

Balancing against China with Confidence: Australia's Foreign Policy toward China in 2020–22

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EXECUTIVE SUMMARY

This article examines how Beijing's economic sanctions on Australia have encouraged Canberra to double down on its balancing strategy toward China.

MAIN ARGUMENT

With the relationship already under pressure, political discord between Australia and China was exacerbated in April 2020 by Australia's call for an independent investigation into the origins of the Covid-19 virus. In response, Beijing has since targeted several Australian industries with economic sanctions, using economic coercion to express its hostility toward Canberra's actions. Far from causing Australia to acquiesce to Beijing's preferences, however, China's economic coercion has perversely empowered Canberra and given it confidence to shore up the country's influence in the Indo-Pacific area and balance against China on both conventional and new fronts. At the same time, the source of this confidence may not be sustainable, and balancing should not be the only feature of Australia's policy toward China or preclude efforts to reset the relationship.

POLICY IMPLICATIONS

- China is not a strategic competitor to Australia, and Australia's strategic interests cannot be achieved without a functioning, constructive relationship with China. Diplomacy, reassurances, and cooperation must also accompany other efforts to balance China.
- To attain a bilateral relationship with China that benefits Australia's overall national interest, the Australian government should carefully manage the diplomatic signals it sends to guide China's expectations of Australia, and it should at the same time manage its own expectations of China.
- Australian policymakers should improve their understanding of the psychological makeup of Chinese leaders and their strategic culture to help avoid misconceptions and misunderstandings in China's motives and foreign policies and to better interpret signals from Beijing aimed at thawing the relationship.

The bilateral relationship between the People's Republic of China and Australia has been in a well-charted downward spiral since 2017, and their relationship reached a decades-long nadir during the Covid-19 pandemic. The outbreak of the pandemic exacerbated the political tension between the two states because of Canberra's call in April 2020 for an independent investigation into the origins of Covid-19. In response, Beijing has targeted several Australian industries with economic sanctions since May 2020, imposing hefty tariffs on Australian barley and wine exports while putting up barriers to imports of other products, including timber, lobster, and coal. Australians worry that the country is likely to keep suffering under repeated rounds of Chinese economic coercion unless a way to reset relations with Australia's largest trade partner can be found.

This article studies Canberra's policy toward China during the Covid-19 pandemic, during which Australia has been withstanding Beijing's economic coercion, and it offer some suggestions to policymakers to tame the bilateral rivalry. Its core argument is that, from a political and strategic standpoint, China's economic coercion has perversely empowered Canberra; being subjected to economic coercion has strengthened Canberra's self-confidence and resolve to balance against China on both conventional and new fronts and its desire to seek support from like-minded partners in the region. However, while Canberra has displayed impressive confidence in its China policy during the Covid-19 pandemic, the source of this confidence may not be sustainable, and balancing should not be the dominant characteristic of Australia's foreign policy toward China moving forward.

The article comprises the following sections:

- ∞ pp. 118–20 introduce the transformation of Australia's strategy toward China, focusing on the switch from moderately hedging to aggressively balancing against China.
- ∞ pp. 120–26 discuss the trade disputes between China and Australia during 2019–22.
- ∞ pp. 126–30 explain how Beijing's economic sanctions have empowered Australia by increasing its confidence.
- ∞ pp. 130–36 show how this new confidence has been reflected in Australia's China policy from 2021 to 2022.
- ∞ pp. 136–41 assess the risk and cost of Australia's policy toward China during the Covid-19 pandemic and give some preliminary policy suggestions for the future.

AUSTRALIA'S CHINA POLICY: FROM HEDGING TO BALANCING

Australia has carried out a low-cost hedging strategy in its policy toward China for a long time, based on prioritizing shared interests and compartmentalizing or neutralizing potential areas of contention, such as human rights, democratization, and strategic policy.¹ Maximizing economic benefits has not been the only force driving Canberra's hedging policy, however; Canberra also believed that the liberal engagement would gradually lead China to abandon its statist model of economic and political governance and join the liberal order, given that such participation brings great benefits in terms of prosperity and legitimacy.²

Australia's 2017 foreign policy white paper arguably reflects a reassessment of regional strategic dynamics. The white paper outlined Australia's commitment to strengthen the resolve to stand up to China and help build a regional order that ensures Australia's ability to pursue its interests freely, not constrained by the exercise of coercive power.³ This transformation was a response to changes in the external environment.

A prevailing perspective among Australian elites is that changes in China and China's resulting posture since roughly 2014 have been a major driving force in the transformation of the regional strategic landscape.⁴ China's lack of political liberalization, rapid military modernization, and increased willingness to use coercion to pursue its foreign policy goals have increasingly convinced Australian strategists that Beijing has become a threat to Australia's national interests—in particular, the liberal rules-based order that developed under U.S. leadership. As the white paper explicitly states, “as China's power grows, our region is changing in ways without precedent in Australia's modern history.”⁵

As Australia's most important ally, the United States wields considerable influence over Australia's foreign policy. However, the United States' retreat from its own commitment to the liberal rules-based order and its lack of a coherent Asia policy under Donald Trump diminished external constraints

¹ James Reilly introduced the phrase “low-cost hedge” to describe Australia's China policy. See “Counting on China? Australia's Strategic Response to Economic Interdependence,” *Chinese Journal of International Politics* 5, no. 4 (2012): 369–94; and Nick Bisley, “Australia's Engagement with China: From Fear to Greed and Back Again,” *International Journal* 73, no. 3 (2018): 379–98.

² Ibid.

³ Australian Government, *2017 Foreign Policy White Paper* (Canberra, 2017), 3 ~ <https://www.dfat.gov.au/sites/default/files/2017-foreign-policy-white-paper.pdf>.

⁴ For this point, see the debate between Tony Abbott and Bob Carr, “Abbott vs Carr: How to Handle China?” Centre of Independent Studies, August 5, 2020 ~ <https://www.cis.org.au/event/50193>.

⁵ Australian Government, *2017 Foreign Policy White Paper*, 4.

on China's behavior and regional ambitions, thus increasing the sense of uncertainty among states in the region, including Australia.⁶ Such uncertainty has provoked a deep-seated sense of fear and insecurity that appears to be fundamental to Australia's strategic imagination and stems from the collective memory of the state's origins when the first British colonists experienced the long and anxious wait in this remote land for further British settlers.⁷ Allan Gyngell has described this sense of insecurity as the fear of abandonment; it is a powerful motivating force in Australia's foreign policy.⁸

The launch of the 2017 white paper also marks a shift from hedging toward balancing in Australia's policy toward China. The hedging strategy had focused on strengthening security ties with the United States and other Asian neighbors while selectively accommodating Beijing's interests to hedge against the risks. In contrast, the strategy of balancing is concerned about an underreaction to China's revisionist ambitions and aims at actively deterring and preventing revisionist behavior, such as China challenging the regional liberal rules-based order and interfering with other states' domestic affairs. This strategy is intended to frustrate, undermine, and impose extra costs on potential assertive actions by China and ensure that the cost of such actions for China will exceed any possible gain.⁹

In this sense, Australia's attitude and policy toward China had already changed a few years before the Covid-19 pandemic with a campaign of securitizing against China's threat. The participants in this campaign include security agencies, politicians, and the media. As Andrew Chubb has pointed out, the scope of the threat expanded from an initial concern with the Chinese Communist Party (CCP) and its overseas activities to the securitization of a much wider array of state and nonstate activities under the ambiguous label of "Chinese influence."¹⁰ After the administration of Malcolm Turnbull openly accused the CCP of state interference in Australian domestic affairs,

⁶ Michael Heazle, "Defending the Liberal Order Takes More Than Rhetoric," Lowy Institute, Interpreter, March 20, 2017, <https://www.lowyinstitute.org/the-interpreter/defending-liberal-order-takes-more-rhetoric>.

