

SECTION 4: CHANGING REGIONAL DYNAMICS: OCEANIA AND SINGAPORE

Key Findings

- Beijing has used economic coercion, acquired strategically-significant assets, and interfered in the domestic politics of neighboring countries to advance its interests in the Indo-Pacific region. China seeks closer engagement with its neighbors not only for economic gain but also to gain influence over their decision making to eventually achieve regional dominance and replace the United States as a vital economic partner and preeminent regional security guarantor.
- Some targeted countries are becoming increasingly aware of these risks and are taking steps to respond to China's political interference and growing military strength. Still, countries have struggled to formulate comprehensive and effective responses.
- Australia wants to maintain positive economic ties with China, but is also wary of Beijing's increasing regional assertiveness and outright interference in Australia's political affairs. Its steps to mitigate the risks of engagement with China, including tightening foreign investment restrictions and cracking down on political interference, have had mixed success. The Australian business community still favors greater economic engagement with China while downplaying national security concerns.
- To address the growing military threat posed by China, Australia has launched its largest military modernization effort since the Cold War. Central to this effort are large-scale investments in new warships, submarines, and fighter aircraft. Australia is also standing up a new military unit dedicated to improving military coordination with Pacific Island countries and is working with the United States and Papua New Guinea to develop a naval base in the latter's territory, which will complement the already substantial U.S. military presence in Australia.
- China seeks engagement with the Pacific Islands to establish military access to the region, gain the benefit of these countries' voting power in the UN, undermine regional diplomatic support for Taiwan, and gain access to natural resources, among other goals. Pacific Island countries view China as a vital economic partner and source of infrastructure investment and aid, but some Pacific Island officials have expressed reservations about Beijing's increasing influence and presence in the region, particularly over growing indebtedness to China. As a result of China's growing inroads in the Pacific Islands, Australia has also increased its engagement in the region, though its efforts have also encountered some pushback.

- As a small country and regional economic hub, Singapore continues to work to maintain the balance between its relationships with the United States and China amid heightening U.S.-China tensions. Singapore is also concerned about China's attempts to undermine ASEAN's unity and its own ability to play a leading role in Southeast Asia. While Singapore remains a dedicated security partner of the United States, it also has close economic ties to China, including serving as an increasingly important financial and legal intermediary for Belt and Road Initiative (BRI) projects.

Recommendations

The Commission recommends:

- Congress direct the Administration to assess the viability and impact of establishing new military training centers hosted by Indo-Pacific allies and partners to increase connectivity, interoperability, and shared professional military education among countries throughout the region.
- Congress support the implementation of the Indo-Pacific Stability Initiative to align U.S. budgetary commitments with national security objectives and build the confidence of allies concerning U.S. commitment to security in the Indo-Pacific region.
- Congress direct the U.S. Department of State to reinstate Peace Corps programs in Palau and the Federated States of Micronesia and consider expanding their presence in other Pacific Island countries to promote U.S. values while counteracting the spread of China's authoritarian influence in the Pacific Islands.

Introduction

Despite remarks by China's foreign minister Wang Yi that China "has no intention ... to seek to replace the [United States] in its world role," China's actions show it aims to supplant the United States as a leading security and economic power in the Indo-Pacific region.¹ China's growing regional influence creates unsettling dilemmas for its neighbors. China's substantial economic clout offers significant new export opportunities as well as access to inexpensive and increasingly high-quality goods and services. For developing countries, China is an attractive source of funding for much-needed infrastructure. However, China's engagement comes with a troubling cost. In recent years, countries in the region have experienced increasingly brazen attempts by Beijing to influence and even interfere with their political, diplomatic, and military choices. These attempts can take the form of economic coercion or political interference and are backstopped by China's increasingly credible military capability. Whatever the method, they present serious threats to the sovereignty of China's neighbors. Moreover, they threaten to change the trajectory of many of these countries' longstanding relationships with the United States.

China's relationships with Australia, New Zealand, the Pacific Islands, and Singapore present important case studies illustrating the opportunities and risks created by China's growing regional influence and assertiveness in the key sub-regions of Oceania and South-

east Asia. Despite these countries' differing economic backgrounds and historical relationships with China, they are all balancing economic opportunities and security risks. Australia and New Zealand have struggled to formulate effective and coherent policies toward China, pulled in different directions by the business and education communities on the one hand, and the national security establishment and civil society groups on the other.

Meanwhile, Beijing has increasingly directed attention to another, long-neglected part of Oceania: the Pacific Islands. These countries' small sizes and populations belie their strategic importance to China, which has quickly increased its influence, particularly through economic ties and foreign aid, in order to leverage the region's access to important waterways, natural resources, and outsize voting power in the UN.

Finally, Singapore's growing role as a conduit for financing for China's BRI, as well as its large ethnic Chinese population, makes closer ties an important goal for Beijing. China has also sought to deepen its security ties with Singapore as it has moved to establish a leading position in the region's security architecture.

In examining China's increased engagement with Australia, New Zealand, the Pacific Islands, and Singapore, this section considers how each is responding to the opportunities and risks presented by China's greater presence and the implications of these dynamics for the United States. It is based on the Commission's May 2019 fact-finding trip to the Indo-Pacific, consultations with regional experts, and open source research and analysis.

Australia

Australia is both interested in maintaining economic ties with China and newly wary of Beijing's growing authoritarianism and regional assertiveness.² According to Australian National University scholar Rory Medcalf, over the past two years Australia has experienced a "reality check" as it grappled with Chinese Communist Party (CCP) interference and the realization that China under the CCP would not liberalize as many had hoped.³ According to a 2019 poll conducted by the Lowy Institute, an Australian think tank, only 32 percent of Australians said they trust China to act responsibly either a great deal or somewhat, an all-time low.⁴ Respondents' favorable "feelings" on a scale of 0 to 100 degrees toward China fell to only 49 degrees, a nine-degree drop since 2018 and the biggest drop recorded for any country since 2007.^{*5} According to John Lee, former national security adviser to then Australian Foreign Minister Julie Bishop, "Being co-opted to lobby on [China's] behalf is no longer seen as socially acceptable."⁶

However, sections of both the Australian business community and the Australian government have not yet responded to this shift, continuing to prioritize economic ties over national security concerns. For instance, after Andrew Hastie, chair of Australia's Parliamentary Joint Committee on Intelligence and Security, argued Australia had failed to recognize the scale of the CCP's ambitions, Australian

*The poll recorded a nine-degree drop in warm feelings for Iran, from 43 to 34, in 2007. Lowy Institute, "Lowy Institute Poll 2019."

business community leaders criticized his comments as endangering a continued “positive relationship” with China.⁷ Similarly, after Australian intelligence agencies concluded China was responsible for a cyberattack on Australia’s parliament and three largest political parties in the lead-up to the country’s general election in May 2019, *Reuters* reported that a secret government report recommended not disclosing these findings to avoid harming trade relations with China.⁸

Canberra has not yet decisively outlined its priorities vis-à-vis China, but there is a growing recognition of the strong connections between security and economic considerations inherent in dealing with China, and the comprehensive challenges that linkage creates.⁹ Reflecting these difficulties, Prime Minister Scott Morrison stated in November 2018 that Australia would not choose sides between the United States and China. Since securing a surprise re-election in May 2019, however, he has been more critical of Beijing on both economic and security matters.¹⁰

For Beijing, Australia is an important strategic priority due to its key role in the U.S.-led alliance system and its significance as a yardstick for the effect of what the CCP calls “discursive power,” or Beijing’s ability to promote its own views over what it perceives as an international narrative that is unfairly biased against China.* According to Dr. Medcalf, Beijing’s main goals in its engagement with Australia are to weaken the U.S.-Australian alliance; obtain sensitive military, intelligence, and technological secrets; prevent Australia from inspiring other countries to oppose Beijing’s priorities; and ensure Australia’s large Chinese community at minimum refrains from criticizing the CCP and ideally openly advocates on its behalf.¹¹

Influencing overseas Chinese communities remains a key policy goal for Beijing and an important pillar of its United Front strategy for “controlling, mobilizing, and utilizing non-Communist masses” to co-opt and neutralize potential critics of the CCP while advancing its goals.† Australia, as a large democratic country on China’s geographic periphery, is a major bellwether in this regard. More than 1.2 million people of Chinese ancestry (about 40 percent of whom were born in China) live in Australia, comprising 5.6 percent of the total population of 24.6 million.¹² As student demonstrations in the summer of 2019 flared throughout Australia criticizing or defending pro-democracy Hong Kong protesters, pro-Beijing blocs harassed and assaulted students showing solidarity with Hong Kong, demonstrating the extent of Beijing’s ability to influence members of the overseas Chinese community to advocate for its interests. “If dissenting

*Discursive power, according to China’s State Council Information Office, is a form of power to be wielded in pursuit of strategic aims just like military or economic strength. China argues strong discursive power enables countries to claim the moral high ground or promote their own concepts and shape global norms and standards, an important tool against an international narrative portraying the West as strong and China as weak. Kristin Shi-Kupfer and Mareike Ohlberg, “China’s Digital Rise: Challenges for Europe,” *Mercator Institute for China Studies*, August 4, 2019; State Council Information Office of the People’s Republic of China, *Several Great Fundamental Theoretical Questions in the Construction of International Discourse Power* (国际话语权建设中几大基础性理论问题), February 27, 2017. Translation. <http://www.scio.gov.cn/zhzc/10/document/1543300/1543300.htm>.

†The CCP uses what it calls “United Front” work to co-opt and neutralize sources of potential opposition to its policies and authority. For more on the background and implications of this strategy, see Alexander Bowe, “China’s Overseas United Front Work: Background and Implications for the United States,” *U.S.-China Economic and Security Review Commission*, August 24, 2018.

Chinese voices [that are critical of Beijing] can be silenced in Australia,” Dr. Medcalf contends, “they can be silenced anywhere.”¹³

Responding to China’s Interference, Australia’s Progress Uncertain

Since 2016, following revelations of Australia’s vulnerability to CCP interference, Canberra has passed several new laws to counter foreign interference.* These new laws, which began to enter into force in 2018, target foreign interference in politics, economic espionage, and theft of trade secrets; establish a public register of foreign lobbyists; and require notification of political donations from those on the register or who disburse funds on behalf of a foreign principal.¹⁴ Canberra has also formed a new Department of Home Affairs to integrate certain intelligence, law enforcement, and policy responsibilities across the government and ordered the most significant review of its intelligence agencies in 40 years, which is still ongoing.¹⁵

Huang Xiangmo, a former Australian permanent resident and prolific political donor accused of acting as a proxy for Beijing, has been a primary focus of much of the public debate surrounding CCP interference in Australia.¹⁶ From 2014 to 2017, Mr. Huang was the president of the Australian Council for the Promotion of Peaceful Reunification of China, a political advocacy organization that frequently disguises the nature of its relationship to the Chinese government but is in fact directly subordinate to the CCP’s United Front Work Department.¹⁷ He received scrutiny for his donations to both major Australian political parties totaling \$1.5 million (AUD 2 million) since 2012, and he was accused of being a CCP “agent of influence” by an Australian senator who resigned due to public disclosure of his collaboration with Mr. Huang.†¹⁸ In February 2019, the Australian government revoked Mr. Huang’s permanent residency and denied his application for citizenship, citing concerns about his character.¹⁹

Australia’s new Foreign Influence Transparency Scheme, passed in 2018 and based on the U.S. Foreign Agents Registration Act, was intended to introduce transparency into foreign lobbying in Canberra, but registration and enforcement have so far been lackluster. Canberra has yet to prosecute any United Front-connected entities, such as Confucius Institutes and most Chinese state media, for not registering, despite the fact United Front activities were a primary focus of the law.²⁰ As of July 2019, only 18 Chinese foreign principals had registered, mostly comprising mineral, energy, and investment companies, as well as China Radio International and China Telecom, state-owned media and telecommunications companies, respectively.‡²¹ Only three former Cabinet ministers or designat-

*For more on the events leading to the passage of Australia’s new counter-foreign interference laws, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 2, “China’s Relations with U.S. Allies and Partners,” in *2018 Annual Report to Congress*, November 2018, 304–339.

