

## Australia-China Strategic Partnership



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## Summary

Timely as it was, the Australian Prime Minister Julia Gillard's five-day China visit may be considered a success on all fronts. Leading the 'strongest Australian delegation ever' to China, Gillard pledged to give the relationship a 'concrete shape', which in Chinese Premier Li Kequing's words, is already 'comprehensive, constructive and cooperative'. Apart from the strategic partnership agreement involving foreign and security issues as well as economic matters, China and Australia have also agreed to a currency pact, which is a big takeaway for China. This issue brief analyses Julia Gillard's China visit in the context of rising Australia-China bonhomie.

## BACKDROP

China has been one of the key countries, relations with which have occupied the centre stage in the Australian foreign policy. In the past 40-years, i.e., from the times of Gough Whitlam to the current Prime Minister Julia Gillard, Australia-China relations have shown positive trends, though not without frequent ebbs and flows. Like many other countries of the Indo-Pacific region, China's impeccable economic growth and rising military prowess have posed both challenges and opportunities for Australia. Particularly significant is the point that China has been the biggest trade partner of Australia for the past several years. Australia's strong economic ties with China helped it sustain the 2008 global economic slowdown - a fact that has been acknowledged and appreciated by the Australian policymakers and foreign policy pundits alike. Considering China's positive role in its economy and implications of its rise on regional security architecture and the US-Australia relations, Australia aims to smoothen its ties with China to such an extent that its military alliance with the US is not undermined. China, on the other hand, has been keen to get closer to Australia considering its strategic location, rising profile in Asian politics and relations with the US.

China's recent leadership transition has given the Australian leadership an opportune moment to strengthen Australia-China ties, and Julia Gillard's visit to China should be seen in that context.

## INTRODUCTION

The Australian Prime Minister Julia Gillard embarked for a five-day visit to China from April 5, 2013, her second such visit in the last two years. Apart from several businessmen and senior officials, the delegation included key ministers Bob Carr (Minister for Foreign Affairs), Dr Craig Emerson (Minister for Trade and Competitiveness) and Bill Shorten (Minister for Financial Services and Superannuation).

During her visit, Gillard met both the Chinese leaders- President Xi Jinping and Premier Li Keqing. A number of important agreements were also signed during the visit; prominent among them being the agreement to hold annual leadership meeting. According to the reports, the two sides have committed to annual meetings between the leaders of the two governments. Interestingly, China has such an arrangement with only three other countries - UK, Germany and Russia as well as EU.<sup>1</sup> Australia has similar type of agreements with India and Indonesia.

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<sup>1</sup> For details, please see, 'Gillard scores coup with China agreement', *Sydney Morning Herald*, April 10, 2013, <http://www.smh.com.au/opinion/political-news/gillard-scores-coup-with-china-agreement-20130409-2hjin.html>

## AUSTRALIA & CHINA: STRATEGIC PARTNERS

As reported in the Australian media, strategic partnership with China has always been a high priority for Prime Minister Gillard. In fact, she wrote to the former Chinese President Hu Jintao in April 2012, and sent Dennis Richardson, one of the senior most bureaucrats, to Beijing to build the case for a bilateral strategic partnership.<sup>2</sup> Apart from the strategic partnership agreement, agreements on development aid, drug control and financing, and recyclable energy were also signed. The two countries have also agreed to set up a *Carbon Trading Experts Group* and conduct joint research on carbon trading issues. One of the defining agreements during her visit pertains to an investment cooperation plan that involves linking Shanghai municipality, Shandong, Anhui and Shaanxi provinces of China with Northern Queensland, Western Australia and the Northern Territory. It is believed that the cooperation would lead to pilot projects in large-scale agricultural, water and soil resource development, beef and shipment processing as also in aquaculture and logistics etc.<sup>3</sup> An agreement to develop 700-megawatts of wind farms in Australia and a \$1.5 billion contract for the development of the Dugald River zinc mine in Queensland were also signed during the visit.<sup>4</sup> It is important to note that China is Australia's largest trading partner, with the total volume of trade reaching \$128 billion in 2011-12. China is also Australia's largest source of overseas students, with 150,000 enrolments in 2012, and the second largest source of overseas visitors, with more than 626,000 Chinese arrivals in 2012.<sup>5</sup>

The two sides also pledged to convene annual 'strategic economic dialogue', which will complement annual 'foreign and strategic dialogue' on foreign and security matters (to be led by Ministers for Foreign Affairs of the two countries), and will be led by Treasurer and trade minister and Chairman of the National Development and Reform Commission from Australian and Chinese side respectively.<sup>6</sup>

That Australia's changing approach towards China is taking shape, is also manifested in Australia's *Defence White Paper 2013*. In a complete contrast to the 2009 Defence White Paper, which had pictured China as a potential threat to peace and stability in the region, the 2013 Paper says, "The Government does not approach China as an adversary. Rather,

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<sup>2</sup> Ibid.

