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From Hedging to Balancing:
Australia's Shifting China Strategy in the Indo-Pacific

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헤징 전략에서 인도-태평양 균형 조성으로

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Thesis Advisor Cheol-Hee Park

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Hyun Jun Yoo
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Chair	Seong-ho Sheen	(Seal)
Vice Chair	Jeewan Park	(Seal)
Examiner	Cheol-Hee Park	(Seal)

Abstract

In the post-Cold War era, Australia struggled to find an adequate balance between its biggest security guarantor, the U.S., and its important trading partner, China. However, as China introduced its new Grand Strategy of Rejuvenation, which accelerated military modernisation and resulted in an assertive foreign policy that contested the existing international order, Australia was increasingly pressured to face the dilemma. From 2016-17 onwards, there has been a noticeable change in Australian policy direction against China both regionally and domestically. The move taken by Australia attracted attention from scholars and practitioners to explain the reason behind such actions. However, unfortunately, the existing literatures lack a comprehensive analysis of the external and internal motivations as well as the degree of strategic shift Australia has undergone.

Therefore, the paper aims to address the following question: How did Australia's China strategy shift from John Howard's government in 1996 to Scott Morrison's government in 2022? In order to answer the question, the paper divides the period into three phases. First, the John Howard government from 1996 to 2007 could be defined as a period of optimistic hedging, where Canberra conducted pragmatic economic engagement in the belief that such would assist China's accommodation into the liberal international system. The second was during Kevin Rudd, Julia Gillard, and Tony Abbott's government from 2007 to 2015, when Australia experienced a more confident and assertive China that contested international rules and norms. Therefore, this could be defined as a transitional

period where Australia began to readjust its position with China, thereby engaging a combination of pessimistic hedging and soft balancing strategy. Finally, the Malcolm Turnbull and Scott Morrison government of 2015 to 2022 marked a full transition into balancing, as its ability to hedge decreased whilst the threat perception against China had increased. Furthermore, the study also analyses Australia-China economic relations in order to explain how Australia managed to withstand economic sanctions from China and continue to pursue its policy direction.

Keywords: Australia's China strategy, hedging strategy, balancing strategy, Indo-Pacific, middle power diplomacy

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Chapter I. Introduction

1. Background of Research

Australia's relationship with China developed rapidly since John Howard's government took office in 1996. In the post-Cold War era, where the international system was reconstructed under the U.S. primacy to liberal international order, Australia found itself an economic opportunity with China in the current global economic interdependence. However, as China's national power continued to rise and began to reveal its new Grand Strategy of Rejuvenation to regain its national pride in the international system, it contested the U.S. hegemony. By the mid-2010s, the U.S.-China rivalry intensified rapidly, and Australia found itself stuck between its largest trading partner and its biggest security ally. Such a dilemma triggered a fierce domestic debate within Australia, which corresponded with diverging views in predicting the future direction of China.

According to Bisley (2018), four main arguments emerged among scholars and analysts. First, there was the optimistic liberal view believing that high economic interdependence between Washington and Beijing would prevent further escalation and intentional status quo will be maintained. The second was a pessimistic liberal view, where a shared economic interest would have limited impact in preventing conflict, and therefore Australia needs to proactively engage China in the existing international system. The third was an optimistic realist view, where economic interdependence and contestation will coexist, and hence,

Australia needs to seek a way to increase its military capability in case there is a need for hard balancing. The final view came from pessimistic realists, where international order will be adjusted to reflect a shifting balance of power, capability, and intent.

As Australia struggled to find a balance between its most important security partner, the U.S. and its important economic partner China, Australia engaged in a hedging strategy by compartmentalising security and the economy. By 2017 however, a domestic consensus emerged among political elites and the public in Australia that drove its way towards balancing rather than hedging. The continuous shift reached its pivotal point in April 2020, when Australia became the first country to call for an independent investigation into the origin of the COVID-19 virus against China. What followed was the unprecedented scale of China's economic sanctions encompassing trade, tourism, and diplomatic fallout. Nevertheless, Canberra did not back down and proceeded to urge China to abide by international rules and regulations.

Then, a question arises: How should Australia's recent shift in China's strategy be interpreted? Some scholars argue that the recent course of action taken by Canberra runs counter to the conventional international relations studies of neorealism and neoliberalism (Pan and Korolev 2021, 116). From the perspective of realist scholars, Australia's decision to hedge between China and the U.S. until the early 2010s cannot be adequately explained. On the other hand, neoliberalist theory faces difficulty in putting terms as to why the Australia-China relationship deteriorated despite having extensive economic interdependence with each other. The middle power theory is also insufficient to explain Australia's recent course of action, as Australia adopted middle power diplomacy since the end of World War

II. Other scholars suggest that the theory of ontological security, which argues that states will take action to maintain the stability of self-identity when faced with a critical situation (Pan and Korolev 2021), may explain Australia's current foreign policy choices. Although this may be applicable, it does not fully explain Australia's proactiveness compared to other middle-power nations in the region which face similar situations. Therefore, this research aims to fill in the gap in the existing literatures by analysing six consecutive Australian governments from 1996 to 2022 to analyse Australia's changing China strategy and the reasons for such a shift in foreign policy.

2. Research Question and Argument

The paper seeks to answer the question: How did Australia's China strategy shift from John Howard's government in 1996 to Scott Morrison's government in 2022? In order to examine the question, the research looks into Australia-China bilateral relations and corresponding policies across six consecutive governments of John Howard, Kevin Rudd, Julia Gillard, Tony Abbott, Malcolm Turnbull and Scott Morrison. Through in-depth analysis of open-source data and materials collected from both primary and secondary sources, including official government statements, transcripts, defence White Papers, statistical trade data from the Australian government and scholarly literatures, and news articles, the paper examines both external and internal factors that affected Australia's strategic decisions for China. After defining the analytical concept of middle power strategy, hedging, and balancing through existing literatures in Chapter II, the

research is structured into three phases. The first phase looks into John Howard's government from 1996 to 2007, when Australia developed relations of economic engagement with China. The second phase was during Kevin Rudd, Julia Gillard, to Tony Abbott's government between 2007 to 2015, when Australia faced the strategic challenge of rising China and shifting regional balance of power. Thus, this period could be defined as a transitional period where Australia slowly shifted its strategy from hedging and balancing. Finally, in the third phase, Malcolm Turnbull and Scott Morrison's more assertive foreign policy direction will be discussed and analysing pivotal moments that contributed to the shift in its policy direction. The three phases will be compared by three categories: 1) external factors, which include U.S.-China relations, China's foreign policy direction, and the dynamics of the regional strategic environment; 2) internal factors of Australia-China bilateral trade volume, internal discourse, and domestic political circumstances within Australia; and 3) China strategy and its policy implications. In doing so, the paper argues that Australia has shifted its China strategy from hedging to balancing as Australia lost expectations that China would remain a status quo power, and the hostile strategic environment decreased Australia's ability to hedge. Therefore, during Turnbull and Morrison's government, Australia turned towards a hard balancing strategy that resulted in China imposing comprehensive economic sanctions against Australia which will be discussed later in Chapter VI.

Chapter II. Analytical Framework

1. The Middle Power Theory and Hedging Strategy

In international relations studies, the definition of 'middle power' and its ability to exercise influence differs among scholars. During the Cold War, when the great power rivalry dominated the international discourse, realist scholars such as Kenneth Waltz dismissed middle-power nations as agents capable of affecting the dynamics of international politics (Lee 2017). However, by the end of the Cold War in 1989, the collapse of bipolar structure offered greater opportunities for nations neither great nor small to play a "game of skill" that is not determined by size, power and geographic locations (Beeson and Higgott 2014, 220). The change in international order also shed new attention on middle power theories, resulting in a greater number of relevant publications since the 1990s (Abbondanza 2021, 182). According to Carl Ungerer (2007), a middle power nation belongs to a group of states with a more limited regional set of core interests and force projection capabilities. The state should have a middle-ranking economy, military and diplomatic capabilities, and pursue active participation in international affairs. Therefore, in order to supplement the deficiency of power, middle-power nations will engage through multilateral institutions in promoting international legal norms and actively use diplomatic, military, and economic measures to achieve their political outcome (Ungerer 2007, 539). For Gabriele Abbondanza (2021), middle powers are nations that identify themselves as a middle power and adopt at least two notions of good international citizenships: respecting international law, a

multilateral attitude to international relations, pursuing humanitarian and idealist objectives, active approach towards the maintenance of the rules-based order, and a congruous identity supported by consistent domestic policies. Mark Beeson and Richard Higgott (2014) argued that the middle powers must have both the capacity and desire to exercise the "art of the indirect". A number of literatures agree a middle power should act as a catalyst, facilitator, and manager in institution building, coalitional activity, and constructing norms and conventions. However, on the other hand, the authors admitted that without the participation of the great powers, middle powers would face structural limitations in exercising influence. Thomas Wilkins (2021) characterised middle powers as states that are insufficient to balance on their own account but sufficient to eschew bandwagoning. Therefore, middle powers tend to adopt a hedging strategy through ambiguous and nuanced state foreign policy featuring a "mix of cooperative and confrontational elements" (Wilkins 2021, 7).

Hedging is often associated when a state conducts "a set of strategies aimed at avoiding a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning or neutrality" (Lee 2017, 26). Koga (2018, 637) suggests hedging is essentially a combination of balancing and bandwagoning where counteractions cancel out the risks of each action. Thereby a state either gains the benefit of buying time to determine whether the state should balance or bandwagon until the strategic landscape's future direction is clarified or attaining a strategic benefit to maintain the state's neutral position in a manner that maximises autonomy. Similarly, in other studies, hedging is illustrated in a way to engage a major or rising power both economically and diplomatically while adopting fallback security measures as a form of insurance,

decreasing specific economic or strategic vulnerabilities it faces from great powers (Ciorciari and Haacke 2019, 368). Therefore, the concept of hedging includes a wide range of spectrum from optimistic hedging of 'accommodation' and 'engagement' to a more pessimistic heading of 'neutrality' and 'dominance denial'. Although the conceptual bases of hedging could be expansive, some scholars attempted to divide the characteristics of military, diplomatic, and economic domains to distinguish different types of hedging (Koga 2018, 642). As hedging provides strategic flexibility, it has attracted attention from scholars to explain secondary power's state behaviour. This became more apparent as Sino-American competition intensified, and more studies were introduced to analyse the political behaviours of states that fall between the two great powers.

Thus, Australia's foreign policy towards China could also be examined under such a concept, where the country has long struggled to find "the right balance between their commitment to the status quo and their fear of damaging relations with [their] biggest trade partner" (Wilkins 2021, 16). According to Lee (2017, 26), there are three preconditions for hedging: 1) it must not face an imminent threat from rising superpowers in the region; 2) a regional security environment must not be based on ideology; and 3) the regional security environment must offer some flexibility. Therefore, as great power rivalry intensifies, the space to hedge for middle powers decreases, and as states could not meet the above preconditions, they would face increasing pressure to take either side. Such a transition of international order brings back the theories of traditional balance of power.

2. Theory of Balancing

In the traditional literature of international relations, balancing and bandwagoning are the two alliance behaviours that are placed at each end of the spectrum. Unlike bandwagoning, which is a strategic choice to align with the source of danger (Koga 2018, 637), balancing is associated when a state ally with others in order to avoid domination by the most threatening power (Walt 1985, 5). The balancing strategy could be considered as either soft or hard, depending on the characteristic of behaviour. Soft balancing is when a state forms ententes or limited security understandings with others by eventually forming a tacit balancing through ad hoc cooperative exercise or collaboration in regional or international institutions (Marim and Chairil 2016, 40). Anders Wivel and T.V. Paul (2020) argue that soft balancing is often used as a policy tool for smaller states to delegitimise aggressive policy by threatening power, as the powerful often "seeks to exercise their power on the basis of legal conventions or traditional authority bestowed on them" (Wivel and Paul 2020, 474). Hard balancing, on the other hand, is when a state engages in both internal and external balancing. Internal balancing is when a state strengthens its own military through ways such as increasing its defence budget, improving its economy for arms build-up, and improving defence policies and technology (Koga 2018), whereas external balancing seeks to assemble a countervailing coalition that could vis-à-vis threatening power. Both may entail strategic risks where internal balancing could result in the misdistribution of internal resources that destabilise domestic social infrastructure, and external balancing could lead to entrapment or abandonment (Koga 2018,

637). According to Stephen M. Walt (1985), states will form alliances against the power posing the most significant threat rather than in response to power, depending upon elements including aggregated power, proximity, offensive capability, and offensive intentions. Therefore, even when a state chooses to hedge against a state of interest, as threat perception increases and international structure shifts from unipolar to bipolar or multipolar, a state's ability to hedge may decrease and therefore decide to alter its strategic direction.

