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Time for a whole-of-government China strategy to build trust between Australia and China

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Abstract

This paper examines how Australia might build trust and cooperation with China while strengthening its ties with Japan. It identifies the particular challenge for Australia, as a middle power, of preserving its

significant economic interests with Northeast Asia, as well as its strategic interests in a stable and peaceful region. It argues that Australia's policy settings on China, in particular, need to strike the right balance between ambition as a middle power and realism about the influence it can bring to bear.

The paper addresses whether Australia's strengthening ties with Japan make it more difficult to build trust with China and proposes policy options for Australia to deal with China's growing economic, political and military power in the Indo-Pacific region in a way that builds trust in the relationship. It concludes that the risks to Australia's relations with China from Australia strengthening its relations with Japan are minimal and manageable but that Japan-China tensions increase the challenges for Australia.

Time for a whole-of-government China strategy to build trust between Australia and China

Introduction

Ernest Hemingway said that ‘the best way to learn whether a person is trustworthy is to trust him’.¹ It is a quote about relations between people but its meaning can apply to relations between states. The idea of enhancing trust between countries is an oft-used concept in international relations. Most countries want to build trust with other countries and formal government statements attest to the importance of enhancing trust for peace and stability.

But what do countries mean by building trust and do they share a common understanding of the elements of trust? How does a middle power like Australia build trust with a rising global power like China in a way that preserves its significant economic interests as well as its strategic interests in a stable and peaceful region?

The rise of China over the past three decades is changing power balances in the Indo-Pacific region and causing countries to question the components required for continuing peace and stability.² Trust was the central theme of China’s President Xi Jinping’s visit to the US in September 2015, perhaps in recognition of a perceived trust deficit in US-China relations. During that visit, President Xi underlined the need for a better understanding of ‘strategic intentions’ and ‘more understanding and trust, less estrangement and suspicion in order to forestall misunderstanding and miscalculation’.³ While President Obama did not use the word trust, he spoke about ‘significant progress in enhancing understanding ... and laying the foundation for continued cooperation’.⁴

Australia and China describe trust as an important component in their growing relations. In the context of the Second World War, Prime Minister Turnbull in August 2015 described the relationship between Australia and China as one of allies ‘in an epic struggle for the survival of our own nations’.⁵ In his speech to the Australian Parliament in 2014, President Xi spoke of the need to ‘increase dialogue and exchanges and deepen political trust’ through increasing mutual understanding and being ‘sincere and trustworthy partners’.⁶ It is relatively straightforward for two countries to agree on the importance trust plays in their relations but it is more complex to articulate what countries mean by trust and the expectations that flow from the obligations created by political trust.

Trust exists on multiple levels. There is trust between governments, between business communities, between peoples and between individual political leaders. A poll undertaken by the Lowy Institute in 2015 suggests contradictory results on Australia’s views about China, reflecting the schism in Australia’s relations with China across all sectors.⁷ At the government level, there is a Comprehensive Strategic Partnership, annual leaders’ meetings and a plethora of official dialogues. At the same time, China’s transformation challenges how Australia thinks about its national security and defence, with the Government recognising that the US-China relationship is the most powerful determinant and organising principle of Australia’s strategic environment.⁸

The business community is confident about the prospects for growth from the China-Australia Free Trade Agreement, with the CEO of the Australian Chamber of Commerce and Industry describing the agreement as ‘a jaw-dropping opportunity for Australia to build on its \$140 billion annual trade with China, its largest trading partner’.⁹ At the same time, there is caution about levels of foreign investment in sensitive sectors like telecommunications, and some populist concern about the impact of foreign investment in the real estate sector on housing prices.¹⁰

This paper will consider how Australia might build trust and cooperation with China while strengthening its ties with Japan. It will propose policies about how Australia could deal with the rise of China and its growing economic, political and military power in the Indo-Pacific region in a way that builds trust in the bilateral relationship. It will argue that the risks to Australia’s

relations with China from Australia strengthening its relations with Japan are minimal and manageable but that Japan-China tensions increase the challenges for Australia in managing both relationships.

The first part of the paper will define the problem for Australia of building a more robust, trusting relationship with China when the cultures, values and political systems of the two countries are so different. The paper will outline the changing strategic environment in the Indo-Pacific and the implications for Australia of China's rise. It will then consider whether Australia's strengthening ties with Japan make it more difficult to build trust with China and, if so, how to mitigate this risk. It will also consider the status of the Australia-China relationship and constraints to building cooperation and trust. The second part of the paper will propose policy initiatives under the auspices of a whole-of-government strategy on China to build political trust.

However, a laundry list approach to building cooperation with China will not work if the core ingredient of trust is absent. A whole-of-government strategy must be grounded in Australia's interests that are not always the same as the interests of the US and Japan. In September 2015, a former Australian Ambassador to Washington wrote that:

[O]ver the years we Australians have lost the capacity to make up our own minds on our security (even though we have been robust on trade issues). In an era of growing geopolitical complexity, remember that in the final analysis Australian interests may not be the same as those of America.¹¹

The paper also argues that China respects strength so a critical part of building trust and cooperation with China is to focus on the strength of Australia's economy and the quality of its diplomacy as a middle power. The paper rejects the idea, articulated by former Prime Minister John Howard, that Australia could play a role as a bridge between the US and China.¹² As articulated by Peter Varghese, Secretary of the Department of Foreign Affairs and Trade, 'Australia has only a limited capacity to influence the relationships the major powers have with one another.... [and] we should be cautious of any suggestion that we can be a mediator or bridge between great powers'.¹³

Australia's policy settings on China need to strike the right balance between ambition as a middle power working with other similar-sized and smaller countries in the Indo-Pacific, and realism about the influence it can bring to bear on US-China relations. With clever, well-judged and well-timed diplomacy, Australia can leverage its relations with China, the US and Japan to question approaches and help clarify misunderstandings.

However, there is only so much that Australia can do to build trust with China. The levels of trust between China and Western nations, particularly US-allies like Australia, will be governed by levels of trust between China and the US, and there are hard limits to Australia's capacity to shift these parameters. The policy initiatives proposed in this paper seek to make sense within the context of an uncertain strategic environment in the Indo-Pacific and hedge against a range of possible futures.

Part 1: Changing strategic environment and implications for Australia's relations with China

The rise of China in the Indo-Pacific

There is no doubt that China is re-emerging as a significant global and regional power. It is the world's largest economy in purchasing power parity terms, with GDP at just over US\$18 trillion in 2014, compared with the US with a GDP of US\$17.4 trillion in 2014.¹⁴ Malcolm Cook argues that:

[China's] disproportionately huge population size, when combined with China's disproportionately rapid, sustained, and ongoing economic growth rates now, means that only the size of the US economy is comparable to that of China. In a decade, China's economy will likely have no peer on this foundational measure of national power in the inter-state system.¹⁵

This statement assumes that China's economy will continue to grow, whereas it is slowing as China transitions to more sustainable growth from an export-driven economy to growth generated by domestic consumption.¹⁶ This transition will be challenging. However, given the size of China's economy, even if its growth slows to rates more often associated with developed-economy growth, it would still represent significant wealth and a powerful force in the global economy. China's double-digit growth over several years has also enabled it to increase military spending from US\$10 billion in 1997 to US\$145 billion in 2015.¹⁷

Nevertheless, it is important not to overstate China's economic power. On a per capita basis, it is still a relatively poor country and has significant internal challenges to overcome if it is to reach Xi Jinping's 'Chinese dream' of becoming a moderately well-off society by 2021 and a fully-developed nation by 2049.¹⁸ Varghese has contended that 'the strategic behaviour of a large rich country and a large poor country is not the same.... [and] to assume it is can lead to serious policy errors'.¹⁹ For Australia, that means developing a deep understanding of China's governance structures and the priorities that drive its leadership—and not making assumptions that how rising powers have behaved historically will necessarily apply to China.

