

DISTINCTIVE BY DESIGN



AUSTRALIA'S SOUTH CHINA SEA DILEMMA:

MULTIFACED INTERESTS, SHIFTING POLICIES, AND 'A TALE OF TWO CITIES' (BEIJING & WASHINGTON)

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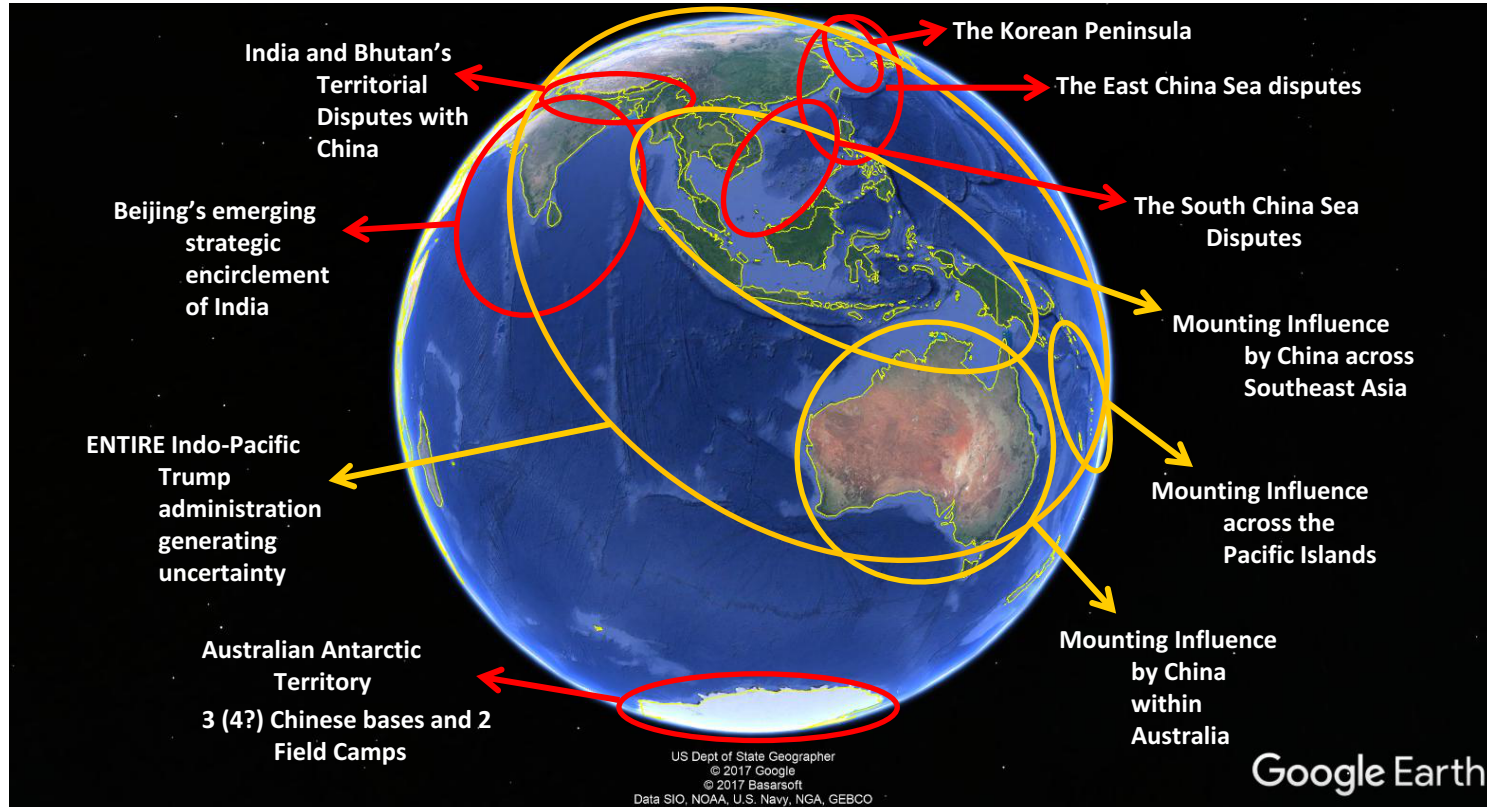
AUSTRALIA'S 'INTERESTS' IN THE SOUTH CHINA SEA