3. Australia's Relationship with the U.S. and China

As former Prime Minister Malcolm Fraser once stated, Australia has been historically dependent upon a major power for security (Fraser 2014). Such dependency led Australia to bandwagon with Britain in the fight against Germany during the two World Wars, despite the fact Germany did not pose a direct threat to Australia. However, as Britain's capacity began to decline after the war and thus was unable to provide adequate security for Australia, it turned towards a new foreign policy concept of middle power diplomacy. During the post-World War II negotiations, then External Affairs Minister Herbert Vere Evatt introduced three defining middle power characteristics in Australian foreign policy of nationalism, internationalism, and activism (Ungerer 2007, 542). The nationalism came from the desire to seek a more independent foreign policy line from Britain after the war. Internationalism came from the understanding that Australia's future depended on the ability to pursue others for collective action and activism in acknowledging that middle powers must rely on diplomatic skills and energy in the pursuit of their

national interests (Ungerer 2007, .542). Evatt retained his position as External Affairs Minister under three consecutive Labor Governments of John Curtin, Francis Forde and Ben Chifley from 1941-49 and coined the phrase into Australia's foreign policy tradition. This later gained bipartisan support from Australia's two dominant political groups, the Australia Labor Party (ALP) and the Liberal Parties of Australia (LPA). At the same time, Australia saw the U.S. as its new security guarantor replacing the position of Britain.

As the U.S. was seeking to rearm Japan to deter the spread of Communism, Australia made it clear that without a security assurance, it would not support Japan's rearmament. This eventually led to the signing ANZUS Treaty, a tripartite alliance including Australia, New Zealand, and the U.S. in September 1951 that was designed to last indefinitely. The Treaty outlined that each nation would "consult together whenever in the opinion of any of them the territorial integrity, political independence or security of any of the Parties is threatened in the Pacific" and "act to meet the common danger in accordance with its constitutional processes" through the supply of resources, diplomatic involvement, and armed intervention if necessary (National Museum Australia). Until recent times, the ANZUS Treaty was only officially invoked once in response to the 'War on Terror' following September 11 attack. The Treaty soon became a central pillar of the bilateral relationship with the U.S. and the foundation of its security cooperation.

Whilst putting the U.S. alliance as its priority in foreign policy, Australia continued to enhance its regional engagement. In the 1960s, Australia began to take on the mediatory role as a bridge between Asia and the Pacific region to the West (Ungerer 2007, 544). In the following decades, Australian policy had once again

undergone significant steps to embrace internationalism in both domestic and foreign policy-wise. Domestically, Gough Whitlam's Labor government ended the White Australia Policy by introducing the Racial Discrimination Act of 1975 (National Museum Australia, n.d.). In foreign policy, the Whitlam government officially recognised the People's Republic of China as the 'sole legal government of China' and committed to the 'one China' (Evans and Grant 1991, 235). Such a decision was stimulated by a combination of substantial business and geopolitical implications Australia had with China (Evans and Grant 1991, 231). In the 1950s and 1960s, China became an important export market for Australian wheat and wool and continued its trade despite U.S. pressure for an embargo. There was a sense that without diplomatic recognition, Australia's market access to China would be limited. Furthermore, as a middle-power nation in a region dominated by a handful of major countries, Australia had a desire to establish a positive relationship with the region's major powers (Bisley 2018).

Since constructing an official diplomatic relationship with China, Australia entailed an ambivalent approach towards Taiwan. On the one hand, Australian governments remained reluctant to establish a formal relationship with Taiwan and were constrained under the one-China policy. However, on the other hand, commercial and unofficial engagement continued to increase, and by the early 1990s, Taiwan became the seventh largest export market for Australia, which signed a commercial aviation understanding in March 1991 (Evans and Grant 1991, 236). During Bob Hawke and Paul Keating's Labor government between 1983 to 1996, Foreign Minister Gareth Evans reiterated the Australian foreign policy approach as "coalition building with 'like-minded' countries… [involving] 'niche' diplomacy…concentrating resources in specific areas best able to generate

returns worth having" (Evans and Grant 1991, 323). Following the traditional 'internationalist' tendency Labor Party had and the shifting international order after the Cold War, Australia found itself in a favourable environment to deepen economic engagement with China. By 1994, the Bill Clinton administration in the U.S. began to change its strategy towards China from confrontation to active engagement, thereby easing economic pressure on China by conditionally delinking most-favoured-nation status with China's human rights issue. The adaptation of "comprehensive engagement designed to integrate China into the international community" (Mastanduno 1998, 847) allowed Australia to benefit from China's fast-growing economy under the new era of global economic integration and interdependence. In the year 1970-71, Australia's total merchandise trade volume with China was A$94,861,000, which increased more than 82 times, and by 1995-96 to A$7,790,713,000 (Figure 1). As bilateral trade volume increased significantly, China became the fifth-largest export market to Australia. Therefore, from Australia's perspective, the U.S. is its most important strategic security partner.

Figure 1. Australia's total trade of merchandise with China 1970-1996 (DFAT)

Chapter III. John Howard government (1996-2007)

1. External Factor: From Strategic Challenge to Economic Partner

During the 11 years of John Howard's Liberal government, Australia's bilateral relationship with China had undergone dramatic change to the extent where Howard later acknowledged, "I simply make the point that the transformation of the relationship with China has been remarkable" (PM Transcripts 2006). Regarding the regional strategic environment, in the initial year of 1996, Australia had to deal with Taiwan Strait Crisis that continued from the previous year in June 1995, after Taiwanese President Lee Teng-hui visited the U.S. The regional security tension intensified following Taiwan's democratic presidential election, and China conducted military exercises and missile tests near Taiwan, where the U.S. proportionately responded by deploying two carrier battle groups (Ross 2000). In June 1996, China held a nuclear test during a time when Australia was pushing to establish a Comprehensive Test Ban Treaty, causing political friction between Australia and China. Thus, the year of 1996 for the Howard government was marked by strategic challenges posed by China that needed to be managed through bilateral engagement and reassurance of U.S. presence in the region. Australia was the only nation in the region to publicly support the deployment of U.S. naval forces. In the Australia-United States Ministerial Consultation (AUSMIN) in July 1996, the two countries announced a 'Sydney Declarations' aimed to promote democracy, economic prosperity, and

strategic stability within the Asia-Pacific region (McDowall 2009). China perceived the upgrade to the Australia-U.S. defence alliance as part of the U.S. strategy to contain China and perceived Australia as the "claws of a crab" (Minyue 2005). Foreign Minister Alexander Downer rejected such speculations and argued that "suggestions from anywhere that the Sydney declaration and the alliance we have with the United States are somehow directed towards China is an analysis which is simply wrong" (Minyue 2005, 117).

The Australia-China bilateral relations further degraded following a revelation that Australia has been negotiating with Taiwan to reverse the ban on uranium export. In July 1996, Australia allowed the pro-independence Mayor of Taipei, Chen Shui-bian, to visit Australia for the Asian Cities' conference, which provoked the Mayors of Beijing and Shenzhen to decline attendance. In September 1996, when Dalai Lama visited Australia and attracted more than 60,000 audiences, China warned "there is a price to pay" for Australia's action (Bosnjak 2019). Howard responded, "I don't bow to threats…because the upholding of the principles on which this country is built is always more important than the possibility of some transient commercial difficulty" (Bosnjak 2019). However, the tension soon began to mitigate following a bilateral meeting between Howard and Jiang Zemin during the 1996 Asia-Pacific Economic Cooperation conference in Manila. After the meeting, Howard stated, "We both agreed that the relationship was a strong one and could be made stronger…we had a lot of mutual interest, and that we should focus on those…I made it clear that we weren't trying to contain China" (McDowall 2009, 13-14). Howard's visit to China in March 1997 placed the bilateral dialogue back on track, and China's decision not to re-evaluate the renminbi during the Asian Financial crisis made Australia conceive China as a

responsible international actor (Raby 2020, 22).

Furthermore, although 1996 may have signalled a rough start in the bilateral relations between the two countries, the foreign policy and defence White Papers published between 1997 and 2003 indicate that the Howard government perceived the security environment as a reasonably 'benign' state (McDowall 2009). *In The National Interest*, which was the first White Paper published by the Department of Foreign Affairs and Trade (DFAT) in 1997, states that "China's economic growth, with attendant confidence and enhanced influence, will be the most important strategic development of the next fifteen years… [however] the United States will remain, over the next fifteen years, the single most powerful country in the world, with the largest economy and the most advanced technology" (Department of Foreign Affairs and Trade 1997, v). *Australia's Strategic Policy* published by the Department of Defence in 1997 argued: "[the] expansion of China's military capabilities does not constitute a threat to Australia or to the security of the region as a whole. But China's growing power is an important new factor in our strategic environment, and it is not yet clear how that power will be accommodated within the regional community… the regional strategic balance need not be a zero-sum game …Australia and other countries in the region will need to work hard to convince Beijing that China's legitimate interest and growing influence can be accommodated within the current regional framework" (Department of Defence 1997 p.14). The *Defence 2000: Our Future Defence Force,* mentions the concerns over increased military capabilities in the Asia Pacific region but also shared hopeful views of "both Beijing and Washington clearly understand the importance of managing the US-China relationship effectively" (Department of Defence 2000, 18). It further went on to mention

China as “an increasingly important strategic interlocutor for Australia” (Department of Defence 2000, 37). Therefore, it could be argued that although the military build-up in the Asia Pacific and confrontation in the Taiwan Strait raised concerns for Australia, its strategic assessment suggests the country did not perceive it as an imminent threat.

2. Internal Factor: Maintaining International Order and Economic Engagement

When John Howard became the Prime Minister, his aim was to disengage from Hawke and Keating’s multilateral Asian direction (Jian and McCarthy 2016). Howard followed the Liberal Party’s ‘traditionalist’ approach to foreign policy, which focused on constructing a “solid security relationship with the U.S., while engaging in economic diplomacy with the rest of the region disregarding global phenomena” (Abbondaza 2021, 186). In 1996, Howard faced a political challenge posed by Pauline Hanson, who was a former candidate for the Liberal Party and later established the One Nation Party. In her infamous 1996 maiden speech at the Parliament, she promoted the revival of the White Australia Policy by claiming Australia was “in danger of being swamped by Asians” (Sydney Morning Herald 2016). In fear that it might damage his populist Australian image, Howard hesitated to distance himself from Hanson and took several weeks before responding (McDowall 2009, 12).

However, as a result, it damaged Australia’s reputation in the Asia Pacific region, which served as a reminder of European colonialism and the revival of the

White Australia Policy. This was damaging to the Howard government, as the Asia-Pacific region was the area of highest foreign and trade policy priority. Soon after the meeting with Jiang Zemin in 1996, China's growing economic significance gradually pushed the Howard government to realise the economic benefit of establishing cooperative relations with China (Jian and McCarthy 2016, 247). Since 1996-97, the bilateral trade volume increased significantly from A$7,787,734,000 to A$16,721,758,000 by 2000-01 (Figure 2).

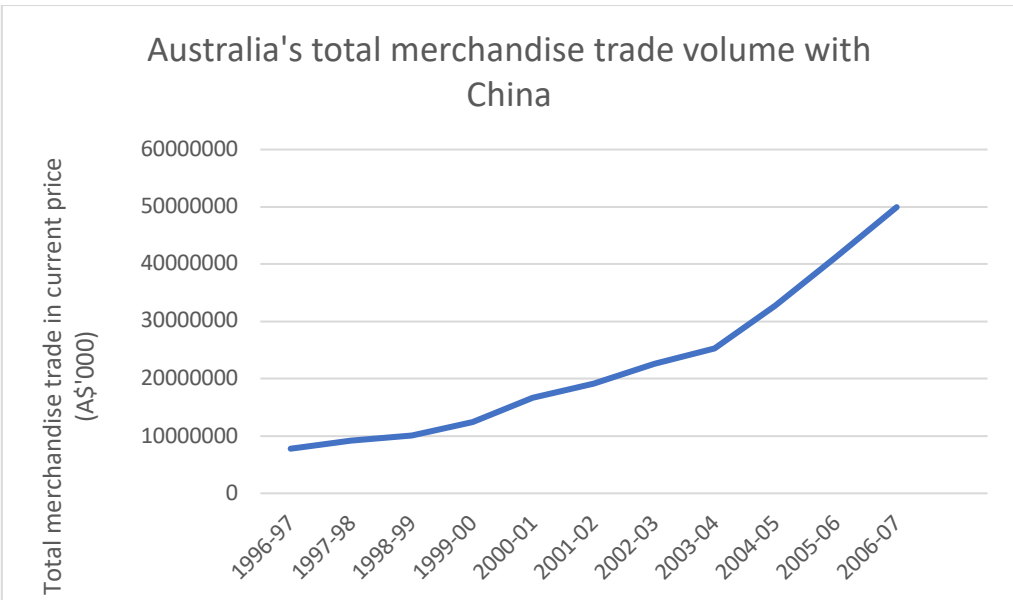

Figure 2. Australia's total merchandise trade with China 1996-2007 (DFAT)

However, beneath the growing economic cooperation was a liberal belief that the economic and diplomatic engagement would "help to bind Beijing to a status quo international outlook … the "golden straitjacket" of economic interdependence that would help keep the region stable" (Bisley 2018, 383). In *Advancing the National Interest,* published in 2003 by DFAT, it stated Australia

would pursue deeper economic engagement with China and "work towards a framework agreement to strengthen the long-term trade and investment relationship… building a strategic economic relationship with China similar to those Australia has established with Japan and Korea" (Department of Foreign Affairs and Trade 2003, 79). In October 2003, the President of the PRC, Hu Jintao, was invited to address a joint meeting in the Australian Parliament the very next day George W. Bush made his speech, marking "an unprecedented sequencing of speeches" (Parliament of Australia, n.d.). On the day of the event, the two countries signed Australia-China Economic and Trade Framework, illustrating that Australia was proactive in enhancing its economic relations with China. In 2002, the Howard government successfully signed a contract of A$25 billion to supply 3.2 million tonnes of LNG from the North-West Shelf consortium to Guangdong province, celebrating as "the largest single export order ever won for Australia" (The Age 2002). The contract, which equivalented to half of Australia's total LNG export at the time, signalled China's increasing importance as an energy export destination for Australia, replacing Japan. However, whilst the importance of China to the Australian economy continued to grow, there were also concerns over the potential impact China would have to existing international order. A speech delivered by Australian Ambassador to the U.S. Dennis Richardson in January 2006 clearly illustrates such a point:

"In Australia, the public debate about China has a different tone to some aspects of the debate here in the United States. I suspect that one reason for this is that China's rise has been factored in at a national psychological level in Australia quite some time…The question for Australia is not whether China's growth is

innately good or bad. Australia made up its mind long ago that it was a good thing. China's growth is unambiguously good for Asia and unambiguously good for the United States… The question, rather, is to what extent China's rise will change the system in which it rises. Can it play by the rules, or will it change the rules? We in Australia want China to play by the rules…and we have every reason to believe that it will do so." (Dennis 2006)

Through such insight, it could be argued that although the Howard government was cautious of the potential impact of China, it still maintained an optimistic view that China could be incorporated into the existing liberal international system. Thus, Canberra conducted an optimistic hedging strategy through pragmatic economic engagement to encourage China to abide by international rules and regulations.

