language media closely tied to China’s state media through multiple joint ventures and fourteen Confucius Institutes located in all major universities.

In response, Australia has undertaken security measures by blocking the acquisition of its largest power grid. In 2016 the Foreign Influence Transparency
Scheme was passed to give the public visibility of the nature, level, and extent of foreign influence on Australia’s government and politics (Australian Government, 2023a). Huawei was excluded from developing the Australian 5G network on the grounds of security concerns. The relations have further deteriorated as Australia raised allegations against China: called for an investigation into the origins of the COVID-19 pandemic, repeatedly pointed out human-rights abuses in Xinjiang, and warned of the risks of war in Taiwan (The Economist, 2022). Beijing’s resentment increased as Australia took a stance in the South China Sea dispute by public recognition of the Philippines’ right to seek to resolve the dispute through arbitration or Note Verbale rejecting China’s arguments in the case (Zhou, 2023, pp. 214–215). Other unfriendly gestures included statements expressed by top Australian politicians over China’s readiness to become a responsible global player or criticism of its coercive diplomacy (Interview with Haslinda Amin, 2017).

In 2021, Australia toughened foreign interference rules for universities to stop campus self-censorship and the covert transfer of sensitive technologies (Needham, 2021). To complete China’s displeasure, in 2021, Australia joined AUKUS, the security partnership with the UK and the U.S.

A series of Beijing’s grievances followed as a reaction to Australia’s aggressive measures. China accused Australia of spearheading the crusade against China in certain multilateral forums and of interference in its actions in Xinjiang, Hong Kong, and Taiwan, as well as manipulating the pandemic outbreak. Beijing perceived the new law against foreign interference as targeting China specifically and accused the Australian media of unfriendly or antagonistic reporting on China that has poisoned bilateral relations (Hurst, 2021a; Zhao Lijian, PRC Foreign Ministry Spokesperson, 2020). The Chinese ambassador to Canberra warned that the Chinese people were frustrated, dismayed and disappointed with Australia’s actions, tourists and students may reconsider their trips to such an unfriendly country, and the Chinese consumers might turn their backs on Australian wine or beef (Ministry of Foreign Affairs of the People’s Republic of China, 2020). China has targeted Australia with tariffs on critical exports (i.e., barley, wheat, wine, lobsters, timber) on the grounds of alleged dumping of products on the Chinese market and propping up the sectors with unfair subsidies (Hurst, 2021b).
The anti-dumping duties have severely impacted some of Australia's exports: losses in wine exports are estimated at US$1.8bn through 2025, as China used to be the largest market for Australian wine (Gross, 2021). Even though trade turnover has not changed much, due to unaffected exports of iron ore and LNG, which have the largest share, Australia has decided to impose countervailing measures on certain imports from China (WTO, 2022).

**Australia, China, and the Indo-Pacific**

The regional status quo has changed since President Xi Jinping took power in 2013 and China began its global economic expansion. In the Indo-Pacific, China has legitimate interests (energy imports and container cargo) and thus is seeking to establish control of the South and East China Seas and penetrate the Western Pacific and Indian Oceans in search of resources and strategic dominance (Scott, 2019, p. 95; Ji, 2016, p. 16). China’s warships are frequent visitors to the Indian Ocean (Medcalf, 2016, p. 61). Within the following years, the PRC has become the region's largest trading partner and source of capital. Economic engagement went further: many countries became founding members of the Chinese-led Asian Infrastructure Investment Bank and got involved in the Belt and Road Initiative (BRI). As China has been using economic power to strengthen its geopolitical position through targeted acquisitions and interference in domestic affairs, worries appeared across the region over foreign debt, transparency, human capital development, business practices, resource sovereignty, or diplomatic pressure (Fernando, 2020; Pratiwi, 2020, p. 90; Anwar, 2019, p. 158).

In the Indo-Pacific, the rise of China is widely recognised as a threat. The South China Sea is one of the world’s heavily trafficked waterways, with an estimated $3.4 trillion in commerce transits, impressive oil reserves, fish stocks, and other resources (Dolven et al., 2022), and Beijing’s dominance would undermine the present status quo. Moreover, many countries (i.e., India, Japan) have lingering border disputes with China; thus, its maritime and territorial claims in the East and South China Seas or increased activity of the PLA Navy push its opponents closer to Australia. Of particular concern
are China’s increasing military activity in the Taiwan Strait and its security pact with the Solomon Islands that might increase PRC military presence in the South Pacific. In recent years, many encounters between Australian and Chinese military and non-military vessels occurred in the Asia-Pacific, raising regional security tensions.

Due to its geographical proximity and shared past, Australia views the Pacific as a *Near Abroad*, crucial to its domestic security (Herr & Bergin, 2011). As the Indo-Pacific region has become an arena of strategic competition, China’s expansion has pushed Australia towards closer ties with the U.S. – the essential pillar of its defense strategy and foreign policy (Mackie, 2011; Sargeant, 2020, p. 29). Australia has, therefore, turned to multilateralism and deepened its ties with the Western democracies and Japan to bolster security and regional stability. Apart from the ANZUS, a trilateral security treaty between Australia, New Zealand, and the U.S., Australia has bilateral security relationships with India, South Korea, and Japan and is a member of the 1971 Five Power Defence Arrangement, which includes UK and its former colonies: New Zealand, Malaysia, and Singapore. In 2021, China’s growing military capabilities in the Indo-Pacific have driven the parties to create AUKUS – a trilateral security partnership with the U.S. and UK.

As a regional leader, Australia has broad economic ties and diplomatic activity. The Australian government is the largest aid donor to the Pacific island countries Papua New Guinea and the Solomon Islands (Economist Intelligence Unit, 2021). During the COVID-19 pandemic, Australia has helped with testing, medical equipment, and vaccine supplies. As Canberra’s interests lie in an open, inclusive, and prosperous Indo-Pacific (‘Special Address by Scott Morrison, Prime Minister of Australia’, 2022), Australia has become a regional leader of countries seeking protection against the rising influence of China: it has undertaken joint patrols in the South China Sea and develops cooperation with ASEAN members to diminish trade dependence on China.
Conclusion

Relations between China and Australia are underpinned by their solid economic interdependence and Australia’s security alliance with the U.S. While concerns over trade tensions may soon be over, Australia needs to accept the reality of China’s more active presence in the Indo-Pacific region. Within the last two decades, China has become an economic superpower with new global ambitions that its partners need to accommodate.

With binding trade, political, and cultural links, partners must balance their security and economic interests. Economic and trade complementarities and financial benefits may come to the rescue, forcing the governments to refrain from more severe measures. Only a cautious cooperation policy will ensure prosperity in both countries and peace in the Indo-Pacific region. Inciting rivalry will have destabilising effects on the whole Indo-Pacific region. Thus, the most urgent problem seems to be the possible US-China conflict over Taiwan as a core issue in the struggle over the future shape of the international order. As an American ally, Australia should balance the powers and introduce an increased focus on crisis management to reduce the risks of escalation and accidental conflict.
References


