

STRATEGY

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A rising power looks down under
Chinese perspectives on Australia



Jingdong Yuan

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Dr Jingdong Yuan

Dr Jingdong Yuan is Associate Professor at the Centre for International Security Studies and the Department of Government and International Relations at the University of Sydney, where he is also an academic member of the China Studies Centre. Professor Yuan specialises in Asia–Pacific security, Chinese defence and foreign policy, Sino-Indian relations, and global and regional nuclear arms control and nonproliferation issues. He has had research and teaching appointments at Queen's University, York University, the University of Toronto and the University of British Columbia. Between 1999 and 2010, he held various appointments at the Monterey Institute of International Studies. Professor Yuan has also held visiting appointments at the Cooperative Monitoring Center, Sandia National Laboratories, the National University of Singapore, the University of Macau and the East–West Center. He is co-author of *Chinese cruise missiles: a quiet force-multiplier* (National Defence University Press, Washington DC, 2014) and *China and India: cooperation or conflict?* (Lynne Rienner Publishers, Boulder, Colorado, 2003), and co-editor of *Australia and China at 40* (University of New South Wales Press, Sydney, 2012). His publications have appeared in *Asian Affairs*, *Asia Policy*, *Asian Survey*, *Asian Perspective*, *Contemporary Security Policy*, *Far Eastern Economic Review*, *The Hindu*, *The International Herald Tribune*, *International Journal*, *International Politics*, *Jane's Intelligence Review*, *Japan Times*, *Journal of Contemporary China*, *Journal of International Affairs*, *Korean Journal of Defense Analysis*, *The Los Angeles Times*, *Moscow Times*, *Nonproliferation Review*, *Security Challenges*, *The Washington Quarterly* and many edited volumes.

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Cover image: An Australian national flag flutters next to a Chinese national flag in front of the Great Hall of the People at the Tiananmen Square during Australian Prime Minister Julia Gillard's visit to Beijing, 9 April 2013. © REUTERS/Petar Kujundzic

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ASPI

Level 2

40 Macquarie Street

Barton ACT 2600

Australia

Tel + 61 2 6270 5100

Fax + 61 2 6273 9566

enquiries@aspi.org.au

www.aspi.org.au

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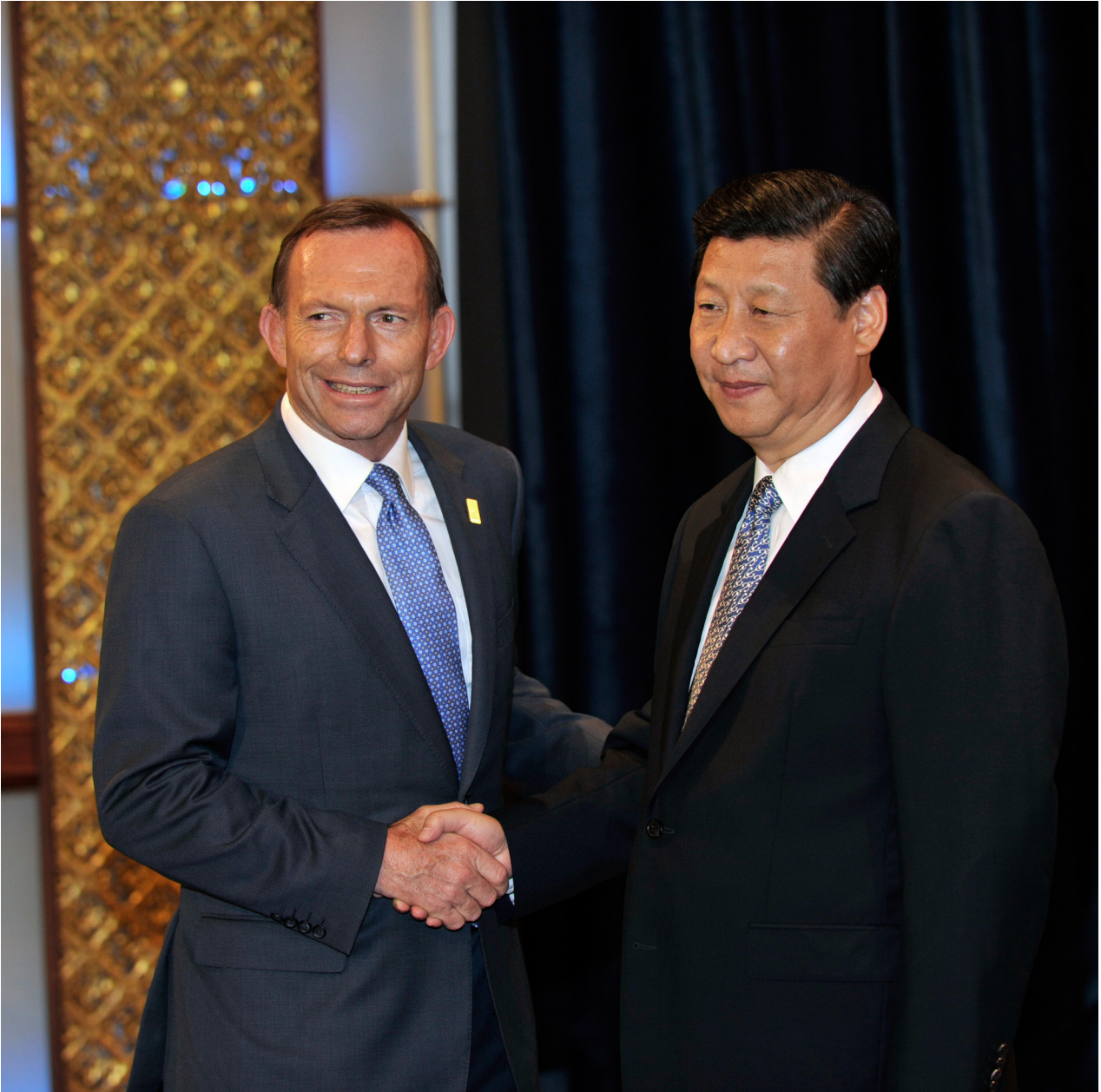
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Australian Prime Minister Tony Abbott with China's President Xi Jinping at APEC in Bali, 6 October 2013. Image courtesy of Prime Minister Abbott.

EXECUTIVE SUMMARY

Sino-Australian diplomatic, economic and security ties have experienced significant growth over the past four decades. The general trends have been positive, especially in the economic area, where the two countries have developed strong and mutually beneficial interdependence. China has become Australia's largest trading partner, and its growing demands for resources will continue to affect Australian economic wellbeing. Australia, in turn, has become a major destination for Chinese tourists and a favoured choice for higher education. Canberra has played an important role in encouraging and drawing China into regional multilateral institutions such as APEC, and the two countries have cooperated on major international and regional issues. However, bilateral relations periodically encounter difficulties and occasionally suffer major setbacks, largely due to differences in ideologies and sociopolitical systems, issues such as Tibet, Taiwan and human rights, and emerging challenges ranging from cybersecurity to the geostrategic shift in the region marked by China's rise and the US's rebalancing to Asia.

While there have been substantive debates in Australia on the implications of China's rise, much less is known about Chinese perspectives on Australia. In many respects, Beijing continues to express confidence in a stable and cooperative bilateral relationship; at the same time, it recognises important structural constraints on the nature and scope of that relationship. That Australia remains a faithful ally of the US suggests that Canberra's foreign and security policy is affected by American policy towards the Indo-Pacific and Washington's relationship with Beijing. Indeed, US-China strategic rivalry poses the most serious dilemma for Australian foreign policy. The assumptions are that major trade-offs are inevitable and that Canberra will side with Washington in any serious conflict between the US and China, from the Taiwan Strait to the South China Sea and the Indian Ocean, leading to major setbacks in Sino-Australian relations and very serious economic disruption for Australia. From Beijing's point of view, Australia would be making a serious mistake by assisting any potential and future US military operations against China by providing its ports, bases and facilities as depots and resting or staging grounds, and hence becoming an enabler in such operations. The consequences could be dire indeed.

Chinese analysts are paying closer attention not only to Australia-US relations, but also to Australia's aspirations and role as a proactive and creative middle power in regional and global affairs, especially where Canberra's diplomacy affects issues important to Beijing. Those areas range from nuclear arms control and disarmament, humanitarian interventions and trade negotiations to maritime territorial disputes. While acknowledging Australia's middle-power role, Chinese analysts note the limitations and constraints on what Canberra can do. In recent years, Australia's also engaged in various security initiatives or arrangements with US allies and partners in the region, in particular with Japan and India. Some have characterised the Australian relationship with Japan as a quasi-alliance, while the relationship with India has potential security implications for China, given the emerging importance of the Indo-Pacific concept. From Beijing's perspective, it's critical that China and Australia maintain and develop dialogue between their leaders, diplomats and military officers.

There's a great deal of consensus among Chinese analysts on the state of Australia-China economic ties and their future growth potential, although many also suggest that significant barriers still exist to Chinese investments in

Australia's resources and agricultural sectors, especially investments by state-owned enterprises. From under \$100 million in 1972 to \$120 billion in 2012, Australia–China two-way trade has registered breathtaking growth over the past four decades: between 2000 and 2010, the annual growth rate averaged 24.8%. Having replaced Japan as Australia's no. 1 trading partner in 2007, China has become Australia's largest export market, accounting for 22.6% of total exports, and its largest source of imports at 15.3%. While still small compared to US and the UK investments, Chinese investments in recent years have also experienced sizeable growth, mainly in the mining sectors but also in agriculture.

Beijing seeks to build long-term and stable economic ties with Australia based on mutual benefits. Chinese leaders have emphasised the importance of building economic ties with strategic vision. Given China's need for resources, Beijing clearly is more interested in stable and reliable energy and commodity trade while looking for new areas of cooperation, such as in services and infrastructure, including telecommunications. Beijing also hopes that Chinese companies, including state-owned enterprises, can be given fair and non-discriminatory treatment when their investment applications are reviewed by Australian authorities.

China's rise offers opportunities as much as it presents challenges to Australian foreign policy. Experience has shown that misplaced expectations and ill-conceived 'grand visions' can encounter significant hurdles in implementation, and under-delivering or failing to deliver can cause disappointment or even lead to misunderstandings. Pragmatism, along with feasible and achievable objectives, dedicated resources and committed political will, is a critical ingredient of success. Managing the China challenge must start from well-defined national interests as an overall guide to set and prioritise objectives, formulate policies and allocate resources. Australia needs a stable international environment and continued economic growth. A realistic, stable, and forward-looking relationship with China is imperative.

The Abbott government should have a China policy that's the result of multi-agency consultation, bipartisan support and internal cohesion within the Coalition and is presented in a unified voice. Canberra should be results-oriented and problem-solving to promote national interests and place less emphasis and diplomatic capital on merely making political statements and grandstanding, which mightn't be as effective as wished for and, at worst, could be counterproductive.

CHAPTER 1

INTRODUCTION: HISTORY, TRADE AND DIPLOMACY

China's re-emergence as a major power on the world stage is the most significant development in international relations since the end of the Cold War. It's now the world's second-largest economy and poised to overtake the US within a decade. China's actively involved in global and regional affairs ranging from climate change negotiations and peacekeeping operations to efforts to resolve the North Korean nuclear issue.