3. China Strategy: Optimistic Hedging

The hedging strategy by the Howard government came in the form of a "balance of principle and pragmatism" in utilising bilateral, regional, and multilateral instruments (Dennis 2006). As of 2003, Australia was looking for ways to form security links with China directed at developing dialogue on strategic issues. In his address at the Asia Society Lunch in New York, he further stated, "China's progress is good for China and good for the world…to see China's rise in zero-sum terms is overly pessimistic, intellectually misguided and potentially dangerous" (Australian Government Department of the Prime Minister and Cabinet

2005). In August 2004, while visiting China, Downer made a controversial statement that "Australia and China would build up a bilateral strategic relationship, that we would strengthen our economic relationship and we could work together closely on Asia Pacific issues, be they economic or security issues" (McDowall 2009, 34). When asked about how such partnership may be affected by ANZUS Treaty obligation, Downer said the Treaty was "symbolic" to U.S. alliance and indicated Chinese attack on Taiwan would not automatically invoke the Treaty (The Age 2004). This was a significant shift in the Howard government's foreign policy on China, taking a step further from economic exchange and was open to potential security partnership opportunities with China. Such transition was also illustrated in the changing description of the Australia-China bilateral relationship, where the 'economic relationship' developed into an 'economic relationship with strategic significance' and later upgraded to a 'strategic economic relationship' (McDowall 2009).

Nonetheless, on the other hand, Australia pursued balance in the security realm by prioritising the U.S. security alliance. In 1999, Australia announced a new foreign policy that would "characterise Australia's regional role as a 'deputy sheriff'…[and] offered support to the U.S. National Missile Defence system" (Yu 2016, 746). Furthermore, when Downer's comments on the ANZUS Treaty triggered political backfire from both the U.S. and the general public, which saw it as a 'major alliance issue,' the Howard government reverted its position. Then opposition Foreign Affairs Spokesman Kevin Rudd criticised Downer's action as an unwise act 'to speculate publicly about what role Australia might take during a crisis in the Taiwan Strait' (The Age 2004). Amidst increasing confusion about the extent of Australia's commitment under the ANZUS Treaty, Howard retreated from

the previous statement and stated, “Nobody can doubt that Australia is a loyal ally of the United States” (McDowall 2009, 35). Moreover, the Howard government began its way to enhance security cooperation with its democratic neighbours in the region. In March 2006, Downer met with Japan’s Foreign Minister Taro Aso and the U.S. Secretary of State Condoleezza Rice in Sydney for an inaugural ministerial meeting of the Trilateral Strategic Dialogue. On the day of the meeting, a joint statement was published expressing that “as longstanding democracies and developed economies, our three countries have a common cause in working to maintain stability and security globally with a particular focus on the Asia Pacific region... [the strategic dialogue is] a significant step in intensifying the strategic dialogue between our countries and reflects the importance we attach to greater trilateral cooperation in addressing contemporary security issues” (Ministry of Foreign Affairs of Japan 2006). In September 2007, Australia, Japan and the U.S. further agreed to deal “constructively” with China (Fujioka 2007). Downer later mentioned that the trilateral talks focused on “India and the importance of that country to us in the Asia-Pacific region and to the broader geopolitics of the Asia-Pacific region” (Fujioka 2007), indicating that a new geostrategic architecture was beginning to emerge in the region.

In short, during the decade under the Howard government, Australia experienced a drastic shift in its relationship with China. In the initial year of 1996, the Howard government was pressured by the regional security challenge such as the Taiwan Strait Crisis and China’s nuclear test, which pushed Australia to side closer to the U.S. Domestically, Howard was also motivated to pursue a hard-line approach with China in order to retain his nationalist-populist image by aligning with traditional Liberal Party’s approach to foreign policy. However, as external

tensions began to mitigate, Australia soon shifted its interest to a positive economic engagement with China by separating the security and economic domain. Therefore, Australia conducted optimistic hedging with China by cooperating in the economic sector while balancing in the security domain by strengthening its security alliance with the U.S. and Japan.

Chapter IV. Kevin Rudd, Julia Gillard, and Tony Abbott government (2007-2015)

1. External Factor: The Rise of China

The most critical change in the Australian strategic environment during the period of Kevin Rudd, Julia Gillard, and Tony Abbott's government was the rise of China and the intensification of the U.S.-China rivalry. According to Avery Goldstein (2020), China experienced two stages of Grand Strategy since its foundation in 1945. The first phase lasted until 1989, called the 'Grand Strategies of Survival', when China struggled to deal with its existential threats to the regime. By the end of the Cold War in 1992, a new opportunity emerged for China to grasp the "long-standing goal of Chinese nationalists since the late nineteenth century of restoring the country to its rightful place as one of the world's most advanced countries and a respected great power on the world stage" (Goldstein 2020, 170). This led to the introduction of the 'Grand Strategy of Rejuvenation' adopted by Deng Xiaoping's "Hide and Bide", Jiang Zemin and Hu Jintao's "Peaceful Rise/Development", and Xi Jinping's "Chinese Dream." While the three predecessors of PRC leadership focused on reassuring a peaceful rise of China through integration into the world order led by the U.S., Xi Jinping's Grand Strategy had a different nuance towards the existing international order (Goldstein 2020, 179). In an interview in March 2022, former Australian Prime Minister Kevin Rudd described Xi Jinping's strategy as building Marxist Nationalism in

China by taking politics and economy to the left and Chinese nationalism to the right (Miklaucic 2022, .132). Such resulted in the form of an assertive Chinese foreign policy, which aimed to supplement the U.S. to become an undisputed dominant global power while reforming international order that incorporates China's authoritarian values (Miklaucic 2022, 128). After becoming general secretary of the Communist Party and chairman of the Central Military Commission in November 2012, Xi Jinping accelerated China's military modernization so that "rejuvenated China will become a 'world-class' military power by the middle of the first century" (Goldstein 2020, 188). According to data from the U.N. Report on Military Expenditures, China's defence expenditure increased from US$104.2 billion in 2008 to US$209.1 billion in 2016 (China Power Team 2015). Although the military expenditure was maintained between 1.7 percent to 1.9 percent of its GDP, the growing economy meant a further increase in the military budget.[①] The military modernization of the People's Liberation Army (PLA) and China's intention to defend its 'core interest' resulted in increased territorial disputes with its neighbours. As a consequence, Australia had to readjust its position with China.

For Australia, the maritime dispute in the South China Sea between China and other ASEAN nations was especially troublesome. In 1982, China signed the United Nations Convention on the Law of the Sea (UNCLOS) mainly to counter the U.S. and Soviet Union's maritime hegemonism (Beeson and Chubb 2021). Since then, the UNCLOS became an international treaty with fully codified and legally binding characteristics and introduced new concepts such as the Exclusive Economic Zone (EEZ) and Continental Shelf, which delineated maritime

① Furthermore, some scholars question about the authenticity of the data itself

boundaries and brought a radical expansion of state authority at sea, causing "territorialization" of the world's oceans (Beeson and Chubb 2021, 240). However, since China officially adopted the infamous 'Nine-dash line' map in their diplomatic document as their 'core interest' (Beeson and Chubb 2021, 248), China claimed rights to 90 percent of the South China Sea, which went against the EEZ under UNCLOS, ensuring sovereign rights for countries to explore and exploit natural resources within 200 nautical miles from their baseline (United Nations, n.d.). In March 2009, a U.S. surveillance vessel USNS Impeccable conducting a hydrographic survey outside the 12 nautical miles of territorial water and within China's EEZ was disrupted by China (Medcalf 2020, 89-90). This incident signalled the beginning of China's resistance to international maritime rules and the U.S. leadership in the region. The tension escalated following China's actions of building artificial islands in the Spratlys Islands, seizing Scarborough Shoal in 2012, and creating 20 outposts in the Paracel Islands (Asia Maritime Transparency Initiative, n.d.). In January 2013, the Philippines eventually initiated compulsory arbitration proceedings under Article 287 and Annex VII of UNCLOS, accusing Beijing of 'a wide array of violations of the UNCLOS… [which] Beijing claimed the case was an "abuse" of UNCLOS procedures' (Beeson and Chubb 2021, 248-9).

China's assertiveness in the South China Sea and military modernization triggered Australia's deep historical anxiety about potential security threats from the North, formulated during the bombing of Pearl Harbor and Port of Darwin during World War II (Beeson and Higgott 2014, p.226). Therefore, even though Australia was not directly involved in the dispute, it carefully observed the progress and China's response. Australia was cautious even after China reassured

that it would never engage “in aggression or expansion, never seeks hegemony, and remains a staunch force for upholding regional and world peace and stability" (The State Council the People’s Republic of China 2011). As Australia’s anxiety grew over its regional security, Australia welcomed the Barack Obama administration’s Pivot Asia policy in the hope that “The United States will play a larger and long-term role in shaping this region and its future" (Medcalf 2020, 93). The Defence White Papers published from 2009 to 2013 illustrate Australia’s shift in the assessment of its surrounding strategic environment. In the *2009 Defence White Paper*, Australia perceived that the world would become increasingly 'multipolar' as China continued to increase its capacity. Even so, Australia believed that the U.S. would remain the “most powerful and influential strategic actor over the period to 2030…[and] its strategic primacy will assist in the maintenance of a stable global strategic environment.” In the *2013 Defence White Paper*, the U.S.–China relationship was depicted as "a constructive relationship encompassing both competition and cooperation.” Unlike in the previous White Paper, by 2013, Australia’s concern over China’s maritime dispute became clear: "China's rise is being felt in Southeast Asia…[and] many states are concerned about rising regional tensions since 2009 and have called for their management through a Code of Conduct in the South China Sea consistent with principles of international law" (Department of Defence 2013). Therefore, between 2007 and 2015, Australia experienced a different form of China, which was much more confident and was ready to pursue an assertive foreign policy with its neighbours.

2. Internal Factor: Between Security and Economy

In the first 18 months of Kevin Rudd's Labor government, Australia retreated from further engagement brought by the previous Howard government and took the role of a balancer and 'bridge between the East and West' (Yu 2016, 750). Australia brought contentious issues such as China's human rights allegation and modernisation of the People's Liberation Army (PLA) to the table of international debate, causing friction with Beijing (Bisley 2018, 386). Also, in the business sector, Australia blocked China's state-owned metals group Chinalco's bid to buy an 18 percent share of Rio Tinto, the second largest metals and mining corporation in the world, triggering domestic debate within Australia on China's State-owned Enterprises (SOE) investing in Australian infrastructure (Macalister 2009). However, even as bilateral relations strained, trade volume with China continued to grow, and in 2009 it became the largest trading partner to Australia (Raby 2020, 23). Furthermore, even though Australia did not experience a significant economic downfall during the Global Financial Crisis, the Australian economy was buoyed by the export volume to China (Reserve Bank of Australia n.d.). Therefore, even though the Rudd government maintained a stance of 'engage and hedge', it increasingly struggled to continue with its hard-line approach with its 'important [economic] partner' (He 2014, 258). The Rudd government eventually reverted its pragmatic compartmentalization of security and economy, that continued from the previous government. In order to prevent further deterioration of bilateral relations, Australia refrained from further engagement in the Quadrilateral Strategic Dialogue (Quad) and Arc of Asian Democracy proposed

by Japan's Prime Minister Shinzo Abe (Yu 2016, 750). Though in private, Rudd remained to be concerned about potential challenges presented by rising China (Bisley 2018).

The successive Labor government under Julia Gillard had based its foreign policy on three pillars of Australia's middle power tradition: Asian engagement, commitment to multilateralism, and maintaining the strategic alliance with the U.S. Similar to its predecessor, Gillard tried to approach a more friendly tone to China and repair damaged relationship from Rudd's government. As a result, in April 2013, Australia and China announced the elevation of their bilateral relationship to a 'Strategic Partnership' and signed a Development Cooperation Memorandum of Understanding. At the same time, the Gillard government embraced the U.S. Pivot policy and announced the Joint Marine Rotational Force Darwin Agreement, which included the deployment of the U.S. Marine Air Ground Force to the Port of Darwin (Yu 2016, 751). This act attracted attention from Beijing, which warned that "if Australia uses its military bases to help the U.S. harm Chinese interests, then Australia itself will be caught in the crossfire"(Jian and McCarthy 2016, 253).