No certainty about how China will use its power

The statistics about China's growing national power speak for themselves but there is no common understanding among regional countries about how China will use its growing power. In his recent speech in Washington, President Xi said that China would 'keep to the path of peaceful development' and that 'China will never seek hegemony or engage in expansion', citing cuts to the size of China's military as a demonstration of its commitment to peaceful development.²⁰ China's recent forays in international anti-piracy operations in the Gulf of Aden and evacuations of citizens and foreign nationals from Yemen show a side of China that prioritises the use of soft power, and strategic wins that build China's international reputation.²¹

At the same time as it commits to peaceful development and helps to police global norms internationally, China asserts its sovereign right to build structures on disputed features it claims in the South China Sea, raising the concerns of regional states about the gap between China's words and deeds.²² For example, at the August 2015 ASEAN Foreign Ministers' meeting, the communiqué 'took note of the serious concerns expressed by some Ministers on the land reclamations in the South China Sea, which have eroded trust and confidence, increased tensions and may undermine peace, security and stability in the South China Sea'.²³ China's rise has many positives but lack of trust translates to scepticism about China's promise of peaceful development.

Accommodating China's rise

China's rise has increased the complexity of the Indo-Pacific strategic environment and the challenges for Australia in balancing its security alliance with the US with its growing relationship with China. Japan and Australia are committed US allies and support the US' rebalance policy to the Asia-Pacific. Both countries see a continuing role for the US in the Indo-Pacific as critical for regional peace and stability.²⁴ Both countries will also need to find ways to make greater space to accommodate China's views in regional architecture and bilateral dialogues.

Given the distrust and difficulties in the Japan-China relationship in recent years, Australia may find accommodating China less difficult than Japan. However, Australia's growing security relationship with Japan and the trilateral security cooperation between Australia, Japan and the US may create expectations that Australia will lean more towards supporting the US and Japan.

Japan and Australia have expressed concerns about actions by China that they see as increasing tensions. For example, shortly after becoming Prime Minister, Malcolm Turnbull expressed concern about China's reclamation activities in the South China Sea, saying that China's actions 'had the consequence of exactly the reverse of what China would seek to achieve', contending also that smaller countries in the region like Vietnam were drawn closer to the US because of China's position.²⁵

In August 2015, Japan's Prime Minister Shinzo Abe spoke positively of the prospects for Japan and China to improve relations, asserting that both countries shared 'great responsibility for the peace and prosperity of the region'; however, he also reiterated that Japan could not accept attempts to change the *status quo* 'whether in Ukraine, the South China Sea ... [or] the East China Sea'.²⁶

Diverse views on China's strategic ambitions

There are multiple views about China's strategic ambitions. These include the alarmist that posits that China has hegemonic ambitions, that it wants to create 'Asia for Asians' and exclude the US, that China will become more assertive in protecting its maritime claims in the East and South China Seas, and that war between the US and China is inevitable.²⁷ Contrarily, Feng Zhu and Peng Lu argue that:

[O]ffensive realists view China as a revisionist power which is trying to or will inevitably seek to reconstruct the existing international order by challenging American hegemony, whereas their liberal institutionalism-oriented counterparts strongly hold that China is and will continue to be a status quo power content with the economic interests achieved through international cooperation within the existing institutional setting.²⁸

Varghese argues that there is no certainty about how China's transition will end but that all nations 'have a stake in the success of that transition' and that 'no-one gains if China fails'.²⁹ He has also asserted that:

China will ultimately define its own strategic settling point. It will not be forced into someone else's view of what it should do or become. Nor is it realistic to expect that the US and China can negotiate some grand bargain to share power in Asia. The process of adjusting to shifting power balances in a multipolar Asia will be incremental and organic.³⁰

Bilahari Kausikan argues that the defining feature of post-Cold War strategy is ambiguity, arguing that 'for non-great power countries, the essence of post-Cold War strategy is to embrace ambiguity.... [and that] to be forced to choose is to have failed'.³¹ He argues that for many countries in East Asia, China is becoming more important economically while the US will play a vital role in their security for the near future, further asserting that countries can position themselves to avoid having to make 'invidious choices'.³² For Australia, this means accepting that there is no certainty about the role a re-emergent China will play in the Indo-Pacific region. Australia's policies, therefore, need to be sufficiently flexible and robust to protect Australia's interests in a range of different eventualities.

Policy implications for Australia

This paper argues that Australia's policy settings on China must anticipate and facilitate China's desire to play a greater role in shaping regional and global governance. President Xi describes China as a 'participant, builder and contributor' to the existing international system, asserting that:

[Many] countries, especially developing countries, want to see a more just and equitable international system, but it doesn't mean they want to unravel the entire system or start all over again. Rather, what they want is to reform and improve the system.³³

President Xi cites China's 'Belt and Road', the Silk Road Fund and the establishment of the Asian Infrastructure Investment Bank as examples of open, inclusive Chinese initiatives to develop all countries, contending that such initiatives are not about seeking political influence.³⁴ Varghese notes that 'China has every right to seek greater strategic influence to match its economic weight', however:

The extent to which this can be peacefully accommodated will turn ultimately on both the pattern of China's international behaviour and the extent to which the existing international and regional order intelligently finds more space for China.³⁵

Australia has a solid record as an active participant in regional forums like APEC, the ASEAN Regional Forum and the East Asia Summit. There is scope for Australia to work more closely with China in these and other forums, such as the G20 and the Asian Infrastructure Investment Bank, to strengthen China's role in open, inclusive, rules-based regional architecture. Former US Trade Representative and World Bank President Robert Zoellick claims that the US is not a *status quo* power and is comfortable with a dynamic system, implying there is a willingness for the US to work with China on modifying global arrangements.³⁶ Certainly, US (and Japanese) flexibility will be important to accommodating China's rise and will ease any policy contradictions for Australia.

One of the debates around the rise of China and the use of its national power centres on China's alleged challenge to the *status quo*. From the perspective of Australia, the US and Japan, security in the Indo-Pacific has been maintained through the post-World War 2 so-called 'hub and spokes' security arrangements with the US. This system was established when China was weak and focused on internal struggles. China has benefited from the peace dividend the US security role in the region has delivered, as it has been able to grow its economy without worrying about external threats. However, there is a legitimate question about what is meant by maintaining the *status quo* because it is a *status quo* that China was not part of creating but is expected to accept under a vastly different power differential than existed more than 60 years ago.

Strategic analysts have different views about China's challenge to the *status quo*. Nick Bisley sees the sustainability of the regional *status quo* over the medium to longer term as a key issue.³⁷ At the joint ministerial consultations in June 2014, Japanese and Australian defence and foreign ministers declared their opposition to the 'the use of force or coercion to unilaterally alter the *status quo* in the East China and the South China Sea'.³⁸ However, Hugh White thinks strategic rivalry will increase if countries resist accommodating China's ambitions, predicting that 'the strategic *status quo* in Asia will not last'.³⁹

For Australia, the critical issue is not whether the regional *status quo* is sustainable in the context of China's rise but how any changes are made and the extent to which middle and smaller powers can influence the behaviour of major powers. Changes to the *status quo* are less problematic if they happen transparently, in accordance with rules and effective consultation. If countries do not trust China, and fear they will lose out in any regional power shift, then they will do what they can to strengthen their hand by working with like-minded countries.