⁷ Nick Bisley, "Australia's Strategic Culture and Asia's Changing Regional Order," National Bureau of Asian Research, NBR Special Report, no. 60, December 2016.

⁸ Allan Gyngell, *Fear of Abandonment: Australia in the World since 1942* (Melbourne: La Trobe University Press, 2017).

⁹ Robert A. Pape, "Soft Balancing against the United States," *International Security* 30, no. 1 (2005): 7–49; Richard Ned Lebow, *Between Peace and War: The Nature of International Crisis* (Baltimore: Johns Hopkins University Press, 1981); and Darren J. Lim and Nathan Attrill, "Australian Debate of the China Question: The Covid-19 Case," *Australian Journal of International Affairs* 75, no. 4 (2021): 410–31.

¹⁰ Andrew Chubb, "The Securitization of 'Chinese Influence' in Australia," *Journal of Contemporary China* (2022) <https://doi.org/10.1080/10670564.2022.2052437>.

the Australian government took a series of substantive actions to demonstrate to Beijing that the Australian people would “stand up” for their sovereignty.¹¹ These self-protecting actions included the ratification of the National Security Legislation Amendment and the decision to ban Huawei and ZTE from supplying equipment to Australia’s 5G network. The Australia-China relationship deteriorated further in 2019 as Scott Morrison’s government confronted China over issues such as Hong Kong’s pro-democracy protests, China’s developing country status, human rights, and strategic encroachment in the South China Sea and the South Pacific (see **Table 1**).

Notably, a state’s balancing behavior is likely to trigger retaliation from the target country and intensify conflict in the bilateral relationship. Thus, a balancing strategy is not only a contest of deterrence capabilities and long-term prevention; it is also a contest of nerve and risk-taking, of pain and endurance. For Australia, the potential economic risks and cost of a balancing strategy have been high, as China is Australia’s largest two-way trading partner in goods and services—accounting for nearly one-third of Australia’s global trade. At the same time, Chinese visitors and international students have been the pillar sustaining Australia’s tourism and education sectors in the last decade. Australia’s ability to withstand retaliation from China was not clear when Canberra shifted its strategy in 2017. Despite the strain in the political realm, economic exchanges between the two countries remained robust from 2017 to 2019. But a general view at that time suggested that China refrained from retaliation because it was focused on its trade war with the United States, but that should Canberra continually pursue its new strategy, Beijing would eventually retaliate.¹²

COVID-19 AND CHINA’S ECONOMIC SANCTIONS ON AUSTRALIA

Australia’s criticism of the early management of the Covid-19 virus was the catalyst that sparked China’s retaliation. On April 18, 2020, Australian foreign minister Marise Payne proposed an independent international inquiry into the origins of the Covid-19 pandemic, including China’s handling of the initial outbreak in Wuhan. From Canberra’s perspective,

¹¹ Caitlyn Gribben, “Malcolm Turnbull Declares He Will ‘Stand Up’ for Australia in Response to China’s Criticism,” ABC News (Australia), December 8, 2017 ~ <https://www.abc.net.au/news/2017-12-09/malcolm-turnbull-says-he-will-stand-up-for-australia/9243274>.

¹² Richard McGregor, “The Beijing Way of Trade Punishment,” Lowy Institute, Interpreter, April 23, 2018 ~ <https://www.loyyinstitute.org/the-interpreter/beijing-way-trade-punishment>.

TABLE 1

Timeline of Australian Governmental Action under the New China Policy, 2017-20

Date	Australian governmental actions
March 2017	The federal government pulls the Australia-China extradition treaty.
March 2017	In Singapore, Foreign Minister Julie Bishop casts doubt on China's political system.
June 2017	Prime Minister Malcolm Turnbull criticizes China's interference in his keynote address at the Shangri-La Dialogue.
December 2017	Turnbull announces the amendment to Australia's intelligence and anti-foreign interference law and expressed concern about Chinese influence in Australian domestic politics.
December 2017	Turnbull says the Australians will "stand up" after introducing the new anti-foreign interference law.
June 2018	The amendment to the anti-foreign interference law is approved.
August 2018	The federal government bans Huawei from taking part in the Australian 5G network over national security concerns.
June 2019	The federal government expresses concern about China's political responses in Hong Kong to anti-extradition protests.
September 2019	Prime Minister Scott Morrison questions China's developing country status under WTO rules, echoing the views of the Trump administration.
April 2020	Foreign Minister Marise Payne calls for an independent investigation into the origins of Covid-19.

Source: Kai Feng, "Timeline: How Did Australia-China Relations Drop to Freezing Point?" ABC News (Australia), June 15, 2020 ~ <https://www.abc.net.au/chinese/2020-06-15/how-did-china-australia-relations-get-to-todays-situation/12356808>; and Tony Walker, "Timeline of a Broken Relationship: How China and Australia Went from Chilly to Barely Speaking," Conversation, December 8, 2020 ~ <https://theconversation.com/timeline-of-a-broken-relationship-how-china-and-australia-went-from-chilly-to-barely-speaking-151567>.

an inquiry into the origins of the virus was worthwhile because it was in the interests of the wider international community. But Canberra decided to embark on this campaign without gathering support from other major powers such as the United States and the European Union. On the one hand, Canberra worried that the Trump administration's incendiary rhetoric on the pandemic would diminish the chances of obtaining broad international support. On the other hand, unlike the United States and the EU, which were struggling to contain the pandemic at home in early 2020, Australia's initial

Covid-19 response was remarkable. The relatively stable domestic situation allowed Australia to play a greater role in leading the push for an inquiry.¹³

Beijing was incensed by Canberra's initiative and accused Australia of launching a political attack on China and pandering to the United States.¹⁴ In response, Chinese ambassador to Australia Cheng Jingye claimed that the call for an inquiry could spark a Chinese consumer boycott of key Australian services and products.¹⁵ Eventually, in May 2020 Beijing decided to impose economic sanctions on Australian barley, beef, lamb, lobster, wine, timber, cotton, and coal. These products collectively made up around 13% of China's merchandise imports from Australia in 2019. Furthermore, the Chinese government issued safety warnings to its citizens intending to travel or study in Australia. **Table 2** provides a timeline of China's efforts to impede trade with Australia. In November 2020 the Chinese embassy listed fourteen points reflecting Beijing's major concerns in its relationship with Canberra (see **Table 3**). Quickly framed in the press as a list of grievances, the document was characterized as a "diplomatic play...aimed at pressuring the Morrison government to reverse Australia's position on key policies."¹⁶

China has a long history of opposing the use of economic sanctions as an approach to solving international disputes, and frequently highlights the ineffectiveness of unilateral sanctions in compelling other countries to reverse their behaviors. Therefore, the Chinese government has consistently denied the use of economic coercion against Australia—this ambiguous and selective approach could increase Beijing's flexibility in a "quiet" change of policies.¹⁷ At the same time, implicit sanctions could make it easier for the democratic leaders on the other side of the table to concede in substantive ways.¹⁸ For Beijing, economic coercion toward Australia has not been used

¹³ Stephen Dziedzic, "Australia Started a Fight with China over an Investigation into Covid-19—Did It Go Too Hard?" ABC News (Australia), May 20, 2020 ~ <https://www.abc.net.au/news/2020-05-20/wha-passes-coronavirus-investigation-australia-what-cost/12265896>.

¹⁴ Michael Smith, "Beijing Accuses Australia of Pandering to U.S. in 'Anti-China Crusade,'" *Australian Financial Review*, April 20, 2020 ~ <https://www.afr.com/world/asia/beijing-accuses-australia-of-pandering-to-us-in-anti-china-crusade-20200427-p54lcz>.