Beijing's more assertive stance on maritime territorial disputes in the East and South China seas over the past few years has heightened concerns among its neighbours, and its growing military power and diplomatic activism directly challenge US primacy in Asia. In Australia, debates on the challenges that Canberra faces in managing its ties with both Beijing and Washington have dominated recent public discussions. Canberra's specific policy decisions, from planned increases in defence spending and major weapons procurement programs to firmly aligning itself with the US pivot to Asia (including an agreement to host US Marines in Darwin) reflect a hedging strategy against the uncertainties associated with a rising China, even as Australia continues to expand economic ties with the Asian giant.¹

...Australia for the first time in its history has a major trading partner that isn't at the same time an ally that also offers an important security guarantee...

Indeed, China has now become Australia's no. 1 trading partner, and bilateral trade and investments continue to grow. In contrast to its past experiences, Australia for the first time in its history has a major trading partner that isn't at the same time an ally that also offers an important security guarantee (as the British did before World War II and the US has since) or one with shared political ideologies, values, governance systems and increasingly common security interests (such as Japan). As much as Australia has benefited from the China boom, it's feeling increasingly uncomfortable not because of the bilateral relationship per se, but because of the ongoing territorial disputes between China and its neighbours, and the potential for conflict between China and the US. The questions are how to respond to such scenarios and what, if any, measures Canberra can take to minimise or avoid potential negative developments detrimental to Australia's economic and security interests. Granted, these rather pessimistic scenarios may be improbable and may never come to pass, as successive governments in Canberra since 1972 have demonstrated that Australia can manage these challenges to maintain its autonomy and to promote security and prosperity.²

Much less well known and systematically understood is how China views Australia, especially in important areas.³ The first question is how China sees the bilateral relationship over the past four decades as it's evolved in diplomatic, economic and social contexts, and how those changes advance or impede the pursuit of Chinese interests. The second involves China's overall assessment of Australia's middle-power diplomacy in global and regional affairs and its impact on China's foreign policy goals. Those two areas would typically include threat perceptions and security environments; economic opportunities and constraints or risks; and the very identity of Australia where China is concerned—beneficial partnership, neutral or potentially/real adversarial relationship? The third area is where Beijing sees potential for cooperation with Australia, and where it anticipates differences or disputes and how best to manage them. Finally, a look into the future—as China grows stronger, what will Beijing be expecting of Canberra on critical regional economic and security issues and perhaps global issues as well? And what can and should Canberra do to manage this critical relationship?

Until recently, Australia's received less scholarly and policy attention in China than it deserves. But that's changing. More than 35 Australian studies centres have been set up at Chinese universities, and more analyses of Australian politics, economics and foreign policy have been produced. This work is a reflection of the growing importance of Australia for China.

To help the reader understand Chinese views of Australia, this paper develops its analysis by drawing from four main sources:

- official Chinese documents and leaders' statements as reported in the media or recorded in official dossiers
- academic analyses published in scholarly journals
- media coverage of Sino-Australian relations and Australian issues in general
- a series of interviews the author has conducted with specialists in Chinese think tanks and academic institutions.

CHAPTER 2

Beijing's view of bilateral relations in historical perspective

As a longstanding ally of the US, Australia has largely kept its foreign policy in step with the US's since the signing of the ANZUS Treaty in 1951. It's participated in every major war led by the US, from Korea and Vietnam to Iraq and Afghanistan, even though the treaty doesn't explicitly commit Australia to automatic participation in military conflicts involving one of the signatory states. During the early decades of the Cold War, Canberra adopted a China policy largely in line with that of Washington, recognising Taipei, rather than Beijing, as representing China. Granted, Australia didn't follow the US policy of economic warfare and trade embargoes strictly, and was exporting wool and wheat to China from the 1960s.⁴ In 1971, Gough Whitlam, as the opposition leader, led an Australian Labor Party (ALP) delegation to visit China almost at the same time as Henry Kissinger was making his own secret trip. After Labor won the federal election in 1972, Canberra immediately established diplomatic relations with Beijing.⁵

China and Australia have maintained a good and stable relationship since the two countries established diplomatic relations in December 1972.

China and Australia have maintained a good and stable relationship since the two countries established diplomatic relations in December 1972. There are regular meetings between heads of state, heads of government and high-level officials, either in bilateral settings or on the sidelines of multilateral forums such as the informal APEC leaders' meetings, the ASEAN Regional Forum, the East Asia Summit, the G-20 and the Pacific Islands Forum, among others. Some of the important milestones in bilateral relations include the establishment of annual leaders and foreign ministers meetings in 1999; President Hu Jintao's speech to the Australian Parliament in October 2003; the launch of bilateral negotiations on a free trade agreement in May 2005; the initiation of the Australia–China Strategic Dialogue in February 2008; and the establishment of a strategic partnership in April 2013. Australia's new Coalition government under Tony Abbott continues to place its foreign affairs focus on Asia ('less Geneva, more Jakarta'), including by setting a date for the conclusion of the Australia–China free trade negotiations within 12 months and Abbott's visit to China in the first half of 2014. In general, China considers Australia to be an important regional power, a partner to work with on regional and global issues, and a significant source of resources critical to China's continued economic development.⁶

To their credit, successive Australian governments since 1972 have managed to expand economic ties with China while maintaining a strong alliance with the US. Scholarly assessments of Australia's China policy vary. Some

consider Canberra's approach as predominantly one of accommodation if not outright capitulation; others contend that Australian foreign policy remains anchored in its traditional alliance with the US rather than drifting into China's orbit.⁷ However, the fact that China remains a one-party authoritarian state and has been growing its military capabilities always makes Canberra wary lest changing regional geostrategic balances impinge on Australia's security interests. This explains Canberra's policy of hedging—it places a high premium on keeping the US engaged in the region. Meanwhile, it also seeks close ties with America's allies and partners, which share its concerns over China's growing power. In recent years, Canberra has developed close ties with Tokyo, Seoul and Delhi.

While bilateral relations have registered significant progress since 1972, Beijing recognises that Australia and China are two polities with vastly different histories, ideologies, political values and socioeconomic systems, and hold divergent as well as shared views on regional and global issues. Chinese analysts describe the bilateral relationship as complex, evolving and moving forward. In diplomatic–political terms, the two countries have managed to maintain stable ties and dealt with their differences based on mutual respect and pragmatism. However, due to their differences in political ideology, Beijing and Canberra naturally part company on human rights, the Dalai Lama/Tibet, Taiwan and other issues.

Economically, the two countries have moved from mutual benefits to interdependence over the past 40 years.

Economically, the two countries have moved from mutual benefits to interdependence over the past 40 years. Bilateral trade has expanded, making China Australia's no. 1 trading partner since 2007. Investments have also grown over the past decade, in particular in the resources sector but increasingly also in the agriculture sector. While issues remain, ranging from the difficulties in concluding a free trade agreement to Chinese criticisms of Australia's rather strict review and approval processes for Chinese investments, the two countries have continued to work to strengthen their economic ties, including through the recent agreement on currency swaps that would significantly reduce the transaction costs of doing business.⁸

Finally, in the security–military area, the two countries have experienced both cooperation and differences. Indeed, in recent years, as China continues its ascendance to great power status, and with the US pivot to Asia, there are growing concerns on both sides. On the one hand, Australian debates focus on how to maintain a proper balance between Australia's security guarantor and its largest trading partner and on specific concerns about China's growing military capabilities and the lack of transparency in Beijing's defence policy and modernisation programs. On the other hand, the Australia–US agreement allowing US Marines to rotate through Darwin sends a negative signal to Beijing: that Canberra is assisting Washington's attempt to retain its primacy in the Pacific and is providing good locations for such an effort.⁹

The period between the establishment of bilateral diplomatic relations and the mid-1980s was one during which Beijing's diplomatic focus was on aligning with the US and its Western allies, Australia included, in responding to Soviet threats. However, the Whitlam government didn't share Beijing's strongly anti-Soviet stance, and Chinese efforts to enlist Canberra's support essentially failed. In the wake of the Soviet invasion of Afghanistan in 1979, Sino-US cooperation expanded to include intelligence sharing, a relaxation of US export restrictions to allow limited arms sales, and joint efforts in supporting the *mujahidin*. In the Fraser government, Beijing saw a more resolute anti-Soviet friend, and bilateral relations were characterised by tacit cooperation based on the two countries' common interest in opposing Soviet hegemonism in the Asia–Pacific region. When the ALP government under Bob Hawke assumed office in the early 1980s, China was concerned about what it perceived as Canberra's soft policy towards Hanoi, especially in the aftermath of Vietnam's invasion of Cambodia in 1978, which Beijing strongly

opposed. Specifically, Canberra's willingness to improve ties with Hanoi, including by helping it secure international financial assistance, wasn't viewed favourably by Beijing. But by then the desire for economic cooperation helped both countries to paper over their differences to focus on their mutual interests. This emphasis on economic relations enabled the two countries to manage their differences on the Cambodian, nuclear disarmament and human rights issues more pragmatically.¹⁰

The Hawke and Keating governments' efforts to more closely integrate Australia with Asia were welcomed by Beijing, as was the Australian policy of promoting middle-power diplomacy. At that time, China had begun to adopt a more independent and hence equidistant foreign policy towards both the US and the Soviet Union and therefore saw Canberra's more Asia-oriented policy as an indication of its independence from US policy. Hawke, in particular, enjoyed a close personal rapport with both then Chinese Communist Party General Secretary Hu Yaobang and Chinese Premier Zhao Ziyang. This period was marked by frequent high-level visits and the consolidation of economic ties between the two countries. Many Chinese analysts characterised the 1980s as the high point in bilateral relations.¹¹

The bilateral relationship has also experienced periodic and at times major setbacks, which have required concerted efforts by both sides to repair the damage and return to normalcy. The most severe was the 1989 Tiananmen incident, in the aftermath of which the Hawke government imposed sanctions on China. However, Australia was also among the first Western countries (along with Japan) to lift its economic sanctions. Other issues that typically soured bilateral relations included Taiwan, the Dalai Lama, human rights, and Canberra's open and strong support of US actions seen as hostile to China.

The Howard government almost immediately cast a shadow on bilateral relations when it took office and openly supported the Clinton administration's policy during the 1995–96 Taiwan Strait crisis, including by sending three Australian naval ships through the strait, having high-ranking officials visiting Taiwan, and unilaterally abolishing its development aid program to China.

Analysing the differences and the occasional difficulties and even setbacks in bilateral relations, Chinese analysts typically suggest that such challenges arise from political ideologies and values, views on security, the Taiwan and Tibet issues, human rights, and a lack of mutual understanding of each other (and, indeed, there's a dearth of experts in Australian studies in China).¹²

The Howard government's close alliance relationship with the Bush administration (2001–2009) and its apparent eagerness to act as America's deputy sheriff in the region also raised concern in China. Howard began to downplay Asia's critical importance, claiming that Australia didn't have to choose between its history and geography—a major departure from the Hawke–Keating era—and placing more emphasis on bilateral relations than on multilateral institutions. Indeed, Chinese commentators showed considerable misgivings about what was dubbed the 'Howard Doctrine'. Australia's more assertive role in the East Timor crisis and the Solomon Islands intervention raised questions about its future behaviour in the region. One newspaper article described the Howard Doctrine thus: 'The fundamental aspects of the Howard doctrine include: contributing to and leading peacekeeping operations in the Asia–Pacific region; ignoring the wishes of Asians, and making Australian involvement in Asia revolve around Australian values; attempting to propagate these values in Asia; and striving to act as a policeman in Asia and play a leading and unique role in regional security.'¹³ Canberra also openly supported US missile defences. Most surprisingly, after the April 2001 collision between a US EP-3 reconnaissance plane and a Chinese fighter (in which the Chinese pilot was killed) and President Bush's remark pledging the defence of Taiwan, Howard again openly showed his support of US positions.