For Tony Abbot, Australia's relationship with China was driven by "Fear and Greed" (Granaut 2015). When his Liberal government took office in 2013, he had inherited the Howard government's pragmatic approach to China and aimed to develop strong political relationships with all the region's major powers (Bisley 2018, 387). Several officials from the Howard government were once again introduced to ministerial positions, including Andrew Shearer, who worked as a Senior Adviser in Foreign Affairs during the Howard government. Abbott reverted to pragmatic economic engagement with China and refrained from openly

criticising China and its economic policies (Bisley 2018, 387). In doing so, Canberra made clear that "Australia has never made the mistake of thinking that becoming better friends with one country automatically means becoming worse friends with another" (He 2014, 262). Australia's attempt to take on a more neutral position with China reflects in the way it describes the maritime dispute in the South China Sea and Senkaku/Diaoyu Islands. In a 2015 speech in Singapore, Abbott stated that "Australia does not take sides on competing territorial claims…And there is a lesson here: countries in the Asia-Pacific have too much to gain from cooperation and too much to lose from confrontation" (Abbott 2015). In November 2014, during Xi Jinping's visit to Australia, then-Minister for Trade and Investment Andrew Robb and Chinese Commerce Minister Gao Hucheng signed a Declaration of Intent of China-Australia Free Trade Agreement (ChAFTA), ending ten years of negotiations which began in 2004 (Australian Government n.d.). Nevertheless, even though the two sides agreed on a ChAFTA, there were still unresolved issues of historical suspicion and economic unilateralism Australia had with China (Patience 2018). Furthermore, although Abbott tried to follow in Howard's footsteps with its foreign policy of binding China through active engagement, Australia struggled to manage a relationship with a more assertive and confident China. Thus, by the mid-2010s, Canberra gradually realised that the bilateral relationship alone was not enough to respond to China.

3. China Strategy: Pessimistic Hedging/ Soft Balancing

The years during Rudd, Gillard, and Abbott's government could be characterised as a transitional period where Australia slowly began to shift its China strategy from hedging to balancing. Unlike in the previous Howard government, the three consecutive governments conducted a strategy which hovered between pessimistic hedging and soft balancing. At the centre of such a shift was Australia's changing threat perception for its regional security environment. In the *2009 Defence White Paper*, it was stated that "[war among] major powers is remote to the point of being unthinkable…we would be able to free up at least some of the significant resources required to maintain sophisticated arms forces and use those resources for other purposes." The direction to reduce military expenditure was overturned since then, where Australian military expenditure increased from US$18.96 billion to US$26.6 billion between 2009 and 2011 (Figure 3). In 2013, the government had set a target to increase its defence budget by up to 2 percent of its Gross Domestic Product (Department of Defence 2013).

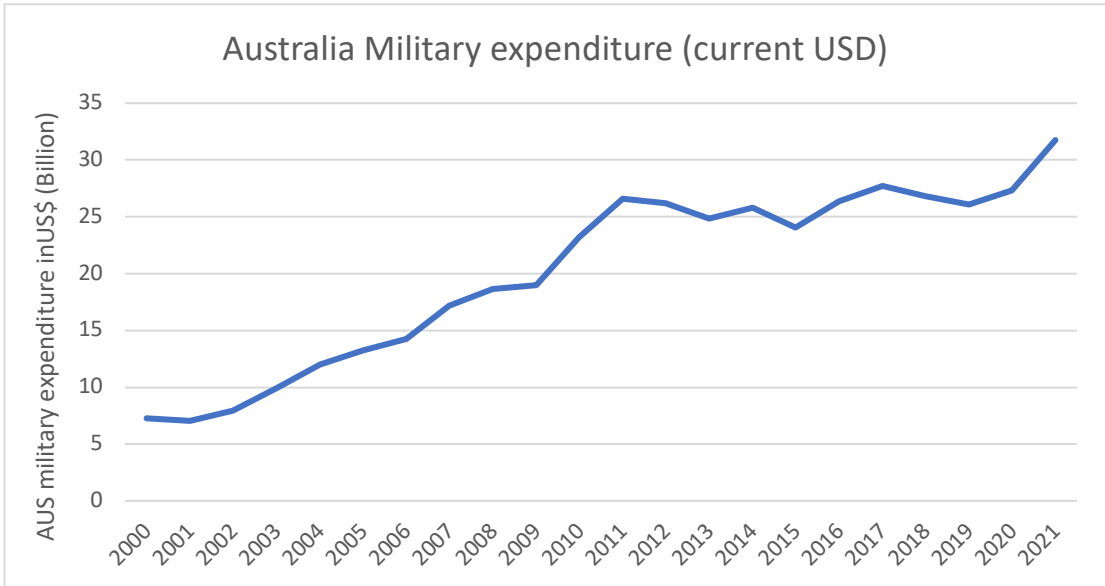

Figure 3. Australia Military Expenditure 2000-2021 (Source: World Bank)

Regarding its regional security, Australia pursued soft balancing attempting to build a regional strategic architecture involving India in the framework. Australia first began by constructing a new strategic framework that could replace the 'Asia-Pacific.' Such resulted in a new geopolitical concept named the 'Indo-Pacific' which spanned 'India through Southeast Asia to Northeast Asia, including the sealines of communication on which the region depends' (Department of Defence 2013). Since 2009, Australia initiated on build the foundations of this 'strategic arc' (Department of Defence 2013) following the announcement that Australia will double its submarine fleet and place greater emphasis on the Indian Ocean (Medcalf 2020, 107). The Julia Gillard government announced a special exception to the policy of uranium export ban for India in support of Washington's plan to place India at the centrepiece of a new strategic relationship to counter China. Although the opposition Labor party expressed concerns about the danger of a potential nuclear arms race in Asia, eventually, ALP

voted in favour of overturning the export ban.

By 2012, the term 'Indo-Pacific' appeared in Australia's official documents, including the *Asian Century White Paper* and the *2013 Defence White Paper*. The 2011 speech by then Foreign Minister Kevin Rudd provides insight into Canberra's internal discourse leading up to the creation: "*We began to debate two or three years ago on how we could build an Asia-Pacific community in a region which doesn't have regional institutions capable of bringing around the tables the Americans, the Chinese, and the rest of us, on how we craft the rules of the fame for this region, for the next half-century*" (Lowy Institute n.d.). Since constructing the Indo-Pacific narrative, Australia actively began to establish a more intimate connection with its "major Indo-Pacific democracies" (Medcalf 2018, 36). Australia especially focused on Japan, which shared a strong interest in reducing the impact of China's rise (Woodard 2018). The bilateral relationship with Japan was upgraded to Special Strategic Partnership on July 2014, and Japan-Australia Economic Partnership Agreement (JAEPA) was signed in 2015. Australia also enhanced relations with India by deepening its bilateral defence and security partnership through Bilateral Framework for Security Cooperation in 2014.

At the same time, the bilateral trade volume with China steadily increased. In 2008-09, the total volume for merchandise trade accounted for A$76,368,686,026, which increased to A$157,053,756,000 by 2016-17. As economic interest grew, Australia had mixed reactions when it came down to economic cooperation with China. When Xi Jinping announced its unilateral foreign policy of the Belt and Road Initiative (BRI) in 2013, Canberra responded with an ambivalent approach. As the initiative was funded by China's state-owned investment institutions to build communication and transport networks connecting

Southeast Asia, Central Asia, Africa, and Europe, it was regarded as having strategic implications for achieving a "community of common destiny" for China (Mardell 2017). Australia is concerned about the limited transparency and minimal arrangements of projects managed by Chinese SOEs. Foreign aid is often associated as an instrument for an alliance to increase leverage for the donor state over the recipient state (Walt 1985). Thus, the BRI was seen as China's attempt to reduce strategic vulnerabilities in its peripheral borders and maritime chokepoints by projecting influence on the countries involved (Raby 2020, 34). The allegation of 'dept trap diplomacy' surrounding China-backed port projects with mixed civilian and military uses and geopolitical influence over small economies in the South Pacific was also a serious drawback for Australia (Wilson 2019, 102-103).

Therefore, even though BRI offered Australia an opportunity to be involved in major infrastructure projects, Canberra rejected China's proposal to link BRI with the Northern Australia Infrastructure Fund (Wilson 2019, 103). Yet, within Australia, diverging views emerged. At the Federal government level, Australia was committed to aligning its political position with the U.S., even if it resulted in damaged relations with China. However, it was different at the State level. In October 2018, Victoria's Primer, Daniel Andrews, signed its own Memorandum of Understanding (MoU) with China's National Development and Reform Commission to participate in the BRI projects. He argued that engaging "with the biggest infrastructure program in our state's history" would offer the economic benefit of "more jobs and more trade and investment for Victorians" (Taylor 2020). The business sector also shared discontent with missed opportunities for new markets, indicating discord from the domestic security community (Wilson 2019, 103).

The issue regarding Asian Infrastructure Investment Bank (AIIB) also followed a similar trend of domestic discourse. When it was launched in October 2013, Xi Jinping emphasised that it "would not challenge but rather supplement and cooperate with existing multilateral development institutions such as the Asian Development Bank" (Goldstein 2020, 181). Suspicious about China's intention over the initiative, the U.S. Secretary of State John Kerry asked Tony Abbott to refrain from joining AIIB, to which both agreed to do so in October 2014 (Jian and McCarthy 2016, 249). However, as the admission deadline on 31 March 2015 approached, the subject was once again debated within Australia. While Bishop and Abbott backed the U.S. position, Trade Minister Andrew Robb and Treasurer Joe Hockey were in favour of AIIB (Murray 2015). Hockney argued, "The AIIB presents Australia with great opportunities to work with our neighbours and largest trading partner to drive economic growth and jobs" (Ministers Treasury 2015). Again, the conflict over security concerns and economic benefits occurred between Australia's security and business community. Eventually, after a series of tense negotiations, Australia signed up to become a founding member of AIIB just days before the deadline (Jian and McCarthy 2016, 249). Hence, the BRI and AIIB revealed how Australia's domestic opinion on China was divided, torn between economic benefits and security concerns.

Chapter V. Malcolm Turnbull and Scott Morrison government (2015-2022)

1. External Factor: Intensifying U.S.-China Competition and Indo-Pacific Strategic Framework

During Malcolm Turnbull's position as Prime Minster, Australia began to reassess its strategic environment. By then, the U.S.- China relations were driven by a "mix of cooperation and competition" (Department of Defence 2016). As China continued to pursue its 'grand rejuvenation', strategic uncertainty grew in the region, encouraging other states to engage in regional balancing. By 2016, the Indo-Pacific framework became an important strategic asset adopted by major democracies in the region. At the Sixth Tokyo International Conference on African Development in August 2016, Japan's Prime Minister Shinzo Abe stated, "Japan bears the responsibility of fostering the confluence of the Pacific and Indian Oceans and of Asia and Africa into a place that values freedom, the rule of law, and the market economy, free from force or coercion, and making it prosperous" (Ministry of Foreign Affairs of Japan, 2016). The 'Open and Free Indo-Pacific Strategy' adopted by the Abe administration encompassed the economic as well as the security sector that developed into a 'democratic security diamond' consisting of Australia, India, Japan and the U.S. (He and Li 2020, 3). In November 2016, Abe and India's Prime Minister Narendra Modi met in Japan and drew a consensus to link India's 'Act East' policy with Japan's 'Free and Open Indo-Pacific'

approach (Medcalf, 2020). The U.S. also replaced the phrase ‘Asia-Pacific’ with ‘Indo-Pacific’ following U.S. President Donald Trump’s trip to Asia in late 2017. In the *US National Security Strategy* (NSS) published in December 2017, it mentioned the phrase ‘Indo-Pacific’ 11 times. In June 2019, the U.S. Department of Defence published a new strategic paper named the *Indo-Pacific Strategy Report* (He and Li 2020). In 2018, the United States Pacific Command (USPACOM) was renamed as United States Indo-Pacific Command (USINDOPACOM), signifying that Indo-Pacific entailed military significance as well as diplomatic meaning for the U.S. Therefore, Australia succeeded in encouraging other major regional powers to join in the strategic architecture that could balance China.

The Trump administration further entailed uncertainty as the U.S. labelled China as a “revisionist” power trying to “shape a world antithetical to US values and interests (Grigg and Murray 2017). At the same time, the U.S. introduced the 'America First' approach, which reduced the U.S. participation to institutional orders, making Australia fear of 'existential threat to the operation of core international institutions’ (Beeson and Chubb 2021, 236). As Australia’s biggest security partner indicated it would turn towards more protectionist policies, such as withdrawing from the Trans-Pacific Partnership Agreement (TPP) from the previous administration, Australia’s concern for the U.S. commitment in the region continued to increase. Since the TPP was a centrepiece policy for the Obama administration's Pivot to Asia, the decision was a clear signal that the U.S. would be reverting from the engagement policy adopted by the Clinton administration. For Australia, this meant the favourable international environment was now becoming a more hostile and uncertain place, decreasing Australia’s ability to conduct a hedging strategy.