Patient, long-term work to build relationships and trust with China is essential but this can only be effective if it is mutual. Efforts by Australia to build trust with China will be undermined by Chinese behaviour that can be perceived as escalating tensions, especially if China does not consult with regional partners about its actions. The reverse is also true. Australia and Japan need to consult closely with China about actions or policies that China may see as threatening. For example, as part of its regular dialogue with China, Australia should explain why it supports Japan's security normalisation and why Japan making a stronger contribution to regional security is not a threat to stability. Open, frank and robust dialogue with China is essential.

This section of the paper has outlined how a lack of trust underlies strategic tensions in the Indo-Pacific. Countries are unsure about how China will use its growing power and the extent to which it will seek to reshape regional institutions and governance arrangements that Australia and partners think have served the region well since the end of the Second World War in promoting peace, stability and prosperity. According to Nick Bisley and Brendan Taylor, the principal challenge for Australia is maintaining freedom of policy manoeuvre by not over-committing too soon to a position that could unnecessarily result in paying a price with China.⁴⁰

The complexity of the Indo-Pacific strategic environment in which competition and cooperation coexist means that the toolbox for governments needs to become more sophisticated and nimble, to manage effectively a combined policy of engagement and hedging. While some such as John Mearsheimer argue that security competition between the US and China is likely to end in war,⁴¹ the more likely scenario is an accidental escalation of tensions—for example, due to an on-water incident in the South China or the East China Sea. The level of distrust of China by Japan and other countries also complicates the resolution of escalating tensions.

Opportunities for middle powers

The growth of China's regional and global interests provides opportunities for cooperation with China and for building trust over the longer term. Australia needs to understand better the policy options available to it in this more challenging security environment. While strategic differences between countries will endure, strengthening partnerships and understanding can reduce mistrust over strategic differences and find new ways to cooperate. Kausikan argues that:

[U]nless Chinese concerns on the core issue [of preservation of Communist Party rule] can be assuaged by an explicit American acknowledgement that different political systems can have their own legitimacy, strategic trust will not be established. As this is not going to happen, the rest of us will just have to cope the best we can.⁴²

Strategic mistrust between the US and China has important security implications for middle powers like Australia and for larger powers like Japan.⁴³ Australia's capacity for influence is limited but it is not nothing. Coping as best one can is a defeatist approach that does not give sufficient credit to creative middle-power diplomacy. For example, Australia is active in the MITKA (Mexico, Indonesia, Turkey, South Korea and Australia) grouping of middle-power countries established in 2013 to 'serve as a cross-regional platform to increase mutual understanding, deepen bilateral ties, and find common grounds for cooperation'.⁴⁴ Moreover, because it includes the key regional countries Indonesia and South Korea, there is scope to use the forum to magnify the views of middle powers and influence the perspectives of major powers.

China values Australia's role as a middle power—and Australia needs to maintain and enhance this value. Bruce Gilley and Andrew O'Neill argue that China's rise creates new dilemmas for middle powers, 'since their original middle power *modus operandi* was predicated upon reinforcing American hegemonic world order, and this order is progressively dissolving'.⁴⁵ They argue that China sees Australia 'as an influential middle power ... [that] by virtue of its proximity to China has retained its global significance'.⁴⁶ They cite that Australia has helped contribute to China's acceptance of the US presence in the region as well as indirectly influencing China's foreign policy by leading multilateral initiatives like the G20 and building Asian regional architecture.⁴⁷

Alan Dupont and Michael Hintze contend that China sees Australia 'as an influential middle power, with an active foreign policy, whose alliance with the United States gives us greater regional clout than we would otherwise have'.⁴⁸ They propose that Australian governments should 'leverage these assets to advance our growing China interests while resisting any attempt by Beijing to decouple us from our alliance with the United States, or to dilute our commitment to democratic values and human rights'.⁴⁹

Australia's longstanding reputation as a diplomatically-active middle power is a valuable asset in building trust and cooperation with China. The strategic future of the Indo-Pacific is complex and uncertain, and Australia's policy settings need to be robust and adaptable to a range of possible futures. The strengthening security partnership with Japan is one strategy to hedge against future uncertainty that creates both opportunities and management challenges for Australian policy.

Japan-Australia relations

Australia is strengthening its economic and political relationship with China at the same time as it is accelerating its security partnership with Japan. Thomas Wilkins contends that:

[T]he rapid emergence and subsequent strengthening of the Australia-Japan strategic partnership ... [is] one of the most significant recent developments in the regional security landscape, and especially within the context of the US hub-and-spoke alliance system.⁵⁰

Australia and Japan have been deepening security ties for almost a decade since Prime Ministers Abe and Howard signed the Joint Declaration on Security Cooperation in 2007.⁵¹ The declaration

established regular '2+2' meetings of foreign and defence ministers. Defence and security cooperation has grown rapidly since, including agreeing an Information Sharing Agreement in 2012, an Acquisition and Cross-Servicing Agreement in 2013, and a Defence, Science and Technology Agreement in 2014.⁵²

In 2014, Japan and Australia elevated their strategic partnership to a 'new special relationship', which is 'based on common values and interests including democracy, human rights, and the rule of law, open markets and free trade'.⁵³ Australia and Japan have since been working towards an agreement to facilitate the movement of military personnel for joint exercises.⁵⁴ Australia and Japan are also deepening trilateral security cooperation with the US through the Trilateral Strategic Dialogue.⁵⁵

Australia has also welcomed Japan's security reforms which are aimed at enabling it to contribute more to international peace and stability, including by exercising the right to collective self-defence.⁵⁶ Prime Minister Turnbull confirmed the priority Australia attaches to enhanced security cooperation with Japan in a phone call with Prime Minister Abe in September 2015.⁵⁷

This paper argues that Australia can pursue strengthening engagement with both Japan and China without making a choice between its economic interests with China and its security relations with Japan and the US. The idea of having to choose over-simplifies Australia's relationships that cover the full gamut of political, security and economic interests with both China and Japan. However, tensions between Japan and China do increase the challenges for Australia in managing both relationships.

In practical terms, Australia will need to take account of China and Japan's views in making decisions in Australia's national interests. Instances where Australia's policy choices may be constrained are likely to be fewer if Japan and China's relationship improves. China is less likely to be suspicious of Australia's strengthening security partnership with Japan if it is working directly with Japan to build trust. It is also important that China does not perceive the increased security cooperation between Australia and Japan as directed against it. Part of both countries' trust building with China over the next decade will need to include increasing Chinese involvement in military exercises and other confidence-building measures.

A sign of growing maturity in the Australia-China relationship is the pragmatic approach China takes to Australia's relations with Japan. There is no evidence that Australia's relationship with China has suffered because of strengthening relations with Japan.⁵⁸ During the same period as Australia and Japan have intensified security relations, Australia and China have signed a Free Trade Agreement, upgraded relations to a Comprehensive Strategic Partnership, strengthened bilateral architecture with annual leaders' meetings and hosted reciprocal leaders' visits. China is also pragmatic about its differences with Australia on regional maritime security issues and expects Australia to align its position with its ally the US and close security partner Japan. It has made its views known to Australia but has not let the issue get in the way of bilateral cooperation.