Chinese analysts understand—and some emphasise—that while differences in ideologies certainly contribute to bilateral differences between China and Australia over various issues, it's external structural conditions that impose significant constraints on Canberra's handling of its relations with China. One such condition would be its inclination to keep aligned with US policy towards China and to the region, which demands—and often gets—Australian

support. The 1995–96 Taiwan Strait crisis and the 2001 EP-3 incident must be placed in the broader context of deteriorating US–China relations. Canberra appeared to have no alternative but to stand firmly with Washington.¹⁴

Granted, at times Canberra also seeks to assert a degree of autonomy, even at variance with US policy. However, such instances usually occur during times of stability or improvement in US–China relations or when the US–Australia alliance experiences periodic drifts—typically during those transition periods when Washington hasn’t yet decided on its regional policy or preferences in different regional security demands, and when Canberra is also debating its diplomatic priorities and interests. Reality sinks in, opportunities arise, and pragmatism reigns. Indeed, the mishandling of the Taiwan issue—which was bound to trigger strong reactions from Beijing—and the recognition of the negative impact on a potentially very important and fruitful relationship, especially in the economic area, led to the Howard government’s efforts to mend fences and restore bilateral ties through high-level meetings and more pragmatic handling of differences and issues likely to cause controversies between the two countries. Howard and Chinese President Jiang Zemin met on the sidelines of the 1996 APEC leaders’ meeting in Manila, and Howard subsequently visited China in 1997.¹⁵

The Howard government made great efforts in managing Australia’s two most critical relationships—with the US and with China. In the latter, the question—critical for Australia’s economic bottom line—was how to convince Beijing that Canberra’s close ties with Washington weren’t directed at China. Pragmatism, balance and care thus characterised the Howard approaches. In the human rights area, Canberra adopted dialogue rather than lecturing. One specific action was to not support US motions at the United Nations Commission on Human Rights. On the sensitive Taiwan issue, Australian foreign minister Alexander Downer even suggested that the ANZUS Treaty might not apply in a hypothetical military conflict in the strait, causing quite a stir and certainly triggering strong reactions from Washington. Clearly, the recognition of China’s growing regional role, the significant economic benefits to Australia, given the complementary nature of the two economies, and the fact that Sino-US relations were also improving prompted the Howard government to reverse its early policy and enabled Canberra to pursue a comfortable and balanced approach to its two critically important partners.¹⁶ In 2006, Australia and China even signed an agreement whereby Australia would export uranium to China—a major breakthrough. The April 2006 Nuclear Material Transfer Agreement and Nuclear Cooperation Agreement, signed during Chinese Premier Wen Jiabao’s visit to Australia, allow Australia, which holds 40% of the world’s known uranium reserves, to supply uranium to China.¹⁷

While hedging is clearly behind Canberra’s new diplomacy alignment with other key Asian powers, it needn’t constitute a strategy directly or even principally targeted at China; nor should it be seen that way. Dispelling such misperceptions or concerns requires skilful diplomacy, at which the Howard government appeared to have succeeded to some extent. It characterised the Australia–China relationship as a strategic economic partnership, in a clear recognition of China’s importance in Australia’s economy. At the same time, it refrained from depicting China in confrontational terms, even though in practice the Howard government, especially the Department of Defence, continued to be cautious about China’s military developments. It was also mindful of Beijing’s reactions to any perceived attempt to encircle or contain China. This was the case when the so-called ‘Quad’ or ‘arc of democracy’ became too obvious and provocative, and Canberra either went to great lengths to explain that it wasn’t directed at China or simply stepped back from further involvement in the initiative. Meanwhile, the government soft-pedalled on human rights, refrained from mentioning Tibet, and acted extremely cautiously on Taiwan.¹⁸

CHAPTER 3

The Rudd–Gillard years: promises and pitfalls for Beijing

In November 2007, the Australian Labor Party under Kevin Rudd won a federal election after more than 11 years in opposition. There were initially great (and misconceived) expectations that the election of Rudd, the first Mandarin-speaking leader in a major Western country, would usher in a closer relationship between Australia and China.¹⁹ Indeed, Rudd clearly indicated the growing importance of China not only as a country that would be critical to Australia's ability to weather the 2008 global financial crisis (GFC), but also as an important player in what he conceived as a new Pacific Community. Kevin Rudd thus started his first period in office (2007–2010) with great promise as the first Australian prime minister with extensive foreign policy expertise and experience in China. The three pillars Rudd envisioned for Australian foreign policy—alliance with the US, engagement with Asia, and the role of the United Nations—were all sound and, if followed with care and skill, could have continued the balanced approach of his predecessor, allowing Australia to have its cake and eat it, too.²⁰

His inaugural overseas trips included Europe, the US and China on their itineraries. Ironically, the fact that Kevin Rudd spoke Mandarin and was viewed as a China expert made him vulnerable to opposition attacks of being a panda-hugger. As a result, he needed to show that he could stand up to China. The way his government handled a series of bilateral issues, from the proposed Rio Tinto purchase, to the Melbourne Film Festival, to the 2009 Defence White Paper (which strongly hinted at a China threat) and his *zhengyou* ('true friend') remark at Beijing University, all demonstrated the constraints of domestic politics on his China policy. This, together with what Chinese analysts viewed as a Cold War mentality and a concern over China's rise, resulted in a serious setback in bilateral relations during the first Rudd government.

For all Canberra's talk of the importance of Asia, which in the post-GFC era and Australia's economic reality is clearly China-centred (deservedly so, given the stakes involved), some Chinese analysts suggest that it squandered goodwill and somehow managed to convince Beijing that it was following the US lead in response to China's rise. What was more significant, it created the impression—simultaneously puzzling and annoying Beijing—that China had suddenly become a major security issue for Australia, thereby giving Canberra the justification to increase military spending and procure major weapons systems. Intended or not, that was the message Beijing received. It's not surprising it wasn't pleased, despite Canberra's vain suggestions to the contrary. A scheduled visit by Chinese Vice Premier Li Keqiang was postponed, while Deputy Foreign Minister He Yafei's visit was cancelled. Those developments raised serious questions about Canberra's China policy. Chinese media suggested that, while Rudd knew how to speak Mandarin, he didn't really understand China, and certainly wasn't a mature politician like John Howard. At the same time, the fact that he spoke Mandarin made him highly sensitive to charges of being a Sinophile and meant that every aspect of his China policy would be subjected to microscopic examination and criticism by the opposition party. Therefore, he had to be 'ruthlessly realist' in dealing with China.²¹

The two countries subsequently mended fences when the two prime ministers first met on the sideline of the ASEAN Summit. People's Liberation Army chief of staff General Chen Bingde visited Australia, and Li Keqiang's

postponed visit finally took place. The two sides also issued a joint statement that emphasised the importance of bilateral cooperation based on mutual interests. This was also the first time that Beijing and Canberra ever issued a joint statement at the conclusion of a high-level visit. Chinese analysts suggest that there were multiple reasons for Australia to improve bilateral relations, as strong, stable ties between the two countries would be critical to Canberra's strategy for more closely integrating itself into Asia, bringing economic benefits for its pocketbook (especially by opening the Chinese market for Australian products) and playing a more active role in regional affairs, which needed Beijing's support.²²

While the ALP government under Julia Gillard did not diverge much from Rudd's China policy, Chinese analysts considered her to be more flexible and pragmatic in her approaches. In her first visit to China in April 2001, she sought to shelve differences while emphasising mutual interests in economic ties. However, the fact that her itinerary also included Japan and South Korea, where her agendas focused on security cooperation, clearly revealed Canberra's efforts in reconciling its conflicting goals. In fact, some criticise that she didn't manage the semantics and mechanics of bilateral relations with China well and appeared to be over-eager in supporting and facilitating the US strategic shift to Asia, potentially stoking annoyance in Beijing. From Beijing's perspective, the stationing of US Marines in Darwin isn't an isolated development, but should be seen as part of a deliberate and important US rebalancing strategy occurring with Australian facilitation. An enhanced US military presence in Australia allows the US to monitor and even exercise control over critical chokepoints in Indo-Pacific sea lines of communication (SLOCs), such as the Strait of Malacca, where the bulk of Chinese energy imports transit, gives the US a safe haven where its forces can stay out of range of China's growing ballistic and cruise missiles, and consolidates a secure outpost in the Western Pacific.²³ The Chinese Government's response is that, given the current international economic downturn, the priority should be to find ways towards economic recovery that the international community can cooperate on, rather than to expand military alliances, which is contrary to the expectations of the international community. Chinese analysts suggest that such moves reflect a US military shift or relocation to the 'second island chain'. Australia's close proximity to the South China Sea makes it an ideal location for enabling US intervention. At the same time, Australia has also enhanced its own position in the region with its support of US force relocation.

Again, one must recognise that, given the broader external context characterised by growing conflicts between China and the US in the region, Canberra is expected to align its positions with Washington's, which inevitably demands that Australia take a stand. Hence the potential difficulties with Beijing. It was this recognition and the imperative to avoid 'choice' that led to the Gillard government's efforts from 2012 to address Beijing's concerns without appeasing it, which included:

- releasing the *Australia in the Asian century* White Paper, Australia's National Security Policy and the 2013 *Defence White Paper*, which emphasised the importance of Asia to Australia's economic prosperity and hence to Australia's comprehensive security
- downplaying China's military modernisation and lack of transparency while highlighting the potential contribution that a rising China can make
- implying a great degree of confidence in Washington's and Beijing's abilities to manage their bilateral relationship.

During the 40th anniversary of the establishment of Australia–China diplomatic relations, the Gillard government was able to offer a steady hand in managing a critical relationship. In the broader context, the pragmatic approach her government adopted made it possible, for the time being at least, to reconcile the fact that the government had strengthened ties with the US, including by agreeing to the Marine rotation and training in Darwin and by Canberra's continued pursuit of a policy clearly informed by the recognition of Asia's growing importance to Australia and how China's rise could be considered to be an opportunity. She brought a large delegation of businesspeople along on her April 2013 visit to China, during which the two countries announced a strategic partnership. Nonetheless, Chinese analysts suggest that enhanced US–Australian military alliance will inevitably affect Sino-Australian relations in the coming years.²⁴

To sum up, the past four decades have seen significant growth in Australia–China diplomatic, economic and security ties. The general trends have been positive, especially in the economic area; however, bilateral relations periodically encounter difficulties or even major setbacks. This is largely because, even though Beijing and Canberra have more or less adopted pragmatism in managing their bilateral relationship, differences in ideologies and sociopolitical systems (such as on Tibet, Taiwan and human rights issues), and emerging challenges ranging from cybersecurity to geostrategic shifts in the region, will inevitably arise and at times cast a shadow on the health of bilateral ties. From Beijing’s perspective, it’s Canberra that needs to minimise the negative impacts of these factors so that Sino-Australian relations can remain stable and continue to serve the best interests of the two countries.