†Unless noted otherwise, this section uses the following exchange rate throughout: AUD 1 = \$0.68.

‡The United States Studies Center at the University of Sydney, which has an arrangement with the U.S. Department of State for “general political lobbying,” has registered. Australian Government Attorney-General’s Department, *United States Studies Center Foreign Influence Transparency Scheme Register Registration Record*, September 28, 2018.

ed position holders—a key type of lobbyist intended to be captured by the law—had registered as lobbyists for Chinese foreign principals by July 2019.*²² Notably, some of the most prominent former officials who became lobbyists for Beijing after their government service, such as former Minister of Trade and Investment Andrew Robb, former Foreign Minister Bob Carr, and former Premier of Victoria State John Brumby, left their lobbying positions before the law took effect, demonstrating some desire not to be perceived as working for Beijing.²³

Australia Struggles with Disinformation and Censorship in Chinese-Language Media

Disinformation is a serious concern for Australian media, particularly given the outsize influence of Chinese platforms, which are an important tool in Beijing's influence operations targeting the Chinese diaspora.²⁴ There are dozens of Chinese-language media outlets in Australia, and nearly all of them have been brought under the influence of Beijing to some degree. Over roughly the last ten years, the Chinese embassy and consulates in Australia have used coercion and threats to get these media to increasingly parrot the CCP's line.²⁵ For example, the Chinese consulate in Sydney repeatedly warned a local government† with a large ethnic Chinese population not to engage with one of the few remaining independent Australian Chinese-language media outlets, *Vision China Times*, including forcing its council to ban the paper from sponsoring a Lunar New Year celebration.²⁶ Beijing has long sought to pressure or coerce this newspaper into changing its coverage. *Vision China Times* general manager Maree Ma said in April 2019 that Chinese officials "don't like any media outlets that they cannot ... control."²⁷

Most Australian Mandarin-speakers access news through WeChat, a social media app now indispensable among many Chinese communities for communication and other purposes, raising concerns about Beijing's ability to target them with disinformation spread over the platform.‡²⁸ The use of the platform has spread beyond the Chinese Australian community, with about 3 million Australians using WeChat by 2017, according to Australia's Special Broadcast

* Designated position holders include Ministers, Members of Parliament, some Parliamentary staff, Agency heads and deputy heads (and equivalent offices), and Ambassadors or High Commissioners stationed outside Australia. As of July 2019, designated position holders registered under the Scheme included former Australian Senator Richard Allston, working on behalf of China Telecom (Australia); former Senator Nick Bolkus, working on behalf of Jiujiang Mining Australia; and former Ambassador to China Geoffrey Raby, working on behalf of Yancoal. Australian Government Attorney-General's Department, *Transparency Register: China*; U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 325.

† A local government is the third tier of government in Australia, below the state or territory level and the federal level. Its governing body is referred to as a council. Nick McKenzie, "China Pressured Sydney Council into Banning Media Company Critical of Communist Party," *Four Corners*, April 9, 2019; *Australian Collaboration*, "Democracy in Australia—Australia's Political System," May 3, 2013, via the Internet Archive Wayback Machine. <https://web.archive.org/web/20140127041502/http://www.australiancollaboration.com.au/pdf/Democracy/Australias-political-system.pdf>.

‡ Based on WeChat penetration in mainland China, which reaches 93 percent in tier 1 cities, media researcher Wanning Sun estimated almost the entire Mandarin-speaking community in Australia—approximately 597,000 people as of 2016, or 2 percent of Australia's population—used WeChat. Wanning Sun, "How Australia's Mandarin Speakers Get Their News," *Conversation*, November 22, 2018; Lucy Lv, "Who Are the Australians That Are Using China's WeChat?" *Special Broadcasting System*, November 3, 2017; Australia's Bureau of Statistics, *Census Reveals a Fast Changing, Culturally Diverse Nation*, June 27, 2017; Wanning Sun, "Chinese-Language Media in Australia: Developments, Challenges, and Opportunities," *Australia-China Relations Institute*, 2016, 45–46.

Service.²⁹ A 2018 survey by media researcher Wanning Sun found about 60 percent of Australian Mandarin-speakers get news primarily from WeChat.³⁰ Content disseminated through prominent WeChat channels tends to mirror official Chinese news, ensuring the Chinese government is able to distract and divert readers from sensitive events in China.³¹ Tom Uren, senior cybersecurity analyst at the Australian Strategic Policy Institute (ASPI), said in January 2019 that through its control of WeChat Beijing can “promote particular issues [as] a way of controlling public debate.”³²

According to one November 2018 report comparing the stories published by the Australian public Special Broadcasting Service and those published by leading WeChat public accounts between January 2016 and August 2017, almost 3 percent of all Special Broadcasting Service articles concerned Chinese politics and foreign affairs, while less than a tenth that amount of stories published on WeChat channels did.³³ These WeChat channels did not post a single article on Chinese politics from March 2017 to the end of the study’s data collection period, and before they stopped covering Chinese politics, 32 out of 37 articles on this topic were similar to reports from Chinese state-run news agencies.³⁴ As Australian politicians have increasingly turned to WeChat to engage with the Chinese Australian community, campaigns have noted its negative influence on Australia’s media environment. In Australia’s May 2019 election, fake news on WeChat was such a problem that Australia’s Labor Party contacted WeChat owner Tencent to express frustration about posts spreading disinformation regarding Labor’s federal election campaign.³⁵

Australian Defamation Laws Chill Reporting on CCP Influence

Dedicated reporting in Australian news media over the last decade has driven increased public understanding of the challenges posed by CCP interference, but defamation lawsuits risk undermining further progress.³⁶ Australia’s “oppressive and notoriously complex” defamation laws make it “the defamation capital of the world,” according to former *National Public Radio* and *British Broadcasting Corporation* correspondent Louisa Lim.³⁷ Prior to about five years ago it was very difficult to publish anything critical of China in Australia, according to John Lee. Despite the growing debate over CCP influence in recent years, some setbacks have raised concerns over Australia’s ability to allow free and open discussion of these issues.³⁸

In February 2019, Chau Chak-wing—a United Front-connected, China-born Australian citizen who gained notoriety for his high-profile political contributions and influence over the Australian media landscape³⁹—won a complex defamation case against Fairfax Media concerning a 2015 article reporting his alleged involvement with bribing former UN General Assembly President John Ashe.⁴⁰ In a related defamation case filed by Mr. Chau against Fairfax and the Australian Broadcasting Corporation regarding an article they had published, an Australian judge rejected the defendants’ argument that their reporting did not constitute defamation because the content of their reporting was

Australian Defamation Laws Chill Reporting on CCP Influence—Continued

true (this concept is known as a “truth defense”). The reporting in question cited statements Mr. Hastie made under protection of Parliamentary privilege, which ensures members of Parliament cannot be sued or prosecuted for anything they say during Parliamentary debate. However, the judge found Australian law does not allow statements protected by this privilege to be used to support a defense of truth.⁴¹ Furthermore, the judge found that even if Mr. Hastie had made the comments outside of Parliament, they would still have been hearsay.⁴² Mr. Hastie expressed concern over the effect of the country’s defamation laws on “responsible journalism ... about important national security issues.”⁴³

Australia Creates a New University Foreign Interference Task Force

In August 2019, Canberra announced the creation of a new University Foreign Interference Task Force to coordinate between universities and the government to address growing concerns regarding freedom of speech, technology transfer, cyber intrusions, and other matters.⁴⁴ In response to university protests that had occurred throughout the summer, the new Task Force listed “suppression of [dissident] ideas ... and promotion of narratives which support [foreign actors’] strategic goals” among tools of foreign interference in universities.⁴⁵

When students at the University of Queensland held a demonstration expressing solidarity with the ongoing protests against Hong Kong’s extradition bill and calling for the university to sever financial ties with China, hundreds of pro-Beijing students tore down the pro-democracy students’ signs, repeatedly vandalized their “Lennon Wall,”* and even assaulted some students.⁴⁶ According to *New York Times* Sydney bureau chief Damien Cave, some of the pro-Beijing demonstrators appeared to be much older than the average student, and the Hong Kong students did not recognize them, suggesting the former were not students.⁴⁷ The Chinese consulate in Brisbane then issued a statement supporting the “spontaneous patriotic behavior” of Chinese students against “anti-China separatist activities,” prompting Australian Foreign Minister Marise Payne to warn that foreign diplomats must respect free speech in Australia.⁴⁸ One Queensland protester said authorities visited his family in China to warn them about engaging in “anti-China rhetoric,” indicating Beijing was working to identify and intimidate the protesters.⁴⁹ After similar protests at the University of Tasmania, the Chinese Students and Scholars Association there released a social media post including a statement saying it “resolutely opposed any comment or act [aimed at] splitting China,” echoing CCP rhetoric.[†]⁵⁰

*Inspired by the original “John Lennon Wall” established in Prague in the 1980s upon the artist’s death, Hong Kong prodemocracy protesters first created their version of a “Lennon Wall” during the 2014 Occupy protests to share messages of support and encouragement for the movement. Joyce Zhou and John Ruwitch, “Imagine All the Post-Its: Hong Kong Protesters Come Together with ‘Lennon Walls,’” *Reuters*, July 11, 2019.

†Such ties to the Chinese embassy and consulates are not new, though the recent incidents are especially high-profile. According to the *Sydney Morning Herald*, a former executive of the Chi-

Many Australian universities have become financially dependent on students from China, who account for more than 40 percent of all international students enrolled in campuses located in Australia and 10 percent of university students overall, while providing between 13 and 23 percent of total revenues at Australia's top universities, according to a recent study.⁵¹ At a roundtable with the Commission hosted by ASPI in Canberra, participants said Australian universities have "sold out" to China and claim not to see any alternative to the current dependency on Chinese students.⁵² Australian universities are trying to diversify by recruiting more students from India, Southeast Asia, Latin America, the United States, and Canada, among others. They have not yet been very successful in doing so, however, and remain vulnerable to a sudden decrease in Chinese student enrollment.⁵³

Academic ties to the Chinese government have raised questions about the extent to which Australia's new counter-foreign interference laws should apply to universities. For example, some observers expressed concern over the University of Queensland's unpublicized hiring of Xu Jie, Chinese consul-general in Brisbane, as a visiting professor, shortly before the demonstrations in Hong Kong took place. The university said this was a common practice, however, and that such appointments were not normally publicized.⁵⁴ At the time of writing, Dr. Xu was still employed by the university. The Queensland demonstrations took place, in part, at the university's Confucius Institute, highlighting the program's central role in Beijing's activities on Australian university campuses.

In July 2019, Australia announced it would investigate whether some Confucius Institute agreements violated Australia's new counter-foreign interference laws after reports in July said some universities had agreed to accept Beijing-approved teaching standards at their centers.⁵⁵ In August 2019, New South Wales, Australia's most populous state, announced it would replace all 13 of its secondary school-level Beijing-funded Confucius Classrooms with New South Wales state-funded programs due to concerns about factors that could cause "the perception that the Confucius Institute is or could be facilitating inappropriate foreign influence."⁵⁶ The state government also announced it would terminate its agreement with the Confucius Institute, including removing associated personnel from its department of education—an arrangement not found in any other school system in the world—at the end of the 2019 school year.⁵⁷

New Zealand Pushes Back amid Bilateral Tensions

Like Australia, New Zealand has taken a series of recent steps to counter China's interference. New Zealand's most recent Strategic Defense Policy Statement in July 2018 criticized China's regional assertiveness and did not refer to Beijing as an "important strategic partner" as past versions did. In a move that reportedly shocked Beijing, New Zealand decided in November 2018 to ban

nese Students and Scholars Association at an Australian university claimed in 2016 the Chinese embassy regularly pays to fly in executives from universities all around the country to attend conferences with Chinese officials where they discuss the latest CCP doctrine and collaboration with embassy staff. Alex Joske and Philip Wen, "The 'Patriotic Education' of Chinese Students at Australian Universities," *Sydney Morning Herald*, October 7, 2016.