<sup>3</sup> For details, please see, 'Tensions loom over Gillard's China visit', *The Australian*, April 7, 2013, <http://www.theaustralian.com.au/news/breaking-news/tensions-loom-over-gillards-china-visit/story-fn3dxiwe-1226613277740>

<sup>4</sup> Op. Cit. Note 1.

<sup>5</sup> *Press Office, Prime Minister of Australia*, 'Prime Minister and senior ministers to visit China', March 31, 2013, <http://www.pm.gov.au/press-office/prime-minister-and-senior-minister-visit-china>

<sup>6</sup> *Press Office, Prime Minister of Australia*, 'Transcript of joint press conference', April 9, 2013, <http://www.pm.gov.au/press-office/transcript-joint-press-conference-43>

its policy is aimed at encouraging China's peaceful rise and ensuring that strategic competition in the region does not lead to conflict."<sup>7</sup> Interestingly, compared to the 2009 Defence White Paper entitled *Defending Australia in the Asia-Pacific century: Force 2030*, the 2012 White Paper entitled *Australia in the Asian Century* sees China as an opportunity rather than a threat.<sup>8</sup>

The 2013 Defence White Paper goes a step further and describes China as a partner in securing peace in the Indo-Pacific region. The Paper also calls for 'substantive and sustained military-to-military engagement with China.'<sup>9</sup> Furthermore, the Paper mentions the details regarding military-to-military engagement with China. It says, "The cooperation between our defence organisations plays an important role in ensuring our relationship continues with a long-term, constructive outlook. Australia is committed to developing strong and positive defence relations with China through dialogue and appropriate practical activities. In 2013, this will include a strategic policy exchange to discuss regional security issues, and an inaugural Australia-China Military Friendship and Culture Week to be held in Canberra."<sup>10</sup> Clearly, Canberra is not willing to leave any stone unturned in terms of its engagement with Beijing.

However, Australia's military alliance with the US, its role in the US administration's 'pivot' strategy, and the joint US-Australia base in Darwin have been seen with skepticism in China.<sup>11</sup> Australia's role in the 'pivot', as it unfolds further, will certainly pose challenges to Australia's relations with China. This is crucial as Australia is committed to military partnership with the US, the point which has been mentioned several times in the 2013 Defence White Paper.

## CURRENCY AGREEMENT

During Gillard's China visit, the two sides importantly inked a currency pact. The move, it is expected, will help ease the trade processes and facilitate stronger and smoother trade ties between China and Australia, particularly as the two countries can trade in their own currencies instead of trading in the US dollar. The agreement has certainly brought

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<sup>7</sup> *Defence White Paper 2013*, Department of Defence, Australian government, <http://www.defence.gov.au/whitepaper2013/>

<sup>8</sup> For an analysis of 2009 Defence White Paper, please see, Rahul Mishra, 'White paper, red lines', *The Indian Express*, May 8, 2009, <http://www.indianexpress.com/news/white-paper-red-lines/456167>

<sup>9</sup> Op. Cit. Note 7.

<sup>10</sup> Ibid.

<sup>11</sup> For details of the Darwin base and US-Australia military cooperation, please see Rahul Mishra, 'India-Australia Strategic Relations: Moving to the Next Level', *Strategic Analysis*, 36:4, pp. 657-662.

appreciation for Gillard and her government since the Australian dollar is only the third currency, apart from the Japanese Yen and the US dollar, to trade directly with the Chinese Renminbi (CNY). So far, there existed no mechanism to directly convert the Australian dollar into the Chinese Renminbi, and for all these years the US dollar has been used as the currency for international pricing and trade of commodities. China has been working on it lately, for instance, in 2012, it had said that it would set up a special business zone in Shenzhen city to experiment with Renminbi's convertibility.<sup>12</sup>