Overall, Chinese leaders continue to express confidence in bilateral relations. Before they assumed China’s top leadership roles, both Xi Jinping and Li Keqiang visited Australia (in 2010 and 2009, respectively). During the recent APEC and East Asia Summit meetings, they also had the opportunity to meet Prime Minister Abbott and highlighted the future expansion of cooperation. Indeed, President Xi Jinping has emphasised that, faced with changing international and regional environments, Australia and China have more, not fewer, common interests; there’s a larger, rather than smaller, space for cooperation; and both share more, not fewer, responsibilities.

What’s essential is that Beijing and Canberra should treat the bilateral relationship as strategic and constructive...

What’s essential is that Beijing and Canberra should treat the bilateral relationship as strategic and constructive, respecting each other’s core interests and concerns and enhancing mutual trust to develop a new type of major-power relationship.²⁵ In his recent meeting with Australian Governor-General Quentin Bryce, Xi further proposed that the bilateral relations move to the next phase, to focus on:

- concluding free trade agreement negotiations with a flexible give-and-take approach
- expanding bilateral cooperation to new areas, such as clean energy, the environment, financial services and infrastructure
- furthering mutual understanding between the two peoples through tourism, education, culture, science and technology exchanges
- engaging in consultation and coordination at the UN, the G-20, APEC and other multilateral institutions to contribute to peace and prosperity at the global and regional levels.²⁶

CHAPTER 4

Australia as a middle power and the Sino-Australian security partnership

This section tackles three topics. First, what is Beijing's view of Australia as a middle power, how active Australia was and is, and how it compares to similar countries, such as Canada, the Republic of Korea and the like? Some of the questions that Chinese analyses have focused on are when and why Australia is most active in its middle-power diplomacy, what it wants to achieve, which regional and international organisations it uses, and what specific issues it's concerned with (for example, peacekeeping, nuclear disarmament, climate change and public diplomacy). Second, given that both Canberra and Beijing are members of important international and regional organisations, from the UN Security Council to the ASEAN Regional Forum and East Asia Summit, how convergent or divergent does Beijing view Australian and Chinese perspectives on important issues ranging from regional security architecture, nuclear disarmament, nonproliferation and humanitarian intervention to non-traditional security threats, such as piracy and terrorism? Third, what are China's perspectives on the development and prospects of a Sino-Australian security partnership, from regular leaders' meetings to military-to-military exchanges?

China's foreign policy priorities remain focused on the US, major powers such as Russia and India, peripheral countries in the Asia-Pacific region, and even developing countries. In recent years, Chinese analysts have also turned their attention to middle powers and their important role in regional and global affairs, where they influence agenda setting and rule making. There's growing recognition that Beijing must include middle powers in its overall foreign policy formulation and implementation.²⁷

In this context, Australia's strategic importance to China has been on the rise for a number of reasons. First is the close economic relationship that China has developed with Australia over the years—Australia's now a major supplier of resources to China. Second, Australia can be both an important and an impartial player in increasingly complex regional geostrategic developments and an enabler of interventions by external powers. Third, Australia isn't a normal middle power but an active and engaging one. It was instrumental in establishing APEC and the idea of an East Asia Summit, is now a member of the G-20, and has at times taken the lead on global climate change issues, nuclear disarmament and proposals for a pan-Pacific community. Indeed, some Chinese analysts describe Canberra's diplomatic activism as reflecting an ambitious 'Australian dream' of being a strong middle power in the pivotal Indo-Pacific region. Clearly, as far as China's concerned, there are opportunities and challenges for closer bilateral cooperation, for managing potential conflicts in the region, and for managing relations with third parties, such as the US.²⁸

Australia also seeks US and Japanese support for its regional role, including in the development of multilateral institutions, while continuing to anchor regional security in US-led military alliances. Major power shifts and geostrategic transformation provide the backdrop against which Canberra has to adjust, adapt and adopt its national defence strategies to promote its national interests. This also explains why bilateral relations with China experienced setbacks in 2009 but gradually recovered in 2010 and 2011. The recognition of China's inevitable rise,

the understanding that Australia depends on China for economic prosperity and that an unstable relationship damages critical Australian economic interests since the GFC, and domestic criticism of government policy have all led to adjustments and efforts to improve ties with Beijing. In other words, Australia's economic prosperity depends on China, its aspiration to play a more active regional role needs Beijing's endorsement and cooperation, many emerging issues require greater multilateral cooperation, and the resolution of those matters is unachievable without China's participation. These conditions provide opportunities for Canberra and Beijing to cooperate, not only in regional settings but increasingly also in global forums such as the G-20 and the UN.²⁹

Australia has always maintained that middle powers can play a more prominent role in regional and global affairs.

Australia has always maintained that middle powers can play a more prominent role in regional and global affairs.³⁰ In the late 1980s, it was instrumental in setting up APEC, and in the early 1990s it also introduced the concept of cooperative security. When Kevin Rudd became Prime Minister in 2007, he proposed an active and creative middle-power diplomacy—to lead, not to follow, and based in Asia but with a global vision. This renewed interest in middle-power diplomacy has been driven by both internal needs and external factors. The former follow Australia's tradition of alliance with the US, support for the UN collective security principle, a focus on its own regional environment, a concern to have sufficient defence capability, the need for good relationships with neighbouring countries, and creative and confident diplomacy. Australia ranks among the top 20 global economies, is a key resource supplier to all major Asian powers, and has a defence budget that should enable it to play a more active role in regional affairs. Australia could and should project an image of being able to exercise an independent foreign policy.³¹ Indeed, some Chinese analysts suggest that Australia's a country with significant political ambitions, and not merely at the regional level. From nuclear disarmament and humanitarian interventions to strengthening regional security institutions, Canberra has regularly taken a leadership role in pushing the agendas. For instance, Australia was very active in soliciting support for international intervention in the Syrian conflict, particularly in the aftermath of chemical weapons use, as it assumed its seat at the UN Security Council and later as the council's rotating president. This position stands in sharp contrast to the one taken by Beijing, which, together with Moscow, has vetoed three UN Security Council draft resolutions on Syrian intervention.³²

Given Australia's growing interests in and ties with the region, especially in economic terms, such scenarios require more active diplomacy. However, because Australia's an important member of the US-led regional security architecture and has extensive economic interests (eight of its top 10 trading partners are Asian countries), there's palpable ambivalence in Canberra's policy towards Asia. On the one hand, extensive economic ties with the region clearly encourage a policy of further integration. On the other hand, given its Western culture, political system and ideology and its geostrategic interests, Australia remains a core member of the Euro-American system. The latter consideration has at times constrained Canberra's ability to pursue the former.³³ Australia now plays what Chinese analysts characterise as an 'offshore balancer' role: supporting US rebalancing efforts but also reassuring China that it has no interest in containment. This is a balancing act to hedge against China's rise without openly declaring hostility towards it, and to neither blindly follow US anti-China strategy nor tie Australia to it—thereby creating some freedom of space and action and emphasising interests and pragmatism rather than ideologies and rigid lean-to-one-side approaches.³⁴ This explains both Canberra's motivation for pursuing an active and creative middle-power diplomacy and the fundamental constraints it faces, given its alliance with the US and the emerging powers in the region. Clearly, there's a gap between Australia's aspirations and the reality.³⁵

Canberra's middle-power position, especially its agenda-setting capability (such as in the Pacific Economic Cooperation Council (PECC) and APEC and on nuclear disarmament), has been under challenge with the rise of other regional powers and institutions in which Australia doesn't play a prominent role, including the ASEAN Regional Forum, the East Asia Summit and the Six-Party Talks. Australia faces the prospect of being marginalised. This requires Canberra to look for new niches and show new creativity. Its growing interest in the Indo-Pacific region is a way to maintain and even enhance its relevance as a key regional player. In recent years, Australia's also begun to pay more attention to the Indian Ocean, and hence the Indo-Pacific, where it is strategically located. Australian-Indian security cooperation reflects this strategic shift. Geographically, Australia occupies an important position between the Indian and Pacific oceans. India's a rising power, and in recent years Australia's actively sought to develop close ties with New Delhi, including through the Gillard government decision to export uranium to India. Clearly, Australia's own interests, including protecting its SLOCs in the Indian Ocean, prompted Canberra to pay more attention to the region; at the same time, it must be acknowledged that its growing ties with India also are informed by concern over China's growing presence.³⁶

Australia's role in global arms control, disarmament and nonproliferation has been largely recognised by Chinese analysts as part of Canberra's middle-power diplomacy, especially since the early 1980s. For instance, Australia was the first non-nuclear-weapons state to sign the 1963 Partial Test Ban Treaty. Canberra played an important role in setting up the Australia Group in the aftermath of chemical weapons use during the Iran-Iraq war in the 1980s. After the end of the Cold War, again, it was Australia (under former foreign minister Gareth Evans) that took the lead to promote global nuclear disarmament. The Canberra Commission on the Elimination of Nuclear Weapons has also played a critical role. In 1996, when the Comprehensive Test Ban Treaty was concluded but because of India's objection couldn't be open for signature at the Conference on Disarmament, it was Australia that took the treaty to the UN General Assembly for a vote, hence ensuring its adoption and subsequent opening for signature by member states. Canberra played an important role in establishing the South Pacific Nuclear Weapon Free Zone (the Treaty of Rarotonga) and, as a country with significant uranium deposits, instituted tight nuclear nonproliferation regulations on exports. All of these activities demonstrate Canberra's interests in multilateral diplomacy and rule-based international institutions and practices in forums where Australia could play a much more prominent role as a middle power with active and creative ideas.³⁷

Finally, Australia's relations with ASEAN are also an important component of its foreign policy due to geographical proximity. Canberra began to develop ties with the regional organisation in the mid-1970s but largely focused on economic relations. In the 1980s, Australia's efforts to integrate more closely with Asia enabled it to further ties with ASEAN, and its active involvement in the Cambodian settlement expanded interactions in the political arena. But it wasn't until 2005 that Canberra finally signed the Treaty of Amity and Cooperation, a prerequisite for becoming a member of the East Asia Summit. One of the motivating factors in Australian involvement in Southeast Asian affairs is to expand its influence in the region as an important player. Certainly, its lead role in East Timor peacekeeping operations and the Solomon Islands intervention have greatly boosted its confidence and middle-power credentials.

There's no question that Indonesia has always featured prominently in Australian foreign policy, but Canberra's policy management with ASEAN hasn't always been smooth sailing. Indeed, the Howard government's policy of closely following the US global war on terrorism and its intention to use force pre-emptively alienated some of its Southeast Asian neighbours. The recent phone-tapping scandal has severely roiled Canberra's relations with Jakarta and posed a serious foreign policy challenge to the Abbott government.

Australia's ASEAN policy must be placed in the broader context of its alliance with the US. In other words, while Canberra can pursue an Asia-focused agenda and is definitely interested in doing so, the objective and the ultimate outcome should align with, rather than contradict, the common geostrategic interests that it shares with Washington. In recent years, it has openly expressed the view that the South China Sea territorial disputes should be settled diplomatically and shown its support for a multilateral approach. That position is also held by the US and some of the claimant states.³⁸

As a middle power, Australia's importance in China's greater peripheral diplomacy has been on the rise in recent years. Due to its strategic location, at the juncture of the Pacific and Indian oceans, it can be seen as a key outpost of maritime powers in constraining continental powers and can therefore be used to strategically contain a power like China, and especially that power's maritime security and aspirations.

In theory, because China and Australia have no territorial disputes and no historical conflicts, it's possible that the two can achieve consensus on issues such as Taiwan, the South China Sea and the rise of China.