New Zealand Pushes Back amid Bilateral Tensions— *Continued*

Huawei 5G products.⁵⁸ Prime Minister Jacinda Ardern went to China on a state visit for the first time in April 2019, during which she and General Secretary of the CCP Xi Jinping pledged to improve bilateral ties.⁵⁹

Beijing attempts to interfere in New Zealand through Chinese diaspora organizations and threats from its diplomatic representatives. New Zealand universities also dealt with dueling protests over Hong Kong in August 2019, prompting firm statements from Wellington about the importance of freedom of speech. Just as at the University of Queensland, pro-Beijing students scuffled with pro-democracy supporters and vandalized pro-Hong Kong Lennon Walls, while the Chinese consulate in Auckland praised the pro-Beijing students for their patriotism.⁶⁰

Earlier, according to email records, Chinese consulate officials successfully pressured the Auckland University of Technology to cancel a campus event in June commemorating the 30th anniversary of the Tiananmen Square massacre. Xiao Yiwen, Chinese vice-consul general in Auckland, reportedly met personally with the university's vice-chancellor to demand the cancellation of the event.⁶¹ In response, Prime Minister Ardern reiterated her government's support for freedom of speech and said her Ministry of Foreign Affairs had met with Chinese counterparts to stress the same. Minister of Foreign Affairs Winston Peters said Wellington "expect[s] every country, no matter how big or small, to ... understand" the importance of this right.⁶²

Research Collaboration Risks Benefiting Chinese Government

Australian universities continue to struggle with how best to address their vulnerability to technology transfer to China. An October 2018 ASPI report found that since 2007, the People's Liberation Army (PLA) had sponsored more than 2,500 military scientists and engineers to study abroad, with Australia the biggest destination per capita by far, with approximately 300 PLA scientists studying in Australia—six times the number per capita of scientists sent to the United States.⁶³ As a result, some Australian government-funded laboratories effectively "only train people who go back to China," and ultimately contribute to its technological development, according to Alex Joske, the study's author.⁶⁴

The study further found some of the researchers had concealed their military affiliations or claimed affiliation with nonexistent institutions while working in fields such as hypersonic missiles, navigation technology, and cloud computing.⁶⁵ Other researchers focused in specialized fields such as antisatellite weapons, scramjets, and submarine-related technology.⁶⁶ Evidence also suggested academic collaboration with Australia may have contributed to China's nuclear weapons program. For example, a nuclear weapons and supercomputer expert at the University of New South Wales co-authored research with PLA officials connected to China's nuclear weapons program and supervised at least nine doctoral students

from a key PLA research institution.⁶⁷ The ASPI report concluded that this overseas collaboration was a core component of China’s “military-civil fusion” strategy.⁶⁸ (For more on military-civil fusion, see Chapter 3, Section 2, “Emerging Technologies and Military-Civil Fusion: Artificial Intelligence, New Materials, and New Energy.”)

In February 2019, an independent review of export controls by a former Australian inspector-general of intelligence and security found Australia’s export controls were inadequate regarding “emerging and sensitive military and dual-use technology.”⁶⁹ The Australian coalition government agreed with all of the review’s recommendations, which aimed to close gaps in Australia’s export controls, and engaged the report’s author to lead consultations with government, academia, and industry on steps to implement the report’s recommendations. These included improving monitoring and investigation of compliance with export controls and ensuring researchers are aware of their obligations under export control laws.⁷⁰

Australian universities’ collaboration with China also raises concerns regarding the risk of helping China violate human rights by working with entities connected to the Chinese state. In July 2019, the Australian news program *Four Corners* revealed University of Technology Sydney and Curtin University had launched internal reviews into artificial intelligence (AI) and facial recognition research partnerships with entities connected to the Chinese state, both of which could contribute to pervasive surveillance of Uyghurs.⁷¹ In 2017, University of Technology Sydney established a \$6.8 million (AUD 10 million) partnership to research AI and surveillance with China Electronic Technology Group Corporation, a leading Chinese state-owned defense electronics firm responsible for developing the AI program undergirding the pervasive surveillance in Xinjiang.⁷²

A University of Queensland professor and Thousand Talents scholar, Heng Tao Shen, founded an AI-driven surveillance company in China—in part using funds from the Australian Research Council—that operates a joint lab with China’s Ministry of Public Security. Dr. Heng reportedly recruited scholars currently working in Australian and Singaporean universities to work with him.⁷³ To avoid exacerbating human rights abuses in Xinjiang and elsewhere in China, experts have called on Australia to more closely scrutinize the role its universities and government funding may have in this research, and even to sever any links they might have with the CCP.⁷⁴

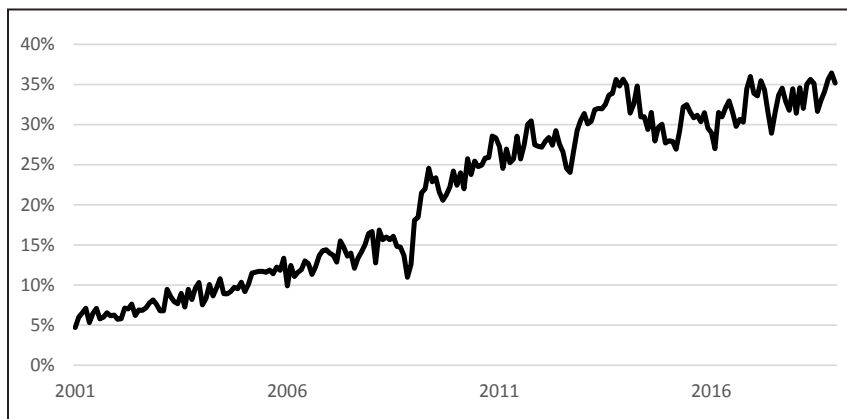
The Role of Economics in Australia-China Relations

Australia is currently in its 28th year of uninterrupted economic expansion, a period longer than in any other advanced economy—a fact that carries significant weight in Australian political decisions and debates.⁷⁵ Observers within and outside Australia have credited China’s decades-long economic growth, and its concomitant demand for Australian exports, particularly commodities, as a key source of Australia’s economic prosperity.⁷⁶ Indeed, the share of Australian goods exports sent to China has expanded from under 5 percent in 2001 to over 35 percent at the end of 2018 (see Figure 1). As of June 2019, this share had risen to over 40 percent.⁷⁷ China is by far Australia’s largest export

market: in 2018, Australian exports to China totaled \$92.5 billion (AUD 136 billion), a 17.5 percent increase over 2017, and more than twice the amount of Australian exports to the next-biggest market, Japan.⁷⁸ Trade with China accounted for 25.2 percent of Australia’s global trade in 2018, larger than the combined share of Japan, the United States, and South Korea—Australia’s three next biggest trading partners.⁷⁹ Peter Jennings, ASPI’s executive director, has called on the Australian government to recognize that Australia “has built an unhealthy economic dependency on China” and take steps to diversify its economic partners.⁸⁰ A 2019 survey by the United States Center at the University of Sydney and analytics firm YouGov found almost two-thirds of Australians agree or strongly agree that Australia is too economically dependent on China.⁸¹

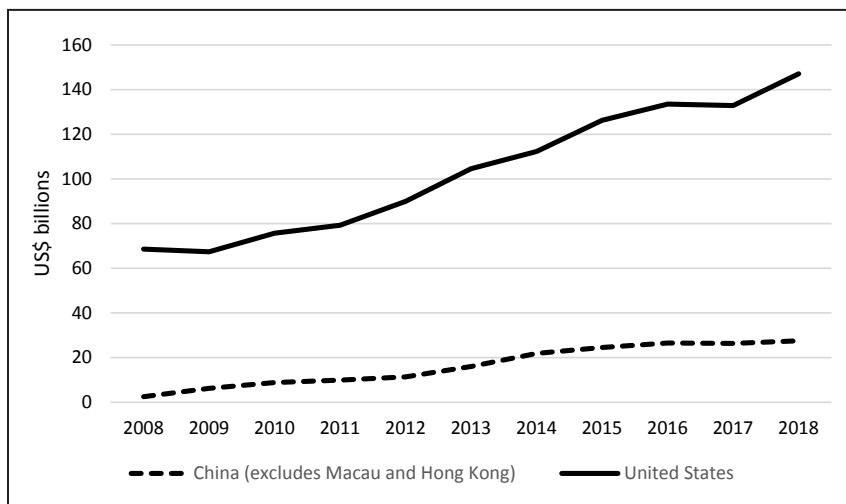
Commodities are the most significant Australian export to China, with iron ores and other concentrates leading, followed by coal.⁸² However, services form a growing part of Australia’s exports to China, led by education and travel.⁸³ China is also Australia’s largest source of imports, totaling over \$53 billion (AUD 78 billion) in 2018.⁸⁴ The most significant Chinese exports to Australia were telecommunications equipment and parts, followed by computers.⁸⁵

Figure 1: China’s Share of Australia’s Goods Exports, 2001–2018



Source: Australian Bureau of Statistics, “International Trade in Goods and Services, Australia: Merchandise Exports, Country and Country Groups, FOB Value,” September 2019.

In contrast to trade, Chinese investment plays a relatively small role in Australia’s economy, despite significant growth over the past decade. In 2018, China was the fifth largest source of foreign direct investment (FDI) in Australia, with cumulative investment amounting to \$27.3 billion (AUD 40.1 billion), or roughly 4.1 percent of total FDI in Australia (see Figure 2). The United States ranked first, with cumulative investment totaling \$145.7 billion (AUD 214.3 billion), or 22.1 percent of total foreign investment in Australia.⁸⁶

Figure 2: U.S. and Chinese FDI in Australia (Cumulative), 2008–2018

Source: Australian Bureau of Statistics, “Foreign Investment in Australia: Level of Investment by Country and Country Groups by Type of Investment and Year,” May 2019.

China’s Economic Leverage and Coercion

China’s importance as Australia’s economic partner gives the Chinese government significant leverage in the bilateral relationship. To a large extent, Beijing wields this leverage without the need to engage in or even threaten economic retaliation. As Clive Hamilton of Charles Sturt University noted in a 2018 *Foreign Affairs* article, “Australia’s economic dependence on China has also created an influential group of Australian business executives, politicians, academics, and commentators who are sympathetic to Chinese interests.”⁸⁷ The lobbying by some Australian business groups against the 2018 counter-foreign interference laws illustrated this dynamic.⁸⁸

While China’s implied economic leverage has reduced the need to engage in active coercive measures, as the Australian government ramped up its pushback against China’s political influence, Beijing started retaliating against Australian businesses. For example, in May 2018, while the Australian government was debating passage of its counter-foreign interference laws, some Australian wine exporters reported that their products were being held up in Chinese ports due to new customs rules apparently aimed at Australian wines.^{*89} Following the restrictions, winemakers urged then Prime Minister Malcolm Turnbull to visit Beijing to resolve the diplomatic dispute.⁹⁰ During the same time period, Australian beef and citrus exporters also expressed fears their imports were being held up because of this conflict.⁹¹

Following the Australian government’s ban on Huawei and ZTE providing 5G networks in Australia in 2018, Beijing retaliated against coal, Australia’s second-largest export to China. In October

*China is Australia’s largest wine export market, with exports totaling more than \$775 million (AUD 1.14 billion) in 2018. *Wine Australia*, “2018: An Impressive Year for Australian Wine Exports,” January 22, 2019.