Beyond U.S.-China relations, another case of interest for Australia occurred in July 2016, when the final decision for the Philippines vs China dispute was made by the arbitral tribunal. The decision came along with 501 pages of documents outlining that Beijing had violated the UNCLOS on at least 14 out of 15 counts alleged by the Philippines (Beeson and Chubb 2021, 249). China rejected the ruling describing it as an “ill-founded ruling was…Naturally null and void” (Phillips et al. 2016). Within days, Australia's Foreign Minister Julie Bishop issued a statement calling China to respect international law and refrain from provocative actions (Minister for Foreign Affairs 2016). Australia’s concern over the maritime dispute was reflected in the *2016 Defence White Paper*, which highlighted that "safeguarding Australia's maritime approaches, offshore territories and border" was high priority for Australia’s national security.

In support of Southeast Asian nations and the U.S. in the South China Sea dispute, Turnbull’s government took an extra step to settle the country’s most prolonged maritime dispute with Timor-Leste. In 1972, Australia and Indonesia agreed on a seabed boundary agreement securing oil and gas resources extending to Timor Trough, except the area between Australia and the Portuguese half-island colony of Timor-Leste, which later became known as the ‘Timor Gap’ (Beeson and Chubb 2021, 251). Throughout Timor-Leste’s complex history of gaining independence from Portugal, occupation under the Indonesian military, and Australia-led United Nations-mandated intervention, Australia managed to continue its oil and gas production at Laminaria-Corallina fields. After Timor-Leste gained independence in 2002, Timor-Leste began negotiations with Australia for the delimitation of maritime borders. However, in May 2002, just two months before Timor-Leste gained independence, Australia withdrew from compulsory

international maritime border dispute resolution under UNCLOS and the International Court of Justice. Even as of April 2016, Australia opposed the conciliation process declaring that “Timor-Leste’s decision to initiate compulsory conciliation contravenes prior agreements between our countries not to pursue proceedings to maritime boundaries” (Beeson and Chubb 2021, 256). However, the atmosphere changed drastically following the announcement of the Philippines vs China maritime dispute resolution, where in August 2016, Australia announced that it would abide by the Timor conciliation. This later led to a landmark treaty in March 2018, which delimitated Australia and Timor-Leste’s maritime boundary. Therefore, considering the context of the Timor-Leste case, it illustrates the effort made by Canberra to increase the credibility of claims for RBIO and, ultimately, to deter China’s assertiveness in the maritime domain. In a media interview in July 2016, Bishop insisted that “our emphasis on the importance of the rule of law is consistent with our dealings with Timor-Leste, and just as we call on the South China Sea claimants to resolve their disputes peacefully, that’s what Australia and Timor-Leste did in entering into binding treaties to manage our overlapping claims in the Timor Sea” (Minister for Foreign Affairs 2016).

2. Internal Factor: China’s Penetration into Australian Politics

When Malcolm Turnbull began his position as Prime Minister in September 2015, he was seen to be a ‘Panda-hugger’, being the most pro-China Prime Minister since the Gough Whitlam government. However, by October 2016,

he was captured in an event describing Australia's relationship with China as "Frenemy" (Grigg and Murray 2017). At a Shangri-La Dialogue in Singapore in June 2017, Turnbull gave a significant speech which publicly criticised China for the first time in recent decades. In the event, Turnbull insisted that China could only expand its strategic influence to match its economic weight within the bounds set by U.S. leadership and condemned China's action in the South China Sea. He further stated that "a coercive China would find its neighbours resenting demands they cede their autonomy and strategic space and look to counterweight Beijing's power by bolstering alliance and partnerships, between themselves and especially with the United States" (White 2017). Then, a question arises as to why Turnbull shifted his political stance between 2015 and 2017. Apart from China's dismissal of the UNCLOS decision and the Trump administration's more assertive policy, another critical factor came from the revelation that China was attempting to penetrate Australian politics.

Hu Jintao once mentioned the Chinese leadership viewed Australia from a strategic and long-term perspective as a "key component of China's external relations" (Yu 2016, 752). Therefore, amid China's new Grand Strategy to develop Asian regionalism, Beijing has considering ways to "modify, fragment, weaken, or even terminate the alliance between the U.S. and Australia" (He 2014, 254). By early 2010, 12 Annual Australia Studies Conference was held in China along with 32 new Australian study centres opened in Chinese universities and research institutions (He 2014, 265). Simultaneously, there were also increasing warnings from Australia's intelligence offices regarding foreign interference in Australia. In a 2014 report from the Director General of Security of the Australian Security Intelligence Organisation (ASIO), David Irvine, it was stated that the "threat from

clandestine activities by foreign powers directed against Australia…[was] worse than previously thought" (Ross 2022, 588). In 2017, the warning escalated to "foreign powers… seeking to shape the opinions of members of the Australian public, media organizations and government officials in order to advance their country's own political objectivize" (Ross 2022, 588).

In August 2016, a news report revealed that a Sydney-based company Top Education Institute owned by a Chinese businessman Zhu Minshen had repaid a debt of A$1,670.82 on behalf of a high-profile New South Wales ALP senator Sam Dastyari in 2015. Zhu Minshen reportedly had a close connection with the PRC leadership, and the Australian parliamentary members demanded an explanation as to why "a senator who owes a debt to the Commonwealth for mismanaging his electorate budget is now being bailed out by a company that is closely linked to the Chinese government" (Conifer 2016). Later, it was revealed that this was one among several incidents that broke ALP's code of conduct for receiving political donations. In November 2017, a recording of Dastyari's speech of June 2016 was revealed where he stated, "the Chinese integrity of its borders is a matter for China…and isn't our place to be involved" (ABC News 2017). The speech brought another controversy as it went against ALP's official position of strongly criticising China's incursions in the South China Sea. In the book 'Silent Invasion' published by Clive Hamilton in 2018, includes a detailed account of how Chinese influence was able to penetrate deep into Australian politics, community groups, and research institutions. One of the allegations was on Huang Xiangmo, arguably the most prominent agent of Chinese influence in Australia. According to Hamilton (2018), Huang's influence stretched to both ALP and LPA, where he was suspected of delivering donations totalling A$2.9 million through his company, family

members, employees, and close associates. He appointed Eric Roosendaal, a former New South Wales Labor Treasurer and General Secretary of the New South Wales (NSW) branch of ALP, to his company as a Vice-Chairman and later as the Chief executive officer. Other major ALP members, including Andrew Stoner,[②] Ernest Wong,[③] Bob Carr,[④] and two former Prime Ministers, Julia Gillard and Kevin Rudd, were alleged to have associations with Huang. In the Liberal party, Huang made connections with Andrew Robb[⑤], Prime Minister Tony Abbott and Malcolm Turnbull. Andrew Robb was especially under scrutiny for receiving A$50,000 from Huang for his campaign financing vehicle on the day ChAFTA was settled. He also later signed an A$880,000 contract with Landbridge Group after resigning from the position of Trade Minister. The Landbridge group, owned by Ye Cheng, who was also a member of the National Chinese People's Consultive Committee, was the company that conducted the infamous 99-year lease contract over the Port of Darwin back in 2015.

During the Abbott government, the Northern Territory signed a 99-year lease contract with Shandong-based company Landbridge over the port for A$506 million (Gibson 2022). Despite opposition from Anthony Albanese calling the decision "a grave error of judgement" and President Obama expressing discontent over the lease, many of Canberra's policymakers were not concerned about the potential security issue at the time (Petriks 2023). However, ever since then, the Port of Darwin has been the subject of concern, where a Chinese company had ownership over the port that had strategic importance. The site was used to station U.S. Marine troops and as a harbour for servicing vessels, equipment, exercises,

② Former NSW deputy premier and National Party leader
③ Former mayor of Burwood
④ Former Premier of NSW
⑤ Former Minister for Trade and Investment

logistics, and resupply. The domestic sentiment towards China also degraded significantly following the fallout of the relationship in 2016. In a 2022 report from the Lowy Institute Poll, it showed how Australia's public perception of China had shifted. In the question asking which country is Australia's best friend in Asia, the 2014 survey indicated China was the most favoured nation above Japan. However, this rate fell from 30 percent in 2016 to 6 percent in 2022. The aftermath of the Dastyari scandal was also reflected in public concern over Australia's political autonomy, as 82 percent of the participant answered they were concerned about China's influence on Australia's political process. Such a result illustrates how both policymakers and domestic sentiment had coincided towards balancing China's influence, providing a solid foundation for the Turnbull and Morrison government to continue and enhance the strategy of balancing.

3. China Strategy: Hard Balancing

As Peter Varghese, a former Secretary of the Department of Foreign Affairs and Trade, has argued, Australia traditionally sided with great powers, favouring a "slipstream" position in the projection of power (Seebeck 2021). Since the ANZUS Treaty was signed in 1951, the alliance was expanded to conduct annual Australia-U.S. Ministerial Consultation (AUSMIN), intelligence and technology sharing, military exchange programs, and international military training exercises. The U.S. was undisputedly the "most important strategic partner…[and] long-standing alliance" of Australia (Department of Defence 2016). Even during the high point of its relationship with China, Australia maintained its strategic

posture (Beeson and Higgott 2014). Therefore, as former Ambassador to China Stephen FitzGerald has explained, Australia's response was “not a matter of choice between the U.S. and China, but rather a matter of the nature of Australia's relations with both” (He 2014, 268). If Australia was ever to depart the ANZUS alliance, it would eventually have to restructure its entire national security system and strategic culture due to its path dependency (Bisley 2018). Furthermore, in doing so, Australia would need to find another alliance or a security partner that could decrease its security anxiety. If that choice was to be China, Australia would then have to overcome the issue of trust and cultural differences, along with convincing the Australian public to alter Australia’s national identity. Thus, as hopes to bind China into the existing liberal international order gradually faded, and the U.S.-China rivalry intensified, Australia’s ability to hedge also decreased. With the increased threat perception against China, it was logical for Australia to turn towards hard balancing that strengthened existing security alliances with the U.S. and continued with building regional coalitions with like-minded countries.

3-1. External Balancing

In September 2016, Australia announced a ‘Step-Change’ policy, which aimed to increase Australia’s commitment to the Pacific Islands nations to a new level (Department of Foreign Affairs and Trade 2019). The initiative was reiterated in November 2018 as ‘The Pacific Step-up’ and provided A$1.4 billion fund as development assistance to the Pacific region in the year 2019-20. The policy was specifically targeted to counter growing Chinese influence in the Pacific region,

where its presence was an "indisputable aspect of political and economic life in the Pacific Islands region" (Hewes and Hundt 2022, 184). For policymakers in Canberra, the expansion of China's influence on Australia's immediate neighbours became a serious concern for national security. Therefore, although Australia officially adopted a neutral position of "we don't sign up to it. We don't participate in it" (Hewes and Hundt 2022, 183), Canberra attempted to offer an alternative to BRI. According to the *2017 Foreign Policy White Paper*, the funds included investments in the Australian Infrastructure Financing Facility for the Pacific (AIFFP), the Pacific Labor Mobility Scheme, the Coal Sea Cable project, renewable energy, climate and disaster resilience, New Australia Pacific Security College, and Pacific Fusion Centre (Department of Foreign Affairs and Trade 2019). Among those, the Coal Sea Cable project demonstrates Australia's unequivocal act to balance China in the Pacific region.

In 2012, the Solomon Islands government secured a loan of US$23 million from the Asian Development Bank (ADB) to cover the cost of building a deep-sea cable between Honiara and Sydney. However, the initial plan of involving a British-American company for construction was later replaced in 2016 by Huawei Marine, a joint venture of the Chinese company Huawei and British firm Global Marine Systems. In response, the ADB withdrew its loans, arguing that the contract had been developed "outside of the ADB procurement process" (Hewes and Hundt 2022, 185). Canberra also saw PRC's involvement in the project as a security threat to "Australia's telecommunications infrastructure backbone… [and] cable that Canberra did not want Beijing to build" (Hewes and Hundt 2022, 185). In January 2018, Australia began to support Sydney-based firm Vocus Group for the contract, and soon Australia and the Solomon Islands agreed on the condition

that Australia would be providing the majority of the fund. In an interview with Fairfax Media in June 2018, Bishop explicitly stated that “we want to ensure that they retain their sovereignty….and that they are not trapped into unsustainable debt outcomes. The trap can then be a debt-for-equity swap, and they have lost their sovereignty.” (Wroe 2018).

Another attempt to deter further Chinese influence could be illustrated in the case of October 2021, when the Australian government assisted Telstra, the country’s largest mobile company, in buying Digicel, the largest mobile phone carrier in the Pacific (including Fiji, Samoa, Vanuatu, and Papua New Guinea). With speculation of Chinese companies showing interest in bidding on Digicel, the Australian government assisted US$1.33 billion in a financing package to support Telstra’s acquisition (Jose 2022). When the deal was finalised in July 2022, the government released a statement by Foreign Minister Penny Wong attributing that this reflects “our commitment to help build a stronger Pacific family through investment in high-quality infrastructure.” (Minister for Foreign Affairs 2022). In September 2018, Australia also adopted the Boe Declaration on the Regional Security Partnership with Pacific Island nations, encompassing climate change, foreign interference, coercion, and strengthening existing regional security architecture. (Pacific Islands Forum n.d.). Under the Declaration, Australia delivered Pacific Maritime Security Program (PMSP), promising a commitment of A$2.1 billion over the next 30 years, including the Guardian-class Patrol Boats and an Aerial Surveillance Program.