The Australian decision to go ahead with the currency pact is a major fillip to Chinese attempts to internationalise its currency by way of becoming fully convertible as a pre-condition to become a reserve global currency. Evidently, China has been trying to promote its currency as an alternative to the US dollar and eventually bring about the Beijing Consensus. Highlighting the importance of currency pact Prime Minister Gillard said, "The development of direct trading between the AUD/CNY will over time help lower currency conversion costs, facilitate the use of CNY and AUD in bilateral trade and investment, and promote financial cooperation between our two countries."<sup>13</sup> It has also been reported that on April 24, 2013, the Reserve Bank of Australia announced that it would invest up to 5 per cent of its foreign currency assets – close to \$2 billion Australian dollars (US\$2.1 billion) – in Chinese government bonds.<sup>14</sup>

## BO'AO FORUM FOR ASIA

Australia clearly understands that its economic growth is crucially tied with China both in terms of market and massive source of investment in the country. In fact, to underscore the point that Australia appreciates the importance of economic ties, Gillard attended the Bo'ao forum for Asia (BFA) that was held in Hainan Island from April 6-8, 2013. Initiated in 1998 and formally inaugurated in February 2001, BFA is a non-governmental, non-profit international organisation. BFA provides a platform for economic cooperation amongst the countries of Asia. Academicians, policymakers, government leaders, and businessmen from across the region participate in its meetings. Former Prime Minister of Australia Bob Hawke, former Philippine President Fidel V. Ramos and former Japanese Prime Minister Morihiro Hosokawa and China's Hu Jintao were the key leaders who helped BFA become a reality.<sup>15</sup> Over the years, BFA has projected itself as a forum that stimulates discussions

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<sup>12</sup> 'China and Australia in currency pact', *BBC News*, April 10, 2013, <http://www.bbc.co.uk/news/business-22075345>

<sup>13</sup> *Press Office, Prime Minister of Australia*, 'China and Australia announce direct currency trading', April 9, 2013, <http://www.pm.gov.au/press-office/china-and-australia-announce-direct-currency-trading>

<sup>14</sup> 'Australia to buy Chinese bonds', *Wall Street Journal*, April 24, 2013, <http://online.wsj.com/article/SB10001424127887324874204578441872296832546.html>

<sup>15</sup> For details, please see <http://english.boaoforum.org/gyltbjjsen/index.jhtml>

on trade relations amongst the countries of the region. Naturally, during the BFA meeting, Gillard discussed the future of Australia's economic ties with China and encouraged Chinese businessmen to invest more in Australia.

However, there are a few issues on which China and Australia are yet to arrive at a consensus. For instance, despite 19 rounds of negotiations, the China-Australia Free Trade Agreement has not yet materialized. This has certainly become a challenge for the two countries, which have been aiming at broader and deeper bilateral economic cooperation.

Another prickly issue for Australia has been the jailing of Australian businessmen; a matter which has been troubling Canberra. Though the issue figured during the visit, only a passing reference was made about it. Australia's Department of Foreign Affairs and Trade has however, prepared a briefing paper that cautions about the risks of doing business in China.<sup>16</sup> Moreover, the Attorney General's Department has expressed concerns and said that the jailing of Australians over commercial disputes in China was "putting considerable strain on the bilateral relationship".<sup>17</sup>

## HUMAN RIGHTS

Intriguingly, during Gillard's visit, the issue of human rights violations in China and Tibet didn't figure much. This is in stark contrast to the Australian stand on Tibet and human rights issues in China. Unlike the former Prime Minister Kevin Rudd, who had criticised China on such issues even in his speech at Beijing University in 2008, Gillard didn't raise the issue at such a high pitch.<sup>18</sup>

Clearly, Australia is shying away from discussing human rights issues with China, as there is a feeling, at least in some quarters of Australian corridors of power, that if Australia wants to keep the relationship with China cordial, it should avoid being critical on such 'sensitive' issues. For instance, Andrew Forrest, one of the most influential Australian businessmen having massive business interests in China, said, "I think our good relationship (with China) started splintering from the time Kevin Rudd publicly criticised China on human rights."<sup>19</sup>

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<sup>16</sup> 'Jailings risk China ties', *Financial Review*, April 8, 2013, [http://www.afr.com/p/national/jailings\\_risk\\_china\\_ties\\_xebBtZ6yh3FvGz7HD4gCwM](http://www.afr.com/p/national/jailings_risk_china_ties_xebBtZ6yh3FvGz7HD4gCwM)

<sup>17</sup> Ibid.