In recent years, Australia has become a key market for Chinese exports and a major source of resources critical for China's economic development, including energy. In theory, because China and Australia have no territorial disputes and no historical conflicts, it's possible that the two can achieve consensus on issues such as Taiwan, the South China Sea and the rise of China. But Chinese analysts acknowledge that how and to what extent bilateral relations can develop will be influenced by the US factor. While there are important economic benefits to be gained by developing and deepening bilateral ties with China, Australia will nonetheless view its alliance with the US as the most important. That imposes limitations on its relationship with China. However, perhaps exactly because of these obstacles, given Australia's growing importance both geopolitically and geo-economically, some Chinese analysts argue that Beijing needs to do a better job in winning Canberra over; at a minimum, it shouldn't push Australia further into the embrace of Washington. Patience and long-term vision, instead of myopia and a fixation on economic commercial gains and interests, should be the strategy. Specifically, Beijing shouldn't apply pressure and put Canberra in an awkward position of having to choose between China and the US, in which case it would inevitably choose the latter.³⁹

Chinese analysis of the 2009 Australian Defence White Paper, *Defending Australia in the Asia Pacific century: Force 2030*, drew several conclusions. First, the white paper reflected a growing concern in Canberra that the 2008 GFC might erode the US's staying power and especially its primacy and interests in Asia. That could affect Australia's security interests, as they were anchored in the alliance. Second, and in contrast to US's relative decline, was a resilient China, continuously rising economically and militarily, that could pose a potential threat to Australia. This was Cold War mentality: that when a country becomes stronger it will seek dominance. Given that the US was seeking more cooperation with China in addressing global financial problems and climate change, the white paper clearly revealed a degree of uncertainty and hence the need for Australia to strengthen its own defence capabilities. In addition, Taiwan remained a potential flashpoint that could lead to US-China military conflict. These developments and assessments convinced Australia that it needed to strengthen its own defence capabilities while also seeking to develop security ties with other regional powers, such as Japan and India. Some Chinese analysis even suggests (mistakenly) that Canberra's goal is to seek regional hegemony and, as a minimum, raise its profile in US strategic posturing. Third, the 2009 Defence White Paper was a very ambitious document that committed to significant investments in major procurements over the next two decades, which would be difficult to sustain in the current economic environment. This was a major departure from traditional territorial defence and towards greater forward defence. One Chinese paper calls it a 100-billion-dollar armament plan and an Australian great military power dream. Finally, the Rudd government's justification for the defence expenditure and the rhetoric about the China threat affected general public opinion and undermined Rudd's ability to serve as a bridge between China and the US.⁴⁰

Chinese analysts point out that public opinion in Australia has an important impact on Canberra's China policy but can also be a function of overall bilateral relations. To a significant extent, Australian public views of China are mixed. On the one hand, more and more Australians recognise—and may even appreciate—that the rise of China can bring economic benefits to Australia; on the other hand, they're also concerned that a more powerful China can pose a threat because of the two countries' different political systems, ideologies and values. Under such circumstances, how elites and the media depict the bilateral relationship could influence how the Australian public views China. For instance, the Australian public has strong views on Chinese investments into the resource and agricultural sectors, fearing excessive foreign ownership and control. The fact of the matter is that some of the major Australian resources conglomerates, such as Rio Tinto and BHP Billiton, are already predominantly foreign-owned, but that doesn't seem to cause any problem until reports emerge of Chinese investment seeking partial ownership or equity. Clearly, there's also a need for China to consider public diplomacy to dispel such misunderstandings and concerns.⁴¹

In contrast, Chinese analysis and media commentaries have by and large been positive about the *2013 Defence White Paper*. While they note that there's noticeable continuity in the new white paper's emphasis on the importance of the US to Australia's defence and the growing strategic importance of the Asia-Pacific region, the tone of the paper appears to be more positive and confident that China and the US—the two powers having the most significant impacts on regional security and stability—can manage to co-exist to avoid major conflicts. At the same time, Australia welcomes China's rise and its contribution to regional developments. The Chinese Government also responded to the release of the paper favourably, calling it a new opportunity to elevate bilateral relations to a new level, now that the two countries have established a strategic partnership. Some Chinese analysts observe that the best way for Australia to play a more proactive and positive role in the region is to not choose sides but maintain a neutral position in great-power relations; that would allow it to play a bridging and even mediating role.⁴² Notably, the Chinese ambassador was invited to attend the release of the paper at an air force base in Canberra.

With the US pivot to Asia, Australia's strategic importance to overall American strategy has increased, providing critical military bases and facilities and serving as critical strategic rear—the 'southern anchor'.

With the US pivot to Asia, Australia's strategic importance to overall American strategy has increased, providing critical military bases and facilities and serving as critical strategic rear—the 'southern anchor'. While the 2013 white paper presents a positive view of China's rise and Sino-Australian relations, one can detect Canberra's ambivalence and deep-seated concerns. Chinese analysts characterise those concerns as a misunderstanding of Beijing's intentions; for instance, China's more active maritime activities in the South Pacific and the Indian Ocean are seen as posing potential threats to Australia's interests. Canberra's particularly concerned about regional arms competition, territorial disputes between China and its neighbouring countries, the Taiwan issue and the Korean Peninsula, all of which can pose major threats to regional stability. As a result, the white paper focuses on the Asia-Pacific and sets out a blueprint for the next five years, including how to handle the emerging security challenges in cybersecurity, piracy and other non-traditional security areas. It also reveals Canberra's desire to play a more active role in the region as a middle power to maximise its national interests. However, Chinese analysts also point out that, despite a desire for greater autonomy and independence in playing a middle-power role, Canberra's options are significantly constrained both by its alliance with the US and by its own resource limitations.⁴³

As a middle power with limited resources to spend on defence, Australia's security ultimately depends on the overall external environment it's in and on its ability to influence that environment; the resources—internal and external—it can count on in response to potential or actual threats; and how it uses its resources to advance and protect clearly defined national interests, with priorities and trade-offs at times. At the same time, Australia isn't just a middle power but one with experience, a reputation and sharply defined interests in driving its own agenda. However, Australia's growing economic dependence on China means that it will have to respond from time to time to Beijing's pressure to act in certain ways. But the more daunting challenge will be how to respond if the two powers that matter the most to Australia—the US and China—drift into open rivalry, given their fundamentally different visions of Asia and their respective roles in it and the disputes that already cast a shadow over their relationship. America isn't going to share primacy with China easily; China thinks it deserves better, given its growing economic power and political influence. Washington's pivoting to Asia; Beijing's asserting itself. As a rising power, it's inevitable that China will challenge and seek to replace the US as Asia's new dominant power. Despite—or perhaps because of—their ever-growing economic interdependence, disputes over trade balances, currency valuation, intellectual property rights and market access have intensified rather than receded, notwithstanding the best efforts by both capitals to manage them so that they can still cooperate on other areas of mutual interests, from nuclear proliferation to climate change.

In recent years, Chinese analysts have been paying increasing attention to Australia's maritime strategy, and especially to how such a strategy will affect China's maritime interests and Sino-Australian relations. The Howard government moved away from Asia-oriented policy towards greater support for US global and regional strategies, including in the Asia-Pacific. For instance, in the aftermath of the April 2001 EP-3 incident, three Royal Australian Navy ships sailed through the Taiwan Strait in disregard of Chinese demands for advance notice. At the same time, Chinese analysts recognise that because Australia's key security guarantors (first the UK and then the US) have been geographically remote it has to enhance and depend on its own capabilities to maintain regional security, including safeguarding its own maritime waters, despite the US military presence in the Western Pacific. This perspective has informed a focus on maritime security as a critical element, in both perceptual and procurement terms, in Canberra's defence planning because of Australia's dependence on maritime trade and energy supplies.

Over the years, Canberra's defence policy has gradually shifted from wholesale dependence on US military protection to the development of its own capacities. The 2009 Defence White Paper's ambitious procurement programs were an indication of the shift. Enhanced capabilities for the Royal Australian Navy can potentially pose serious threats to Chinese interests in three areas. One is its submarine force, which can assist in US efforts to impose a blockade of the Strait of Malacca, China's maritime lifeline; another is the Australian Navy's antisubmarine capability, which can threaten China's nuclear-powered and conventional submarines; a third is its networks of naval facilities that can be used by US forces for naval operations.⁴⁴

CHAPTER 5

Australia and the US-led alliance systems in the Indo-Pacific

Almost all Chinese analyses of Australia's foreign and defence policy point to the critical importance of the Australia–US alliance—the ANZUS Treaty. This section offers Chinese perspectives on the origins, evolution and current status of the alliance and analyses how it both reacts to and affects regional security and hence Chinese interests. Focusing on development since the end of the Cold War, and especially developments since 9/11, the analysis seeks to provide a clear understanding of Chinese views, calculations, concerns and responses vis-a-vis the Australia–US alliance (for example, how the alliance affects Canberra's decisions on such issues as missile defence, Taiwan and territorial disputes in the East and South China seas). It also examines the offshoots of the US-led alliance systems in the Indo-Pacific, Australia's efforts to develop and enhance security cooperation with other powers in the region—Japan, the Republic of Korea and India—and the motivations for those growing security and defence ties.

One theme seems constant. US–China strategic rivalry poses the most serious dilemma for Australian foreign policy. The assumptions are that major trade-offs are inevitable and that Canberra will side with Washington in any serious conflict between the US and China, from the Taiwan Strait to the South China Sea and the Indian Ocean, leading to major setbacks in Sino-Australian relations and irreparable economic disruption to Australia. The consequences could indeed be dire.

The origin of the ANZUS Treaty could be traced to early postwar US–Australia differences over the treatment of defeated Japan. From Canberra's perspective, the best way to prevent Japanese remilitarisation was to impose strong punitive measures. This was understandable, as Australia (and the US as well) suffered from Japanese aggression during World War II. Washington, on the other hand, wanted to adopt a softer line and to assist Japan to stand on its feet, especially after the Korean War broke out. The US needed Japan as a major piece on its Far Eastern Cold War chessboard, not least because of its need to restore Japanese industrial capacity to supply manufactured goods to US-led war efforts in Korea. Australia, while showing strong support for the US as one among the first nations to send in troops as part of the UN forces, was nonetheless adamant about potential future threats and refused to sign a peace treaty with Japan under any conditions. Under those circumstances, Washington had to reconsider its earlier reluctance to enter into a formal defence arrangement with Australia—hence the ANZUS Treaty of 1951. In exchange, Australia signed the 1951 San Francisco Peace Treaty. The ANZUS Treaty has some ambiguity in its scope. Chinese analysts point out that Canberra objected to an earlier US proposal that the treaty cover the Taiwan Strait.⁴⁵

In the view of Chinese analysts, the ANZUS Treaty is an asymmetrical treaty, in that the US achieved major strategic objectives without committing to any unconditional defence assistance or guarantees to its treaty partners. Washington was able to get Canberra to sign the peace treaty with Japan and extended its defence perimeter to the South Pacific. Australia (and, until 1984, New Zealand) provided ideal outposts for military intelligence gathering and logistics support, and with Japan as a key link in North Pacific essentially established a defence chain from

north to south in the Western Pacific. At the same time, the terms of US commitments to its treaty partners from the beginning were ambivalent and equivocal, allowing significant space and freedom of manoeuvre for the US.