In August 2018, shortly after becoming Prime Minister, Morrison delivered a speech insisting Australia was “getting on with business with China…not just the business of the commercial relationship, but a broad-based

relationship" (Morrison 2018). Nonetheless, it soon became clear that his government was following the footstep of its predecessor to engage in active balancing. Since signing an MoU with the U.S. and Japan for trilateral cooperation in the Pacific in November 2018, Australia expanded security alignment with its democratic partners. In November 2020, the Quadrilateral Security Dialogue was reinitiated, announcing the first joint Malabar Exercise. This, using India's Minister of State for Defence Shripad Naik's words, "highlighted the convergence of views among the participating countries on maritime issues and their shared commitment to an open, inclusive Indo-Pacific and a rules-based international order" (Rajagopalan 2022). The announcement of AUKUS in September 2021 marked a new three-way strategic alliance between Australia, the U.S., and the U.K., with the objective of assisting Australia's acquisition of nuclear-propelled submarines. This agreement, which some security advisers argued: "perhaps the most significant capability collaboration in the works anywhere in the past six decades" (Wintour 2021), was certainly a critical deal to upgrade Australia's maritime capability and form a tacit alliance.

Furthermore, Australia increased its bilateral military engagements, including Treaty on Military Training and Training Area Development in Australia with Singapore Armed Forces (SAF). The bilateral relations with India were also upgraded to Comprehensive Strategic Partnership with new arrangements for defence and maritime cooperation. In 2018, Australia-Indonesia relation was upgraded to Comprehensive Strategic Partnership, and the two nations elevated their Defence Cooperation Arrangement. Relationship with the U.S. had tightened after the newly elected U.S. President Joe Biden announced the Indo-Pacific Strategy on February 2022, promising a free and open Indo-Pacific that "firmly

anchor the U.S… and strengthen the region itself, alongside our closest allies and partners… competing with the PRC to defend the interests and vision for the future that we share with others." (The White House 2022). Under the Biden administration's strategic architecture, Australia further joined the Indo-Pacific Economic Framework on 23 May 2022.

3-2. Internal Balancing

Domestically, Australia refrained from allowing further Chinese investment in its infrastructures. In August 2018, following the advice of U.S. security officials over Huawei, the Australian government decided to ban Huawei and ZTE's access to Australia's 5G infrastructure network. Delivered through a speech by then Communication Minister Mitch Fifield and Minister for Home Affairs and Treasurer Scott Morrison, Canberra explained how those Chinese companies were "likely to be subject to extrajudicial direction from a foreign government that conflict with Australian law." (Bogle 2018). The legal base for such a decision was the *Telecommunication and Other Legislation Amendment Act 2017*, which highlighted national security considerations, including long-term risk to critical infrastructures (Strategic Comments 2019). The decision gained bipartisan consensus where opposition Labor MP Michael Danby stated, "Let me issue a clarion call to this parliament: Australia's 5G network must not be sold to these telcos" (Smyth 2018). Canberra's determination to ban Huawei and ZTE went forward despite bearing the cost of losing high internet speed and damaging relations with Beijing. The Chinese Foreign Ministry Spokesman Lu Kang urged

Australia to “abandon ideological prejudice and provide a fair, competitive environment for Chinese companies’ operation in Australia” (Greene 2017). Later, when Turnbull reflected on the decision over Huawei and ZTE, he said it was to “hedge against a future threat” (Mackerras 2021, 38). Nonetheless, this wasn’t the first time Australia took a precautious move towards Huawei. Already back in 2012, Gillard’s Labor government excluded Huawei from bidding on equipment supplement contracts for the National Broadband Network. Back then, the spokesperson for then-Attorney General Nicola Roxon claimed the decision was “consistent with the government’s practice for ensuring the security and resilience of Australia’s critical infrastructure more broadly” (Strategic Comments 2019).

In August 2016, then Treasurer Scott Morrison rejected bids from the State Grid Corp of China and Hong Kong's Cheung Kong Infrastructure Holdings to take over Australia's biggest electricity distributor Ausgrid. With mounting domestic pressures to counter the increasing influence from China, the Turnbull government introduced the *National Security Legislation Amendment (Espionage and Foreign Interference) Bill 2017* and *Foreign Influence Transparency Scheme Bill 2017* on 7 December 2017. The legislation was intended to “counter the threat of foreign states exerting improper influence over our system of government and our political landscape” (Ross 2022, 589). Although China was not explicitly mentioned as the reason for legislation, later in February 2023, Turnbull admitted the "key purpose" of foreign interference law was to disclose the links the Chinese Communist Party's United Front Work Department had in Australia. After the bill was introduced, China again warned that Canberra’s "irresponsible remarks" could damage "political mutual trust between China and Australia" (Gribbin 2017). Turnbull responded by referring to Mao Zedong's quote, "The Chinese people have stood

up", and said, "We stand up, and so we say, the Australian people stand up" (Gribbin 2017). The bill was immediately referred to the Parliamentary Joint Committee on Intelligence and Security (PJCIS) for inquiry and passed on 28 June 2018 (Ross 2022, 589). To counter further foreign interference, the Turnbull government appointed David Irvine, who worked as the Director General of ASIO, Ambassador to China, and had a career in the Australia Secret Intelligence Service (ASIS), to the position of Chairman of Foreign Investment Review Board (FIRB) (Department of Defence 2016). In 2017, Critical Infrastructure Centre was established to "safeguard" Australia's most important infrastructure from "increasingly complex national security risks of sabotage, espionage, and coercion" (Department of Defence 2016, 16). In April 2021, the controversial MoU between the State of Victoria and BRI in 2018 was cancelled under the Commonwealth's new foreign veto laws. The bill, which was passed on December 2020 amid China's decision to sanction the Australian beef export industry, was designed to give Foreign Minister the authority to 'cancel or proactively block agreements entered into by states, territories, local governments and public universities with a foreign government if they are deemed to compromise Australia's foreign interest' (Fowler and Galloway 2020).

While the political and security community showed an uncompromising attitude, the business sector and economic actors tried to mitigate the tension. The Reserve Bank governor Philip Lowe urged Australia to keep a "mutually advantageous" relationship with China (Hewes and Hundt 2022, 178), while Mike Henry, the chief executive of BHP,⑥ claimed "other nations may aspire to succeed in self-sufficiency and autonomy. Australia simply isn't built to succeed under this

⑥ a multinational natural resource company

model… while we are ultimately reliant on countries acting in good faith, we have to ensure we are doing absolutely everything in our power to secure Australia's continued prosperity through mutually beneficial trade and cooperation" (Kearsley, Bagshaw, and Galloway 2020). The Treasurer Josh Frydenberg also expressed readiness to engage in a "respectful and beneficial" dialogue with China, though Australia's national interest was non-negotiable (Kearsley, Bagshaw, and Galloway 2020). Nevertheless, the dissuade from the economic sector did not refrain the Morrison government from continuing its assertive foreign policy against China.

Chapter VI. Australia's Inquiry into the Origins of the COVID-19 Virus

1. Inquiry for COVID-19 Virus and Economic Sanctions from China

On 17 April 2020, Minister of Home Affairs Peter Dutton criticised China's opacity in dealing with the origins of the coronavirus, which was believed to be originated in the Chinese province of Wuhan. This was soon followed by Foreign Minister Marise Payne's call for an independent review (Reuters 2020). The Labor Party also supported the decision, and Labor health spokesman Chris Bowen remarked, "Yes, we support it, and we would expect and trust that China would cooperate" (Worthington 2020). Morrison also indicated Australia would push for the inquiry in the World Health Organization (WHO) Assembly on 17 May and advocated increasing WHO's authority at a similar level as U.N. weapons inspectors. Despite China accusing the inquiry of "political manipulation" (Packham 2020) and warning of the possibility of consumer boycotts, the Australian government showed persistence to "pursue what is a very reasonable and sensible course of action" regarding China's response as "a matter for them" (Karp and Davidson 2020). Unlike how the U.S. decided to withdraw from WHO on July 2020, Australia was inclined to reform WHO governance and maintain U.N.-centric multilateral international order (Pan and Korolev 2021, 128). In September 2020, Morrison once again urged other states at the United Nations

General Assembly to support an independent investigation to "identify the zoonotic source of the COVID-19 virus and how it was transmitted to humans" (Packham 2020).

Australia's call for international investigation brought Australia-China relations to a historic low point, with China retaliating through comprehensive economic coercion. According to a report published by the Australian Strategic Policy Institute published in 2023 (Hunter et al. 2023), out of 73 cases of coercive actions conducted by China between 2020 and 2022, 21 cases were targeted against Australia. On 26 April 2020, China's Ambassador to Australia, Cheng Jingye, warned of a potential boycott of Australian products, tourism and international students. In an interview with Australian Financial Review, he stated, "People would think why we should go to such a country while it is not so friendly to China. The tourists may have second thoughts. Maybe the parents of the students would also think whether this place…is the best place to send their kids… also, maybe the ordinary people will think why they should drink Australian wine or eat Australian beef" (Embassy of the People's Republic of China 2020).

In the following months, China took to action, starting with suspending imports of Australian red meat from four abattoirs over issues with labelling and health certificate requirements in May 2020. Back in November 2018, China opened an anti-dumping and countervailing investigation into Australian barley on the products exported between October 2017 and September 2018. On 19 May 2020, it was ruled that dumping had occurred, and the Chinese Ministry of Commerce imposed an 80.5 percent tariff on Australian barley, which comprised 73.6 percent anti-dumping duty and 6.9 percent countervailing duty. The tensions between Australia and China escalated when a Chinese state media, the Global

Times, accused Australia of following the U.S. hawks (Doherty and Hurst 2020). In June 2020, the Chinese Ministry of Culture and Tourism issued an alert to Chinese tourists and international students on a ‘significant increase’ in racist attacks in Australia (ABC News 2020). In August of that year, China began an anti-dumping probe into Australian wine imports from 10 Australian wine producers and decided to impose anti-dumping in a range between 107 to 212 percent in November. By October 2020, it was reported that China’s customs authorities had verbally passed an order to Chinses state-owned steelmakers and power plants to immediately stop importing Australian coal. Furthermore, the National Development Reform Commission of China discouraged spinning mills from using Australian cotton. Other trade products such as Australian rock lobster, copper concentrate, timber, table grapes, liquified natural gas (LNG), and steel became the targets of unofficial sanctions from China. These measures were accompanied by other noneconomic actions, such as detaining Chinese-Australian journalist Cheng Lei in August 2020, who were charged with “supplying state secrete overseas” (France-Presse 2022) and ministerial-level meetings were suspended indefinitely.

While China was conducting an unprecedented level of economic coercion, Beijing explicitly stated that “the responsibility for the difficult situation in China-Australia relations lies entirely with Australia” (Hunter et al., 2023, 18). The Chinese Ministry of Foreign Affairs spokesperson Zhao Lijian posted a tweet in July 2020 that stated, “We will not allow any country to reap benefits from doing business with China while groundlessly accusing and smearing China and undermining China’s core interests based on ideology” (Hunter et al. 2023, 40). In November 2020, Lijian further posted a fabricated image depicting an Australian soldier slitting the throat of an Afghan child, which Morrison described as “truly

repugnant" (BBC News 2020).

However, despite the numerous trade restrictions and other measures imposed by China, it was unable to change the Morrison government's political behaviour. In November 2020, an untitled list of 14 points of grievance was handed over by the Chinese embassy in Canberra to Johnathan Kearsley, a reporter at Nine News of Australia (Hurst 2021). The list, which was referred to as the '14 grievances', encompassed China's list of discontents, including blocking Chinese investments in Australia, the decision to ban Huawei and ZTE from the Australian 5G network, enacting foreign interference legislation, calling for an independent international inquiry into COVID-19, speaking out on China's human rights allegations, statements on the South China Sea to the United Nations, cancelling state of Victoria's BRI participation, allegations of cyberattacks from China, Australian MP's blunt comments, and 'unfriendly' or antagonistic reports by Australian media. Morrison immediately responded by stating, "Based on Australia just being Australia… [we are] not prepared to agree to a meeting on the condition that Australia compromise and trade away any of those things that were frankly listed in that unofficial list of grievances" (Hurst 2021). Morrison also brought the list to the G7 meeting in June 2021, and urged other nations to show "strong level of support" for Australia's stand in exhibiting clear values and principles, free of interference against China (Hawley and Hawke 2021).