- **Freedom of Navigation**
 - Commercial goods?
 - Military
- **Political-Legal**
 - A political interest in the salience of a 'rules-based order' underpinned by ***adherence to treaty based international law***
 - The **2016 Australian Defence White Paper** & the **2017 Foreign Policy White Paper** highlight the 'South China Sea' as a key concern.
- **Military:**
 - Five Power Defence Arrangements (1971) and Operation Gateway Surveillance Flights (1980, Butterworth Airbase, Malaysia)
- **The Australia-US alliance**

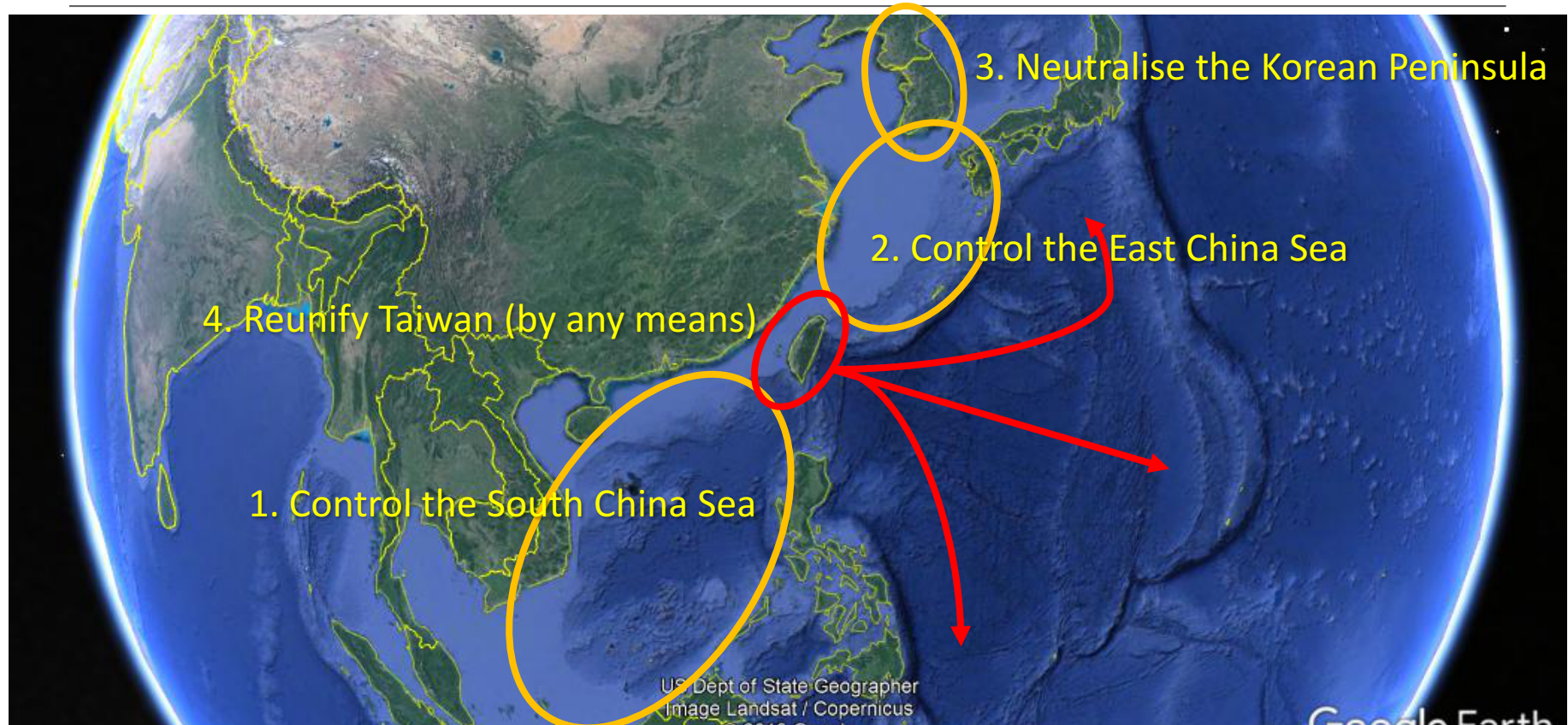
BEIJING: ACTIVE MILITARY INVOLVEMENT/ INTERESTS (RED) AND INFLUENCE (YELLOW)