¹⁵ Anthony Galloway and Eryk Bagshaw, "Australia Could Lose Billions from Chinese Government Boycott Threat," *Sydney Morning Herald*, April 27, 2020 ~ <https://www.smh.com.au/politics/federal/australia-could-lose-billions-from-chinese-government-boycott-threat-20200427-p54nmh.html>.

¹⁶ Jonathan Kearsley, Eryk Bagshaw, and Anthony Galloway, "'If You Make China the Enemy, China Will Be the Enemy': Beijing's Fresh Threat to Australia," *Sydney Morning Herald*, November 18, 2020 ~ <https://www.smh.com.au/world/asia/if-you-make-china-the-enemy-china-will-be-the-enemy-beijing-s-fresh-threat-to-australia-20201118-p56fqs.html>.

¹⁷ Christina Lai, "Acting One Way and Talking Another: China's Coercive Economic Diplomacy in East Asia and Beyond," *Pacific Review* 31, no. 2 (2018): 169–87.

¹⁸ Charles Miller, "Explaining China's Strategy of Implicit Economic Coercion. Best Left Unsaid?" *Australian Journal of International Affairs* 76, no. 5 (2022): 507–21.

to apply maximum pressure because China is still dependent on market access, resource and energy imports, and capital provision from Australia.¹⁹ Instead, the selective sanctions reflected Beijing's frustration, and their purpose was to urge Canberra to cease its provocative behavior and return to a relationship characterized by reciprocity and mutuality in order

TABLE 2

China's Sanctioning Actions toward Australian Goods and Services

Date	China's sanctioning moves
February 2019	Dalian Port bans imports of Australian coal and caps overall coal imports from all sources at 12 million tons for 2019.
April 2020	Chinese ambassador to Australia Cheng Jingye indicates the likelihood of Chinese consumers boycotting Australian goods and services due to Australian hostility toward China.
May 2020	Four major Australian beef exporters are blacklisted by China over claims of mislabeling.
May 2020	China places antidumping and antisubsidy duties totaling 80.5% on Australian barley.
May 2020	The Ministry of Culture and Tourism issues a travel warning to Chinese citizens travelling to Australia.
June 2020	The Ministry of Education reminds students to be cautious about choosing to go to Australia or returning to Australia to study.
August 2020	China launches antidumping and antisubsidy probes of Australian wines.
September 2020	China suspends barley imports from Australia's largest grain exporter, CBH Grain.
October 2020	China orders cotton mills to stop buying Australian supplies or risk a 40% tariff.
November 2020	China bans Australian timber after pests found in wood from the state of Victoria.
November 2020	China bans Australian lobster after imposing new live seafood inspections that include checks for traces of minerals and metals.
November 2020	China finds coal imports failed to meet environmental standards amid stalled Australian shipments.

Source: Feng, "Timeline: How Did Australia-China Relations Drop to Freezing Point?"; and "Timeline: Tension between China and Australia over Commodities Trade," Reuters, December 10, 2020 ~ <https://www.reuters.com/article/us-australia-trade-china-commodities-tim-idUSKBN28L0D8>.

¹⁹ James Reilly, "China's Unilateral Sanctions," *Washington Quarterly* 35, no. 4 (2012): 121-33.

to avoid more serious repercussions.²⁰ For instance, Chinese diplomats and Ministry of Foreign Affairs spokespersons have consistently urged Canberra to respect the spirit of the two countries' comprehensive strategic partnership characterized by "mutual-respect, mutual-trust, and equity," arguing that "both sides [should] strive to develop a mutually beneficial win-win relationship."²¹

China's economic sanctions resulted in a heated debate in Australia on two questions: whether Australia was vulnerable to China's economic coercion, and how Australia should respond to Chinese aggression.²² The debate was polarized. For the first question, the divergence in Australian perspectives can be understood given cost-benefit calculations juxtaposed with views on whether the countries are asymmetrically or symmetrically interdependent. Those who considered Australia's economy asymmetrically dependent on exports to China believed that Chinese economic sanctions could profoundly affect Australia's economy and pressed Australia to accommodate China in the geopolitical field.²³ In contrast, those who considered Australia-China economic interdependence as roughly symmetric argued that Australia was not too vulnerable to Chinese economic sanctions because the structure of the countries' economic relations did not offer China solid leverage over Australia.²⁴ On the second question, one prevailing view was that Canberra must demonstrate resolve and work with other like-minded countries to deter further aggressive behavior

²⁰ Reilly, "China's Unilateral Sanctions"; Chih-yu Shih and Chiung-chiu Huang, "China's Quest for Grand Strategy: Power, National Interest, or Relational Security?" *Chinese Journal of International Politics* 8, no. 1 (2015): 1–26; and Shengsong Yue, "Towards a Global Partnership Network: Implications, Evolution and Prospects of China's Partnership Diplomacy," *Copenhagen Journal of Asian Studies* 36, no. 2 (2018): 5–27.

²¹ The former Chinese premier Wen Jiabao defined China's concept of a "comprehensive strategic partnership" in 2004. See Wen Jiabao, "Vigorously Promoting Comprehensive Strategic Partnership between China and the European Union," Ministry of Foreign Affairs (China), May 6, 2004 ~ <https://www.mfa.gov.cn/ce/cebe/eng/more/Topics/t101949.htm>.

²² Ye Xue, "Fear and Greed: Mapping the Australian Debate on China's Economic Sanctions," *Pacific Focus* 37, no. 1 (2022): 5–35.

²³ See, for example, David Uren, "Australia's Asymmetrical Trade with China Offers Little Room to Move," Australian Strategic Policy Institute, Strategist, November 10, 2020 ~ <https://www.aspistrategist.org.au/australias-asymmetrical-trade-with-china-offers-little-room-to-move>; and Weihuan Zhou, "China Might Well Refuse to Take Our Barley, and There Would Be Little We Could Do," Conversation, May 11 2020 ~ <https://theconversation.com/china-might-well-refuse-to-take-our-barley-and-there-would-be-little-we-could-do-138267>.

²⁴ See Rory Medcalf, "The Great Australian China Debate: Implications for the United States and the World" (lecture at Sigur Center of Asian Studies, George Washington University, Washington, D.C., September 10, 2018) ~ <https://nsc.crawford.anu.edu.au/news-events/podcasts/audio/13035/great-australian-china-debate-issues-and-implications-united-states>; and also James Reilly, "China's Economic Clout and Economic Diplomacy" (lecture at University of Technology Sydney, Australia-China Relations Institute, July 18, 2017) ~ <https://www.australiachinarelations.org/content/chinas-economic-clout-and-economic-diplomacy>.

from Beijing. While by no means denying that China's economic coercion posed a threat to Australia, a different, moderate perspective was concerned that overreacting to Beijing would intensify the bilateral confrontation and

TABLE 3

The List of "Fourteen Grievances"

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- foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of ChAFTA/since 2018, more than 10 Chinese investments 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 U.S. by lobbying other countries
 - foreign interference legislation, viewed as targeting China and in the absence of any evidence
 - politicization and stigmatization of 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 U.S. 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 U.S.' anti-China campaign and spreading disinformation imported from the U.S. around China's efforts of containing Covid-19
 - the latest legislation to scrutinize agreement with a foreign government targeting toward China and aiming to torpedo the Victorian participation of the B&R [Belt and Road Initiative]
 - providing 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 journalists' homes and properties without any charges and giving any explanations
 - thinly veiled allegations against China on cyber attacks without any evidence
 - outrageous condemnation 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
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Source: The Embassy of the People's Republic of China in the Commonwealth of Australia, as reprinted in Jonathan Kearsley, Eryk Bagshaw, and Anthony Galloway, "If You Make China the Enemy, China Will Be the Enemy": Beijing's Fresh Threat to Australia," *Sydney Morning Herald*, November 18, 2020 ~ <https://www.smh.com.au/world/asia/if-you-make-china-the-enemy-china-will-be-the-enemy-beijing-s-fresh-threat-to-australia-20201118-p56fq5.html>.

undermine Australia's interests. Therefore, Canberra should engage and selectively accommodate Chinese interests to help mitigate the spiraling conflict and maintain a broad and deep economic and social relationship.²⁵

The polarized debate reflects Australia's uncertainty about its relations with China as well as the cost of the policy change. Such uncertainty was reflected in Canberra's ambiguous attitude toward Beijing during the rest of 2020. On the one hand, some Australian leaders sought to modulate their rhetoric with respect to China. For example, in a November 2020 speech, former prime minister Scott Morrison stated: "I do feel that many of the tensions are based on some misunderstandings. And I think one of the key misunderstandings is a level of confidence about what we see is the end result...Our end result is happy coexistence, respecting each other's sovereignty and systems." On the other hand, few substantive actions to repair relations with Beijing were taken.

