

INDO-PACIFIC STRATEGIC PAPERS



Is it in Australia's Interests to Strengthen Security Relations with Japan?

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Abstract

This paper considers whether it is in Australia's interests to continue to strengthen security relations with Japan in the context of Japan's problematic relations with China. It contends that the state of Japan-

China relations matters to Australia because the lack of strategic trust between the second and third largest economies in the world creates risks for Australia's security and prosperity.

The paper argues that Australia should continue to strengthen its strategic relationship with Japan, and that the resultant risks to Australia's relations with China are minimal and manageable over the next decade. It rejects the contention that Australia may need to choose between a stronger partnership with Japan and its growing relationship with China. It concludes that the principal challenge for Australia will be in maintaining freedom of policy manoeuvre, while helping advocate to Japan and China that their mutual security interests are better served by improving their bilateral relations.

Is it in Australia's Interests to Strengthen Security Relations with Japan? ¹

Introduction

If a picture is worth a thousand words, the recent popularity in China of a Japanese 'manga' movie featuring the large blue robot cat Doraemon illustrates the complexity and contradictions of the relationship between the two giants of Asia. 'Stand by Me Doraemon' is the first Japanese film to be shown as a general release in China since 2012, when the bilateral relationship went into serious decline because of territorial disputes over the Senkaku/Diaoyu Islands.² In 2015, there are nascent signs of a thawing in ties as a result of efforts by the two governments to rebuild relations. But expectations are modest and realistic about the challenges involved.

The tensions between Japan and China over territorial and historical disputes do not involve Australia directly but reflect the broader geostrategic contest for influence in Asia that engages Australia's interests profoundly. China's re-emergence as a major power and the relative decline of Japan raise important questions for regional countries about how China will use its growing power over the next decade. The 'rise of China' is changing power distribution in Asia, and the lack of clarity about China's intentions creates uncertainty that shapes policy responses by regional countries.

For the past decade, Australia and Japan have been strengthening their security ties. This process has accelerated under the framework of the 2007 Joint Declaration on Security Cooperation.³ In the same period, China overtook Japan to become Australia's largest trading partner in 2007, and there are ambitious expectations for continued growth in trade and investment facilitated by the Free Trade Agreement signed in June 2015. Maintaining good relations with Beijing is critical for Australia's economy and future prosperity. Likewise, Australia's security partnership with Japan, anchored by the commonality of their respective alliance relationships with the US, is critical to maintaining the *status quo* provided by a strong US presence in the Indo-Pacific region.

This paper will consider whether it is in Australia's interests to continue to strengthen security relations with Japan in the context of Japan's problematic relations with China. The state of Japan-China relations matters to Australia because the lack of strategic trust between the second and third largest economies in the world creates risks for Australia's security and prosperity.

However, tensions between Japan and China are about more than territory and history, and concern the nature and shape of the future security order in Asia. Japan's policy settings see support for continued US strategic primacy in Asia as the best way to maintain long-term stability in the region. Australia's policy settings also support the US 'rebalance' to Asia, as well as closer bilateral security cooperation with Japan and trilateral cooperation with the US and Japan. Australia is also strengthening its security cooperation with China with a comprehensive strategic partnership and annual leaders' meeting, agreed in 2013.

In considering the future strategic challenges for Australia in balancing its hugely-important economic relationship with China with its security partnership with Japan, it is somewhat abstract to argue that there is no choice to make and that Australia can and should engage productively with both Japan and China. The more interesting and practical question is how Australia will manage the inevitable friction points where Japan and China diverge in their policies. What are the future implications for Australia if tensions between Japan and China escalate? Like Australia, Japan faces challenges in balancing its economic relationship with China with its security relationship with the US. Are Japan's policy settings likely to enhance its future security and how can it convince China that a more 'normal' security posture will not threaten regional security?

In considering Australia's interests, this paper will analyse the limits and consequences for Australia of deeper security relations with Japan and China. At the outset, the paper will outline Australia's national interests with China and Japan. The following section will consider recent tensions in Japan's relationship with China, assess the factors influencing the management of bilateral relations, and consider what lessons, if any, Australia can draw from their example.