UNIVERSITY OF
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BEIJING'S GRAND STRATEGY: SECURING ITS MARITIME PERIPHERY



2017: STRATEGIC ALARM AND A CALL FOR COLLECTIVE ACTION



- **Strategic Alarm: Legality, Proportionality, and Coercion**
 - The July 2016 Arbitral Award largely ignored by Beijing
 - **Dangerous precedent:** the East China Sea, South Asia and Antarctica?
- **July 2017 PM Turnbull's Shangri-La Dialogue Keynote address:**
 - *Referred to China thirteen times and stated 'we must preserve the rules-based structure ... This means cooperation, not unilateral actions to seize or create territory or militarize disputed areas. This means ... not winning through corruption, interference or coercion'.*
- **Julie Bishop's 2nd New Delhi Oration**
 - Support to restart the **Quadrilateral Security Dialogue 2.0**
- **6 Vessel Naval Task Group through the South China Sea and beyond**
 - Global Times: Australia was 'encircling China'

2017-2018: CONTINUED (LIMITED) MILITARY BALANCING/CONTINGENCIES



- **AU\$195 billion defence procurement program (5th largest arms importer)**
- **Recent contracts include:**
 - 9 BAE anti-submarine frigates (Britain, AU\$ 35 billion)
 - 12 offshore patrols vessels and 211 Boxer CRV armored combat vehicles (Germany, AU\$ 9.2 billion)
 - 6 Advanced Triton Drones (US, AU\$ 6 billion)
- **Earlier significant contracts/acquisitions include:**
 - 2 Landing Helicopter Dock Ships (AU\$ 3 billion)
 - 72 F-35 B (AU\$ 17 billion).
 - 12 French Shortfin Barracuda Block 1A submarines (AU\$ 50 billion)
- **Overall assessment: Limited Deterrence and Force Projection Capabilities**
 - Professional and relatively potent force governed by population limits

2016-2018: BEIJING'S RELATIVELY MEASURED RESPONSES AND PRESSURE



- **Escalating rhetoric against Australia (CCP & state-controlled media):**
- Global Times: 'Economic & military consequences lie in store for a "paper cat" such as Australia that dares to challenge China's sovereignty claims'
- Global Times: Beijing will "adopt strong countermeasures which will seriously impact Australian economic development" unless we stop "kissing up to the United States."
- **Tangible (adverse) Developments in the China-Australia Relationship**
 - From 2017: China deferred a Senior Australian Officials meeting
 - Stalled ministerial visits and lower level exchanges
 - China blocked progress on the March 2017 pledge to create an Australia-China ministerial energy dialogue
 - Wine industry reports of Chinese customs delaying Australian exports
 - Nonetheless, clear signal: **Beijing will not tolerate Australian interference**

BROADER ISSUES IN THE AUSTRALIA-CHINA RELATIONSHIP

- **Military Concerns re China's Grand Strategy**
- **The Pacific Islands region – e.g. mounting CCP influence**
- **'Debate' about the CCP + United Front's influence in Australia**
 - Differences within and between political parties **over a China Policy**
 - ASIO Director: *now more foreign intelligence officers than the Cold War*
 - Annual Report by the Australian Security intelligence Organization (ASIO): *'scale of threat to Australia ... is unprecedented'*
 - The Sam Dastyari Affair (Labor Politician)
- **Australia-China Economic interdependence**
 - China absorbed 30% of Australian exports in 2017 (up 21.2%)
 - Cf: Chinese investments declined by 22.8% (2016-17)
 - 2017: 166,000 Chinese students (43.3% of international students)