BEIJING'S ECONOMIC SANCTIONS AS EMPOWERMENT

From a political and strategic standpoint, China's economic coercion has unexpectedly empowered Canberra and given Australia more confidence in balancing against China. The concept of self-confidence is defined here as the belief in oneself in the capability to execute the actions required to attain a goal.²⁶ In contrast, uncertainty about self-capability may negatively affect confidence and, ultimately, performance or competency.²⁷ Self-confidence is also social and relational; what buttresses one's belief about self-capability is not only material resources but also the intangible elements such as knowledge gained through experience, changes in identity, and encouragement from others, which can shape self-understanding and lead one to try harder.²⁸ Therefore, empowerment implies a positive transformative process of one's belief about the capability to execute the actions required to attain a goal.

Unlike people, states do not have beliefs, but their leaders and citizenry do, and they frequently project their beliefs of the nation's capability and identity

²⁵ Lim and Attrill, "Australian Debate of the China Question."

²⁶ Albert Bandura, "Self-Efficacy," in *Encyclopedia of Human Behavior*, ed. Vilayanur S. Ramachandran (New York: Academic Press, 1994), 71–81.

²⁷ David De Cremer and Alain Van Hiel, "Procedural Justice Effects on Self-Esteem under Certainty versus Uncertainty Emotions," *Motivation and Emotion* 32, no. 4 (2008): 278–87.

²⁸ Albert Bandura, *Social Foundations of Thought and Action: A Social Cognitive Theory* (Englewood Cliffs: Prentice-Hall, 1986); and Kathryn D. Hilgenkamp and Mary Margaret Livingston, "Tomboys, Masculine Characteristics, and Self-Ratings of Confidence in Career Success," *Psychological Report* 90, no. 3 (2002): 743–49.

onto the state. In the context of Australia-China relations, Chinese economic sanctions provided an opportunity for Australian leaders and citizens to re-evaluate both their state's competence and resilience in withstanding economic coercion and their state's identity in the relationship with China. China's economic sanctions led Canberra to become more confident to pursue its balancing strategy because the sanctions facilitated practical knowledge about the nature of the trade relations with China, promoted domestic cohesion, and helped Australia borrow power from other states. China's sanctions empowered Australia in the following ways.

First, Beijing's economic coercion provided Canberra with experience in interacting with an assertive China and facing its economic sanctions. Australian policymakers and strategists had to be prepared to manage the various costs and consequences of their policy change in 2017, including economic sanctions from Beijing. Subsequently, the Australian government crucially learned from the actual sanctions and became better able to assess the country's strengths and weaknesses, which provides knowledge for policymaking in both the short run and the long run. The arrival of Beijing's economic sanctions in 2020, therefore, reduced Australia's anxiety that had derived from uncertainty about the costs of China's economic sanctions.

Canberra has gained two significant pieces of knowledge from China's economic sanctions. First, iron ore exports with their high price could offset China's economic coercion and sustain the resilience of Australia's economy. Statistics suggest that the tariffs and embargos imposed by China since May 2020 have had a negligible impact on the overall Australian economy. For the seven threatened export products, the Chinese market is valuable, representing roughly 4% of the AU\$150 billion in exports to China, or 1.3% of GDP.²⁹ Merchandise exports to China were worth AU\$145 billion in 2020—only 2% shy of the previous year, despite the economic downturn caused by the pandemic, driven by iron ore exports and their increasing price. Iron ore shipments vastly overcompensated for tariff-hit goods and contributed positively—about 10%—to the value of Australian merchandise exports to China in 2020.³⁰ On May 12, 2021, the benchmark Chinese spot price for iron ore topped out at

²⁹ James Laurenceson, "Australia, All Is Not Lost Despite China's Trade Tantrums," Lowy Institute, Interpreter, September 8, 2020 ~ <https://www.loyyinstitute.org/the-interpreter/australia-all-not-lost-despite-china-s-trade-tantrums>; and James Laurenceson, "There's No Need for Panic over China's Trade Threats," Conversation, November 12, 2020 ~ <https://theconversation.com/theres-no-need-for-panic-over-chinas-trade-threats-149828>.

³⁰ Ron Wick, Mike Adams, and Nicolas Brown, "Economic Coercion by China: The Impact on Australia's Merchandise Exports," University of Adelaide, Institute for International Trade, Working Paper 4, 2021.

US\$233 per ton, more than two and a half times that of a year earlier. This outstanding economic performance suggests that the overall damage from China's economic sanctions has been limited, and thus contributes to the assumption that Australia-China trade interdependence is symmetric rather than asymmetric. Australia is not subordinate in this relationship because China will be hard-pressed to find alternative sources to replace Australian iron ore and seems unwilling to interfere with an export that matters this much to its macroeconomic performance.

Second, the Chinese market is still vital for Australia's economic prosperity. The cost of foregone revenue from the Chinese market is significant at the commodity level. For the targeted commodities, export revenue fell by around US\$4.9 billion from July 2020 to February 2021. While the sanctions provided an opportunity for Australia to diversify its market and lessen the impact of trade as a weapon for Beijing to use against Australia, the diversification of export destinations has not matched the markets lost through China's economic coercion and discriminatory purchasing. Comparing the gains from export diversification with the losses from the Chinese market, the latter are much greater since the Covid-19 pandemic.³¹

The third reason China's economic sanctions became a source of empowerment is that they promoted consensus between Australian elites and the public on both China's identity as well as that of their own country. As mentioned earlier, there is a strong sense of insecurity among strategic elites stemming from the country's origin myth, and the uncertainty engendered by China's rising power and assertive actions intensified this anxiety. However, there was a rift between the strategic elite and the public over the nature of China's identity. Lowy Institute poll data from 2015, 2017, and 2018 shows that 77%, 79%, and 82%, respectively, of Australians believed China to be more an economic partner than a military threat.³² The gap between political and strategic elites and the general public meant that Australia's new strategy toward China would be hard to maintain indefinitely, as it would likely falter against popular resistance.

When Beijing imposed economic sanctions on Australia, public opinion of China changed dramatically. By 2021 the percentage of Australians surveyed who considered China to be more an economic partner dropped to

³¹ Wick, Adams, and Brown, "Economic Coercion by China."

³² Lowy Institute, "Poll: China: Economic Partner or Security Threat," June 23, 2021 \approx <https://poll.lowyinstitute.org/charts/china-economic-partner-or-security-threat>.

34% from 55% in 2020, marking a sharp decrease.³³ The change of Australian public perceptions of China's identity is crucial as it also implies a change in perceptions of Australia's own identity and interests in its relationship with China. These unified views between the strategic elites and the public on China as more a security threat provides a solid social foundation for the nation's China policy, encouraging Canberra to signal its resolve to balance against Beijing's economic coercion instead of aligning with Beijing's demands.