The Japan-China relationship is quite different from Australia's relations with China. Japan is geographically much closer to China; the two countries are also historical rivals and are the two largest powers in Asia. Rivalry, competition and cooperation coexist in their relations. Yet similarities do exist. Both Australia and Japan are dealing with issues related to accommodating a rising China and both have alliance obligations to the US. How China and Japan manage their relationship in the context of changing power relativities over the next decade is instructive for Australia as an indicator of possible future behaviour.

The paper will examine Australia's response to Japan-China tensions, particularly the territorial dispute over the Senkaku/Diaoyu Islands. The paper will then outline recent developments in Australia's relations with both Japan and China and consider the strategic challenges it faces in achieving its objective of strengthening relations with both countries over the next decade. Some of the issues to consider include whether a closer security partnership with Japan increases the likelihood of a China-Japan conflict drawing in Australia, with Australia perceived as a quasi ally of Japan against China.

Another important consideration is whether China may impose costs on any future policy choices with which it disagrees. The flipside is managing Japan's expectations of the security partnership with Australia and ensuring that misunderstandings do not arise from differing interests and views on managing a rising China. The paper concludes by arguing that it is in Australia's interests to strengthen its security relations with Japan over the next decade and that the risks to Australia's relations with China are minimal and manageable.

Australia's interests

Australia is strengthening its security relations with Japan because it assesses that it is in its interests to do so. At the macro-level, Australia has interests in the stability of the Indo-Pacific region and in a rules-based global order. The Australian Government's 2013 Defence White Paper, issued by the previous Labor Government, articulated four key interconnected strategic interests: 'a secure Australia; a secure South Pacific and Timor-Leste; a stable wider region, which we now conceptualise as the emerging Indo-Pacific; and a stable, rules-based global order'.⁴

The current Coalition Government is planning to release a new Defence White Paper later in 2015. However, the core macro-level interests are likely to be consistent with those in the 2013 White Paper. While not Government policy, the Defence Issues Paper—released as part of the public consultation process for the 2015 White Paper—notes that Australia's interests include 'the protection of our trade routes and prevention of non-geographic threats, such as those from cyberspace, terrorism, transnational crime, people smuggling, and illegal fishing'.⁵ The paper highlights Australia's interests in its 'economic investments around the world and the presence of Australian citizens in many countries'.⁶ Australia is also described as:

[Having] core national interests in working with others to develop regional security architecture ... [and] sharing a deep collective interest in sustaining the peace, which has brought growth and prosperity to hundreds of millions of people.⁷

In June 2015, then Prime Minister Abbott recognised Australia's global interests 'as the world's 12th largest economy and as a major trading nation, as one of the United States' principal allies; and as a treaty partner to many of our important neighbours'.⁸ He also described 'the stability of our region ... [as] essential for the safety and security' of Australia.⁹ Australia's Foreign Minister Julie Bishop has said that Australia wants 'a vibrant, inclusive region that is engaged with the world, regional institutions that help manage tensions, a constructive, mutually advantageous relationship with China, and sees the United States as a friend and partner'.¹⁰ Values of democracy, respect for the rule of law and global norms, an independent judiciary and individual liberty of citizens underpin Australia's approach to regional and global engagement.¹¹

Australia seeks to advance and protect these interests through strengthening its partnership with Japan. Former Prime Minister Abbott described Australia's 'special relationship' with Japan as 'built on shared interests and common values: democracy, human rights, rule of law, more open markets and freer trade'; he also said the bilateral partnership is 'for peace, prosperity and the rule of law'.¹² Japan's Prime Minister Shinzo Abe, in his July 2014 visit to Canberra, said that both countries would play a greater role 'in

realising our common objectives such as peace and stability in the regional and international communities and promoting the rule of law in global public goods including the seas and airspace', describing Australia and Japan as sharing 'universal values and strategic interests'.¹³