2018, customs clearance times for Australian coal in Chinese ports grew to at least 40 days, up from typical clearance times of five to 20 days.⁹² Soon after, China's port in Dalian announced it had banned Australian coal imports altogether.⁹³ The restrictions on Australian coal at the Dalian port demonstrate Beijing's desire to carry out retaliation at limited cost to itself. Since less than 10 percent of Australia's coal exports to China transit through Dalian, China's overall supply of coal was relatively unharmed.⁹⁴

In addition, in April 2018, the Civil Aviation Administration of China sent a letter to 36 airlines, including Australian airline Qantas, demanding any language referring to Taiwan be changed to reflect China's position that Taiwan is a Chinese province. Although Australia's Department of Foreign Affairs and Trade Secretary Frances Adamson referred to the letter as "economic coercion," Qantas later agreed to change its website to refer to Taiwan as a part of China.*⁹⁵

Concerns over Chinese Investment in Critical Infrastructure

Chinese investment in Australian infrastructure, both physical and technological, has been of particular concern to Australian officials in recent years. In one especially controversial example, in October 2015 Australia's Northern Territory government announced a 99-year lease of Port Darwin to Landbridge Group, a Chinese company, for over \$344 million (AUD 506 million).⁹⁶ Landbridge Group has extensive connections to the CCP and PLA, and its owner, Ye Cheng, had reportedly been named by the Shandong Government as one of the "top 10 individuals caring about the development of national defense" in 2013.⁹⁷ In a 2016 interview, Mr. Ye also said the Port Darwin investment served BRI, though Australia is not a signatory to the pact.⁹⁸

The deal created an immediate national backlash and raised questions of why the lease had been finalized without a review from Australia's Department of Defense or Foreign Investment Review Board (FIRB), the governmental body responsible for oversight of proposed foreign investment in Australia.†⁹⁹ The United States, which has maintained Marine Corps personnel in Darwin since 2012, also expressed concern over the deal.‡¹⁰⁰ A 2016 report by the Australian Senate found the FIRB review process of critical infrastructure was ad hoc and opaque,¹⁰¹ highlighting the Port Darwin lease as an example of the system's shortcomings.¹⁰² For example, when the Port Darwin lease was completed in 2015, Australian law did not require FIRB approval of the deal because it involved a lease of property owned by a territorial government. The report also raised concerns over the lease of Transgrid, the electricity network of New South Wales, to private investors, as well as the planned sale of S. Kidman and Co. Ltd., one of Australia's largest beef producers.¹⁰³ Transgrid

*Following this letter, several U.S. airlines also dropped references to Taiwan on their sites, though they did not refer to Taipei as part of China. Sui-Lee Wee, "Giving In to China, U.S. Airlines Drop Taiwan (in Name at Least)," *New York Times*, July 25, 2018.

†The Australian treasurer has the authority to approve or reject foreign investment proposals, as well as to order the unwinding of already-completed deals. The Foreign Investment Review Board, an advisory board established in 1976, examines proposed deals and advises the treasurer on the national interest implications thereof.

‡The complement reached 2,500 Marines in 2019, up from the initial rotation of 200 Marines in 2012. United States Force Posture Initiatives, *Marine Rotational Force—Darwin*, 2019.

was ultimately leased to an Australian-led consortium over other bidders, including State Grid, a Chinese state-owned enterprise, and then Treasurer Scott Morrison blocked the planned sale of S. Kidman and Co. Ltd., for which two Chinese companies were reportedly the major bidders.* Nevertheless, the Australian Senate report concluded the approval process behind these transactions had not adequately considered national security factors and had demonstrated the same deficiencies in the foreign investment review process as the Port Darwin lease.¹⁰⁴

In light of these concerns, the Australian government has strengthened its foreign investment review process for critical infrastructure. In 2016, the Australian government promulgated regulations that brought sales of infrastructure by territorial governments under FIRB jurisdiction, closing the loophole that had allowed the Port Darwin deal to proceed without approval by the Australian Treasury.¹⁰⁵ In 2017, the Australian government established the Critical Infrastructure Center to advise the FIRB on proposed foreign investment in critical infrastructure.[†]¹⁰⁶ In November 2018, based on consultation with the Critical Infrastructure Center and the FIRB, Australian Treasurer Josh Frydenberg blocked the Hong Kong-based CK Group's proposed purchase of Australia's largest gas line company. Although the Australia Competition and Consumer Commission had cleared the purchase earlier, Mr. Frydenberg blocked it on grounds that ownership of the business by a single foreign company would be "contrary to the national interest."¹⁰⁷ Significantly, in a Commission meeting with Australian government officials, one participant noted the rejection was based on a finding of economic sovereignty, showing that the Treasury can deny deals for reasons other than security.¹⁰⁸

The Australian government also passed the Security of Critical Infrastructure Act of 2018. This law increased government oversight of certain types of infrastructure by calling for a national registry of critical infrastructure assets, empowering the government to seek more detailed information on these assets, and giving the government the ability to direct the owner or operator of the critical infrastructure to take (or refrain from taking) certain actions in order to mitigate a national security risk.¹⁰⁹

Telecommunications Infrastructure and 5G Bans

In 2017, the Australian government passed Telecommunications Sector Security Reforms, which established that Australian carriers and telecommunications services providers have a duty to do their best to protect their networks from unauthorized access or interference and required such entities to inform the government of potential changes to their systems that could undermine this obli-

*In 2016, then Treasurer Morrison approved of the sale of S. Kidman and Co. Ltd. to an Australian-Chinese joint venture (in which the Chinese company held a 33 percent stake). The approval was premised on the excision of certain portions of land from the sale. Scott Morrison, *Approval of S. Kidman & Co. Limited Sale to Increase Australian Ownership*, December 9, 2016.

†Australia's commonwealth, state, and territory governments define critical infrastructure as "those physical facilities, supply chains, information technologies and communication networks which, if destroyed, degraded or rendered unavailable for an extended period, would significantly impact the social or economic wellbeing of the nation or affect Australia's ability to conduct national defense and ensure national security." Australia's Critical Infrastructure Center, *Safeguarding Critical Infrastructure*.

gation.¹¹⁰ While the law did not mention Huawei, it became known as the “anti-Huawei bill” due to concerns Huawei and other Chinese companies like ZTE could be compelled to share data with the Chinese government pursuant to China’s 2017 National Intelligence Law, which requires Chinese persons both to cooperate with intelligence investigations and keep this cooperation secret.¹¹¹

In August 2018, several weeks before the Telecommunications Sector Security Reforms took effect, the Australian government banned Huawei and ZTE from supplying equipment for Australia’s 5G network in guidance related to the then forthcoming law. While the Australian government did not specifically call out any companies, the guidance mentioned concern over vendors “who are likely to be subject to extrajudicial directions from a foreign government that conflict with Australian law.”¹¹² Huawei later confirmed that the Australian government had banned Huawei and ZTE from providing 5G equipment to Australia.¹¹³ (For more on other countries’ positions on the use of Huawei technology in their 5G networks, see Chapter 2, “Beijing’s Internal and External Challenges.”)

Australia Undertakes Largest Military Modernization since Cold War

Beginning in 2016, Australia launched its largest military modernization campaign since the Cold War, chiefly to address the growing military threat posed by China. This modernization shows it is determined not to cede influence to China in the Indo-Pacific, which Canberra called “our region” in a summary of its 2016 defense white paper.¹¹⁴ Canberra has been alarmed by China’s growing economic influence and efforts to establish military bases in Southeast Asia and the Pacific Islands, the latter of which Canberra regards as an area of particular national security significance for Australia. This modernization rests on a defense budget growth planned to reach 2 percent of gross domestic product (GDP) by 2020–2021, totaling \$26 billion (AUD 38.7 billion)—the first time Australia’s defense spending has reached this level since 1995.¹¹⁵ Canberra’s total defense expenditures out to 2022–2023 will reach \$118 billion (AUD 175.8 billion).¹¹⁶ Most significantly, these planned expenditures will be decoupled from GDP growth, so they will proceed as planned even if Australia’s economy contracts.¹¹⁷

Major military modernization programs include \$136 billion (AUD 200 billion) to be spent by the mid-2020s on new ships including 12 diesel-electric attack submarines, three anti-air destroyers, nine anti-submarine frigates, 12 patrol ships, and 21 smaller patrol boats. These new craft will mostly be delivered from the early 2020s through the 2030s.¹¹⁸ The Royal Australian Air Force has ordered 72 F-35A joint strike fighters and may order 28 more jets throughout the 2020s, with its fleet expected to reach initial operating capability by 2020 and full operating capability by 2023.¹¹⁹ Australia had received four F-35As for permanent basing as of April 2019, in addition to eight temporarily training with the U.S. Air Force’s 61st Fighter Squadron in Arizona, and it will have received a total of 33 aircraft by the end of 2020.¹²⁰ Finally, Canberra is improving government and military cybersecurity with an estimated total

2019–2020 budget of \$627 million (AUD 922 million) for the Australian Signals Directorate, Australia’s leading cybersecurity agency. It also strengthened the Australia Security Intelligence Organization’s focus on cybersecurity by appointing Mike Burgess, who was then head of the Signals Directorate, as its new director in August 2019.¹²¹

Australia is also expanding its regional presence by increasing its engagement with regional partners. Most significantly, in late 2018 Australia announced it would work with Papua New Guinea, the largest and most centrally-located Pacific Island country, to modernize the neglected World War II-era Lombrum naval base on Manus Island, and the United States soon announced it would also participate.¹²² Australia has committed \$2.5 million (AUD 3.6 million) to this base and \$19.7 million (AUD 29 million) to defense projects in Papua New Guinea overall. The Lombrum enhancements will likely be intended mainly to accommodate four small *Guardian*-class Pacific patrol boats Australia is donating.¹²³ Potentially limiting the use of the naval base, China’s state-owned China Harbor Engineering Company won a bid in 2016 to develop the airfield near Lombrum, although at the time of this Report’s publication it was unclear what the status of the project was since the naval base agreement was signed.¹²⁴ Separately, in 2018, Australia expanded an agreement for Singapore to base military helicopters for training in Australia. According to the Australian Department of Defense, the agreement demonstrated the deepening relationship between the two countries and offered opportunities for further defense cooperation.*¹²⁵

In July 2019, Australia announced it would create a new military unit, the Pacific Support Force, dedicated to training and assisting allies in the Pacific.¹²⁶ According to Australian Defense Minister Linda Reynolds, the new force—likely to begin operations by the end of 2019—would “employ a mobile training team approach to strengthen [regional] capacity, resilience, and interoperability ... in areas such as security operations, humanitarian assistance, disaster relief, and peacekeeping.”¹²⁷ Emphasizing the underlying strategic aim of bolstering Australia’s regional role as a security partner in the face of a concerted push by China to consolidate its influence in the Pacific Islands, Defense Minister Reynolds announced the new initiative during a visit by James Marape, Prime Minister of Papua New Guinea. The force will focus on Papua New Guinea, Fiji, and Vanuatu.¹²⁸ The force will be based in Brisbane as part of the Australian Army’s First Division, its main formation of regular forces, and Canberra is considering designating a specific naval ship to support increased cooperation with regional navies by carrying out exercises and other operations to increase interoperability.¹²⁹ The new force and the accompanying strategy are designed to ensure the Pacific region is “strategically secure, economically stable, and politically sovereign,” according to Defense Minister Reynolds.¹³⁰

*Under the Oakey Treaty, the Royal Singaporean Air Force has maintained a detachment of Super Puma utility helicopters in Oakey, Australia since 1996. The new agreement allows Singapore to base its Chinook heavy-lift helicopters in Australia. Mike Yeo, “Here’s Why Singapore Is Handing off Its Chinooks to Australia,” *Defense News*, June 25, 2018.