Finally, China's economic sanctions empowered Australia because they invited the political and strategic support of other like-minded states—in particular, the United States—for Australia. Australian analysts have pointed out that Australia is not alone inside the “Beijing freezer” in its efforts to effectively resist or blunt Beijing's retaliatory diplomacy while defending the rules-based order. Because of this, Canberra should work more closely with like-minded countries also concerned with China's destabilizing actions in the region.³⁴

As mentioned above, Canberra worried about the Trump administration retreating from the multilateralism of the liberal rules-based order and its lack of a coherent Asia policy to constrain China's ambitions. However, the situation has changed since the outbreak of Covid-19. Although the unimpressive U.S. global response to the pandemic worried Australians, heightened tension in China-U.S. relations and Secretary of State Mike Pompeo's anti-CCP diplomacy were reassuring. In May 2020, Pompeo blasted Beijing for threatening economic retaliation against Australia and offered rhetorical support to Canberra.³⁵ Since Joe Biden became president in 2021, the U.S. administration has demonstrated a stronger willingness to contain China by capitalizing on shared fears and resentments that the United States and its traditional democratic allies have about China, its growing capabilities, and willingness to use coercion.³⁶ Biden has stated that he considers Australia one

³³ Lowy Institute, “Poll: China.” Note that in 2020 the Lowy Institute poll changed from asking whether China was “more of a military threat” to asking whether it was “more of a security threat.”

³⁴ Bec Strating and James Leibold, “Coping with the Beijing Freezer,” Australian Strategic Policy Institute, Strategist, June 28, 2018 ~ <https://www.aspistrategist.org.au/coping-with-the-beijing-freezer>.

³⁵ Matthew Knott, “‘We Stand with Australia’: Mike Pompeo Hits Out at China Threats,” *Sydney Morning Herald*, May 21, 2020 ~ <https://www.smh.com.au/world/north-america/we-stand-with-australia-mike-pompeo-hits-out-at-china-threats-20200521-p54uuz.html>.

³⁶ Stephen Bartholomeusz, “How Australia Can Respond to China's Aggression,” *Sydney Morning Herald*, December 1, 2020 ~ <https://www.smh.com.au/business/the-economy/how-australia-can-respond-to-china-s-aggression-20201201-p56jgv.html>. See also Alan Dupont, “Resisting China's Economic Coercion: Why America Should Support Australia,” Centre of Independent Studies, April 8, 2021 ~ <https://www.cis.org.au/publications/policy-papers/resisting-chinas-economic-coercion-why-america-should-support-australia>.

of the United States' "greatest strategic assets."³⁷ Before the meetings between China and the United States in Alaska in 2021, Kurt Campbell, Biden's Indo-Pacific coordinator, told Australian media that a thaw in U.S.-China tensions was contingent on China dropping its economic pressure campaign against Australia.³⁸ In May 2021, Secretary of State Antony Blinken explicitly stressed that "the United States will not leave Australia alone on the field, or maybe I should say alone on the pitch, in the face of economic coercion by China."³⁹

While the experience of economic sanctions is hardly a welcome one, Australia has emerged from the past two years with fresh knowledge about its capacity to suffer economic loss. Australian leaders now have a sense that economic engagement with China does not need to give Beijing anything resembling veto power over Australian strategic decision-making, at least not in the short term. Although maintaining constructive business and commercial relationships with China is still an Australian interest, the collective perception of China as a threat emboldened Canberra to continue its uncompromising stance. International support from like-minded countries demonstrated the intimate relationship between Australia and these other states, voluntarily bonded by a shared moral space and idea of order that translated into a genuine commitment to a common activity with future significance. Taken together, the resulting evaluation of the impact of China's economic sanctions and Australia's gains and losses suggests that Canberra was not in a weak bargaining position. Thus, for Canberra, China's economic sanctions have bolstered its confidence that Australia can avoid capitulation and indeed successfully balance against China.

NEW CONFIDENCE: AUSTRALIA'S BALANCING POLICY DURING COVID-19

As mentioned above, China's economic sanctions policy aims to restore the default reciprocal relationship rather than destroy its rival. Therefore, while imposing the sanctions, Beijing also signaled clues for how Australia

³⁷ Jacob Greber, "Biden Puts Australia and Allies at Centre of China Strategy," *Australia Financial Review*, March 4, 2021 ~ <https://www.afr.com/world/north-america/biden-puts-australia-and-allies-at-centre-of-china-strategy-20210304-p577pk>.

³⁸ Matthew Knott, "U.S.-China Meeting in Alaska Begins with On-Camera Confrontation," *Sydney Morning Herald*, March 19, 2021 ~ <https://www.smh.com.au/world/north-america/us-china-meeting-begins-with-fiery-on-camera-confrontation-20210319-p57c6w.html>.

³⁹ Daphne Psaledakis and Simon Lewis, "U.S. Will Not Leave Australia Alone to Face China Coercion—Blinken," *Reuters*, May 13, 2021 ~ <https://www.reuters.com/world/asia-pacific/us-will-not-leave-australia-alone-face-china-coercion-blinken-2021-05-13>.

could fix the relationship. For example, Fu Ying, chair of the National People's Congress Foreign Affairs Committee and former ambassador to Australia, said that China and Australia "should make more effort to increase contact, communication and co-ordination, and increase mutual understanding and trust in the process of solving problems and narrowing divergences, instead of resorting to confrontation and abusing language based on assumptions and hypothesis, thus hurting each other."⁴⁰ At the same time, from China's point of view, the current difficult situation in bilateral ties is the result of Australia's preemptive actions against China. Therefore, Beijing insisted Canberra take "concrete steps" to fix the relationship.⁴¹

However, Canberra's recent China policy has not indicated that a reset with Beijing is likely to occur soon. Instead, the new confidence has encouraged Canberra to signal its resolve to avoid capitulation on any front, as well as willingness to challenge Beijing on new fronts. The efforts Canberra has taken include both soft and hard balancing activities. Soft balancing refers to nonmilitary forms of opposition that aim to frustrate and impose additional costs on a rival's violative behavior, while hard balancing refers to military efforts that aim to contain any state that might become strong enough to be able to impose its will on other states.⁴² Canberra's adoption of the multiple tactics of balancing demonstrate its determination not only to oppose and frustrate China in a more limited, indirect way, but also to build security coalitions among like-minded states to offset Beijing's growing military capabilities. The confidence is first and foremost reflected in Australian leaders' verbal commitment to not make any compromises in response to Beijing's economic coercion. Unlike the ambiguous attitudes expressed in 2020 toward repairing bilateral relations, since 2021 senior Australian leaders have remained rhetorically adamant that no concessions will be made to repair the relationship. For instance, in a speech in February 2021, Morrison stressed that while high-level dialogue is important, it must be "a dialogue focused not on concessions."⁴³ When asked if Australia should be frightened of China, he responded, "No, that's not the approach I take. I think we need

⁴⁰ Michael Smith, "Top China Diplomat Urges End to 'Confrontation,'" *Australian Financial Review*, October 5, 2020 ~ <https://www.afr.com/world/asia/top-china-diplomat-urges-end-to-confrontation-20200929-p5605c>.

⁴¹ "China-Australia Relations Head toward Abyss," *Global Times*, December 3, 2020 ~ <https://www.globaltimes.cn/page/202012/1208904.shtml>.

⁴² Pape, "Soft Balancing Against the United States;" and Kucharski, "China in the Age of American Primacy."