2. Australia's Economic Relations with China

One of the reasons Australia was able to maintain such persistence was the economic leverage Australia had on China. Although China was Australia's largest trading partner in goods and services that, accounted for 32.2 percent of Australia's global trade and export of A$178 billion in 2020-21, the financial investment was relatively limited. China was the eighth largest foreign investor in Australia, with a portion of 2.2 percent of the total foreign direct investment (FDI) received. This was a much lower rate than the FDI received from the U.S. and U.K., accounting for 25.5 percent and 17.4 percent, respectively. Also, China accounts for only 2.2 percent of total Australian FDI destinations. Furthermore, according to the trade statistics released by the Department of Foreign Affairs and Trade (DFAT), Australian export to China largely depends on primary products of minerals and fuels such as iron ore, copper, and natural gas. These bulk products tend to have lower market concentrations and, thus, are relatively less vulnerable when faced with economic coercion. In 2006, around 56 percent of exported goods to China were minerals and fuel-related products, with manufacturing 12 percent, agriculture 16 percent, and other products 16 percent. By 2020, 87 percent was minerals and resent accounted for only 17 percent combined. After the unofficial sanctions, the trade volumes of restricted commodities to China did decline significantly between 2020 and 2021 (Appendix 6). Especially China's import of Australian coal experienced a drastic decrease; where in 2019, the total export of Australian coal to China was A$13.7 billion but fell to A$8.9 billion in the following year. Another primary product, natural gas, also experienced a decrease

in export from A$16.1 billion in 2019 to A$12.1 billion in 2020. However, in 2021, the export of natural gas to China has rebounded by 7.1 percent, replacing Japan to become Australia's largest LNG export market. Other products, such as copper ores, experienced a complete stall in export in 2021.

Initially, it was estimated that China's trade sanction would result in A$24 billion in damage to the Australian economy. However, Australia managed to successfully mitigate the economic impact, and most industries were rerouted to new markets. For instance, Australian coal has been rerouted to India, Japan and South Korea; barley was redirected to Saudi Arabia and Southeast Asia; copper to Europe and Japan; cotton to Bangladesh and Vietnam; and the lobster found alternative routes to enter the Chinese market via Hong Kong (Wilson 2021). It also created a musical chairs effect where the reduced demand from China decreased the product price, making Australian export products cheaper and attractive in the global market. Australia also supported trade-disrupted industries by announcing the Agri-Business Expansion Initiative in December 2020, aiming to assist sustainable growth and resilience through delivering grants for market expansion, boost in-country engagement activities, accelerate technical market access, and delivery of market intelligence to exporters (Australian Government n.d.).

Another interesting point for the research was the selection of commodities that China chose to restrict. Except for coal and natural gas, most of the products had a low share in the total export to China, remaining below 2 percent (Appendix 7). This indicates China was mostly targeting commodities with low importance and high market concentration. It became clearer by the fact China did not sanction Australia's most important export commodity, iron ore. In 2020,

the percentage of iron ore export on total export value to China was 64 percent totalling A$94.6 billion, which was a 19.7 percent increase from the previous year. The global iron ore market was dominated by a handful of large producers, including Australia and Brazil, which China was highly dependent on. From 2016 to 2020, China's import dependency on iron ore averaged 80 percent, where over 60 percent came from Australia (Reynolds and Goodman 2023, 19). Due to its high dependency, after the fallout of bilateral relations with Australia, China's Ministry of Industry and Information Technology (MIIT) announced a new five-year plan to increase its domestic production of iron ore by 30 percent and set a target of 45 percent self-sufficiency by 2025 (Smith 2021).

However, it is predicted at least in the near future, China does not have much choice but to rely on Australian iron ore. Due to Australia having leverage in trade relations with China, the actual effect of sanctions on the Australian economy was limited. Therefore, the Morrison government was able to continue its foreign policy without facing unbearable political costs from its domestic audiences. The fact that Australia's economy was less exposed to Chinese direct investment and had trade leverage against China might be one reason why Australia was able to conduct a proactive balancing strategy compared to other middle-power nations in the region, such as Japan, South Korea, and other ASEAN nations.

Chapter VII. Conclusion

Australia traditionally aligned itself with the great powers of the time in exchange for security guarantees. During the two World Wars, it was Britain where Australia engaged in wars as part of the commitment. Since then, Australia turned its sight to the U.S., where it eventually signed the ANZUS Treaty in 1951, forming a security alliance with the U.S. that became a foreign policy priority for Canberra. At the same time, China was becoming an important trading partner for Australia, whereby in the mid-1990s, it became the country's fifth-largest export market. Therefore, as China's economic influence continued to grow, Australia was increasingly pressured by the dilemma between the U.S. and China.

In order to examine the development of Australia's strategic response to China, the paper analysed Australia's China policy from 1996 to 2022 across six consecutive governments. As a result, the study indicates that Australia has shifted its China strategy from optimistic hedging to hard balancing during the period. The development could be divided into three phases. First was during the Howard government, when Australia experienced a drastic change in its bilateral relations from confrontation to pragmatic economic engagement. Beneath the change was the liberal belief that deeper economic and diplomatic engagement would encourage China to bind itself to the existing international order. However, as China began to reveal its ambition to challenge the U.S.-led international system, Australia had to adjust its strategic assessment. The second period during Kevin Rudd, Julia Gillard, and Tony Abbott's government, therefore, could be defined as a transitional phase where Australia was slowly transforming its China strategy

towards balancing. It introduced a new geostrategic concept called the Indo-Pacific to facilitate a coalition with 'like-minded' nations in the region. The final phase came under Malcolm Turnbull and Scott Morrison's government, whereby the intensification of the U.S.-China rivalry brought structural limitations for Australia to practice hedging. The increased threat perception caused by China's denial of the UNCLOS arbitration decision and revelation of China's foreign interference in Australian politics triggered Canberra to discard engagement and turn towards hard balancing. The Morrison government further enhanced the scope and depth of balancing by utilising traditional middle power activism of building coalitions, engaging in multilateral institutions, and promoting rules-based international order. One of the instances that demonstrates Australia's strategic shift is the inquiry into the COVID-19 virus in April 2020. Australia did not back down in the face of a comprehensive economic sanction carried out by China and refused to respond to the 14 grievances. Therefore, considering the economic leverage Australia has and the political will that Canberra entails, it seems Australia's strategic position will remain in the foreseeable future.

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Appendix

Appendix 1. Table of Summary: Australia's China Strategy

Government	China Strategy	Strategic implication
John Howard (LPA) 1996-2007	**Optimistic Hedging** Hedging with pragmatic economic engagement	Aligned with the U.S. during Taiwan Strait Crisis but quickly turned to pragmatic economic engagement: Howard government had a liberal belief that economic and diplomatic engagement would bind China into the existing international system and thus maintain the status quo
Kevin Rudd (ALP) 2007-2010 **Julia Gillard (ALP) 2010-2013** **Tony Abbott (LPA) 2013- 2015**	**Pessimistic Hedging/ Soft Balancing** **Rudd**: Engage and Hedge **Gillard**: Comprehensive strategy: Asian engagement, multilateralism, and strategic alliance **Abbott**: Fear and Greed	Australia was slowly transforming its China strategy from hedging to balancing by introducing new geostrategic concept of the Indo-Pacific **Rudd**: Form balancing to pragmatic compartmentalization **Gillard**: Proposed the concept of Indo-Pacific and began to engage India in the strategic architecture **Abbott**: Reverted to Howard government's strategy of economic engagement with China. However, struggled to balance with a more assertive China
Malcolm Turnbull (LPA) 2015-2018 **Scott Morrison (LPA) 2018-2022**	**Hard Balancing** **Turnbull**: Panda Hugger to Frenemy **Morrison**: Hard balancer	The intensification of the U.S.-China rivalry brought structural limitations for Australia to practice hedging - therefore, Australia turned to a balancing strategy **Turnbull**: Began with engagement but soon turned to balancing **Morrison**: Enhanced the scope and depth of balancing both internally and externally

Appendix 2. List of grievances from the Chinese embassy (source: Kearsley, Bagshaw, and Galloway 2020)

— foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of ChAFTA/since 2018, more than 10 Chinese investment projects have been rejected by Australia citing ambiguous and unfounded "national security concerns" and putting restrictions in areas like infrastructure, agriculture and animal husbandry.

— the decision banning Huawei Technologies and ZTE from the 5G network, over unfounded national security concerns, doing the bidding of the US by lobbying other countries

— foreign interference legislation, viewed as targeting China and in the absence of any evidence.

— politicization and stigmatization of the normal exchanges and cooperation between China and Australia and creating barriers and imposing restrictions, including the revoke of visas for Chinese scholars.

— call for an international independent inquiry into the COVID-19 virus, acted as a political manipulation echoing the US attack on China

— the incessant wanton interference in China's Xinjiang, Hong Kong and Taiwan affairs; spearheading the crusade against China in certain multilateral forums

— the first non littoral country to make a statement on the South China Sea to the United Nations

— siding with the US' anti-China campaign and spreading disinformation imported from the US around China's efforts of containing COVID-19.

— the latest legislation to scrutinize agreements with a foreign government targeting towards China and aiming to torpedo the Victorian participation in B&R

— provided funding to anti-China think tank for spreading untrue reports, peddling lies around Xinjiang and so-called China infiltration aimed at manipulating public opinion against China

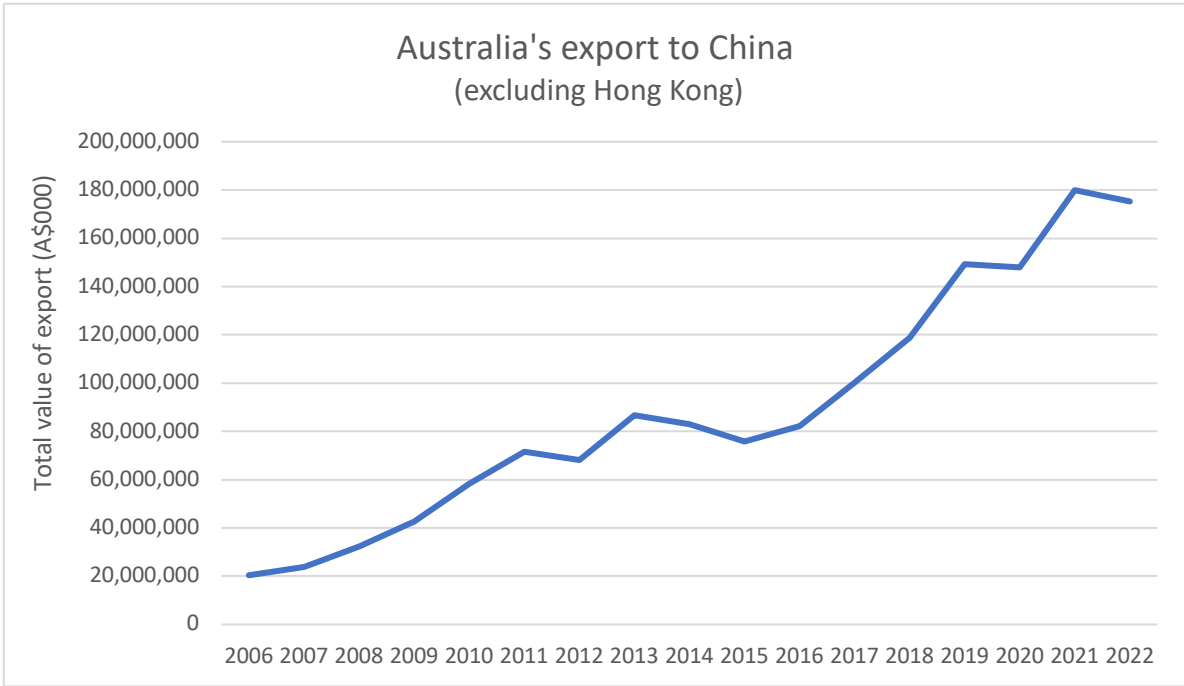
— the early dawn search and reckless seizure of Chinese jounalists' homes and properties without any charges and giving any explanations

— thinly veiled allegations against China on cyber attacks without any evidence

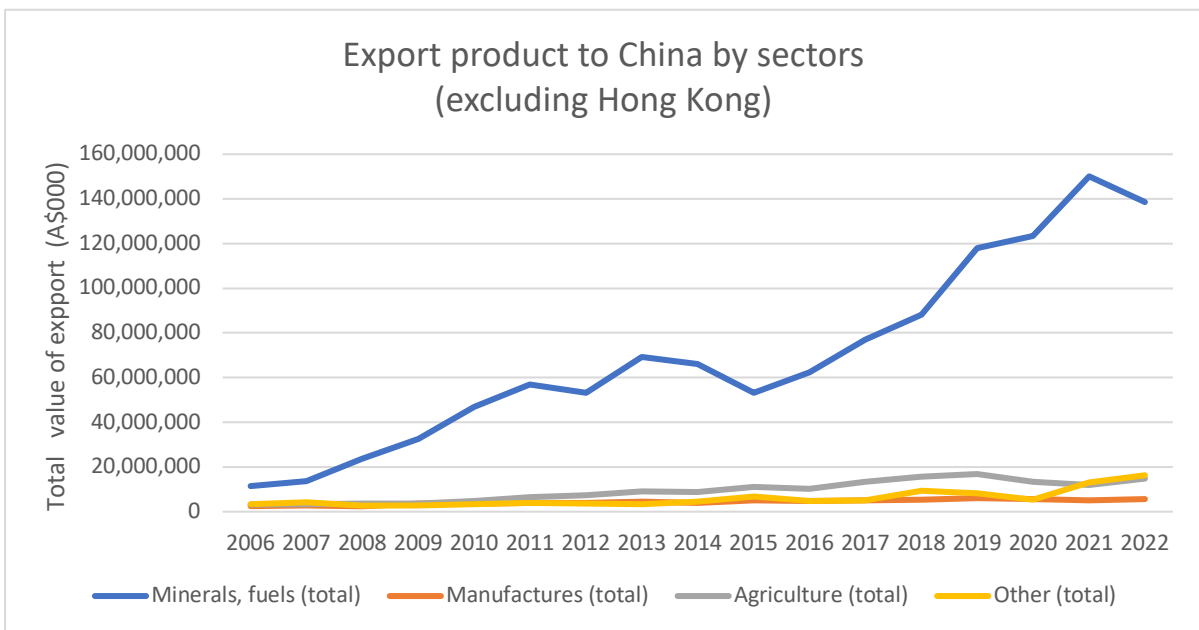
— outrageous condemnation of the governing party of China by MPs and racist attacks against Chinese or Asian people.