Pacific Islands

The Pacific Islands comprise 14 independent and freely associated countries, U.S. territories (American Samoa, the Commonwealth of the Northern Mariana Islands, and Guam), and territories of other countries (see Figure 3).^{*} Commonly divided into the geographic and cultural subregions of Micronesia, Melanesia, and Polynesia, the Pacific Islands occupy a combined land mass about the size of Spain (with a combined population of just over 10.4 million people), but their total exclusive economic zones (EEZs)[†] extend across more than 7.7 million square miles of ocean.¹³¹ Given their extensive EEZs and control over important fisheries, the Pacific Islands are more consequential than their land mass might indicate.¹³² Historically, the United States has enjoyed significant influence in the region, particularly among the Freely Associated States—the Federated States of Micronesia, the Marshall Islands, and Palau—which have signed compacts of free association with the United States.[‡] In August 2019, Secretary of State Mike Pompeo announced that the United States had begun negotiations with these states to renew their compacts of free association.¹³³

Since General Secretary Xi took office in 2012, he has emphasized the importance of greater engagement with Pacific Island countries.¹³⁴ From China's perspective, greater engagement with the Pacific Islands aims to fulfill three primary goals:

- *Addressing diplomatic and strategic priorities:* The Chinese government fears encirclement by the “second island chain,” which could prevent China from operating freely in the Western Pacific.[§] Greater Chinese engagement in the region could mit-

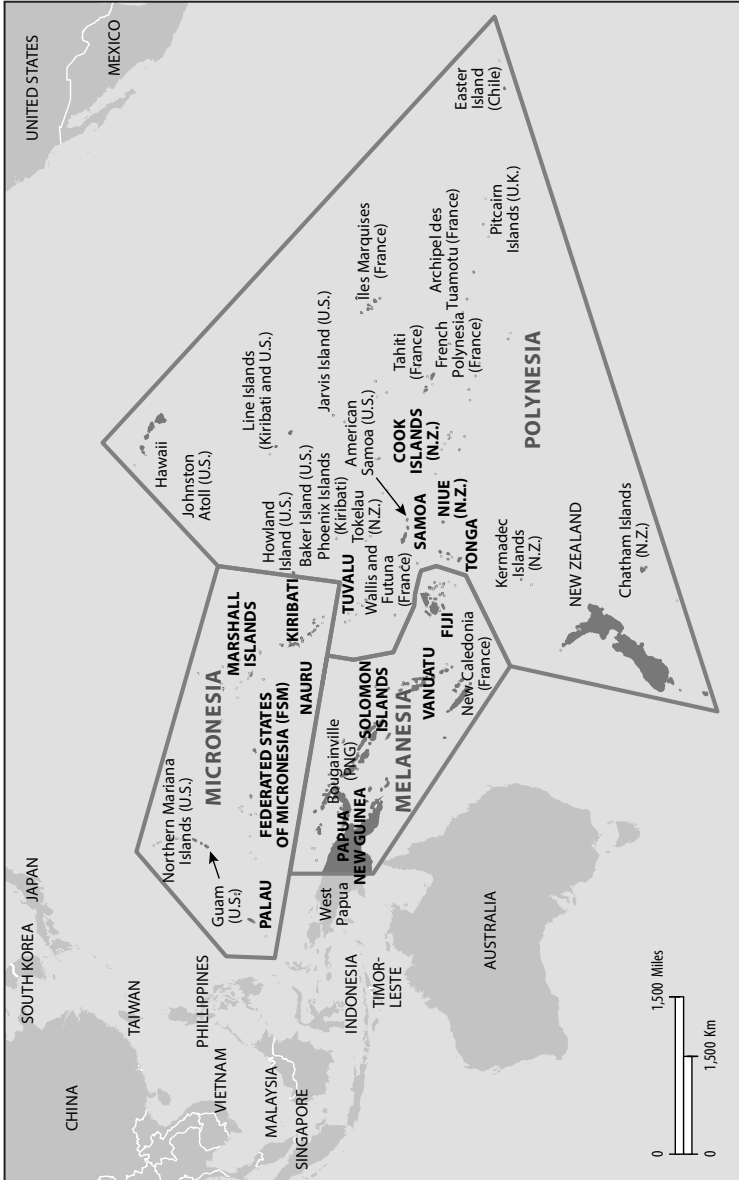
^{*}Varying names and groupings of countries and territories are used to identify the region, including the Pacific Islands, South Pacific, and Southwest Pacific. Unless otherwise stated, the term Pacific Islands is defined as including the 14 countries (excluding Australia and New Zealand), three U.S. territories, and several observer and associate member states (excluding Timor-Leste) of the Pacific Islands Forum, the dominant regional organization: American Samoa (U.S. territory and associate member), Cook Islands (freely associated with New Zealand), the Federated States of Micronesia, Fiji, French Polynesia (territory of France), Guam (U.S. territory and observer), Kiribati, Nauru, New Caledonia (territory of France), Niue (freely associated with New Zealand), Commonwealth of the Northern Mariana Islands (U.S. territory and observer), Palau (freely associated with the United States), Papua New Guinea, the Republic of the Marshall Islands (freely associated with the United States), Samoa, Solomon Islands, Tokelau (New Zealand territory and associate member), Tonga, Tuvalu, Vanuatu, and Wallis and Futuna (French territory and observer). This section on the Pacific Islands provides a condensed and updated version of the findings in the Commission's 2018 staff report, “China's Engagement in the Pacific Islands: Implications for the United States.” For more on this topic, see Ethan Meick, Michelle Ker, and Han May Chan, “China's Engagement in the Pacific Islands: Implications for the United States,” *U.S. China Economic and Security Review Commission*, June 14, 2018.

[†]An EEZ is a 200-nautical mile zone extending from a country's coastline, within which that country can exercise exclusive sovereign rights to explore for and exploit natural resources, but over which it does not have full sovereignty. UN Convention on the Law of the Sea, “Part 5: Exclusive Economic Zone,” 43–53.

[‡]The Compact of Free Association agreements the United States has signed with the Marshall Islands (1982), the Federated States of Micronesia (1982), and Palau (1983) grant each country full independence; permission to freely travel, work, or study in the United States; financial assistance; and U.S. commitment to provide for defense. In exchange, the agreements allow the United States sole military access to the lands, waterways, and airspace of the Freely Associated States. Under the terms of the agreements, direct U.S. financial assistance to the Marshall Islands and Federated States of Micronesia will continue through fiscal year 2023. Direct U.S. financial assistance to Palau will continue through fiscal year 2024, at which point a mandatory review of the agreement will take place. Derek Grossman et al., “America's Pacific Island Allies: The Freely Associated States and Chinese Influence,” *RAND Corporation*, 2019, x–xi; U.S. Senate Committee on Energy and Natural Resources, *Hearing on the United States' Interests in the Freely Associated States*, oral testimony of Douglas Domenech, July 23, 2019.

[§]The first island chain refers to a line of islands running through the Kuril Islands (Russia), Japan and the Ryukyu Islands, Taiwan, the Philippines, Borneo, and Natuna Besar (Indonesia).

Figure 3: The Pacific Islands Region



Note: Names in bold indicate the independent and freely associated countries in the region.
 Source: Adapted from Thomas Lum and Bruce Vaughn, "The Pacific Islands: Policy Issues," Congressional Research Service, February 2, 2017.

igate this constraint. China has already begun monitoring regional maritime activity, including placing acoustic sensors in the Mariana Trench near Guam and the island of Yap in the Federated States of Micronesia that, according to some assessments, could be used to monitor U.S. submarine activity in the region.¹³⁵ Moreover, Pacific Island countries have the same voting power as the world's largest economies in the UN General Assembly. They also wield a disproportionate amount of influence relative to their size on matters related to fisheries and climate change, given the importance of fisheries in their economies and their vulnerability to the effects of climate change.¹³⁶

- *Reducing Taiwan's international space:* Four of the 15 countries that still have diplomatic ties with Taiwan are in the Pacific Islands.* Since the election of Tsai Ing-wen of the independence-leaning Democratic Progressive Party in 2016, China has begun a campaign to convert Taiwan's remaining diplomatic partners, successfully establishing ties with seven of these countries.†¹³⁷ In September 2019, the Solomon Islands cut diplomatic ties with Taiwan in favor of China.‡¹³⁸ Later that month, Kiribati also announced that it was switching diplomatic recognition from Taipei to Beijing.¹³⁹
- *Accessing raw materials and natural resources:* The Pacific Islands are home to sizable quantities of natural resources and raw materials, including timber, minerals, and fish. Beijing's trade and investment in the region is focused mostly on Papua New Guinea, the region's largest economy and home to rich gold and nickel mines, liquefied natural gas, and timber.¹⁴⁰

China Increases Comprehensive Engagement with Pacific Island Countries

Over the last decade, China's total trade with Pacific Island countries has grown by a factor of four.¹⁴¹ Today, China is the largest trading partner of Pacific Islands Forum member countries (excluding Australia and New Zealand). In 2018, China's total goods trade with these countries reached \$8.6 billion, well ahead of Australia (\$5.4 billion), South Korea (\$3.5 billion), and the United States (\$1.4

The second island chain is farther east, running through Japan, the Bonin Islands (Japan), the Mariana Islands, Guam, and Palau. PLA strategists and academics have long asserted the United States relies primarily on the first island chain and the second island chain to "encircle" or "contain" China and prevent the PLA Navy from operating freely in the Western Pacific. Bernard D. Cole, *The Great Wall at Sea*, 2nd ed., Naval Institute Press, 2010, 174–176; Yu Changsen, "The Pacific Islands in China's Geo-Strategic Thinking" in Michael Powles, ed., *China and the South Pacific: The View from Oceania*, Victoria University Press, 2016, 89, 92; You Ji, "China's Emerging Indo-Pacific Naval Strategy," *Asia Policy* 22 (July 2016): 11–19.

*The four Pacific Island countries that recognize Taiwan diplomatically are the Marshall Islands, Nauru, Palau, and Tuvalu.

†China requires its diplomatic partners to accept its "One China principle" and cut off formal relations with the Taiwan government. This forces Taipei to compete against Beijing in order to retain diplomatic recognition by any country, as the third party is forced by Beijing to choose one or the other.