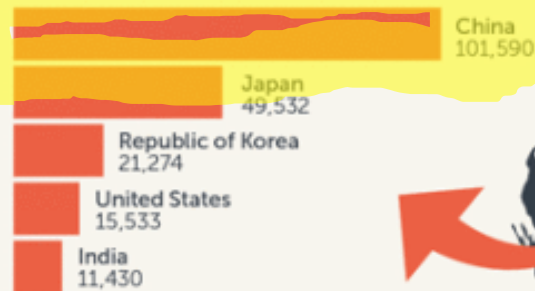
A\$318.5 BILLION

TOTAL VALUE OF EXPORTS

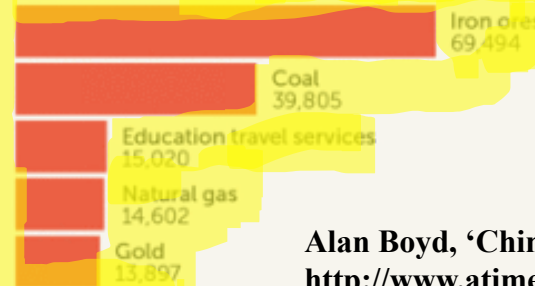
A\$328.7 BILLION

TOTAL VALUE OF IMPORTS

TOP 5 EXPORT MARKETS 2013 A\$M

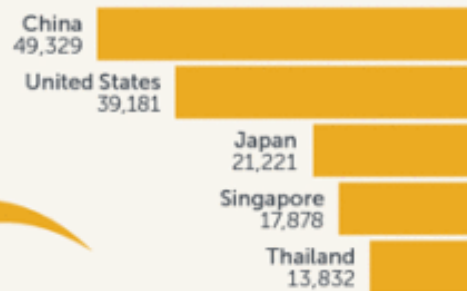


TOP 5 EXPORTS A\$M

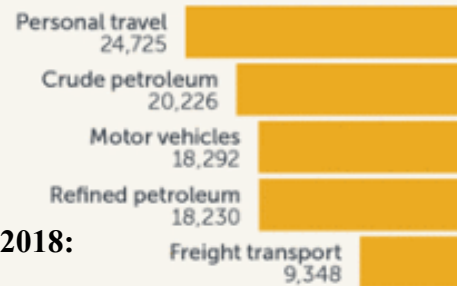


AUSTRALIA TRADING WITH THE WORLD 2013

TOP 5 IMPORT MARKETS 2013 A\$M



TOP 5 IMPORTS A\$M



Alan Boyd, 'China dangles trade threat over Australia', Asia Times, 3 Jan 2018:

<http://www.atimes.com/article/china-dangles-trade-threat-australia/>

2018: CANBERRA DISENGAGING FROM THE SOUTH CHINA SEA?

- **South China Sea Fatigue?**
 - Loss of confidence in the Quadrilateral Security Dialogue
 - Early 2018: Policy makers confident ASEAN can negotiate a Code of Conduct albeit on China's terms ('sweeping it under the carpet'?)
- **Distancing from 2018 US National Defence Strategy**
 - FM Bishop: we don't see 'China a posing a military threat to Australia, ... We continue to work closely with China
- **Military exercises:** in contrast to the US, Australia did not disinvite the PLA from 'Exercise Kakadu' or Exercise Pandaroo (Both Sep 2018)
- **July 2018:** FM Julie Bishop **categorically ruled out targeted FONOPs (first time)** adding Australia had never targeted a specific country and it would be an 'extra-ordinary step to do so'