⁴³ Scott Morrison, "Address—National Press Club Barton Act," Australian Government, PM Transcripts, February 1, 2021 ~ <https://pmtranscripts.pmc.gov.au/release/transcript-43214>.

to be constructive, aware and know what our values are and to pursue them confidently.”⁴⁴ Morrison increasingly expressed confidence about Australia’s position in its relationship with China in May 2021, perceiving Beijing’s trade sanctions to be “like a traditional Chinese lion dance—mostly theatrical.”⁴⁵ In a similar vein, Payne stressed in August 2021 that Australia will not accept any conditions for resuming high-level dialogue with China: “Australia places no conditions on dialogue. We can’t meet the conditions such as the now well-known list of fourteen grievances raised in the media last year. As the Prime Minister has said, indeed, no country would do that.”⁴⁶

The negative perceptions held by Australian society toward China’s economic coercion motivated Canberra’s stance in early 2022, as the federal election in May gave Australian politicians extra motivation to not appear weak in the eyes of their counterparts and domestic audience by giving in to threats. For example, Morrison believed that meeting the new Chinese ambassador to Australia before Beijing removed the minister-to-minister dialogue would be a demonstration of weakness.⁴⁷ Similarly, in his campaign, the then opposition leader Anthony Albanese also attempted to rebuff claims that the Australian Labor Party would be weak on China. For example, apart from criticizing China’s human rights abuses in Xinjiang and decrying Beijing’s crackdown on free speech in Hong Kong,⁴⁸ Albanese and his colleagues also indicated that any movement toward improving the relationship with China under a Labor government would be conditioned by whether Beijing agrees to remove the economic sanctions imposed on Australia goods.⁴⁹

A second expression of Australia’s new confidence is Canberra’s doubled-down efforts on strengthening domestic institutions for its national

⁴⁴ Morrison, “Address—National Press Club Barton Act”

⁴⁵ Peter Hartcher, “Never Been Bigger: PM Says Australia Is Weathering China Trade Fight,” *Sydney Morning Herald*, May 19, 2021 ~ <https://www.smh.com.au/politics/federal/never-been-bigger-pm-says-australia-is-weathering-china-trade-fight-20210518-p57szm.html>.

⁴⁶ Marise Payne, “Address to Australia China Business Council,” Minister for Foreign Affairs (Australia), August 5, 2021 ~ <https://www.foreignminister.gov.au/minister/marise-payne/speech/address-australia-china-business-council>.

⁴⁷ Matthew Doran, “Scott Morrison Rules Out Meeting with Chinese Ambassador until Beijing’s Diplomatic Freeze Starts to Thaw,” ABC News (Australia), March 25, 2022 ~ <https://www.abc.net.au/news/2022-03-26/scott-morrison-refuses-to-meet-with-chinese-ambassador/100942242>.

⁴⁸ Sarah Martin, “ALP Focuses on China Human Rights Violations and Palestinian Statehood at National Conference,” *Guardian*, March 30, 2021 ~ <https://www.theguardian.com/australia-news/2021/mar/30/alp-focuses-on-china-human-rights-violations-and-palestinian-statehood-at-national-conference>; and Max Opray, “Albo Resists Keating on China,” *Saturday Paper* (Australia), November 12, 2021 ~ <https://www.thesaturdaypaper.com.au/post/max-opray/2021/11/12/albo-resists-keating-china>.

⁴⁹ Elena Collinson, “The China Consensus,” Australia-China Relations Institute, March 14, 2022 ~ <https://www.australiachinarelations.org/content/china-consensus-australia>.

security goals. In December 2020, the Morrison government introduced a new law that allows the federal government to review and cancel a range of international agreements struck by states, territories, councils, and universities.⁵⁰ In December 2021, the Australian Parliament passed the Autonomous Sanctions Amendment (Magnitsky-style and Other Thematic Sanctions) Act. This new legislation allows the federal government to facilitate the establishment of a thematic sanction on an individual or entity accused of gross human rights violations and other activities. It also enables Australia to respond flexibly and swiftly to a range of situations of international concern.⁵¹

It has always been a federal prerogative to revise and establish domestic institutions in support of Australia's foreign policy goals, and Australian officials denied that these were changes targeting China. However, given that the changes were made when China-Australia relations had soured, it was natural for people to make such a linkage. When Canberra used its sweeping new veto power to cancel the signed agreements between the state of Victoria and China on the Belt and Road Initiative in April 2021, Canberra's determination to use domestic institutions to actively counterbalance Beijing was clear. Considering that the project is Xi Jinping's flagship foreign policy initiative with considerable symbolic importance, this cancellation shows that Canberra did not want to give face to Beijing and China's top leader.

The third expression of Australia's new confidence was reflected at the diplomatic level. The use of entangling diplomacy suggests that Canberra assumed that an assertive China cannot ignore the rules of international conduct and diplomatic practices without losing legitimacy and support.⁵² Before 2021, the Australian government kept its concern about cross-strait relations at a low hum, although Australian strategists recognized that the prospect of military conflict over Taiwan had increased. However, since April 2021, senior ministers and former political figures have sought to amplify national concern regarding the prospects of a conflict over Taiwan and have offered explicit support to Tsai Ing-wen's government. Then defense minister Peter Dutton stated that military conflict over Taiwan "should not

⁵⁰ Stephen Dziedzic, "The Federal Government's New Foreign Relations Laws Have Passed Parliament. Here's What That Means," ABC News (Australia), December 8, 2020 ~ <https://www.abc.net.au/news/2020-12-08/what-are-the-governments-new-foreign-relations-laws-about/12947590>.

⁵¹ *Autonomous Sanctions Amendment (Magnitsky-style and Other Thematic Sanctions) Act 2021*, Department of Foreign Affairs and Trade (Australia), December 21, 2021 ~ <https://www.dfat.gov.au/news/news/autonomous-sanctions-amendment-magnitsky-style-and-other-thematic-sanctions-regulations-2021>. See also John Power, "Australia's Proposed Magnitsky-Style Sanctions Law Could Target China: Analysts," *South China Morning Post*, August 6, 2021 ~ <https://www.scmp.com/week-asia/politics/article/3144066/australias-proposed-magnitsky-style-sanctions-law-could-target>.

⁵² Pape, "Soft Balancing against the United States."

be discounted” and stressed the importance of Australia’s defense force maintaining a high level of preparedness for regional conflict.⁵³ In November, Dutton made a more definitive reply to the question of whether Australia would join the United States in a potential conflict with China over Taiwan, stating that “it would be inconceivable that we wouldn’t support the U.S. in an action if the U.S. chose to take that action.”⁵⁴ In October 2021, Tony Abbott, a former prime minister, drew headlines for his privately funded visit to Taiwan at a time when Canberra was signaling interest in boosting relations with Taipei—especially given that Jenny Bloomfield, the Australian representative in Taipei, accompanied Abbott to his meeting with Tsai.⁵⁵

Another prominent example of diplomatic confidence was the official boycott of the Beijing Winter Olympics over China’s human rights abuses against its Uighur minority. According to then prime minister Morrison, he made the decision for Australian officials to join the boycott of the games because of Australia’s national interests and because it seemed the right thing to do. Beijing, however, seemed less intimidated by Canberra’s boycott. In response to Australia’s decision, Beijing stressed that the success of the Winter Olympics depended on athletes’ performances rather than the attendance or political posturing of some Australian politicians. However, the political implications of the boycott for Beijing should not be overlooked. President Xi aimed to use the Winter Olympics to showcase that China is powerful and on track to fulfill the Chinese dream of national rejuvenation, as well as to demonstrate the CCP government’s achievement in containing Covid-19. In other words, a globally supported Winter Olympics was intended to glorify the regime and further consolidate Xi’s prestige among the Chinese citizenry. A boycott would have been difficult for Canberra to do on its own because it could have been perceived as a deliberate action to undermine the CCP’s legitimacy rather than a casual demonstration of dissatisfaction with a specific policy. Therefore, participating in the U.S.-led boycott reduced risk and provided confidence to Canberra to act with partner states.

The fourth expression of Australia’s new confidence has been enthusiastic participation in conducting concerted actions with other regional major

⁵³ Sarah Martin, “Australian Defence Minister Says Conflict over Taiwan Involving China ‘Should Not be Discounted,’” *Guardian*, April 24, 2021 ~ <https://www.theguardian.com/world/2021/apr/25/australian-defence-minister-says-conflict-over-taiwan-involving-china-should-not-be-discounted>.