‡The other five countries that have switched diplomatic recognition since 2016 are São Tomé and Príncipe, Panama, Burkina Faso, the Dominican Republic, and El Salvador. In 2004, Vanuatu switched diplomatic recognition to Taiwan for one week before switching back to China.

billion).^{*142} China's investment in the region[†] has also increased greatly over the past several years, from \$462 million in 2009 to \$3.1 billion in 2017.¹⁴³ However, 68 percent of this investment was concentrated in Papua New Guinea.¹⁴⁴

In recent years, China has increased its development assistance to the Pacific Islands, which remains one of the most aid-dependent regions in the world.[‡] Between 2006 and June 2016, China provided its diplomatic partners in the region with \$1.7 billion in aid, second behind Australia (\$6.9 billion).[§] More recently, China leapfrogged other countries in pledged development assistance. According to data from the Lowy Institute, in 2017 China pledged \$4.8 billion in development assistance to the Pacific Islands, \$4.1 billion of which is a concessional loan to improve transportation infrastructure in Papua New Guinea.[¶] In contrast, Australia pledged \$1 billion in aid in 2017.¹⁴⁵ Nevertheless, Australia still outpaces China in actual spending. In 2017, the most recent year for which comparative data exist, Australia spent \$855 million in the region, far more than China's \$172 million.¹⁴⁶ Moreover, China has not yet disbursed any of the \$4.1 billion it promised for the infrastructure project in Papua New Guinea.¹⁴⁷ Still, China's increased pledges unquestionably signal greater involvement in the region. Moreover, some Pacific Island leaders prefer Chinese assistance because, unlike the United States and other international donors, China does not attach to aid explicit governance conditions such as meeting democracy, transparency, and human rights standards.¹⁴⁸

Beijing has demonstrated willingness to use economic coercion against Pacific Island countries, most notably against countries that recognize Taiwan diplomatically. For instance, between 2008 and 2015, the number of annual tourist arrivals from China to Palau—one of Taiwan's remaining diplomatic partners in the region—climbed from 634 to more than 91,000.¹⁴⁹ In November 2017, however, China reportedly told tour operators to stop selling package tours to the country. According to one Chinese businessman based in Palau, the term "Palau" had been blocked on China's internet.¹⁵⁰ Since the ban, the number of Chinese tourists to Palau has dropped significantly. To date, Palau has not succumbed to China's pressure.¹⁵¹

While China's engagement with Pacific Island countries has been largely economic, Beijing has also raised its regional military pro-

*Trade data for Niue were unavailable.

†China's government data included outgoing investments to the Federated States of Micronesia, Fiji, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, and Vanuatu.

‡On a per capita basis, official development assistance is higher in the Pacific Islands than in any other region in the world. Matthew Dornan and Jonathan Pryke, "Foreign Aid to the Pacific: Trends and Developments in the Twenty-First Century," *Asia and the Pacific Policy Studies*, 4:3 (September 2017): 386–404.

§The Lowy Institute's data on Chinese development assistance includes only projects that are being implemented or are completed; projects that have been announced but not implemented are not included. The database does not include military aid, support for regional organizations, scholarships and human resources training, or donations through the China Red Cross. Data for other donor countries covers 2006–2014. Lowy Institute, "Chinese Aid in the Pacific," 2019.

¶The Lowy Institute report tracks aid to the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu. Commitments of aid are disbursed over an unspecified period of time. Moreover, large commitments are often paid back over time, resulting in negative flows, meaning that commitments often overstate a donor's footprint in the region. Lowy Institute, "About Pacific Aid Map."

file.* The PLA provides training for Pacific Island military officers in China and, under General Secretary Xi, senior PLA officers have held bilateral meetings with their counterparts from the three Pacific Island countries that have militaries.† More recently, at a July 2019 defense summit between China and Caribbean and Pacific Island countries, Chinese Defense Minister Wei Fenghe expressed willingness to deepen military exchanges and cooperation with Pacific Island and Caribbean countries as part of BRI.¹⁵²

China has also reportedly sought to establish a permanent military presence in the Pacific Islands. As early as 2014, China sent a request to the Tongan government to establish a Chinese naval base in Tonga, according to press reports.¹⁵³ More recently, in April 2018, reports emerged that officials from China and Vanuatu had held preliminary talks concerning a potential Chinese military base in Vanuatu's Luganville Wharf, funded by a \$54 million Chinese government loan and completed in August 2017 by Chinese state-owned enterprise Shanghai Construction Group.¹⁵⁴ A military base in Vanuatu would allow the PLA to station warships less than 1,250 miles from Australia's coast.¹⁵⁵ Officials in both countries denied the talks occurred.¹⁵⁶

Pacific Island Reactions to Chinese Engagement Is Mixed

China's increased presence in the Pacific Islands has led to mixed reactions among citizens of these countries. Many political leaders and the business community are enthusiastic about the economic benefits that can come from greater engagement with China. In April 2018, the mayor of the Rongelap Atoll, part of the Republic of the Marshall Islands, publicized a proposal developed jointly with a businessman from China to establish a special administrative region to attract foreign investment. The extent of Beijing's support for the proposal is unknown. Significantly, the Rongelap Atoll is located near the U.S. Ronald Reagan Missile Defense Testing Site at the Kwajalein Atoll.¹⁵⁷

Increased Chinese engagement has also translated to increased political support for Beijing, in some cases creating challenges for U.S. interests. For instance, Grant Newsham, former U.S. State Department diplomat, writes that in the Northern Mariana Islands, some of the political class favors China's presence, and among them "anything that threatens to upset that relationship, such as U.S. military bases, is viewed as a problem."¹⁵⁸

Nevertheless, the surge of Chinese activity in the small island countries has also led to concerns that China could overwhelm these countries and has in some cases created a backlash. The proposed special administrative region on the Rongelap Atoll caused an immediate controversy due to concerns the arrangement could lead to

*Due in part to China's recent military engagement in the Pacific Islands, the United States has also increased its regional military diplomacy. In December 2018, the U.S. government held discussions with the Federated States of Micronesia about opening new naval facilities, expanding an existing airport runway, and launching joint military exercises. Ben Kesling, "U.S. Military Refocuses on Pacific to Counter Chinese Ambitions," *Wall Street Journal*, April 3, 2019.

†Papua New Guinea, Fiji, and Tonga have militaries. Vanuatu has a police force and a paramilitary wing with an internal security mission. Kenneth Allen, Phillip C. Saunders, and John Chen, "Chinese Military Diplomacy, 2003–2016: Trends and Implications," *National Defense University*, July 17, 2017, 62–66; U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019*, May 2, 2019, 24.

an influx of illegal activities such as money laundering. The Attorney General of the Republic of the Marshall Islands later declared this transaction unconstitutional.¹⁵⁹ Some Pacific Island countries have also voiced concerns Chinese loans could result in a “debt trap,” similar to other countries involved in BRI. Tonga, which borrowed \$114 million from Beijing between 2008 and 2010, now has debt obligations to China equivalent to 43 percent of its GDP.¹⁶⁰ (For more on BRI-related debt concerns, see Chapter 2, “Beijing’s Internal and External Challenges.”)

Pacific Island leaders have recently stood up to perceived bullying behavior by Chinese diplomats. In September 2018, the president of Nauru demanded that Chinese diplomats apologize for their “arrogant” behavior at the Pacific Islands Forum held that month, saying, “They’re not our friends. They just need us for their own purposes.”¹⁶¹ Later, at the Asia-Pacific Economic Cooperation (APEC) Summit held in Papua New Guinea in November 2018, Papua New Guinea officials reportedly called the police after Chinese diplomats stormed into the office of the Papua New Guinea foreign minister to demand unilateral changes to the draft APEC communique. In a first, no communique was issued at the summit as a result of the Chinese diplomats’ refusal to agree to the language, particularly language agreeing to fight protectionism and unfair trade practices.¹⁶²

Australia Seeks to Compete with China’s Pacific Islands Outreach

Australia has traditionally viewed itself as the leader of Oceania and has been the largest aid donor to the region, but some observers have criticized Australia for paying inconsistent attention to the Pacific Islands.¹⁶³ In response to the inroads China had made into the Pacific Islands, the Australian government released a foreign policy white paper in 2017 that called for “stepping up” engagement in the Pacific Islands with long-term investment, economic integration, and responses to security challenges.¹⁶⁴ Since the release of the policy, Australia has announced several new economic, military, and diplomatic commitments to the region. In addition to its pledge to redevelop the Manus Island naval base in Papua New Guinea, Australia demonstrated its deepening diplomatic ties with the region in 2018 when it announced it would open diplomatic posts in the Cook Islands, Niue, French Polynesia, Palau, and the Republic of the Marshall Islands, thereby establishing a diplomatic presence in every Pacific Island country.¹⁶⁵ Finally, the Australian government’s 2019 foreign aid budget allocated a record \$952 million (AUD 1.4 billion) to the Pacific Islands, representing 35 percent of Australia’s total foreign aid budget.¹⁶⁶

Australia’s efforts have netted mixed results. In 2016, the Solomon Islands announced that it would choose Huawei to construct an undersea telecommunications cable to the island, despite earlier choosing an Australian company as part of an open bidding process. In 2018, after Australia raised concerns about the project and announced that it would fund two-thirds of the project itself, the Solomon Islands dropped Huawei in favor of an Australian supplier.¹⁶⁷

Still, Australia's pledges of assistance have not been uniformly successful in advancing its diplomatic objectives. At the Pacific Islands Forum held in August 2019, leaders of several Pacific Island countries criticized Australia for its perceived lack of commitment to addressing climate change and apparent "red lines" for the meeting's communique.* Following the meeting, the Prime Minister of Tuvalu, Enele Sopoaga, said that Australia did not understand the Pacific Islands and questioned whether Australia should continue to have membership in the Pacific Islands Forum.¹⁶⁸

Singapore

As a self-described small country that is highly reliant on international trade, Singapore has pursued close relationships with both the United States and China while prioritizing multilateralism in international affairs.¹⁶⁹ Singapore has a longstanding and deep security relationship with the United States, and is a key U.S. security partner in Southeast Asia.¹⁷⁰ Singapore also maintains close economic ties with the United States. At the same time, Singapore has extensive trading and financial ties with China. Prime Minister Lee Hsien Loong acknowledged at the May 2019 Shangri-La Forum that Singapore "can do little to influence the big powers but [is] not entirely without agency," reflecting its strategy of protecting its autonomy in foreign affairs where it can rather than siding exclusively with either the United States or China.¹⁷¹ In an August 2019 speech at Singapore's National Day rally, he described the United States as Singapore's "major security partner" as well as an important economic partner and source of investment. Expressing a desire to remain "good friends" with both the United States and China, he also highlighted China's role as Singapore's largest export market and Singapore's ethnic ties to China.¹⁷²

In recent years, Singapore's hedging approach has grown more complex in the face of determined attempts by Beijing to increase its influence in the country. China's attempts to leverage ethnic ties between the two countries to further its interests risk undermining Singapore's multi-ethnic identity and present a unique challenge to the country's decision-making autonomy.¹⁷³ Amid these concerns, the Singaporean government announced in February 2019 that it was considering the passage of counter-foreign interference legislation inspired by Australia's 2018 laws (like Australia, the Singaporean government has stressed that it does not target a particular country).¹⁷⁴

At the same time, China is a critical economic partner for Singapore. In recent years, Singapore has pursued deeper economic integration with China, particularly regarding BRI, seeking to position itself as a financial and dispute-resolution hub for the initiative. Finally, China is trying to increase its security engagement with Singapore, though it will likely be difficult to accomplish this at the expense of Singapore's longstanding security partnership with the United States.

* According to Vanuatu's Foreign Minister Ralph Regenvanu, Australia's red lines included any references to coal, announcing a target of limiting global warming to 1.5 degrees Celsius, and declaring a goal of zero emissions by 2050. Kate Lyons, "Revealed: 'Fierce' Pacific Forum Meeting Almost Collapsed over Climate Crisis," *Guardian*, August 15, 2019.