In strengthening its security relations with Japan, Australia will need to be clear about its national interests and how they differ from Japan's interests. Australia and Japan have a longstanding partnership founded on shared interests and values. Australia accepts that today's Japan is a different country to pre-World War 2 Imperial Japan and that Japan has demonstrated for the past 70 years its commitment to democracy, peace, and a rules-based international system. There is a high level of trust between Australia and Japan, and Australia views Japan's current pacifist identity as irreversible. Australia does not see Japan as a threat to regional peace and security, whereas China is suspicious about the motives behind Japan's security reforms.

Where Australia and Japan may differ, however, is on how to build trust and engage with China given the unresolved historical issues between Japan and China. One unresolved question for Japan is whether it has ambitions to play a larger role in Indo-Pacific security comparable to its economic weight as the world's third largest economy, or whether it is on-track to become a

middle power with China assuming a larger regional role. How Japan handles its own transition has critical implications for Indo-Pacific security.

This section of the paper has argued that Australia's strengthening security ties with Japan have minimal impact on Australia's relationship with China but are a factor to consider in exploring ways to build trust with China. Poor trust between Japan and China would complicate Australia's policy options and require clear-headed judgment about when Australia's and Japan's interests intersect and when they diverge.

China-Australia relations

The current Australian Government has a different narrative about its partnership with Japan than it has on its relations with China. Australia and Japan articulate their shared interests from the perspective of shared values including democracy and human rights. For China, the language narrative is about cooperation and the management of differences. The Australian Department of Foreign Affairs and Trade's country brief on China notes a range of consultation mechanisms to 'advance cooperation and manage differences'.⁵⁹

In November 2014, then Prime Minister Tony Abbott noted that 'Australia and China have different systems of government but have become a model of how two peoples and two countries can complement each other'.⁶⁰ Trust has become an important part of the bilateral narrative and it will be critical for Australia and China to build trust gradually through increased political and practical engagement. In September 2014, China's Foreign Minister Wang Yi said that China 'looks forward to deepening our political trust and carrying out strategic cooperation so that we can lay a solid foundation and provide more lasting driving force for the longer term and more stable growth of our relationship'.⁶¹

In considering how to advance cooperation and trust with China, there is a rich foundation on which to build. The 2014 Comprehensive Strategic Partnership builds on the more robust bilateral architecture agreed in 2013, which included annual leaders' meetings. There are also a range of ministerial-level meetings, including a Foreign and Strategic Dialogue and a Strategic Economic Dialogue.⁶² These dialogues are important for ministers and leaders to know each other better and build trust. Linda Jakobson argues that building trust at senior levels of government requires years of effort and a strong foundation.⁶³ Australia and China are also strengthening the relationship through senior-level dialogue, education, reciprocal naval ship visits, and humanitarian assistance and disaster relief exercises.⁶⁴

Moreover, the two militaries have expanded their operational cooperation and familiarisation through their joint search for Malaysian Airlines flight 370. The implementation of the China-Australia Free Trade Agreement also provides a new framework for advancing Australia's economic partnership with China. In addition, the Australian Government's New Colombo Plan provides a valuable pathway to increase the experience of Australian undergraduates in China.⁶⁵

Constraints to enhancing Australia-China cooperation

The introduction to this paper noted that a 'laundry list' approach to building cooperation with China would not work if the core ingredient of trust was absent. This section of the paper will outline some of the constraints and risks to building trust and cooperation with China as context for the next section of the paper that will propose policy options. Understanding the constraints and, in particular, which of those Australia has the power to resolve will bring a practical focus to the policy options proposed.

The state of great-power relations between the US and China has the biggest impact on strategic trust in the Indo-Pacific region. Dupont and Hintze argue that the 'lack of trust is the core problem in the US-China relationship'.⁶⁶ If the US and China do not trust each other then, as a US ally, it is difficult for Australia to build trust with China. South Korea faces a similar dilemma to Australia where, like Australia, President Park Geun-hye has been pursuing good relations with both the US and China.⁶⁷

Scott Snyder and See-won Byun have argued that South Korea has rejected ‘many Chinese initiatives that created pressure on South Korea to choose between the US-ROK alliance and better relations with China’.⁶⁸ According to Varghese, Australia’s security will depend on how other countries manage the complexity of their relationships in a more multipolar Asia, contending that the US-China relationship ‘will be the single biggest determinant of strategic stability in Asia’.⁶⁹ Kausikan similarly posits that ‘the chief risk in US-China relations is conflict by accident and not war by design’.⁷⁰

There is little Australia (or any country other than the two parties) can do to change the trust equation between the US and China. At the margins, Australia can use its leverage with both to encourage cooperation, help explain misunderstandings, and strengthen regional security forums which reinforce global norms. This paper has argued that to date, Australia’s strengthening relationship with Japan has not adversely impacted on cooperation with China, and that China is a pragmatic partner that understands the priority Australia attaches to the US alliance and its partnership with Japan. A key risk could emerge, however, if China perceives closer Australia-Japan cooperation or, indeed, closer trilateral cooperation with the US under the Trilateral Strategic Dialogue as directed against its interests or at containing China’s rise.

Malcolm Cook makes the point that ‘trilateral strategic cooperation between Australia, Japan, and the United States has become more institutionalized, active across a much wider spectrum, and more willing to collectively express concerns about regional security matters involving China’.⁷¹ The Trilateral Strategic Dialogue partners need to be conscious of this risk and mitigate it, including by inviting China to participate in exercises and initiatives to build trust, and through transparency and balance in statements stemming from the dialogue.

Australia faces capacity and coordination constraints in building its relationship with China. The Lowy Institute in its 2011 report titled ‘Diplomatic Disrepair’ outlined the resource constraints of Australia’s diplomatic service and argued that Australia was under-represented in regional China.⁷² Part of the problem is that there is no publicly available whole-of-government strategy on China.

In October 2012, the Gillard Government released the *Australia in the Asian Century White Paper* that outlined a comprehensive strategy involving several pathways for strengthening Australia’s national capabilities to shape Australia’s future with Asia.⁷³ The Department of Foreign Affairs and Trade accordingly developed a country strategy on China, which also took account of community consultations.⁷⁴ However, there was no bipartisan approach to the White Paper and the incoming Abbott Government effectively shelved the paper. This lack of bipartisanship hinders efforts to build trust and cooperation. However, it is important not to overstate this as an obstacle, as China understands Australia’s politics and the hyperbole of day-to-day political debate. Nevertheless, division between the major parties about the direction of Australia’s relationship with China feeds into broader community perceptions about China.