⁵⁴ Demetri Sevastopulo, “Australia Vows to Help U.S. Defend Taiwan from Chinese Attacks,” *Financial Times*, November 13, 2021 ~ <https://www.ft.com/content/231df882-6667-4145-bc92-d1a54bccf333>.

⁵⁵ Daniel Hurst, “Mr Abbott Goes to Taiwan: An Unofficial Message of Australian Solidarity?” *Guardian*, October 15, 2021 ~ <https://www.theguardian.com/australia-news/2021/oct/16/mr-abbott-goes-to-taiwan-an-unofficial-message-of-australian-solidarity>.

powers and constructing a regional security architecture that aims to balance and deter China. Unlike the three aforementioned approaches, which are forms of soft balancing, the fourth one leans toward traditional military balancing. The Australia–United Kingdom–United States (AUKUS) trilateral security pact is the most recent example, adding to the reconstituted Quad among Australia, India, Japan, and the United States.

The Quad's revitalization in 2017 was not intended exclusively to target or contain China. It also aimed to supplement U.S. alliances and provide a platform for coordination among the region's like-minded partners, and it reflected Canberra's overall assessment of changing regional security dynamics. But during the pandemic period, China increasingly became the target of this U.S.-led multilateral security mechanism. In his opening remarks to the first ministerial-level meeting of the Quad member countries in October 2020, Pompeo explicitly declared that containing China is a major purpose of the Quad, stating that it is "more critical now than ever that we collaborate to protect our people and partners from the CCP's exploitation, corruption and coercion."⁵⁶ Although Australia was reluctant to be so publicly enthusiastic about the Quad's potential to counter China, it still rejoined the Malabar naval exercises with Japan, India, and the United States in November. In August 2021, a joint drill of the Quad navies occurred in the western Pacific, and Australia enhanced its security cooperation with India during this exercise by signing a new Joint Guidance for the Australia-India Navy to Navy Relationship.

AUKUS is a defense pact that aims to develop closer military and scientific ties among the three participating countries, assist Australia in building nuclear-powered submarines, and bring the three states to work more closely in the Indo-Pacific, where the rise of China is perceived to be an increasing threat. Though Morrison tried to define the partnership as not being directed at any one country, Dutton's words seem to suggest otherwise: "We want there to be a deterrence against China and any other country who might have bad intent over the coming decades. It's a strong message for them as well."⁵⁷ In this sense, the AUKUS pact reflects Australia's ambitions to shape its external environment and contribute to the regional balance of power.

⁵⁶ Humeyra Pamuk and Sakura Murakami, "U.S. Shores Up Support among Asian Allies," *Canberra Times*, October 6, 2020 ~ <https://www.canberratimes.com.au/story/6955745/us-shores-up-support-among-asian-allies>.

⁵⁷ Tom McIlroy, "Defence Spending to Reach \$50b a Year, Says Dutton," *Australian Financial Review*, October 26, 2021 ~ <https://www.afr.com/politics/federal/defence-spending-to-reach-50b-a-year-says-dutton-20211025-p592t0>.

Although it is hard to assess the direct efficiency of Australia's balancing strategy during the last few years in deterring and restraining the ambition of China, one outcome is that it has helped facilitate coordination and increased trust with other regional actors, including Japan, India, and Taiwan, and major powers such as the United Kingdom and the United States. It seems likely that they will continue their willingness to cooperate against China's ambitions in the future. Therefore, the major achievements so far of Canberra's balancing strategy are procedural rather substantive. Australia is not coercing China or impeding its current actions, but Canberra has demonstrated resolve in a manner that signals a commitment to continue to stand up to Beijing.

THINKING BEYOND BALANCE

This article has presented how China's economic sanctions empowered Australia and led to self-confidence as an emerging characteristic of Australian policy toward China. Motivated by this new confidence, Canberra has doubled down on its balancing strategy despite the economic sanctions on Australia. However, this confidence is, to a large degree, boosted and borrowed—and therefore precarious. In other words, since Australia's new confidence is not based on its own ascendancy as a rising power, the source of confidence may not be sustainable. Therefore, for the sake of Australia's overall national interest, the source of confidence and the balancing strategy should be assessed more carefully.

China's economic sanctions provided Canberra with experiences and knowledge that helped leaders identify Australia's strengths and weaknesses. But the government seems not to have worked out any feasible plan to address potential changes in the future and the country's exposed weaknesses. According to a policy recommendation from the Chinese Academy of Engineering, by 2025, China must increase its iron ore equity reserves and production, aiming for this production to exceed 20% of iron ore needs and to reduce dependence on foreign sources to under 50%.⁵⁸ China's 14th Five-Year Plan also stresses the importance of ensuring resource security and promoting the green transformation of the iron and steel industry, including improving

⁵⁸ Qisheng Chen et al., "Transition from a Large to a Powerful Country in Mineral Resources: Objectives, Measures, and Proposals," *Strategic Study of Chinese Academy of Engineering* 21, no. 1 (2019): 49–54; and Michael Smith, "China's Plan to End Its Australian Iron Ore Dependency," *Australian Financial Review*, December 2, 2021 ~ <https://www.afr.com/world/asia/china-s-plan-to-end-its-australian-iron-ore-dependency-20211130-p59dmo>.

the system of steep scrap recycling.⁵⁹ If such actions materialize, they could reshape the structure of Australia-China trade relations and give China more leverage to impose substantive harm on Australia's economy. Also, since market diversification has generally not matched the markets lost through Chinese economic coercion, China will still be central to Australia's future in Asia. China's purchasing power over the next decade is forecast to grow more than that of the United States, Japan, India, and Indonesia combined.⁶⁰ A recent report showed that Australian businesspeople who see a market for their product in China are eager for the two governments to improve their relationship.⁶¹ The report reminds the new government to listen to business communities' suggestions on managing economic risks from China because they have a more comprehensive understanding of the global market and mitigation mechanisms than security experts.

Given that China matters to Australia's long-term economic prosperity, instead of retreating from economic engagement or diversifying its economic profile without adequate regard for China's role, the Australian government should craft more sophisticated strategies to meet these looming challenges.⁶² Australia has, in a sense, painted itself into a corner with its campaign to securitize "Chinese influence" and its anti-CCP rhetoric in the last few years, such that current public opinion regards China more as a threat than as an economic partner. Although it is difficult for politicians to back down and risk their reputations in the eyes of the public, Labor should consider pursuing a more pragmatic policy toward China that keeps in mind the importance of China's long-term economic relationship with Australia.

Moreover, aside from rhetorical support, there is scant evidence that the United States has offered substantive assistance to back Australia in its dispute with China. According to the director of the Australia-China Relations Institute, James Laurenceson, Washington could have provided economic support to Australia through several different channels, but there

⁵⁹ Central Committee of the Communist Party of China, *Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People's Republic of China* (Beijing, August 2021), available at Translation and Publication Portal for Chinese Key Terms and Expressions, http://tppckte.org.cn/2021-08/04/content_77671903.html. See also the Ministry of Industry and Information Technology (PRC), *14th Five-Year Plan for Green Industrial Development* (Beijing, December 2021).

⁶⁰ Australian Government, *2017 Foreign Policy White Paper*, 28.

⁶¹ Glenda Korporaal Oam, "Behind the Headlines: Why Australian Companies Are Still Doing Business with China," Australia-China Relations Institute, December 7, 2021 ~ <https://www.australiachinarelations.org/content/behind-headlines-why-australian-companies-are-still-doing-business-china-0>.