China Attempts to Leverage Ethnic and Business Ties

Beijing has long sought to leverage Singapore's large ethnic Chinese population to impose a "greater China" identity on the city-state.¹⁷⁵ In May 2019, General Secretary Xi argued overseas Chinese communities should be "bridges" promoting relations between China and other countries and building the "Chinese dream," which should be "the common dream of the sons and daughters of the Chinese nation at home and abroad."¹⁷⁶ Bilahari Kausikan, a former senior Singaporean diplomat, told the Commission China has merged the concepts of overseas and domestic Chinese and—despite Singapore's multi-ethnic identity—views Singapore as a "Chinese country" because its population of about 5.6 million is majority ethnic Chinese.*¹⁷⁷ Immigration to Singapore from China began to steadily increase in 1990. A study by China's Overseas Chinese Research Institute—a think tank directly subordinate to the United Front Work Department—found in 2014 that about a tenth of Singapore's population comprised recent migrants from China.¹⁷⁸ In announcing its consideration of counter-foreign interference legislation in February 2019, Edwin Tong, Senior Minister of State for Law and Health, cited the threat of "online falsehoods and also state-sponsored [disinformation] campaigns."¹⁷⁹ Senior Minister Tong acknowledged Singapore is a diverse, young country especially vulnerable to disinformation campaigns due to its "sensitive fault lines that foreign actors can exploit to foment distrust ... among [its] communities."¹⁸⁰

Many Singaporean ethnic Chinese business associations maintain close ties with China, which enables them to expand commercial activities between Singapore and China and serve as a point of contact between the Chinese government and ordinary businesspeople.¹⁸¹ In a November 2018 speech in Singapore, Chinese Premier Li Keqiang praised the Singapore Chinese Chamber of Commerce and Industry and the Singapore Business Federation for their "unique role" in "encourag[ing] ... Singaporean companies to go to China for business opportunities."¹⁸²

Singapore's business links to China also create vulnerabilities. For example, according to Russell Hsiao, executive director of the Washington, DC think tank Global Taiwan Institute, through business associations Beijing can influence businesspeople by making it harder for them to obtain contracts, licenses, or permits to do business in China, especially in the real estate sector.¹⁸³ At a July 2017 dialogue with Prime Minister Lee, a senior executive of Singaporean sovereign wealth fund Temasek lamented that Singaporean businesspeople are the first "to come under some pressure or tension whenever there is some pressure on the diplomatic front," and on matters regarding China in particular, indicating an awareness of this vulnerability.†¹⁸⁴

*As of the end of June 2019, Singapore's resident population was 74.4 percent majority ethnic Chinese. The remainder of Singapore's population is mostly Malay (13.4 percent) and Indian (9 percent). Singapore's Department of Statistics, *Population Trends 2019*, 2019, 5.

†Singapore-based CapitalLand, Asia's largest real estate firm, is a prominent example of a commercial interest group closely linked with the Singaporean government and with substantial interests in China. As of December 2018, CapitalLand had assets in 62 Chinese cities worth \$16.9 billion, equaling 36 percent of the company's entire portfolio. Blurring the lines between the interests of the Singaporean state and one of its largest corporations, Temasek became majority shareholder of CapitalLand in June 2019, an investment estimated at about \$4.4 billion, or almost 2 percent of Temasek's \$226 billion portfolio. Temasek's investments in China constitute 26 percent

Economics and Trade

For a small island city-state, Singapore wields outside economic clout.¹⁸⁵ As a highly developed economy with multiple engines of growth, including globally competitive high-tech manufacturing clusters, Singapore is one of the world's leading financial and transportation hubs.*¹⁸⁶ With a small domestic market presenting limits to growth, Singapore has pursued an externally-focused economic strategy.¹⁸⁷ The country's economy is largely driven by value-added manufacturing, particularly in the electronics and precision engineering sectors, and the services sector, particularly in the finance and insurance sector and the information and communications sector.¹⁸⁸

Singapore's open, trade-dependent economy† has made it particularly vulnerable to U.S.-China trade tensions—which have disrupted supply chains across Asia—and weakened global demand.¹⁸⁹ Singapore's GDP growth is expected to decline sharply in 2019 as a result, with the Singaporean government forecasting a range of 0 percent to 1 percent for full-year GDP growth, down from 3.2 percent in 2018.¹⁹⁰ In June 2019, Singapore's non-oil exports‡ experienced their largest decline in more than six years, led by a steep drop in electronics exports.¹⁹¹

China-Singapore Trade and Investment

China is Singapore's top trading partner and FDI destination. While the two countries have close economic ties, Singapore's diverse trade and investment relations make it less dependent on any one country.§ China-Singapore goods trade was \$100 billion in 2018, accounting for 13 percent of Singapore's total goods trade (see Figure 4).¶ In 2018, Singapore's top goods exports to China

of its portfolio—as much as Temasek's investments in Singapore itself. CapitaLand, “Financial Year 2018 Results,” February 2019, 38; CapitaLand, “Global Presence Map,” 2019; CapitaLand, “CapitaLand Property Portfolio Integrated Developments,” December 31, 2018; Temasek, “Portfolio Performance,” 2019; CapitaLand, “Ownership Summary,” June 30, 2019; Anshuman Daga and Aradhana Aravindan, “CapitaLand Bets on New Markets With \$4.4 Billion Temasek Real Estate Deal,” *Reuters*, January 13, 2019.

*According to the Global Financial Center Index, Singapore is the fourth-leading global financial center, after New York, London, and Hong Kong. China Development Institute and Z/Yen Group, “The Global Financial Centers Index 23,” March 2019.

†Singapore is one of the most export-reliant economies in the world, with trade equivalent to 326 percent of GDP in 2018. In comparison, trade accounts for 38 percent of GDP in China, 27 percent of GDP in the United States, and 86 percent of GDP in the EU. World Bank, “Trade (% of GDP).”

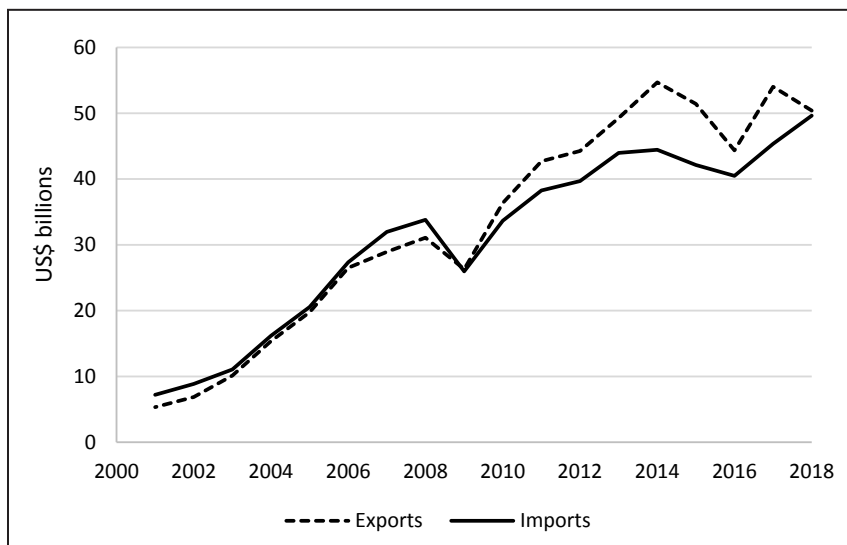
‡Singapore reports non-oil domestic exports separately from its total exports because they are a better gauge for assessing the overall health of Singapore's export-reliant economy. Oil exports are separated out because while they are a top export category for Singapore, the prices of refined oil products are volatile. Singapore lacks domestic oil reserves, but is one of the world's top oil trading and refining centers. Additionally, as a regional trading hub, the vast volume of Singapore's exports are re-exports, which do not undergo any value-added processes. As a result, top-line trade data (comprising domestic exports and re-exports) are less useful a gauge for Singapore's economy. *Nikkei Asian Review*, “Singapore Non-Oil Domestic Exports Stage Surprise Rebound,” March 18, 2019; U.S. Energy Information Administration, “Singapore,” July 2016; *Business Times*, “Singapore's Economic Indicators,” April 10, 2015; Moody's Analytics, “Singapore: Foreign Trade.”

§After China, Singapore's top trading partners in 2018 were Malaysia (accounting for 11.3 percent of Singapore's total goods trade), the EU (10.9 percent), the United States (9.3 percent), Hong Kong (6.7 percent), and Taiwan (6.2 percent). In 2017 (the latest year for which data are available), Singapore's top sources of FDI were the United States, Cayman Islands, British Virgin Islands, Netherlands, and Japan. Singapore's Department of Statistics, *Singapore's International Trade*. <https://www.singstat.gov.sg/modules/infographics/singapore-international-trade>; Singapore's Department of Statistics, *Singapore Direct Investment*, March 2019.

¶In comparison, U.S. goods trade with Singapore totaled \$60.4 billion in 2018. Office of the U.S. Trade Representative, “Singapore.” <https://ustr.gov/countries-regions/southeast-asia-pacific/singapore>.

were electrical and electronic equipment (\$15.7 billion); nuclear reactors, boilers, and machinery (\$6.1 billion); plastics (\$5.7 billion); mineral fuels (\$4.7 billion); and organic chemicals (\$3.6 billion).¹⁹² Singapore's top imports from China were electrical and electronic equipment (\$20.8 billion); nuclear reactors, boilers, and machinery (\$10.4 billion); mineral fuels (\$6.3 billion); and optical and medical instruments (\$1.1 billion).¹⁹³

Figure 4: Singapore's Goods Trade with China, 2001–2018



Source: UN Comtrade.

Singapore is China's largest foreign investor.¹⁹⁴ According to Singapore government statistics, at the end of 2017 (latest data available) Singapore invested \$101.4 billion (SGD 140 billion, cumulative) in China, comprising 16 percent of Singapore's total outbound investment, up from \$99.3 billion (SGD 137 billion) in 2016.*¹⁹⁵ Singapore's FDI in China includes major government-linked development projects as well as commercial investments.¹⁹⁶ Manufacturing made up the largest share of Singapore's FDI in China in 2017 at 44 percent, followed by real estate (23 percent), wholesale and retail trade (14 percent), and financial and insurance services (10 percent).¹⁹⁷ Singapore's FDI flows to China have risen dramatically from \$11.4 billion (SGD 15.7 billion) in 2001, when China joined the World Trade Organization.¹⁹⁸ In turn, China was Singapore's 12th largest source of FDI at the end of 2017 at \$26.3 billion (SGD 36.3 billion, cumulative), up from \$17.3 billion (SGD 23.9 billion) in 2016, led by investment in financial and insurance services (\$12.8 billion [SGD 17.6 billion]) and wholesale and retail trade (\$9.9 billion [SGD 13.7 billion]).¹⁹⁹ Nonetheless, the United States remains Singapore's largest source of FDI, with U.S. FDI in Singapore (cumulative) reaching \$274.3 billion in 2017.²⁰⁰

*Unless noted otherwise, this section uses the following exchange rate throughout: \$1 = Singapore Dollar 1.38.

Singapore's close economic ties to China can also be seen in recent agreements. In November 2018, Singapore and China signed an updated free trade agreement, and the two countries have signed memoranda of understanding (MOUs) on trade promotion, financial technology cooperation, and technology parks.²⁰¹ Bilateral economic cooperation also centers on government-to-government projects, such as the Guangzhou Knowledge City project.²⁰² Originally a business-led initiative to build a smart industry park near Guangzhou to attract high-tech industries, Guangzhou Knowledge City was upgraded to a state-level bilateral cooperation project in November 2018.* Singaporean companies will be able to access opportunities in China's Greater Bay Area through Guangzhou.²⁰³ (For further details on the Greater Bay Area, see Chapter 6, "Hong Kong.")