At the very least, some of the debate makes Australia appear inward looking and ignorant of the opportunities of engaging with China. The recent political debate over the passage of the China-Australia Free Trade Agreement is a case in point, with the Opposition arguing that additional protections were required to protect Australian jobs and the Government accusing it of running a fear campaign against China.⁷⁵ While the debate was often about the domestic impact of free trade deals, for a period the focus was on China, prompting the Chinese Ambassador to caution publicly that the agreement represented a hard win after ten years of negotiations and that the opportunity should not be allowed to slip away.⁷⁶

Another constraint to building trust and cooperation with China is the lack of understanding and awareness that many Australians have about China. There is much more work to be done to strengthen community connections and build enduring people-to-people ties. The country strategy for China developed in response to the *Australia in the Asian Century White Paper* highlighted the intangible but real obstacles of misinformation and negative perceptions.⁷⁷

James Brown argues that part of the problem is that much of Australia’s relationship with China is built on trade, so has a transactional quality.⁷⁸ He also contends that cultural interaction is

largely elite and lacks the ‘casual yet important people-to-people interactions forged through sport, movies and music’, and that ‘the comfortable familiarity of popular culture, so important in our other international relationships, is virtually non-existent in our relationship with China’.⁷⁹

There is also the issue of the sheer scale and size of China and the importance and difficulty of being active in a range of regional centres in China, not just Beijing, Shanghai and Guangzhou. This requires a sophisticated and coordinated approach with the states and territories, and a bigger investment in the Australian Government’s presence in other Chinese cities, such as Chengdu, where Australia opened a Consulate in 2013.⁸⁰

Australia is also constrained by the asymmetry of interest in the relationship. China looms very large on Australia’s radar but Australia is competing for China’s attention in a crowded space where many other countries are working to build their relations with China. As Australia’s Ambassador to China said in a speech in June 2015, ‘there is no shortage of governments around the globe which understand the value of deep and meaningful engagement with China’.⁸¹

Moreover, as China’s economic model moves away from investment in large-scale infrastructure to domestic consumption, China may need Australia less than it has in the past decade, during which exports of Australia’s iron ore helped fuel China’s economic development. This paper has outlined the argument that China sees Australia as an influential middle power and that Australia has had some success in influencing China’s foreign policy. However, in future, Australia will need to be more innovative in its diplomacy to maintain and enhance its influence over China.

There is also a definitional constraint. Does Australia know what it wants to achieve in its relationship with China and does China share that perspective? Kausikan does not think that the US or China really know what they want and this creates challenges for other countries in deciding how to position themselves *vis-à-vis* the US and China.⁸² Perhaps the most sensitive and difficult constraint to building trust with China is the challenge of bridging differences in values, political systems and culture. Liberal democracy is a deeply-held part of Australia’s identity as a nation, just as China’s Communist Party is inherent to modern China. Bruce Gilley and Andrew O’Neil question the degree to which Australia trusts China, using the example of the arrest of Australian citizens in China to show the lack of confidence in the disparate views on human rights and the rule of law.⁸³

Dupont and Hintze argue that a national China strategy should ‘aim to maximise the benefits to both countries while ensuring that each understands the limits to a partnership which is founded on many shared interests but fewer shared values, even though the values gap between Australia and China is less profound than it was thirty years ago’.⁸⁴ Differences over values are unlikely to be resolved to either country’s satisfaction and need to be managed as part of the relationship. Varghese asserts that values ‘should define who we are, not what we insist others become’ and that values are not there to be imposed on others.⁸⁵ The earlier-mentioned country strategy for China highlighted the recognition and respect of differences in the political systems and values of Australia and China as strengths of the relationship, noting also the mechanisms which have been developed to help manage such differences, including the Australia-China Human Rights Dialogue.⁸⁶

Part 2: Policy recommendations

Australia and China have focused more on developing the economic side of the relationship, with political links and people-to-people ties less developed, although there has been a lot of activity in the past couple of years to develop the bilateral architecture and establish new dialogues such as the Foreign and Strategic Dialogue and the Strategic Economic Dialogue. These new forums are still in their infancy, so there is obvious scope to shape them and deepen the quality of Australia’s conversation with China.

This section of the paper will propose policy initiatives to build trust and cooperation with China, building on much of the work both countries have done in recent years. Under the framework of a whole-of-government China strategy, this paper will propose policy initiatives to build political

trust. It will also consider policy resistance, key implementation actors and the resource implications of the suggested policies.

Policy recommendation 1: Whole-of-government China strategy

Australia's relationship with China would benefit from a bipartisan whole-of-government China strategy, developed in consultation with key stakeholders and across multiple agencies to provide effective guidance and support to the relationship. The objective of the strategy would be to build trust through adding depth and substance to the Australia-China Comprehensive Strategic Partnership, as well as strengthening community support for Australia's engagement with China.

The foundation for a whole-of-government strategy should be the Australia-China Comprehensive Strategic Partnership agreed in 2014. However, the content of the partnership is unclear and no publicly-available document outlines what it is. The Department of Foreign Affairs and Trade's country brief on China contains a single sentence on the partnership, saying that '[u]nder the Australia-China Comprehensive Strategic Partnership, the apex of this structure is the annual leaders' meeting between our Prime Minister and the Chinese Premier'.⁸⁷

This contrasts with the Australia-Singapore Comprehensive Strategic Partnership that is outlined in a detailed joint declaration by the two Prime Ministers in June 2015.⁸⁸ The Department of Foreign Affairs and Trade's website also includes a detailed fact-sheet on what the Australia-Singapore Comprehensive Strategic Partnership will mean in practical terms in relation to economics, foreign affairs, defence, security and people-to-people links.⁸⁹ A whole-of-government China strategy would need to have a similar level of practical detail.

Consultation with stakeholders

One of the purposes of developing a whole-of-government China strategy would be to build public understanding and support for Australia's relationship with China and to encourage young Australians to develop an interest in China that will translate into long-term people-to-people links through tourism, education, culture, trade and investment. Public consultation during the development phase of the strategy, as well as regular consultation during implementation, would obviously be important.

The public consultations held during the development of the *Australia in the Asian Century White Paper* are a useful model.⁹⁰ At the time, the Government established a website and a formal process for receiving public submissions. The White Paper team also held a series of public consultation forums in states and territories and travelled to the Asia-Pacific region for consultations with governments and other stakeholders, such as the business sector, academics, and media commentators. Public submissions were also made available on the web site.

The then Government's decision to develop comprehensive country strategies for key Asian countries, including China, was an outcome of the White Paper.⁹¹ Critically, it was decided that country strategies were to be developed collaboratively with the Australian community to 'set the objectives and priorities for relationships across the whole community with each country'.⁹² The strategies were also to be tabled in Parliament and regularly updated and evaluated.

The key point is that the strategies were much broader than the government-to-government relationship, and encouraged Australians to think broadly about engaging with China and other key Asian partners. The public consultations in state and territory capitals proved to be valuable outreach, with high levels of interest from the community.⁹³ This paper recommends a similar consultation process in developing a whole-of-government China strategy, with the added improvement of regular community consultations, at least annually, built into the process.

Resources

An annual community consultation process would incur modest financial costs, including domestic travel for officials, venue hire and catering. The Department of Foreign Affairs and

Trade should be able to absorb the costs as part of its operating budget. Some of the consultations could take place on-line and through innovative use of social media such as twitter forums. However, it would be essential to hold some face-to-face community forums, although consultations in every state and territory would likely not be necessary each year. Consultations could be timed to coincide with mid-term consultations by the Australian Ambassador and Consul-Generals based in Guangzhou, Shanghai, Chengdu and Hong Kong. They would usually hold consultations with key stakeholders in some state capitals, so broadening their consultations to include key officials from Canberra and a couple of public forums should work well.

It would be appropriate for the Department of Foreign Affairs and Trade to lead the community consultations, with representation from the Department of the Prime Minister and Cabinet, and other relevant agencies such as Austrade, Education, Industry, and Energy as appropriate.