AUSTRALIA, JAPAN & INDIA UNDER THE TRUMP ADMINISTRATION'S SHADOW



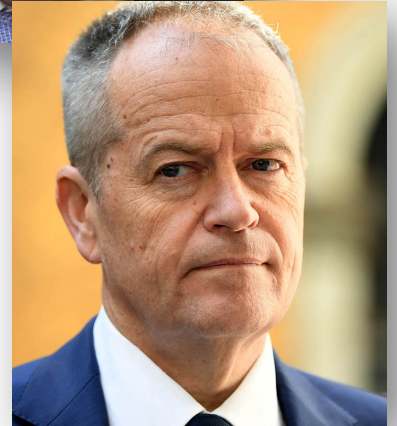
- **June 2017: Turnbull's SLD Message to the US:**
 - *'In this brave new world we cannot rely on great powers to safeguard our interests'*
- **July 2018, strongest criticism by Canberra yet:**
 - *'Our closest ally and the world's most powerful nation is being seen as less predictable and less committed to the international order that it pioneered ... The United States is now favouring a more disruptive, often unilateral, foreign and trade policy that has heightened anxieties about its commitment to the rules-based order that it established, protected and guaranteed.'*
- **Japan and India:** Similar concerns, plus US tariffs, may also inform a simultaneous softening of their approaches.

Confidence in U.S. President Donald Trump to do the right thing regarding world affairs (2017)



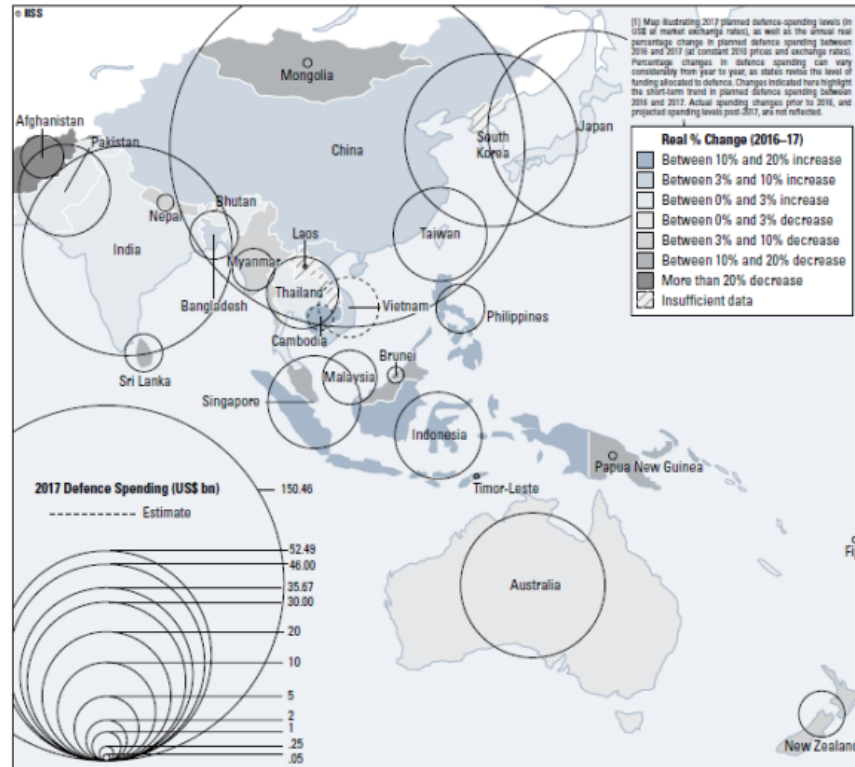
IMPLICATIONS OF THE ANALYSIS FOR THE AUSTRALIAN FOREIGN POLICY TRAJECTORY

- **Australia will likely continue with a more cautious approach to the South China Sea**
 - Fractured political environment
 - 2019: change of government could result in a new approach
 - Nonetheless: any new policies unlikely to positively affect the South China Sea situation absent a more collective approach
- **Prospects for an effective collective approach very low (beyond the ASEAN Code of Conduct)**
 - Cf. Significant concerns re the CoC (e.g. Prof Thayer's analysis)



NEW ALLIANCES AND/OR COALITION BENEFITS

PROPORTIONATE MILITARY EXPENDITURE BY COUNTRY (IISS, 2018)



Map 5 Asia regional defence spending¹

Annual Military Expenditure (2017, US\$)

China: \$150 billion

Other Key Major and Middle Powers

India: \$52 billion

Japan: \$46 billion

South Korea: \$36 billion

Australia: \$25 billion

Singapore: \$10 billion

Total: \$169 billion

Source: 2018 Military Balance, IISS

CAVEATS TO THE ANALYSIS (PLUS THE POSSIBILITY OF A BLACK SWAN EVENT)

- Analysis could rapidly change should a combination of the below occur:
 - a) The Trump Administration is replaced by a new government (unlikely before next Presidential election)
 - b) A military skirmish between Beijing and another claimant or stakeholder state
 - c) A significant and adverse development in another arena
 - d) China's debt bubble crashes or other developments combine to undermine the CCP regime's security – i.e. leading to (b) and/or (c).