⁶² Laurenceson, "There's No Need for Panic over China's Trade Threats."

is “no evidence that U.S. support extends beyond rhetoric.”⁶³ While the recently formed AUKUS might suggest a U.S. commitment to contribute more strategic assets toward containing China’s ambition, the cost of this decision for Washington is low. If the submarine deal were to fall through, for example, the United States would not have suffered a substantive loss, since the deal mainly benefits the military industry.⁶⁴ Thus, while Australia has actively participated in joint action in the form of a great-power concert to deter China, this decision is inconsistent with Australia’s material-power resources, such as economic and military capacities. Merely symbolic support from other states combined with a changeable external environment could place Australia in an awkward position.

There is little doubt that Australia has gained from doubling down on its balancing strategy. This move has enhanced strategic coordination and cooperation with other like-minded states and helped reshaped the regional balance of power by revitalizing a security regime (the Quad) and establishing a new security architecture (AUKUS) in the Indo-Pacific region. However, deeply investing in these security regimes could further reduce Australia’s flexibility in foreign policymaking. On the one hand, China remains Australia’s largest trading partner, but Australia is the only country among the Quad and AUKUS states that has no high-level dialogue channel with Beijing.⁶⁵ On the other hand, once Australia acquires long-range nuclear-powered submarines from the United States, it will be more difficult for Canberra to refuse a request from the United States to contribute to operations that a future Australian government may rather wish to avoid.⁶⁶ Furthermore, the nuclear submarine deal in the AUKUS pact complicated trust with other Asian countries and France, with which Australia originally had negotiated a submarine deal. Thus, Canberra must devote extra effort both to reassuring regional actors that this move is not escalatory but rather contributes to regional security and to assuaging anger in Paris.

More significantly, the cause of tension between Australia and China has too often been oversimplified. Some journalists and politicians in Australia

⁶³ James Laurenceson, “No Evidence the U.S. Has Australia’s Back in Its Dispute with China, Despite All the Rhetoric,” *South China Morning Post*, July 23, 2021 ~ <https://www.scmp.com/comment/opinion/article/3142080/no-evidence-us-has-australias-back-its-dispute-china-despite-all>.

⁶⁴ Sam Roggveen, “Changing My Mind about AUKUS,” Lowy Institute, Interpreter, December 13, 2021 ~ <https://www.loyyinstitute.org/the-interpreter/changing-my-mind-about-aukus>.

⁶⁵ James Laurenceson, “By Standing Up to China, Australia May End Up Standing Alone,” *Fortune*, October 14, 2021 ~ <https://fortune.com/2021/10/13/australia-china-relations-trade-aukus-embargo-james-laurenceson>.

⁶⁶ Roggveen, “Changing My Mind about AUKUS.”

aim to propagate China's intentions and influence in their most alarmist form to a wider audience. For example, the fourteen points that China gave as concerns in its relations with Australia were misinterpreted as “fourteen grievances” or “conditions” listed by Beijing for Canberra to reset bilateral relations.⁶⁷ Clashes of interests and values have become conventional wisdom in the policy community and the dominant frame of reference for assessing the possible consequences for Australia of China's growing ambitions. However, an often overlooked possibility is that the tension between the two countries could be more a clash of emotions than one of interests and values. Misunderstandings of each other's psychological makeup could cause leaders and intellectuals in the two countries to employ faulty or misguided concepts to understand one another's foreign policy motives.

If we agree that China's importance to Australia is more than one of being a visible security threat, then balancing should not be the dominant feature of Australia's China policy without a strong complement in engagement. While the two major parties may take a bipartisan approach to China affairs, the Labor government under Albanese's leadership will need to reset the current confrontational relationship. To achieve this goal, Canberra should carry out effective diplomacy toward China and reassure Beijing to alleviate the emotionally driven tensions and help induce a return to bilateral cooperation by reducing anxiety, mistrust, and misunderstanding.⁶⁸ Beijing should, of course, reciprocate Australia's efforts by giving equivalent reassurance.

So far, the Albanese government has made some efforts toward navigating a more evenhanded approach to dealing with the China issue. On the one hand, when Albanese delivered his first message to China as prime minister, he stressed that “it is China that has changed, not Australia, and Australia should always stand up for our values and we will in a government that I lead.”⁶⁹ This remark suggests that the new government has no intention of showing weakness to China. It also raised doubt about the government's willingness and capacity to transform the deteriorating relationship into a more beneficial one, given that the current situation is not solely the result of Beijing's unilateral actions. On the other hand, an accelerated diplomatic exchange between the senior officials of the two governments in June and Canberra's restraint on the issue of U.S. House Speaker Nancy Pelosi's visit

⁶⁷ Kearsley, Bagshaw, and Galloway, “If You Make China the Enemy, China Will Be the Enemy.”

⁶⁸ For the strategy of diplomacy and reassurance, see Feng Zhang and Richard Ned Lebow, *Taming Sino-American Rivalry* (Cambridge: Cambridge University Press, 2020), 199–203.

⁶⁹ Tom Flanagan, “Albanese Delivers Frank First Message to China: ‘Not Changed,’” Yahoo News, May 23, 2022 ~ <https://au.news.yahoo.com/albaneses-first-message-to-china-not-changed-015625283.html>.

to Taiwan in August seem to be signs of a thawing of Australia and China's political relations.

Furthermore, to attain the relationship that is most beneficial to Australia's overall national interest, the Labor government should attune itself to and release the correct diplomatic signals to guide China's expectations of Australia, whether these be toward the balancing aspect of Australia's foreign policy or toward engagement. For example, Canberra should refuse Beijing's initiative to restore a bilateral comprehensive strategic partnership in a tactful and firm manner. To renew the comprehensive strategic partnership, Beijing expects Canberra to make decisions in consideration of their relationship while allowing Beijing the leeway to determine its own specific values or preferences in interactions. But Canberra cannot commit to complying with Beijing's expectations because neither the domestic nor the international political climate would make such a decision prudent. It is unlikely that the new government would greatly revise its regional security policy or cease questioning China's human rights record. Therefore, the Australian government cannot let the partnership become an ethical restraint on its foreign policy or a reason for Beijing to hold unrealistic expectations.

Simultaneously, however, Canberra should manage its own expectations of China. In his speech at the University of Technology Sydney in June 2022, Chinese ambassador to Australia Xiao Qian explicitly rejected the notion of "fourteen grievances." According to Xiao, these points are China's concerns in the bilateral relationship but have been misinterpreted as preconditions or demands.⁷⁰ On a signaling level, this remark reflects Beijing's adjustment of its expectations of Canberra and sends a clue for Australia's response. To reciprocate Beijing's metaphorical olive branch, Canberra might need to adjust its expectations too. For example, the Albanese government may need to accept that the removal of economic pressure and sanctions should not be a precondition to expanded and deeper bilateral dialogue but instead that instigation of such dialogue is a result of positive reciprocity since the conflict began and can contribute to an improved relationship. Canberra should additionally try to avoid initiating or participating in acts that deliberately provoke Beijing during the CCP's power transition periods, such as the recent 20th Congress in October 2022, and important moments of public face for China. This is a symbolic but significant step that can provide a friendly signal to Beijing without changing any underlying policies.

⁷⁰ Matthew Knott, "China Envoy Offers Hope for Better Relations with Australia," *Sydney Morning Herald*, June 24, 2022 ~ <https://www.smh.com.au/politics/federal/china-envoy-offers-hope-for-better-relations-with-australia-20220624-p5awc3.html>.

In sum, given the immense importance of China to Australia, Canberra must be more imaginative in designing its China policy and keep the relationship moving in a direction that best serves Australian interests and avoids direct conflict with China, which is essentially not a strategic competitor. At the same time, as one of China's comprehensive strategic partners, Australia deserves more attention from China. Beijing should avoid rigidly viewing Australia through the lens of the China-U.S. great-power competition, and instead treat it as a country with its own unique strategic interests. For that to happen, both sides should be more open to understanding each other's strategic culture and history to reduce the misunderstandings and misperceptions. ◆