<sup>18</sup> For details, please see, 'Beijing University speech by Australian Prime Minister Kevin Rudd', *The Australian*, April 9, 2008, <http://www.theaustralian.com.au/news/kevin-rudds-speech-at-beijing-uni/story-e6frg6n6-111116015758>

<sup>19</sup> 'Business leaders courting China ignore dragon in the room', *BRW*, April 8, 2013, [http://www.brw.com.au/p/leadership/business\\_leaders\\_courting\\_china\\_Pyt6R4ECLRZ2uniE4d2scP](http://www.brw.com.au/p/leadership/business_leaders_courting_china_Pyt6R4ECLRZ2uniE4d2scP)

## PEOPLE-TO-PEOPLE CONTACTS:

In order to give a fillip to people-to-people contacts through tourism, *Australia Week in China* was announced during Gillard's visit. The new initiative, which aims to attract Chinese tourists to Australia and familiarise Chinese people with Australian society and culture, will be based in Shanghai. It is said that the *Australia Week in China* will feature 'a range of events and activities including a campaign to attract more Chinese tourism to Australia, cultural activities showcasing contemporary performing and visual arts, and investment activities including targeted meetings with potential Chinese investors.'<sup>20</sup>

Gillard also launched the initiative entitled *Expanding our Horizons: Forty Years of Australia-China Collaboration and Exchange in Education, Science and Research* which aims to capture, for the first time, the breadth of Australia's education, research and science relationship with China over the past 40 years.<sup>21</sup> Needless to say, the move will help encourage greater people-to-people exchanges.

## CONCLUSION

With the visit of what has been called as 'the highest level political delegation ever fielded from Australia to China', Gillard and her team have substantially increased Canberra's diplomatic footprints in Beijing.<sup>22</sup> What remains to be seen, however, is how Australia manages increasing US presence on its shores with its hope to strategically engage China.

Australia is uniquely positioned in terms of its relationship with China and the US. Compared to other major stakeholder countries of the Indo-Pacific region – India and Japan, Australia has no disputes with China, and that gives Australia an opportunity to mellow down its stance on 'China threat'.

While Japan and India cannot, Australia certainly can afford to maintain a fine balance, as there are no territorial disputes between China and Australia. In fact, it is finding itself in a situation where it is now leveraging the best of economic relations from China while still enjoying the privileges of the US alliance and its nuclear umbrella. Moreover, unlike the member countries of ASEAN (Association of Southeast Asian Nations), it is not bound by norms of an intra-regional grouping, nor is it in the league of countries such as Singapore whose significant share of population and workforce has historic ethnic connections with

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<sup>20</sup> Press Office, Prime Minister of Australia, 'Australia week in China', April 8, 2013, <http://www.pm.gov.au/press-office/australia-week-china>

<sup>21</sup> Press Office, Prime Minister of Australia, 'Prime Minister Gillard concludes visit to China', April 9, 2013, <http://www.pm.gov.au/press-office/prime-minister-gillard-concludes-visit-china>

<sup>22</sup> Ibid.

China. In that regard, it is interesting to note that Australia's latest gesture towards China is an outcome of its own decision taken in its own accord. Australia seems to not only strive to get closer to both US and China but also hopes to bring these two superpowers closer. For instance, Gillard, during her visit said, "In the coming decade, our co-operation will continue to grow – over time we would like to see this extend to tri-lateral exercises, including with the United States."<sup>23</sup>

Evidently, Australia is carefully weighing its options with regard to its relationship with the two superpowers: China and the U.S. In a way, Canberra's attempt to inch closer to Beijing indicates a long-held desire of Australia- to make a foreign policy that is independent of external influences and driven solely by its own national interests. Gillard's evolving China policy is clearly driven by the idea that Australia should strive to seek a balance in its relationship with China and the US so that they aren't affected by each other. Gillard's visit is clearly an attempt in achieving what Gillard herself said, 'an ally in Washington and a friend in Beijing' in coming years'.<sup>24</sup> Whether Canberra achieves and sustains that 'fine balance' remains to be seen.

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<sup>23</sup> Press Office, Prime Minister of Australia, 'Address to AustCham- Australia China Business Council', April 9, 2013, <http://www.pm.gov.au/press-office/address-austcham---australia-china-business-council>

<sup>24</sup> For further details, please see Rahul Mishra, 'China-Australia relations in 2011: Glass half empty or half full?' in Brig Mandip Singh (ed.) *China Yearbook 2011*, (New Delhi: Institute for Defence Studies & Analyses). pp. 83-90.