It's a BLACK SWAN event.
MASSIVE IMPACT.
UNPREDICTABLE.

And after the fact we figure out
reasons why we SHOULD have KNOWN.

POSTSCRIPT: WHAT'S NECESSARY IN THE EVENT OF STRONG COLLECTIVE RESOLVE TO RESTORE ORDER

- 1) A strategic dialogue through an expanded Quad or the linking of key regional minilaterals
- 2) Subsequent articulation by these states of 'red lines' re Beijing's behavior (+ demonstrated willingness to apply hard power where necessary)
- 3) Establish multinational coastguard patrols, subject to permission, to police resources within legally unambiguous EEZs of claimant states;
- 4) A broader maritime Code of Conduct involving stakeholders beyond China and ASEAN
- 5) Collective approach to strategic communications to counter propaganda and psychological warfare activities
- 6) An incremental approach towards the establishment of a mutual defence pact covering any military threat to the *status quo* across the Indo-Pacific

ANNEXES FOR LATER USE

2017-2018: MAINTAINING AUSTRALIA'S INFLUENCE IN THE PACIFIC ISLANDS

- **Power/Influence Balancing – the Case of the Pacific Islands**
 - A naval base in Vanuatu? (US\$87 million from China's Exim Bank)
 - PM Turnbull expressed 'alarm' and soon hosted Vanuatu's PM for the purpose of a new security treaty.
 - Rapid Pacific Diplomacy: PM hosted leaders of PNG and Solomon Islands; FM undertook visits to Marshall Islands, Micronesia, and Palau.
 - Canberra undermined Huawei's telecommunications tender by providing 2/3 funding for undersea internet cable (Pacific to Australia)
 - Possible

AUSTRALIA'S DEPENDENCE AND BEIJING INFLUENCE: DEVELOPMENTS AND REGIONAL PERCEPTIONS



- Investments from China rose by 60% in 2015
- Mining: 80-83% foreign ownership
 - BHP Billiton 60%; Rio Tinto 82% (contrast Norway)
 - Cf: Norway's US\$873 billion future fund
- Agriculture: >12%
 - 2015-2016: Chinese ownership increased from 1.5 million hectares to 14.5 million hectares
- Residential Property
 - 2015: 45% of total Chinese investment (\$6.85 billion)
 - 95% directed towards NSW: **Affordability?**
 - Restraint through two way dependence?
- Mixed Signals with and perceptions by Major Powers: Japan, India and the United States

AUSTRALIA'S US-CHINA DILEMMA: MIXED SIGNALS AMIDST A WEAKENING DOMESTIC ENVIRONMENT?



- Australia's history of staunch support for U.S.
- FM Alexander's Downers Statement on Taiwan (2004)
- Port of Darwin sale, Freedom of Navigation exercises, and joint exercise with China
 - Former FM (Gareth Evans): Australia should demonstrate a foreign policy more independent of the alliance
- A strengthening of Australia's position?
 - PM Turnbull at the 2017 Shangri-La Dialogue
 - FM Bishop at the 2017 2nd India-Australia Oration
- A long-term strategic, political and economic strategy?

A LAND DIVIDED: DEBATES IN CANBERRA'S SOUTH CHINA SEA APPROACH

- **Divides within Policy and Academic Circles**
 - Accommodation/more passive approach
 - Challenging excessive/illegal claims and actions
 - **Whether to undertake targeted FONOPs**
 - **Other actions including collective approaches (e.g. the Quad)**
- **Evolving Party Approaches**
 - Labor