Australia has demonstrated its unswerving support for all major US foreign policy actions by dispatching troops to the Korean War, the Vietnam War and the invasions of Afghanistan and Iraq. On the other hand, Washington has at times shown reservations and certainly a lack of unreserved support on issues more important to Canberra, such as the Australian-led multinational intervention and peacekeeping operations in East Timor in the late 1990s. However, this isn't to say that Australia hasn't benefited from the treaty arrangement, which is, among other things, a security assurance to a country that's always been concerned with external threats. It's allowed access to top-of-the-line defence equipment and technology and enhanced Australia's defence capacity and diplomatic influence as a regional power.

The alliance hasn't been without its own problems. Indeed, during the dying days of the Cold War, and with Australia seriously looking towards Asia for its economic future and diplomatic priorities, the alliance experienced periodic drifts. This became even more pronounced with the end of the Cold War. The concern over Soviet southern incursions was gone, and the potential benefits for Australia from growing economic prosperity in Asia became obvious. Meanwhile, Canberra also understood the need to modify its defence strategy beyond the central pillar of the alliance with the US, to strengthen its defence capabilities and to expand cooperation with the Asia-Pacific region. Hence, the concept of cooperative security was proposed and promoted. Australia's interest in multilateral security and the Clinton administration's neglect of the alliance led to a period of drift in which Canberra was ever more conscious about its security and actively sought autonomy in its diplomatic initiatives. On a range of issues involving the region, Australian and US views and priorities appeared to differ, and Canberra no longer automatically followed Washington's lead.

Chinese analysts suggest that ALP governments tend to demonstrate more autonomy in foreign policy than Coalition governments, which appear to be more dependent on and compliant with the senior partner of the alliance. For example, the Keating government's policy of engaging China and encouraging it to participate in regional multilateral institutions such as APEC, while resisting the temptation to blindly follow US policy, was much appreciated by Beijing. Some Chinese analysts suggest that the Hawke-Keating era (1983-1996) was the best period in Sino-Australian relations. In contrast, the period since has experienced ups and downs, while the US role has been a key factor influencing Canberra's China policy. Indeed, while benefiting from China's economic boom, Australia is nonetheless highly dependent on the US for its security. When Sino-US relations remain relatively stable or are improving, Australia has more room to manoeuvre, but US-China tensions inevitably force Canberra to side with Washington.⁴⁶

The second Clinton administration made greater efforts to redefine and restore the Australia-US alliance. Washington also emphasised the importance of Australia as the southern anchor of the US alliance systems in Asia. The Howard government came into power in March 1996, also determined to restore and strengthen the alliance. The 1996 Joint Security Declaration (the Sydney Declaration) reiterated the importance of the alliance and agreed on the extension of the US's use of military facilities in Australia. The two countries also agreed to boost the level and frequency of joint military exercises, and that Australia would allow US Navy port calls. The alliance also began to shift from being US-directed to a more equal division of labour, in which Australia would shoulder more responsibilities, especially in the region. In recent years, US-Australian joint military exercises have intensified, driven by Washington's determination to maintain its predominant position in the Asia-Pacific region. Australia's participation becomes part of a division of labour in the US-Japan-Australia alignment to hedge China's rise. Australia's contribution also includes participating in US missile defences and providing intelligence-collection facilities. The strengthened US-Australia alliance has helped Canberra to elevate its own position in the South Pacific, as well as giving Australia a greater voice in regional affairs. Indeed, Australia has become active in projecting its power and has acted as a regional sheriff in operations in East Timor, Papua New Guinea and Solomon Islands.⁴⁷

That Australia's maintained a close alliance relationship with the US in itself doesn't really concern Chinese analysts, many of whom readily point out why Canberra needs Washington for its own security. (Some Chinese scholars have suggested that it's important to analyse Australian foreign policy on its own merits, and not predominantly through the US prism.⁴⁸) What's at issue, though, is the extent to which Australia not only follows US policy but also provides critical support to America's pivot to Asia in real terms. Most important is the question of how deeply Australia will be involved in and facilitate the US military presence and redeployment in the region, and even form a part of the American defence posture and networks. People's Liberation Army analysts, in particular, are acutely attentive to Australia's role in the US AirSea Battle concept. Some have pointed out that AirSea Battle depends on US allies for its implementation and so should be seen as a joint allied operational plan. Specifically, Australia can provide ideal strategic depth and safe havens for US military deployments, logistic support, communication and control nodes, and an ideal outpost—and launch pad—to project US power into the Indian Ocean and the South China Sea while remaining secure, beyond the reach of Chinese ballistic and cruise missiles. The various reports of plans to upgrade and expand airfields and naval facilities in northern and northwestern Australia over the past few years only heighten such suspicions and concerns. For Beijing, if those reports are true, that will be a step too far.⁴⁹

While the US–Australia alliance has served both countries well, Chinese analysts point out the differences that the two have over a range of issues—from the nuclear weapon free zone in the South Pacific to their respective security focuses (the US on Northeast Asia and Australia more on its neighbourhood). They also point to US concerns over primacy in Asia and the stronger US emphasis on military instruments, while Australia's interest is in comprehensive—and especially economic—security and multilateral processes as a middle power. But, overall, there's consensus among Chinese analysts that the alliance remains solid and an essential pillar in Australian defence policy, periodic drifts and even occasional differences aside.

For Beijing, that's understandable: the issue is whether Canberra will be part of and actively act on policies that seriously threaten Chinese national interests. For instance, an Australia advocating multilateral negotiations to solve territorial disputes in the South China Sea would be seen quite differently from a US ally directly providing intelligence and equipment or taking any other concrete actions to support and strengthen the other claimant states' military capabilities.⁵⁰ Commenting on the Obama declaration in the Australian Parliament that 2,500 Marines would be rotating in and out Darwin, Chinese analysts described it a cost-effective, less sensitive way of using the Australian base for training, troop rotation and weapons storage—in effect, as a quasi-base for the US. Indeed, some commentators warn that Australia would be making a serious mistake by assisting any potential and future US military operations against China by providing its ports, bases and facilities as depots or as resting or staging grounds, and hence becoming an enabler in potential US military operations against China.⁵¹

Australia in recent years has also formed security alignments with a number of Indo-Pacific countries, such as Japan and India. During Prime Minister John Howard's visit to Japan in March 2007, the two countries issued the Joint Declaration on Australia–Japan Security Cooperation. This was only Japan's second major security arrangement, beyond its alliance with the US, and so was quite significant in both its symbolism and its implications. Chinese analysts note that Australia's ties with Japan have undergone multiple iterations, from Australia's insistence on strong punitive measures to prevent Japan from ever remilitarising, to a reluctant acceptance of a 'soft' peace with Japan, to the gradual normalisation of bilateral relations, especially through trade expansion in the 1960s. By the early years of the 21st century, Japan had become Australia's largest trading partner until it was replaced by China in 2007.

However, it wasn't until the 1970s, when the two signed the 1976 Basic Treaty of Friendship and Co-operation between Australia and Japan, that their bilateral relations were fully normalised. For Japan, this was a major turning point as it walked out of the shadow of its wartime defeat. Subsequently, the two countries strengthened cooperation in regional affairs, including through the establishment of APEC. The 2007 agreement, while focusing on anti-terrorism cooperation, provides mechanisms for in-depth bilateral consultations, such as the annual 2+2 meeting, and exchanges of military intelligence and information on developments of mutual interest and concern, such as Chinese military modernisation and the North Korean nuclear program. This was in the context

of the embryonic ‘arc of democracies’ (variously called the ‘four-nation alignment’ or ‘quadrangular arrangement’ between the US, Japan, Australia and India), of which the Australia–Japan defence arrangement would form an important component. Chinese analysts raise the question of whether such an arrangement could be considered as a quasi-alliance, as there are strikingly similar clauses in the bilateral agreement and the 1951 ANZUS Treaty.⁵²

While some Chinese analysts consider the 2007 Australia–Japan security agreement as Canberra’s effort to develop an Asian version of NATO together with the US, with a clear focus on China, others suggest that Japan appeared to be the more eager suitor, while Australia was less enthusiastic about the Quad and reluctant to stoke Chinese anger. After all, China had become Australia’s no. 1 trading partner, and what Canberra hoped for was to have Japan play a greater role in regional affairs, such as in peacekeeping. Chinese foreign ministry spokespeople said that Beijing hoped that such bilateral security arrangements would be conducive to regional peace and stability, as well as respect for the concerns and interests of relevant countries in the region. Chinese analysts recognise that the US–Japan–Australia Trilateral Security Dialogue and the Quad have been clearly directed at China, but at the same time acknowledge Australia’s ambivalence about those arrangements. Canberra went out of its way to reassure Beijing that the dialogue—even though it’s subsequently been elevated to ministerial level—remains just a dialogue and that Australia certainly doesn’t see China as a threat. Canberra also indicated that the Quad (or the ‘concert of democracies’, as some analysts have called it) wasn’t, and shouldn’t be viewed, as an alignment against China, and that it had no interest in containing China. Indeed, on a number of issues, Canberra sought to demonstrate its autonomy and that it differed from US policy. Meanwhile, Australia also sought to enter into strategic dialogue with China.⁵³

The newly elected Coalition government appears willing to depart from its predecessors’ balanced, pragmatic approach. Prime Minister Abbott calls Japan Australia’s ‘best friend in Asia’. At the fifth round of the Australia–Japan–US Trilateral Strategic Dialogue, the three foreign ministers issued a statement opposing any unilateral action to change the status quo in the East and South China seas. This has triggered warnings from Beijing against interference by external parties in the region’s territorial disputes. But it was Canberra’s position on the Chinese Air Defence Identification Zone (ADIZ) in the East China Sea, which also overlaps with South Korean, Japanese and Taiwanese ADIZs and covers the disputed Diaoyu/Senkaku Islands, that incurred a strong rebuke from China. From Beijing’s perspective, Australia has no direct stake in the disputes but has taken an extraordinary step by summoning the Chinese ambassador to express concerns and by asking that China retract the ADIZ decision. This has touched off a minor crisis in bilateral relations. Chinese Foreign Minister Wang Yi publicly criticised Canberra’s ‘irresponsible remarks’ in front of reporters before his meeting with Julie Bishop ahead of the first session of the bilateral ministerial strategic dialogue in early December 2013. Wang emphasised that, as strategic partners, both countries should respect each other’s core interests.⁵⁴

Australia’s positions on territorial disputes in the South China Sea are of interest to Beijing. Chinese analysts suggest that Canberra’s positions would include aligning closely with the US in advocating for peaceful and multilateral negotiation to resolve the issue, remaining alert to any Chinese attempt to ‘control’ the entire area, and continuing to promote peace and stability in the region. This provides good opportunities for Australia to play an active role as a middle power. Given Australia’s naval capabilities and its unique position for intelligence, surveillance and reconnaissance, it’s well positioned to have an impact on the maritime issues in the region. Some of the claimant states are therefore eager to align Australia in support of their positions. The South China Sea is critical to Australia’s economic wellbeing, as it depends on the sea’s SLOCs for much of its foreign trade. China and ASEAN countries are important trading partners for Australia. With the entry into force of the ASEAN – Australia – New Zealand Free Trade Agreement in January 2010, the region’s and hence the South China Sea’s importance to Australia can only increase. In addition, the area’s potential for energy exploitation and development is also a major reason why Canberra is interested.⁵⁵

CHAPTER 6

Economic ties: from mutual benefits to interdependence

There's no doubt that economic ties have been the most resilient and positive ingredient of the China–Australia bilateral relationship. From a country that Australia didn't understand and feared during the Cold War, to one that gradually became normal and friendly in the early decades after the establishment of diplomatic relations in 1972, to one that's today almost indispensable in several key areas of the Australian economy, China has changed from an adversary to an important partner. The scope, speed and scale of Australia–China relations—from commodity trade to higher education and tourism—were beyond anyone's imagination in 1972. From under \$100 million in 1972 to \$120 billion in 2012, Australia–China two-way trade has grown at breath-taking rates over the past four decades, averaging annual growth of 24.8% between 2000 and 2010. Today, China is Australia's no. 1 trading partner, having replaced Japan in 2007, its largest export market, accounting for 22.6% of total Australian exports, and its largest source of imports at 15.3%. While still small compared to those of the US and the UK, Chinese investments in recent years have also experienced sizeable growth, mainly in the mining sectors but also in agriculture.⁵⁶

The reasons for this phenomenal growth in Australia–China economic ties have been thoroughly examined elsewhere and need not detain us here. Perhaps the two key drivers, especially in recent years, are China's shift from consumer goods and light industries in the early decades of economic reform and opening up, which were largely based on labour-intensive processing and the assembly of products aimed mainly at overseas markets, to a more recent emphasis on infrastructure developments that are capital and resource intensive. Meanwhile, with hundreds of millions of people being lifted out of poverty and moving into the middle class, demands for housing and automobiles further drive up the need for minerals and energy supplies, which Australia fortunately is well positioned to provide. The 2008 GFC and the Chinese Government's response in the form of massive stimulus spending further inflated such demand—another godsend for the Australian economy. However, just as an expanding Chinese economy helped Australia weather the global economic recession over the past few years, its recent slowdown is now causing significant economic difficulties in Australia.