— an unfriendly or antagonistic report on China by media, poisoning the atmosphere of bilateral relations

Appendix 3. Australia's export to China (DFAT Dataset)

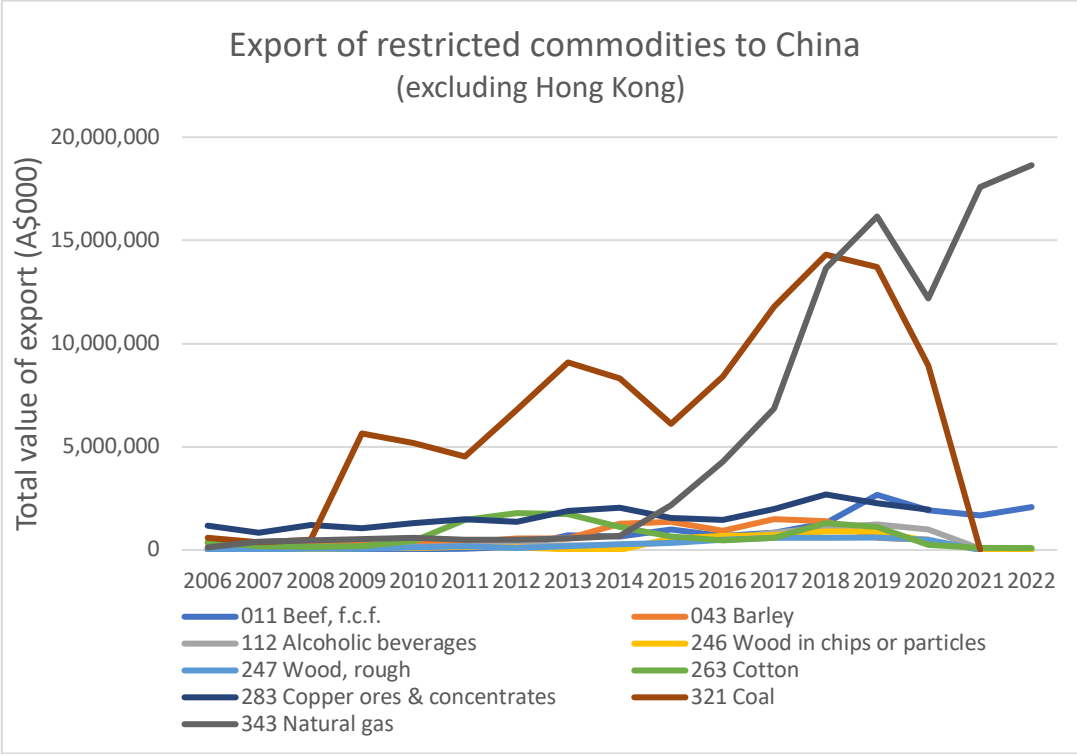


Appendix 4. Australia's export products to China by sectors (DFAT Dataset)

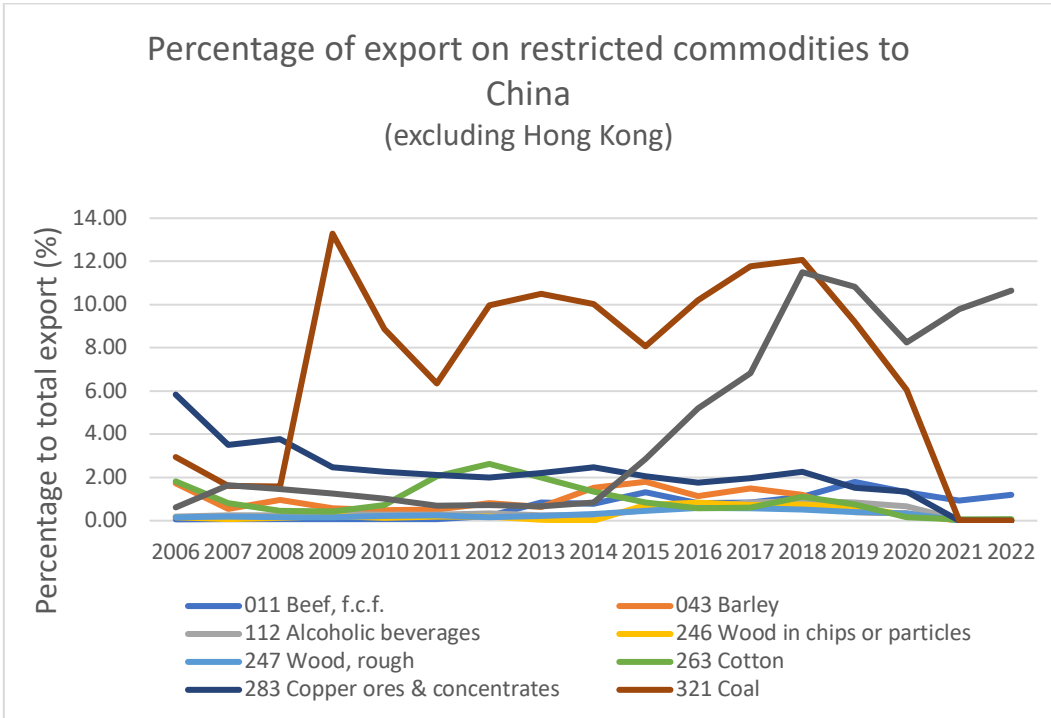


Appendix 5. Australia's export to China in percentage (DFAT Dataset)

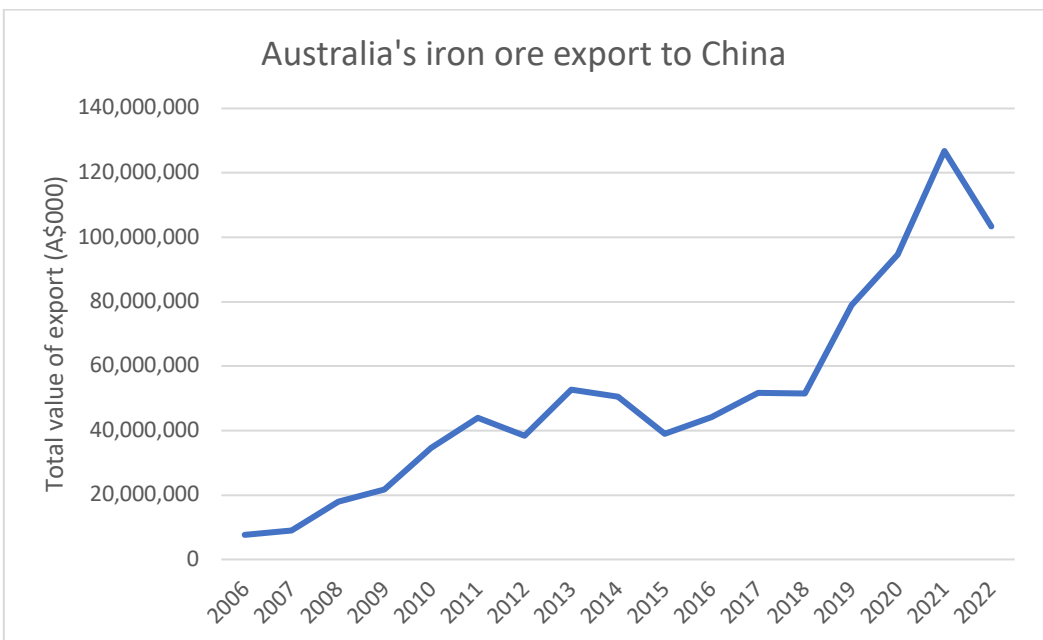
Appendix 6. Australia's export of restricted commodities to China (DFTA Dataset)



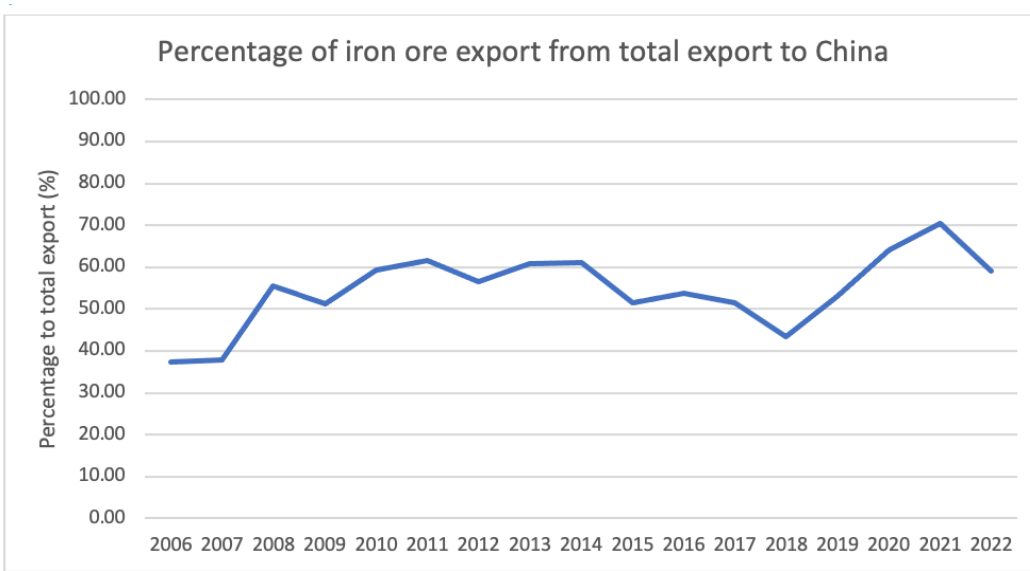
Appendix 7. Australia's export percentage of sanctioned commodities to China (DFAT Dataset)



Appendix 8. Australia's iron ore export to China (DFAT Dataset)



Appendix 9. Australia's export of iron ore to China in percentage (source: DFAT Dataset)



국문 초록

냉전 이후 호주는 자국의 핵심 안보 보장 국가인 미국과 중요 무역 국가인 중국 사이에서 적절한 균형을 찾고자 노력해왔다. 그러나 2000년대 후반 이후, 중국이 자국 국력 강화와 함께 세계질서 개편의 의지를 다지며 새로운 대국가 전략을 구상하자, 호주의 안보전략에 변화가 감지되기 시작했다. 새로운 부상국의 등장과 함께 미중(美中) 패권 갈등이 심화되자, 호주는 중견국가로써 두 경쟁국 사이에서 안보와 경제를 분리하여 대응하는 헤징 전략으로 이러한 딜레마를 탈피하려 노력해왔다. 그러나 2016-17년 이후로 호주가 전략노선을 변경하여 중국에 대한 단호한 균형 전략을 구사하는 모습을 보이기 시작했는데, 이러한 변화를 기존 연구들은 다양한 시각에서 분석하였다. 이 중에는 중견국 전략의 일환으로 보는 연구가 있는가 하면, 존재론적 안정감 이론을 제시하며 새로운 위협 앞에 기존의 질서로 되돌아가려는 행위의 일환이라고 보는 시각도 있었다. 그러나, 호주의 변화는 기존의 전통적 국제 관계 이론으로는 설명하기 미흡한 지점이 있기에, 본 연구는 “호주의 대중 (對中) 전략이 어떻게 변하였는가?”에 대한 답을 구하고자 한다. 이를 위해 1996년 존 하워드 정부부터 2022년 스콧 모리슨 정부에 이르기까지 각 정부의 대외 상황, 호주 내부적 요인과 그로 인한 호주의 대중 (對中) 전략을 분석한다.

그 과정에서 본 연구는 1996년부터 2022년을 세 단계로 나누어 분석하였는데, 첫 번째로는 존 하워드 정부 시절을 낙관적 헤징의 시기라 명명하며, 1996년 대만 해협 위기 이후 호주가 지향한 적극적 경제 협력을 통한 중국의 국제사회 수용 전략을 분석하였다. 두 번째로는 케빈 러드, 줄리아 길라드, 토니 에벗 정부 시기의 과도기를 다루며 그 당시 세 정부가 중국의 부상에 대응하여 비관적 헤징과 소프트 밸런싱 사이의 전략을 고수했다고 주장한다. 마지막으로는 말콤 턴불과 스콧 모리슨 정부의 균형 조성 전략을 살펴보며, 이 시기 호주의 중국에 대한 위협 인식이 상승하였으며, 중국이 기존의 국제질서에 편입될 가능성이 낮아지자 결국에는 하드 밸런싱 전략으로 전환하였다고 논증한다. 또한, 이를 통하여 호주가 변화하는 세계질서 속에서 어떻게 대응하는지를 살펴보고, 이를 가능하게 한 호주-중국 무역 관계의 특수점을 살펴본다.

주요어: 호주 대중 (對中) 관계, 헤징 전략, 균형 전략, 인도-태평양, 중견국 전략

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