Implementation actors

It would be essential for state and territory governments to be key partners in a whole-of-government China strategy and to be encouraged to develop their own China strategies, consistent with the national strategy but focused on their specific interests. There would need to be effective consultation between the Commonwealth and state and territory governments to facilitate cohesion in Australia's engagement with China rather than competition between jurisdictions.

The recommended coordination point would be through State Premier and Chief Minister Departments. It may be appropriate to include a periodic agenda item on meetings of the Council of Australian Governments in order to facilitate an appropriate level of coordination. The Victorian Government's strategy 'Engaging China – Strengthening Victoria' is a useful model.⁹⁴ It identifies five strategic priorities for engaging China that include developing research partnerships, and building links with Jiangsu Province and other cities with which Victoria has links. China literacy should also be a priority.⁹⁵

The China country strategy would likely need to comprise two documents; one that is available publicly and a classified version that would deal frankly with sensitive issues and propose nuanced strategies for Australia to navigate the balance between its security alliance with the US and its objective to build trust and cooperation with China. It would seem appropriate for the Department of the Prime Minister and Cabinet to lead this process as it is the only department that can compel buy-in from other portfolios to ensure that the strategy would be truly whole-of-government, although the Department of Foreign Affairs and Trade would clearly need to provide substantial support to this process.

Another possible model for the China strategy would be the aid investment plans initiated by Foreign Minister Bishop, as part of the 'New Aid Paradigm' announced in June 2014. As part of that initiative, aid investment plans have been developed for each country and regional program, and include priorities for the aid program.⁹⁶ While these aid investment plans have a development cooperation focus, the concept could be broadened to focus on the totality of Australia's investment in and engagement with a particular country.

Policy resistance

For a whole-of-government China strategy to have maximum benefit, it would be essential to have bipartisan support, the lack of which was a key downfall of the *Australia in the Asian Century White Paper*. It would also be essential for the strategy to be adequately funded and resourced. One of the criticisms of the *Asian Century White Paper* was that it was largely unfunded, which undermined the credibility of its objectives.⁹⁷ It would be important to calibrate the development of the China strategy against the realities of financial constraints to ensure a document that neither raises unrealistic expectations nor under-promises. The communication strategy as the document is developed would be important in calibrating the message for the community and for China.

One argument against a national China strategy is that it would only make sense in a policy context if Australia also developed strategies for other key relationships. The geopolitical challenges for Australia's policy settings presented by the rise of China include broad foreign and security policy questions that potentially affect several of Australia's key relationships, including with the US, Japan and Southeast Asia. It would be important to embed a process to ensure consistency of approach across all key relationships.

Some might also argue that a China strategy could constrain Australia's policy flexibility by removing ambiguity. There is value in judging situations on a case-by-case basis and taking a more nuanced approach. Putting too much in writing could narrow Australia's policy options or increase the challenges in managing its relations with China, the US and Japan. For example, when Australia and the US release joint statements at the Australia-US Ministerial Consultations, or Japan, Australia and the US release joint Trilateral Strategic Dialogue statements, they represent a shared view on particular security issues.

The final wording of such statements is the outcome of negotiations over language. China monitors closely the language used, particularly on sensitive issues like tensions in the South China Sea, and is quick to criticise if it feels that the statements are not objective.⁹⁸ The reverse is also true. The US and Japan would likely play close attention to Australia's China strategy to ensure consistency with Australia's alliance commitments. Hence, greater ambiguity may broaden Australia's policy options.

Nevertheless, a bipartisan whole-of-government China strategy would build trust with China because it would demonstrate that Australia takes China seriously across all aspects of the relationship, not just economics and trade. It would move Australia away from a transactional approach to relations with China to a partnership that is more real and enduring. It would provide real pathways to strengthen and develop new areas for engagement that would build understanding over time.

It would also provide a framework to synergise Australia's efforts and minimise contradictory messages and efforts across government and jurisdictions. The community outreach and engagement would encourage the development of stronger people-to-people links. Most importantly, an effective strategy would signal to China that Australia takes a long-term approach to its partnership with China, much as China approaches its relations with Australia.

Policy recommendation 2: Build political trust

This paper recommends that a whole-of-government China strategy includes measures for Australia to build political trust with China. The broad direction of Australia's efforts should be included in the publicly-available strategy, with more detail outlined in a classified version to give clear guidance to officials across government. As state and territory governments would be key partners in building political trust, especially with regional cities in China, it would be important to share the classified strategy with them with appropriate caveats.

Build on the 'Comprehensive Strategic Partnership' and annual leaders' meeting

A good place to start would be for Australia and China to work together to make better use of the Comprehensive Strategic Partnership and the annual leaders' meetings. The establishment of annual leaders' meetings recognises the importance of strong political foundations to the Australia-China relationship.⁹⁹ In June 2015, Australia's Ambassador to China, Frances Adamson, argued that Australia 'will need to bring all this new architecture fully to bear—as well as the strong rapport between our political leaders—if we are to engage and influence China as it evolves under President Xi'.¹⁰⁰

When Australia secured an annual leaders' summit with China, it was one of a handful of countries to have this regular high-level dialogue with China.¹⁰¹ The annual leaders' meeting is still a relatively new forum, and the quality and frankness of its discussions will take time to develop. However, Australia needs to approach the annual leaders' discussions with the objective of speaking frankly and consistently to China about the geostrategic issues facing the Indo-

Pacific, including the role of the US and the impact of China's behaviour in the South China Sea on trust and confidence in the region. Australia needs to be well prepared and speak from a perspective of understanding history and China's world-view.

The value of annual leaders' meetings is that leaders' decisions have the power to cut through bureaucratic resistance and give agencies the mandate to pursue particular joint initiatives. The deadline of an annual leaders' meeting means agencies need to engage consistently and proactively with their Chinese counterparts to achieve progress in implementing leaders' decisions. Annual leaders meetings do not just announce new areas of cooperation; they are also an accountability forum for previous commitments.

Where there are blockages in cooperation, leaders' meetings provide a deadline for sorting them out or a forum to work through the issues. This paper recommends that each future Australia-China annual leaders' meeting issues a joint communiqué that outlines agreements reached, as is the case with the Australia-Indonesia annual leaders' meeting.¹⁰² To that end, the Department of Foreign Affairs and Trade could run an inter-agency process between meetings, say every quarter, to monitor progress and prepare for the next meeting.

Be trustworthy and open to Chinese initiatives

The best way to be trusted is to be trustworthy, as demonstrated to China by Australia in its response to the tragic downing of MH370. The leadership that Australia displayed in the search for MH370 with Malaysia, China and other Asian partners built trust in those key relationships that Australia can leverage to build cooperation in search-and-rescue and other areas.

Australia generally reacts quickly to a crisis like MH370 and is generous in its response. However, Australia could be more trustworthy by being more open to China's initiatives to build its international role. For example, Australia took some time to agree to join China's initiative for an Asian Infrastructure Investment Bank, ostensibly because of concerns about governance structures.¹⁰³ The background noise, however, focused on the proposal as a Chinese initiative to challenge Japanese- and US-backed institutions like the Asian Development Bank and the International Monetary Fund.¹⁰⁴ Bisley argues that the Asian Infrastructure Investment Bank initiative is one example of China 'actively seeking to change aspects of its international environment with which it does not feel comfortable in areas that are not especially contentious'.¹⁰⁵

However, Australia's political instinct was to gather further information and hold off a decision until it knew what the US, Japan and other countries would do. Whatever words Australia used publicly, its delayed decision signalled suspicion of China's motives. To build trust with China, Australia needs to complement its rhetoric about supporting a greater institutional role for China with a more open and positive reaction to Chinese initiatives. There is nothing wrong with having concerns about the governance of the Asian Infrastructure Investment Bank. However, Australia arguably would have a better conversation with China if the initial Australian reaction had been more positive.