Singapore Becoming a Key Hub in China's BRI

Singaporean officials, seeking to maintain the city's role as a regional economic hub, have expressed support for BRI while calling for the initiative to become more inclusive and transparent.²⁰⁴ In recent years, Singapore's standing as a financial and legal intermediary for BRI projects has grown.†²⁰⁵ It is a key conduit for BRI-related foreign direct investment. About a quarter of China's total investments in BRI countries and 83 percent of BRI countries' investments in China transit through Singapore.²⁰⁶

Singapore is also positioning itself as a dispute resolution hub for BRI, leveraging its reputation as a neutral jurisdiction with strong rule of law. In January 2019, the China Council for the Promotion of International Trade—a state body responsible for developing business cooperation with other countries—and the Singapore International Mediation Center signed an MOU to establish an international mediation panel to resolve BRI-related commercial disputes comprising mediators from China, Singapore, and other BRI countries.²⁰⁷ According to Singapore's Senior Minister of State for Law and Health Edwin Tong, the panel would reflect "a new way of settling cross-border commercial disputes that better reflect Asian values and is also tailored to Asia's needs."²⁰⁸ This collaboration is part of broader efforts by China and Singapore to promote mediation—a more consensus-driven approach to dispute resolution—as a complement or alternative to arbitration and litigation in the context of BRI-related disputes.²⁰⁹

Singapore also participates in BRI through the Chongqing Strategic Connectivity Initiative, an intergovernmental project launched in 2015 aimed at improving transport, financial, and digital links between China's less developed western regions and the rest of the country, and between China and the Association of Southeast Asian

*The project is a joint venture between Singaporean real estate development firm Ascendas-Singbridge and Chinese SOEs under the Guangzhou Development District Administrative Committee. Center for Livable Cities, "Sino-Singapore Guangzhou Knowledge City: A New Paradigm in Collaboration," 2017, 16–21.

†Singapore competes with Hong Kong as an international hub for financing and dispute resolution, but has a few advantages over Hong Kong. Singapore is considered neutral ground as trade tensions between China and the United States escalate. The 2019 anti-extradition bill protests in Hong Kong have further enhanced Singapore's attractiveness as a secure regional hub. *Straits Times*, "Tale of Two Cities: Hong Kong Turmoil May Boost Singapore's Financial Hub Status," June 20, 2019.

Nations (ASEAN).²¹⁰ Additionally, Singapore and China have signed MOUs to promote cooperation between Singaporean and Chinese companies in other BRI countries.²¹¹ Examples of cooperation in third-party markets include:

- In April 2019, Singaporean state-owned infrastructure consultancy Surbana Jurong and China's state-owned Silk Road Fund signed an agreement to establish a \$500 million co-investment platform to finance infrastructure projects in Southeast Asia.²¹²
- In April 2018, Singaporean supply chain management company YCH Group and Chinese e-commerce logistics services firm Forchn Holdings signed an agreement to launch a \$150 million private equity fund to acquire logistics assets in China and Southeast Asia.²¹³
- Singaporean water purification and wastewater treatment company Darco Water Technologies has partnered with China State Construction Engineering Corporation on waste management projects in China and ASEAN countries.²¹⁴

Singapore Deepens Security Ties with the United States amid Increasing Chinese Engagement

While increasing its security engagement with China, Singapore is also drawing closer to the United States. The United States provides Singapore with key defense technology and space for military training, and more than 1,000 Singaporean military personnel currently train in the United States.²¹⁵ Singapore cooperates with the United States on matters such as counterterrorism and maritime security and provides the United States the use of important military facilities in the country, hosting a key U.S. Navy logistics unit and a rotation of littoral combat ships.²¹⁶ Singapore is further tied to the United States via \$7.34 billion in ongoing arms sales, including F-16 upgrades and pilot training, Apache attack helicopters, and various munitions.²¹⁷

According to Bilahari Kausikan, to demonstrate the value of continued U.S. presence in Southeast Asia as opposed to China's presence, the United States simply needs to continue to "show up" and demonstrate consistent interest in the region.²¹⁸ An example of that commitment came in the first U.S.-ASEAN Maritime Exercise, held in September 2019, where the ships and aircraft involved worked together in a combined task force structure as they would in a real-world scenario.²¹⁹ Singapore hosted an ashore support team for the exercise, and its Information Fusion Center at Changi Naval Base provided additional support.²²⁰

Deepening U.S.-Singapore defense relations have built off a long history of bilateral defense agreements. The first MOU between the two countries, which was signed in 1990 and allowed the United States use of Singapore's defense facilities,* was controversial at the time, according to Mr. Kausikan, likely be-

*Under the terms of this MOU, the United States has rotated fighter jets for exercises, refueling, and maintenance, as well as littoral combat ships and P-8 Poseidon maritime surveillance aircraft. Singapore's Ministry of Defense, *Singapore and U.S. to Renew Defense Memorandum of Understanding*, September 24, 2019.

cause it “went against the grain of regional sentiment,” as one Brookings Institution scholar argues.²²¹ Mr. Kausikan told the Commission its renewal in 2010 did not raise concerns, however, possibly due to the evolving threat perceptions of China among the Singaporean public and elite.²²² In 1998, Singapore and the United States signed an addendum to the original agreement allowing U.S. aircraft carriers to dock at Changi Naval Base, the only naval facility in Southeast Asia constructed specifically for U.S. aircraft carriers.*²²³ In 2015, then U.S. Secretary of Defense Ash Carter and Singaporean Minister for Defense Ng Eng Hen signed an upgraded Defense Cooperation Agreement enhancing bilateral ties in the military, policy, strategic, and technology spheres, as well as in non-conventional security cooperation.²²⁴ In 2019, President Donald Trump and Prime Minister Lee formally extended the MOU through at least 2035. During the signing ceremony, Prime Minister Lee said he hoped the agreement would be “a means for the [United States] to deepen its engagement in Southeast Asia and in the Asia-Pacific region.”²²⁵

China aspires to play a leadership role in Asia’s security architecture and likely views increased engagement with Singapore as critical to realizing this ambition. Beijing and Singapore have explored deepening their defense relationship through military exercises, such as the first China-ASEAN military exercise which occurred in October 2018 while Singapore was chair of ASEAN.²²⁶ In late May 2019, they announced they would revise their formal defense agreement from 2008, known as the Agreement on Defense Exchanges and Security Cooperation, to include more high-level dialogues, new arrangements for service-to-service cooperation, academic and think tank exchanges, and larger-scale military exercises. It is currently unclear how much the revised agreement will affect cooperation in practical terms.²²⁷

One factor that could inhibit China’s ability to deepen security relations with Singapore is the latter’s continuing relationship with Taiwan. Singapore maintains good relations with Taiwan and holds regular exchanges and visits, though the latter publicizes these visits via social media posts rather than press releases on government websites.²²⁸ Singapore met with Taiwan at the APEC summit in November 2018 despite pressure from China not to do so.²²⁹ According to Bernard Loo, Senior Fellow at the S. Rajaratnam School of International Studies, Singapore has informally ceased the large-scale combined arms exercises it historically conducted in Taiwan due to diplomatic pressure from Beijing, though it has defied Beijing’s attempts to persuade it to cut ties with Taiwan completely and has continued lower-level military training on the island.²³⁰ In a meeting with the Commission, a senior Southeast Asian official said Singapore does not want its ongoing relations with Taiwan to be politicized, and Singapore-Taiwan military training remains an “open secret.”²³¹

*Changi Naval Base is open to all international partners, but it was built specifically to be compatible with U.S. aircraft carriers. It also has a new runway built specifically for U.S. heavy aircraft. Bernard Loo, Senior Fellow, S. Rajaratnam School of International Studies, meeting with Commission, Singapore, May 17, 2019; Lynn Kuok, “The U.S.-Singapore Partnership: A Critical Element of U.S. Engagement and Stability in the Asia-Pacific,” *Brookings Institution*, July 2016, 5; *Federation of American Scientists*, “Singapore Changi Naval Base,” September 5, 1999.

Singapore's Concerns over Chinese Influence in ASEAN

Singapore has been concerned by Beijing's efforts to divide ASEAN countries over critical regional issues and views these efforts as potentially fatally undermining the bloc's unity and ability to play a leading role in Southeast Asia. China's interests have been most visible in the South China Sea, where it has asserted expansive territorial claims, impinging on the territorial claims of several key ASEAN members.

As ASEAN operates on a consensus basis, the objection of one member country is sufficient to block ASEAN decisions or statements. In 2012 and 2016, Cambodia blocked joint ASEAN resolutions containing language critical of China's activity in the South China Sea, reportedly at Beijing's behest.²³² 2012 marked the first time in ASEAN's history that it failed to issue a joint communique, leading Singapore's then foreign minister K. Shanmugam to opine, "Building a strong, cohesive and autonomous ASEAN remains a key goal of our foreign policy.... If we cannot address major issues affecting or happening in our region, ASEAN centrality will be seen as a slogan without a substance. Our ability to shape regional developments will diminish."²³³

In April 2016, Chinese Foreign Minister Wang Yi announced China had reached a consensus with Brunei, Cambodia, and Laos on the South China Sea, including that territorial disputes in the South China Sea were "not an issue between China and ASEAN as a whole."²³⁴ Singapore's Ambassador-at-Large Ong Keng Yong said the announcement amounted to "interfering in the domestic affairs of ASEAN."²³⁵ Bilahari Kausikan argued the "so-called consensus" could be "interpreted as a means to divide ASEAN."²³⁶

Implications for the United States

China's ties with Australia, New Zealand, the Pacific Islands, and Singapore are reflective of its broader effort to replace the United States as the preferred strategic partner for countries in the Indo-Pacific region. In all of these cases, Beijing is attempting to neutralize opposition to its strategic goals and interests while gaining support for its ambition to play the dominant regional leadership role. As these countries respond, they are struggling to balance economic ties with their interests in maintaining their sovereignty, security, and continued existence in a free and open regional order.

U.S. and Australian officials have both stressed that the U.S.-Australian alliance remains vital and unbreakable, the considerable impact of the U.S.-China relationship on the alliance notwithstanding.²³⁷ Australian ambassador to the United States Joe Hockey has explicitly compared the U.S.-Australian "mateship" to the bond between the two countries' soldiers in World War I, in which U.S. troops "earned the right to be called [Australians'] mates." The U.S. ambassador to Australia has described the alliance with equal gravity, calling it "solemn, unshakable, and unbreakable."²³⁸ These remarks are consistent with Australia's most recent defense white paper (issued in 2016), which described its alliance with the United States as at the "core of [its] security and defense planning."²³⁹ The

alliance remains popular among the Australian public as well. According to an annual poll conducted by the Lowy Institute, Australians have “consistently expressed support” for the alliance, largely due to shared values and the belief the United States would come to Australia’s aid if it was under threat.²⁴⁰

Canberra hesitates to intrude on its critical economic interests in China. Popular perceptions understate Australia’s economic ties to the United States. According to a participant at an American Chamber of Commerce in Australia Governors’ meeting with the Commission, U.S. investment in Australia often flies under the radar: U.S. companies are household names, but they are not recognized as FDI.²⁴¹ In contrast, Australians are well aware China is Australia’s largest trading partner, and new Chinese investment continues to attract significant media attention.²⁴²

Beijing’s growing engagement with the Pacific Islands could threaten the United States’ military presence and power projection capabilities in the Indo-Pacific. Under the Compact of Free Association, the United States enjoys exclusive military access to Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, which also host critical U.S. military installations. Beijing’s economic leverage over Pacific Island countries could undermine the region’s longstanding support for U.S. positions in international organizations as well as flip Taiwan’s remaining diplomatic partners in the Indo-Pacific.

Singapore continues to balance a desire for continued strong economic ties with China with its enduring security partnership with the United States, but China is making concerted efforts to increase its engagement with Singapore. Singapore’s key role as a financial hub for BRI and increased security cooperation with China are the most recent reflections of its challenge in maintaining this balance.²⁴³ In addition, the United States faces a challenge in Singapore similar to that in Australia: a perception that China is a more important economic partner, even though U.S. investment in Singapore was 10 times that from China over the past decade.²⁴⁴

Australia, the Pacific Islands, and Singapore are committed to their relationships with the United States, particularly as China steps up economic coercion, military deployments, and political influence efforts threatening these countries. However, China’s economic heft and increasing willingness to punish countries defying its goals, combined with perennial questions over the durability of the U.S. commitment to the region, will continue to chip away at U.S. influence absent a coordinated, robust response.

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