Most Chinese analysts agree that bilateral trade has always been a bright spot in Australia–China relations. China's now become Australia's largest trading partner, largest destination for Australian commodities, a destination for services, the largest source of imports and a large source of tourists. Over 160,000 Chinese students are enrolled in Australian universities and other post-secondary educational institutions, making it another major source of foreign income. In contrast to Australian concerns over its dependence on China for its economic wellbeing, Chinese analysts point to China's dependence on Australia for some critical commodities that are either difficult or very expensive to replace. Specifically, they argue that Chinese demand for minerals allows Australia to take stronger positions in negotiations on prices. In addition, because Chinese exports to Australia are typically low-value-added consumer goods that face fierce competition from other developing, low-cost countries, they can be easily replaced. Third, further and deeper economic ties are sometimes impeded by political and security considerations and US influence, resulting in occasional discriminatory treatment of and barriers to Chinese investments.⁵⁷

Australia was among the first few Western countries to provide official development aid to China. Since 1978, through a number of bilateral agreements and memorandums of understanding, Australia has provided financial assistance, credits, poverty relief/elimination, rural development, environmental management and technology cooperation, contributing to China's economic development. Although the Howard government briefly and unilaterally suspended Australia's preferential credit lending programs to China soon after it took office, overall, Australia's assistance programs to China have been positive and valuable in China's social and economic development and have helped China in the transition to a market economy. In 2011, then Australian Foreign Minister Kevin Rudd announced that Australia would stop official development assistance to China and India as a result of their growing economic power. However, Chinese analysts point out that, while China's comprehensive strength has steadily increased, on a per capita basis it remains a developing country, with uneven development between different regions, and that foreign development assistance is therefore still required.

There's great potential for Australia–China cooperation, including in the energy area.

There's great potential for Australia–China cooperation, including in the energy area. Australia's a country with vast stocks of energy resources but a small population, so most of those resources are slated for export. Bilateral cooperation in the energy area is concentrated in coal, natural gas, uranium and energy technologies, in which Australia is a leader in many aspects, such as clean coal, liquefied natural gas and renewable energy. Since 2006, Australian natural gas exports to China have helped to relieve domestic demand pressure. At the same time, Australia has also become a major exporter of coal to China in recent years. In April 2006, a state visit to Australia by Chinese Premier Wen Jiabao resulted in the Nuclear Material Transfer Agreement and Nuclear Cooperation Agreement. The agreements allow Australia to supply uranium to China. The shipments began in 2008.

Between 2009 and 2012, Canberra approved 380 investment proposals worth more than \$80 billion from Chinese state-owned enterprises. While investment growth has been extraordinary, China remains only the ninth largest source of foreign investment in Australia. However, Chinese investments receive disproportionate media coverage, and Chinese analysts argue that the coverage also projects a misperception of a concerted effort by Beijing to encourage and support companies to invest and hence control the resource sector. That misperception is reinforced because the Chinese companies that seek to invest in Australia's resource sector are typically state-owned enterprises. A case in point is the failure of the bid by the Aluminum Corporation of China (Chinalco) to acquire an 18% shareholding in Rio Tinto in 2009. Indeed, in recent years, polls conducted by the Lowy Institute suggest that Australians think the government's allowing too much Chinese investment.⁵⁸

When Chinese President Hu Jintao visited Australia in October 2003, the two sides signed the China–Australia Trade and Economic Framework, which called for the negotiation of a free trade agreement, beginning with a bilateral feasibility study. The negotiation was subsequently launched during Chinese National People's Congress Chairman Wu Bangguo's visit in Sydney in May 2005. Nineteen rounds of negotiation have taken place since then, but issues such as rules of origin, government procurement, service market access, the agricultural sector and China's market economy status remain unresolved. Australia's adopted a comprehensive approach, with all issues on the table, and nothing will be agreed until everything's agreed. In contrast, the Chinese prefer a selective, gradual, step-by-step approach.⁵⁹

China recognises the growing importance of free trade agreements and has been actively pursuing negotiations with a number of countries, including Australia.⁶⁰ It's so far entered such arrangements with ASEAN, New Zealand and Chile, among others. A China – Japan – South Korea free trade agreement is currently being negotiated.

Australia–China free trade negotiations began in 2005 with the expectation that both countries would benefit significantly from such an arrangement. From China’s perspective, a number of issues stand in the way of a successful conclusion of the negotiations. They include the position of the agricultural, commodity and service sectors. Given Australia’s highly competitive agricultural sector, China’s concerned that any commitment over and above World Trade Organization requirements would put the country’s farmers under considerable pressure and may even lead to social instability. China’s growing demand for minerals and energy, along with Australia’s near-oligopolistic position as a major supplier country, puts Chinese companies in a disadvantageous terms-of-trade position, especially with high commodity prices. For geographical reasons, using alternative suppliers, such as Brazil, would significantly raise transportation costs. This has created an asymmetrical but interdependent relationship between the two countries, in which China is both highly sensitive and vulnerable to any changes in prices and the availability of supplies. On the other hand, Chinese exports to Australia, which consist largely of labour-intensive consumer goods, can be substituted with those manufactured in other low-cost developing countries. Finally, Beijing’s also concerned about challenges to its service sector, especially in banking and insurance, if China opens up its market.

At the same time, Chinese analysts view Australia’s labour market as highly protected and its investment environment as restrictive due to political interference. Indeed, it’s widely perceived in China that political factors, and in particular Australia’s close security ties with the US, are major obstacles to deepening economic ties between China and Australia. One example is Chinalco’s failed 2009 Rio Tinto bid. Another is the ban on Huawei’s bid for Australia’s National Broadband Network contract, despite the fact that Australia has clearly benefited from an expanding trade relationship with China since the 2008 GFC and needs foreign investment.⁶¹

Nonetheless, Beijing seeks to build long-term and stable economic ties with Australia based on mutual benefits. In particular, Chinese leaders have emphasised the importance of building economic ties with strategic vision. Given China’s need for resources, Beijing is clearly more interested in stable and reliable energy and commodity trade while looking for new areas of cooperation, such as services and infrastructure, including in telecommunications. Beijing also hopes that Chinese companies, including state-owned enterprises, can be given fair and non-discriminatory treatment when their investment applications are reviewed by Australian authorities.

It’s essential that both countries overcome the difficulties to seek an early conclusion of the free trade agreement.⁶² However, some Chinese analysts point out that China’s state-owned enterprises also need to understand Australia’s sensitivity to foreign ownership (in certain sectors) and market conditions before making major investment bids. Australia, as a mature economy, isn’t like Africa: hiring local staff, responding to non-government organisations and adopting corporate social responsibility are all lessons that Chinese companies have to learn.⁶³

Chinese analysts are also closely watching Australia’s participation in the Trans-Pacific Partnership (TPP) negotiations. Clearly, Canberra considers the TPP to be an important step towards further regional economic integration and a higher level of free trade and investment. In one sense, this continues Australia’s active promotion of regional economic cooperation, which dates back to the establishment of APEC and former prime minister Kevin Rudd’s concept of an Asia–Pacific Community. At the same time, Canberra’s support of the TPP framework reflects its close ties with the US, and the partnership could create some competition with the region’s other free trade initiatives, such as the Regional Comprehensive Economic Partnership (RCEP) driven by ASEAN. However, given that Australia is also part of the RCEP negotiation process and the fact that it has some concerns over the scope of the TPP, including investments and the pharmaceutical industry, this suggests that Canberra is seeking to protect its interests while getting the maximum benefits of freer trade and investment in the region.⁶⁴

CHAPTER 7

Conclusions and recommendations

Several conclusions can be drawn based on the discussion in this report. First, Chinese thinkers and officials have been largely positive about the Sino-Australian relationship, which has been described as stable and mutually beneficial, and complex but continually improving. The two countries' respective comparative advantages have allowed them to enter into and deepen their economic interdependence and partnership.

Australia–China ties have also extended to other areas besides the economy. Those links include more than 20 official channels for dialogues on subjects ranging from trade to human rights and climate change; defence exchanges that feature port calls and joint search and rescue exercises; cultural and educational exchanges that include science and technology cooperation; and tourist visits.

Australia and China also interact in international and regional forums such as the East Asia Summit, APEC, the ASEAN Regional Forum, the G-20 and, for 2013–14, the UN Security Council.⁶⁵ In April 2013, the two countries agreed to establish a strategic partnership that would include annual summit meetings between the heads of government. This followed an earlier agreement in 2006 for regular high-level dialogue and the strategic dialogue initiated in 2008. Australia is one of only two countries that have strategic dialogues with China, and 15 rounds of such dialogues have been held between the two countries since 1997. And the leaders in both countries remain upbeat about the future of bilateral relations. Chinese analysts agree that the current Abbott government will continue with an Asia-focused policy and handle its relationship with China with pragmatism. However, its attention will be more tuned to domestic priorities for dealing with the growing deficit, boat people, the carbon tax and the National Broadband Network.