Asian Infrastructure Investment Bank and G20

Now that Australia has signed the Asian Infrastructure Investment Bank's Articles of Agreement in June 2015, there is an opportunity to be an active participant and help to play a bridging role between it and the Asian Development Bank, using Australia's active role and substantial investment in both organisations.¹⁰⁶ Australia is the sixth largest shareholder in the Asian Infrastructure Investment Bank with A\$930 million committed over five years.¹⁰⁷ Australia is providing up to A\$629.2 million to the Asian Development Bank replenishment from 2013 to 2016 and holds 5.8 per cent of total shares.¹⁰⁸

Australia is also part of a troika with China and Turkey as the immediate past, current and next chairs of the G20. Infrastructure financing was a priority for Australia's G20 leadership in 2014, so there is a strong basis to work with China in practical ways to prepare for China's G20 year,

bringing together the Asian Infrastructure Investment Bank as well as looking for ways to work with China on its Silk Road initiative.¹⁰⁹

Resources

This paper recommends that in addition to the funds Australia has committed to the Asian Infrastructure Investment Bank, Australia also make early commitments of quality personnel. Under the Articles of Agreement, Australia is entitled to appoint a Governor and alternate Governor.¹¹⁰ It should also signal its interest in and lobby for a seat on the separate Board of Directors and select an outstanding candidate for this purpose.¹¹¹ Australia should also make available expert staff to work at the Asian Infrastructure Investment Bank, ideally comparable to Australia's staffing levels at the Asian Development Bank, where Australia has 65 staff, comprising 6 per cent of the total international staff.¹¹²

Some of these staff should be secondments from relevant Australian Government departments, including Treasury, Department of Foreign Affairs and Trade, Finance, Infrastructure and Regional Development, the Reserve Bank and officials from state and territory governments. This paper recommends that the Commonwealth allocates funding for an initial six secondments to the Asian Infrastructure Investment Bank for postings of three years, with a competitive selection process across government departments. China experience, as well as experience in international development banks and international finance, would be key skills for these positions. There may be resistance to the idea of competitive postings across government, as usually government departments 'own' certain postings, but it is worth trialling whether a multi-agency approach would attract a broader talent pool.

Build on the strategic and economic dialogue

Linked to Australia's interests in the Asian Infrastructure Investment Bank and the G20, the Australia-China Strategic Economic Dialogue is a key forum for building trust. It is also an especially important forum for Australia's Treasurer and Trade and Investment Minister to understand the implications of China's slowing economy on Australia's economic interests, and to better understand China's economic reform priorities.

The second Strategic Economic Dialogue in August 2015 agreed to the establishment of bilateral working groups to explore opportunities in northern Australia and the region, including the role of Australia's Northern Australia Infrastructure Facility and the Asian Infrastructure Investment Bank.¹¹³ Both Australia and China want to strengthen cooperation under the Investment Cooperation Framework, signed in November 2014, to share information, promote investment in new sectors and identify investment roadblocks.¹¹⁴

This paper recommends that Australia builds on the Strategic Economic Dialogue by including additional components to add value. For example, when the dialogue is held in China, the Treasurer and Trade and Investment Minister could include a couple of regional business-focused visits within China as part of the itinerary and involve relevant state and territory governments and the business sector. A similar component could be incorporated for the visiting Chinese delegation when the dialogue is held in Australia. The resources required would be minimal and include modest additional travel expenses to regional cities in China and logistical work for the Embassy and Consulates.

Presence

Woody Allen's quote about 80 per cent of success being about showing up rings true in China.¹¹⁵ Building political trust with China requires Australia to be present, visible and active over the long term. Sometimes, ministerial invitations will come at the last minute for forums that on their face may not seem particularly valuable for Australia's interests. This paper recommends that Australia moves beyond a transactional approach to relations with China and starts viewing it through a longer-term prism focused more on relationships.

Resources

Resourcing is a challenge for Australia as ministers and officials are spread thinly and departments would struggle to service a big increase in ministerial travel. A whole-of-Australia approach is essential. For example, ministers could make more use of assistant ministers and parliamentary secretaries for more frequent engagement with their Chinese counterparts. Consistent with the proposed China strategy, state and territory ministers should also be encouraged to travel more to China. For example, Victoria's Premier has said that all Victorian ministers should travel to China before the next election.¹¹⁶

Invest in future leaders

Australia also needs to invest much more heavily in identifying and building relationships with future leaders in China. One way Australia does this currently is through the Department of Foreign Affairs and Trade's Special Visits Program that brings influential people to Australia for approximately a week-long program.¹¹⁷ However, there is strong competition for Special Visits Program funding and it would be unusual to receive more than a couple of special visitors from China each year. Organising and hosting a Special Visits Program visitor is also resource intensive for the Department's geographic divisions, and the role is often delegated to junior officers and graduate recruits who, while they do a good job, do not have the gravitas of more senior officers.

This paper recommends that additional financial resources be allocated to the Special Visits Program and that a special unit be established within the Department's public diplomacy division to run visits in coordination with geographic divisions. Ideally, Australia should host a rolling program of visitors from all regions of China with a minimum of 30 visits each year. This would likely cost around A\$600,000 per year not including staff costs, based on \$20,000 per visit. It is likely that the Department of Foreign Affairs and Trade would need to bid for additional financial and staffing resources. However, it would be an investment worth funding to build political trust with China's future leaders.

Conclusion

Building trust and cooperation with China is essential to Australia's future prosperity and security. Trust between countries takes years to develop and can be undermined quickly by behaviour that is inconsistent with understandings between countries. Cooperation builds understanding between countries and that makes trust more likely but not guaranteed. Australia's expanding cooperation with China in a raft of different areas, including development cooperation, Antarctic issues and climate change, helps to build institutional partnerships between agencies.¹¹⁸ However, an expanding laundry list of cooperation with China will be hollow if the core issue of trust is absent.

To build trust, Australia and China need to identify common ground in their cooperation, policies and joint initiatives. In his book about trust in US-China relations, Michael Tai argues that empathy builds trust as it conveys respect and demonstrates through deeds an understanding of the other.¹¹⁹ In Tai's view, US policymakers tend to see the world 'in adversarial zero-sum terms', showing little appreciation for empathy or putting themselves in China's shoes.¹²⁰ Policies that build Australian communities' understanding of and interest in China over time are likely to increase empathy and build trust.

This paper has considered the question of how a middle-power country like Australia can build trust with a rising power like China in a way that enhances its economic and strategic interests in a stable and peaceful Indo-Pacific region. In a speech to the Asia Society in April 2013, Varghese said that:

[T]he biggest challenge faced in the Indo-Pacific region isn't the rise of any one power. Rather, it is the manner that major powers manage the complex blend of interdependence and competition that lie at the heart of their bilateral relationships. Ambiguous relationships of both competition and cooperation are the new norm.¹²¹

For Australia this means navigating the complex path between the enduring security alliance with the US, the growing security partnership with Japan, and the desire to build a more substantive relationship with China beyond economics.

This paper has argued that the risks to Australia's relations with China from Australia strengthening its relations with Japan are minimal and manageable but that Japan-China tensions increase the challenges for Australia in managing both relationships. Building a more robust, trusting relationship with China presents challenges because of differences between cultures, values and political systems. However, these differences are not as stark as they once were. China is a more open society than it was and the two countries have established a range of dialogues to help manage differences. A critical element of building trust with China is for Australia to recognise when its interests may diverge from the US and Japan. This will not be easy, and the US, Japan and China will have expectations about Australia's position and support.

The key policy initiative this paper recommends is that Australia develops a bipartisan whole-of-government China strategy. It recommends two models; a publicly-available country strategy along the lines of those developed from the *Australia in the Asian Century White Paper*, and one related to the current Government's aid investment plans but broadened beyond the aid relationship. Consultation with the public and state and territory governments would be essential during both the development phase and implementation. The strategy would be most useful if it was bipartisan and adequately funded. States and territories should be encouraged to develop complementary strategies to support a whole-of-Australia approach to building trust and cooperation.

Australia and China have a solid foundation to their political relationship with the Comprehensive Strategic Partnership and annual leaders' discussions. The challenge is for both countries to make the best use of available forums to build trust and understanding. Australia and China need to speak frankly and consistently about Indo-Pacific geostrategic challenges in a conversation that goes beyond rhetoric and finds common ground. There will be areas of disagreement, including on maritime behaviour, but progress is more likely if countries are empathetic and understand the other's point of view.

Australia needs to be more open to China's initiatives to play a greater role on the global stage. The instinct should be to lean in and be positive and not be too cautious and wait for others to show their hand first. The paper suggests a range of practical ways that Australia could do this with respect to the Asian Infrastructure Investment Bank and through building more value into Australia's ministerial dialogues with China. Australia needs to move away from a transactional approach to relations and invest more in developing long-term relationships with emerging leaders.

For a long time Australia has seen China as a market. Australia can learn from China's long-term, relationship-focused approach. Australia needs to be more visible, present and engaged. None of this will be easy if China's behaviour contradicts its edict of peaceful development and raises uncertainty and tensions in the region. This is an enduring risk. The empathy, understanding and cooperation developed will at the very least help Australia and China to navigate future difficulties.

Notes

- ¹ Ernest Hemingway quoted in A.E. Hotchner, *Papa Hemingway: A personal memoir*, Random House: New York, 1966, Part 2, Chapter 5.
- ² Wang Dong, 'Is China trying to push the US out of East Asia?', *China Quarterly of International Strategic Studies*, Vol. 1, No. 1, 2015, p. 64.
- ³ *Xinhua*, 'Full text of Xi Jinping's speech on China-US relations in Seattle', *CRI English.com* [website], 24 September 2015, available at <http://english.cri.cn/12394/2015/09/24/3746s897214.htm?utm_source=The+Sinocism+China+Newsletter&utm_campaign=a46e083663-Sinocism_09_23_15&utm_medium=email&utm_term=0_171f237867-a46e083663-29605281&mc_cid=a46e083663&mc_eid=a57c314236> accessed 4 October 2015.
- ⁴ President Obama and President Xi, 'Remarks by President Obama and President Xi of the People's Republic of China at arrival ceremony', *The White House* [website], 25 September 2015, available at <<https://www.whitehouse.gov/the-press-office/2015/09/25/remarks-president-obama-and-president-xi-peoples-republic-china-arrival>> accessed 4 October 2015.
- ⁵ Malcolm Turnbull, 'ChAFTA and rebalancing of Chinese and Australian economies: speech to Australia-China Business Forum', *Malcolm Turnbull* [website], 6 August 2015, available at <<http://www.malcolmturnbull.com.au/media/China-Business-Week>> accessed 4 October 2015. At the time, Mr Turnbull was Communications Minister, not Prime Minister.
- ⁶ Xi Jinping, 'Address by the President of the People's Republic of China to the Australian Parliament', *Australian Parliament House* [website], 17 November 2014, available at <<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2FHouse%2F35c9c2cf-9347-4a82-be89-20df5f76529b%2F0005%22>> accessed 4 October 2015.
- ⁷ A majority of survey respondents saw China as more of an economic partner than a military threat and there was a nine-point drop from the 2014 Lowy poll in the numbers of respondents who thought it likely China would become a military threat in the next 20 years. Seventy-three per cent of respondents thought that Australia should develop closer relations with China as its influence grows. There was also caution about China's increasing 'influence and assertiveness', with 66 per cent of respondents saying that 'Australia should do more to resist China's military aggression in our region, even if this affects our economic relationship': Alex Oliver, 'The Lowy Institute poll 2015', *Lowy Institute* [website], June 2015, p. 9, available at <http://www.loyyinstitute.org/files/final_2015_lowy_institute_poll.pdf> accessed 4 October 2015.
- ⁸ Australian Government, *Defence White Paper 2013*, Department of Defence [website], pp. 1-2, available at <http://www.defence.gov.au/whitepaper/2013/docs/WP_2013_web.pdf> accessed 18 October 2015.
- ⁹ Kate Carnell, 'China trade deal offers a lifeline to regional communities', *The Huffington Post Australia* [website], 3 September 2015, available at <http://www.huffingtonpost.com.au/kate-carnell/china-trade-deal-offers-a_b_8074578.html> accessed 18 October 2015; also Australian Chamber of Commerce and Industry (ACCI), 'Submission: China-Australia FTA FADT Committee', *ACCI* [website], August 2015, p. 3, available at <https://www.acci.asn.au/sites/default/files/uploaded-content/field_f_content_file/sub20150827_submission_fadt_chaftasubmission_final.pdf> accessed 18 October 2015. The ACCI's submission to the parliamentary committee examining the agreement welcomed the conclusion of a high-quality agreement to enhance the economic and trade relationship, ensuring goods exporters overcome competitive disadvantage and create opportunities in goods and services.
- ¹⁰ For example, in October 2013, the Government upheld the ban on Chinese telecommunications company Huawei's investment in the National Broadband Network on national security grounds: Jonathan Swan, 'Joe Hockey says no to Huawei investment in NBN', *Sydney Morning Herald* [website], 30 October 2013, available at <<http://www.smh.com.au/federal-politics/political-news/joe-hockey-says-no-to-huawei-investment-in-nbn-20131029-2wf1f.html>> accessed 18 October 2015; also Michael West, 'Solution to housing affordability staring politicians in the face', *Sydney Morning Herald* [website], 1 June 2015, available at <<http://www.smh.com.au/business/comment-and-analysis/solution-to-housing-affordability-staring-politicians-in-the-face-20150531-ghdjw7.html>> accessed 18 October 2015; and Rebecca Thurlow, 'Australia orders more foreign homeowners to sell', *Wall Street Journal* [website], 8 August 2015, available at

- <<http://www.wsj.com/articles/australia-orders-more-foreign-homeowners-to-sell-1439024595>> accessed 13 August 2015.
- 11 John McCarthy, 'From one Ambassador to another: good luck if you go to Washington, Joe', *The Drum* [blog], 23 September 2015, available at <<http://www.abc.net.au/news/2015-09-23/mccarthy-from-one-ambassador-to-another/6796964>> accessed 4 October 2015.
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