In the coming months, two areas deserve particular attention. One is the bilateral negotiation on the free trade agreement. The other involves bilateral coordination of multilateral diplomacy. Australia and China will host the G-20 and APEC summits, respectively, in 2014, and can collaborate in promoting multilateral trade, opposing trade protectionism and cooperating in other areas.⁶⁶

Second, Australia's importance to China has been growing, both in its own right and in Beijing's emerging grand strategy. Chinese perspectives on China's relations with other countries can be described as falling into several categories. Other countries can be important to China due to their geostrategic weight, economic values and diplomatic relevance. During different periods and on different issues, the importance of those countries also varies. In the past, Australia in China's mind was viewed as a friendly country to begin with, and one that was generally grouped into the so-called Second World (Western Europe, Japan, Canada, Australia and New Zealand) and could provide critical economic, financial and technological assistance in China's modernisation programs, including official development assistance. At the same time, Beijing also considered Australia as a country important in its united-front diplomacy. In that context, Australia's place in overall Chinese strategic calculation would be as a country that shared similar concerns (such as Soviet expansionism during the Cold War) and as an important regional power that, due to its close ties with the US, could affect China's important strategic interests.⁶⁷

With the end of the Cold War, and especially over the past decade, Australia's profile in Chinese foreign policy formulation has been elevated because of three major developments. One is Australia's role as a key supplier of resources critical for China's continued economic growth. In fact, Sino-Australian commodity trade has played a critical role in fuelling Chinese economic growth and saving Australia from the worst impacts of the GFC. The second is the US pivot to Asia and Australia's role not only in being a faithful ally but also in providing critical support to America's most important post-Cold War strategic redeployment. The third is the emerging new global governance structure in which emerging markets such as Brazil, India and Indonesia, and traditional Western middle powers such as Australia and Canada, are changing the ways global issues are dealt with and providing opportunities for creative and active diplomacy, to which Canberra aspires. As a result, Chinese policymakers and analysts are paying more attention to Australian politics, foreign policy and defence, especially where Australian policies align with, inform and strengthen traditional alliance relationships and shared values.

Canberra isn't being assessed merely on where it stands with the US; its positions on other regional security issues are also important for China.

Canberra isn't being assessed merely on where it stands with the US; its positions on other regional security issues are also important for China. Beijing's increasing assertiveness in handling maritime territorial disputes in the East China Sea and South China Sea and responding to alleged US military surveillance activities in its exclusive economic zone reflects Beijing's view that past passivity eroded Chinese interests and emboldened other powers and claimant states to encroach on its sovereignty. Over the past few years, Beijing has had public spats with at least three countries in the region (Japan, Vietnam and the Philippines) over sovereignty claims to the Diaoyu/Senkaku Islands and the Spratly Islands. China has clearly indicated that it prefers bilateral rather than multilateral negotiations to find solutions and warned against internationalising these disputes and against external interference—a clear reference to the US. Canberra has stated its preference for peaceful settlements of the disputes while also making publicly known its positions on such issues as freedom of navigation—a position shared by Washington. That being the case, there's good reason that Beijing would like to maintain a cordial and stable relationship with Canberra. Indeed, one could argue that this has been precisely the policy of the Chinese Government over the past few years, including when bilateral relations experienced serious setbacks in 2009 and 2010. Instead of publicly criticising Australia, China engaged it, and Li Keqiang and Xi Jinping made official visits during that sensitive period. Understanding the critical influence of the US factor in Australian foreign policymaking, Beijing has also sought to improve ties with Washington, proposing a new type of major-power relationship, which in effect minimises the chance that Canberra could be placed in an uncomfortable position of having to choose between the US and China.

Finally, although in recent years there's been growing Chinese attention to Australia, there remains an imbalance between China's place in Australian foreign policy and Australia's place in Chinese foreign policy, and hence in the level of interest and the depth of analysis in the two countries. While there's great debate in Australia about what Canberra needs to do to balance its relationships with China and the US, two of its most important partners and one its major ally, that's not the case in China, where academic analyses remain limited and media coverage is only triggered by major developments such as the failed Rio Tinto bid, the Australian Defence White Paper in 2009 and the November 2011 US–Australian announcement of the Marine rotation in Darwin.

In many respects, Australia remains ranked behind the US and major power centres such as Russia, the European Union, Japan and even ASEAN in Chinese foreign policy analyses and academic discussions, even though Australia

holds a much more important place where critical Chinese national interests are concerned, both geo-economically and geopolitically. And there appears to be significant consensus among think-tank experts, academics, military analysts and the media, although, understandably, military analysts tend to focus more on the defence aspects of Australia's foreign policy decisions and its relationships with key regional players such as Japan and India, while scholars typically approach the same topics from historical and comparative perspectives. But it's quite certain that Australia's importance for China will continue to grow, as will Chinese analyses in the coming years.

Clearly, China's rise offers opportunities as much as it presents challenges to Australian foreign policy. Experiences have shown that misplaced expectations and ill-conceived grand visions can encounter significant hurdles in implementation, and under-delivering or failing to deliver can cause disappointment or even lead to misunderstanding.

Canberra should handle its relationship with Beijing with pragmatism, a bipartisan approach, one voice, clarity and coherence in policy, and engagement. Pragmatism, feasible and achievable objectives, dedicated resources and committed political will are critical ingredients of success. The Abbott government could learn a great deal from the success stories of the Howard government. Howard had his early blunders but was quick to learn. This shows how experience as a seasoned politician can turn things around. He subsequently visited China many times as prime minister and hosted top Chinese leaders in Canberra, and President Hu Jintao's speech to the Australian Parliament was a major coup in Howard's China policy. Given China's importance to Australia's economic bottom line and Canberra's growing wariness of Beijing's recent behaviour, it should be a no-brainer that more regular and high-level official channels should be established to manage an increasingly complex relationship. The Gillard government has left a good legacy, in that a strategic partnership and strategic dialogue mechanisms have been established to allow the Coalition government to further bilateral interactions and understanding at various levels.⁶⁸

Managing the China challenge must start from well-defined national interests that are an overall guide to set and prioritise objectives, formulate policies and allocate resources. Australia needs a stable international environment and continued economic growth. China's rise has been conducive to the latter but can also be unsettling for the former. But China's path to great-power status and how it will use its power are not predestined and can be affected by many factors. In assessing China as a potential threat to Australia's and region's security interests, one must accept and acknowledge that Beijing makes similar assessments. The best approach is to raise the costs for unacceptable behaviour through a combination of alliances and alignments, self-reliance, military preparedness and institutions that can minimise the impacts of security dilemmas. At the same time, Australia should refrain from raising China's anxiety and fear of encirclement, or its suspicion of being deprived of its rightful place in regional and global affairs, befitting its newly acquired power.⁶⁹

The Abbott government should have a China policy that's the result of multi-agency consultation, has the opposition party's support to the extent possible, and is presented in a unified voice. The discordance in the new government's early weeks doesn't show a competent government in command of its foreign policy, but competition among various groups within it. The reference to Huawei in relation to the National Broadband Network is a case in point. Several ministers made premature and ambivalent remarks about the company's role, which in turn generated speculation, only to be overruled later by the Attorney-General and the Prime Minister.⁷⁰

Speaking with one voice would greatly enhance the Australian Government's diplomatic leverage in its dealings with a great power like China. However, that principle shouldn't prevent and indeed must be accompanied by greater and broader contacts with Chinese counterparts, from government and business to people-to-people exchanges. Canberra should make good use of the newly established Australia-China Forum to both sound out China's views on critical global and regional issues and to make sure its own positions are conveyed and clearly understood.

Given China's importance to Australia's economy and security, more regular dialogue and consultation with Beijing must be a top priority for Canberra.⁷¹ The foundation laid by the previous government, such as the bilateral strategic dialogue, should be maintained and strengthened. Greater efforts should be made to understand China's strategic orientation, the key players and the increasingly complex policymaking process.⁷²

Canberra should also involve the Australian business community and encourage it to engage its Chinese counterparts in facilitating trade and investment opportunities and in particular in explaining the Australian review process for foreign direct investments. This would dispel, or at least minimise, negative impressions in Beijing that China is discriminated against. For instance, the recent decision to deny ADM's Graincorp bid can be used as an illustration that such determinations are largely based on national interests and not on political considerations or country-specific. And the approval of the State Grid Corporation of China and the lifting of conditions for Yanzhou Coal lend some credibility to the government's 'Australia is open for business' line while addressing Chinese investors' perceptions of being discriminated against.⁷³

Finally, the Abbott government would do well to make sure that its principal policy positions are clearly conveyed to and understood by Beijing, but in pragmatic ways that don't unnecessarily stoke China's sensitivity to issues such as Taiwan, sovereignty and the Dalai Lama. Again, Howard's experience demonstrates that Australia can maintain its principles on key issues, conduct business with China, and undertake policy initiatives and facilitate bilateral official interactions that, with patience and overtime, can affect Beijing's perspectives as it comes around to understanding that improvements in human rights, good governance and engagement in multilateral institutions are ultimately in China's interests. In other words, Canberra should be results-oriented and problem-solving to promote national interests, and place less emphasis and diplomatic capital on merely making political statements and grandstanding, which mightn't be as effective as wished for and at worst could be counterproductive.

NOTES

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ACRONYMS AND ABBREVIATIONS

ADIZ	Air Defence Identification Zone
ALP	Australian Labor Party
APEC	Asia–Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
EAS	East Asia Summit
GFC	global financial crisis
PECC	Pacific Economic Cooperation Council
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
UK	United Kingdom
UN	United Nations

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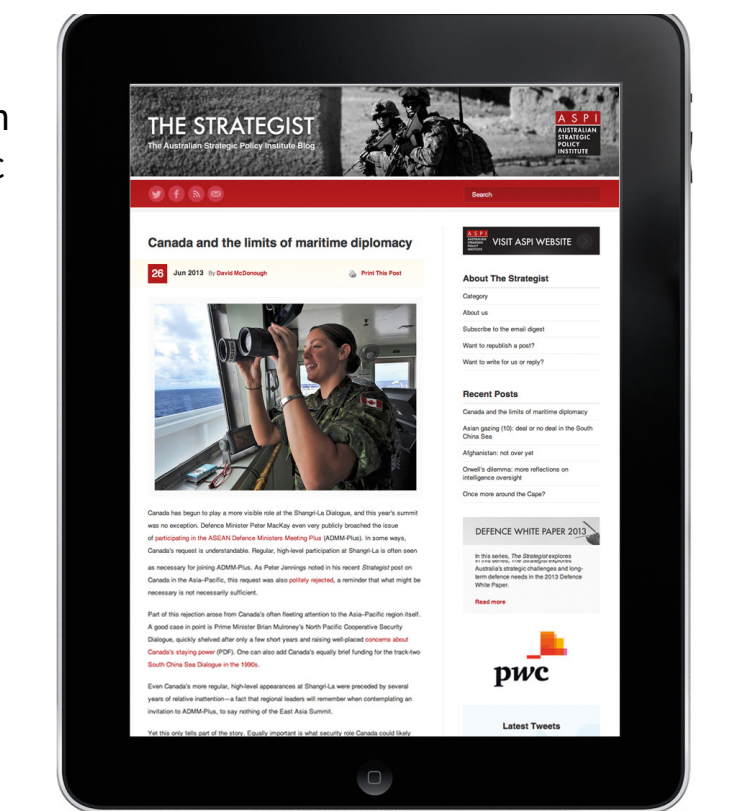
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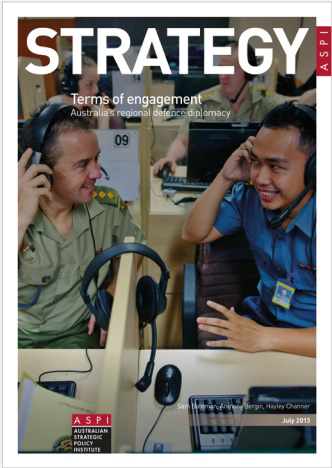
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The Abbott government should have a China policy that's the result of multi-agency consultation, bipartisan support and internal cohesion within the Coalition and is presented in a unified voice. Canberra should be results-oriented and problem-solving to promote national interests and place less emphasis and diplomatic capital on merely making political statements and grandstanding, which mightn't be as effective as wished for and, at worst, could be counterproductive.

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