Other Australian ministers have articulated Australia and Japan's common interests in regional stability, prosperity, open markets and the rule of law from the perspective of shared values, including democracy and human rights. Australia's Foreign Minister Julie Bishop, for example, has described Japan as Australia's most important strategic and economic partner in Asia, asserting in May 2015 that strengthening cooperation with Japan is 'critical to advancing Australia's interests in a stable and prosperous region'.¹⁴

Australia is also strengthening its partnership with China, consistent with its interests, including the finalisation of the China-Australia Free Trade Agreement and the elevation of relations to a 'Comprehensive Strategic Partnership'. However, the Australian Government's language is less about shared interests based on common values, and more about cooperation and the management of differences with its largest trading partner.

The Australian Department of Foreign Affairs and Trade's country brief on China notes 'a growing range of common interests, with increasing collaboration in multilateral and regional forums'.¹⁵ It outlines a range of consultation mechanisms to 'advance cooperation and manage differences'.¹⁶ Former Prime Minister Abbott noted in late 2014 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'.¹⁷

During a visit to China in April 2014, Abbott contended that 'Australia's relationship with China is different from that with the United States, the United Kingdom or even Japan—yet it is of incalculable importance'.¹⁸ He noted that China is Australia's largest trading partner, its largest source of immigrants (in most recent years), its largest source of overseas students and international tourists, and that the investment relationship is growing.¹⁹ The latter, in particular, is a sign of the level of mutual trust that exists between the two states.

During a reciprocal visit to Australia in November 2014, China's President Xi Jinping stressed China's interests in regional peace and prosperity, saying that 'without peace and prosperity in the Asia-Pacific, stability and development in China cannot be assured'.²⁰ Importantly, Xi said that Australia and China had no conflict of fundamental interests and no historical problems, noting Australia and China's mutual commitment to 'peace, cooperation and development' and to 'uphold and ensure stability and prosperity in our region and the world'.²¹

Xi further asserted that Australia and China 'have every reason to go beyond a commercial partnership to become strategic partners who have a shared vision and pursue common goals'.²² He also acknowledged differences, and that disagreement was natural. He stressed the importance of candid communication—seeking common ground despite differences—and a preparedness to meet halfway, saying that:

We should respect each other's core interests and major concerns and appropriately handle our differences. As long as we have our long-term and larger interests in mind, increase positive factors and remove obstacles, we will certainly forge a closer and more dynamic comprehensive strategic partnership between us.²³

Australia's interests are economic, political, strategic, regional and global. It shares interests with China and Japan in regional peace and prosperity. However, shared interests do not mean synonymous interests, and there are differences about how to advance these interests. Robert Ayson and Desmond Ball argue that the intensification of the Trilateral Strategic Dialogue between Australia, Japan and the US, as well as Australia identifying as Japan's second-closest security partner (behind the US), means that Australia is increasingly connected to North Asia's evolving strategic situation.²⁴

Australia first suggested a trilateral dialogue mechanism to the US and Japan in 2001, which was elevated to Ministerial status in 2006.²⁵ In a Trilateral Strategic Dialogue leaders' meeting in 2014, the three countries committed to deepen the trilateral partnership 'to ensure a peaceful, stable, and prosperous future for the Asia-Pacific region'.²⁶ They also agreed that the partnership rested 'on the unshakable

foundation of shared interests and values, including a commitment to democracy and open economies, the rule of law, and the peaceful resolution of disputes'.²⁷

Australia's interests in a closer security partnership with Japan are indivisible from its alliance partnership with the US. As US allies, Australia and Japan are critical partners for America's 'rebalance' to Asia, in which the US advocates allies taking greater responsibility for regional security—the US also supports the strengthening security partnership between Australia and Japan.²⁸ For its part, Australia has made clear that it supports 'the United States' role in underpinning the region's security, stability and prosperity'.²⁹

Australia and the US also support Japan contributing more to international peace and stability, including through the exercise of its right to collective self-defence. Both countries are strengthening security ties with Japan, as well as trilateral cooperation.³⁰ In a joint communiqué following ministerial-level talks in 2014, Australia and the US also asserted that they are committed to:

[B]uilding positive and constructive relations with China, including by pursuing dialogue on strategic security issues and by expanding practical cooperation in support of their common interest in maintaining regional peace and stability, and respect for international law.³¹

However, as tensions have increased in the relationship between Japan and China, some commentators have questioned whether a closer strategic relationship with Japan enhances Australia's security interests. Hugh White, in particular, argues that under Prime Minister Abe, Japan's shift away from pacifism to removing restrictions to allow the Japanese military to engage in collective self-defence is a response to Japan's concerns about the rise of China.³² He cautions against Australia damaging its relations with China by aligning itself with Japan's policy approach that could see Asia divided into hostile blocks.

White questions whether Japan and Australia's relations will continue to align in coming decades. For example, if China and Japan clashed over the Senkaku/Diaoyu islands, would Japan request Australia's support and would it be in Australia's interests to provide it? The answer to that question probably depends as much on the US response and the circumstances surrounding the conflict. However, closer security ties with Japan do raise expectations.³³ Australia's strategic interests in the East China Sea include ensuring that sea lines of communication are open, as well as concerns to maintain the current regional order that depends on continued American primacy.³⁴

As a major trading nation, Australia has key interests in growing the trade and investment relationship with both China and Japan. A stable regional environment with open markets is essential to Australia's prosperity. Linda Jakobsen argues that 'China is more likely to determine Australia's prosperity in the 21st century than any other country'.³⁵ White notes that Australia's economic relationship makes it sensitive to China's interests and that 'Australia has an immense stake in China's economic success and in good relations with Beijing'.³⁶

China has been Australia's largest trading partner since 2007, when it overtook Japan. It has been Japan's largest trading partner since 2005. Australia's trade with China was worth almost A\$160 billion in 2013-14, and investment is growing.³⁷ The two countries signed a Free Trade Agreement in June 2015 that they expect will provide a catalyst for future growth.³⁸ Japan is Australia's second-largest trading partner, with total trade at almost A\$68 billion in 2013-14—or close to 13 per cent of Australia's trade, compared with China at 27.4 per cent.³⁹ Japan and Australia signed an Economic Partnership Agreement in July 2014. Australia's economic interests with both China and Japan mean that Australia has a strong interest in minimising the risk of conflict between them, as any conflict would be economically destabilising, at a minimum, with potentially 40 per cent of Australia's trade at risk.⁴⁰

Japan-China relations

The state of Japan and China's relations matters for Australia's interests because of the importance of its growing trade and developing security partnerships with both countries. How Japan and China manage their relations with each other impacts on their relationships with other regional countries, including Australia. Regional peace and stability is at risk if the two biggest powers in Asia are either unable to

manage their political and security relations effectively or if the lack of high-level communication between them results in miscalculations or escalation of tensions.

The long-term risks are magnified by the shift in power dynamics between them, with China's military and economic power growing and Japan's declining in relative terms. However, this is not a zero-sum equation. Japan is still a powerful country in economic terms and its limited military power is likely to increase because of policy changes.

Contemporary relations between Japan and China incorporate both cooperation and competition but the institutional framework is not sufficiently robust to help manage the frequent downturns. Historical animosity continues to overshadow and impede relations that have been fragile since 1972 when diplomatic relations were established.⁴¹ Sheila Smith argues that the ability of the two governments to manage vulnerabilities will determine the trajectory of their relations.⁴²

While China focuses on ensuring that Japan atones sufficiently for its wartime atrocities in China, and adopts a 'correct' view of history, Japan focuses on putting relations on a reciprocal and less apologetic footing.⁴³ China is not ready for this, as it does not trust Japan, just as Japan has found itself ill-equipped to deal with China's rapid rise in the past 30 years and the consequent strategic power shifts in the Indo-Pacific region.

Japan and China have made modest efforts to reset relations but the brittleness and fragility of political ties and the absence of real trust mitigate against a smooth recovery over the long term. In 2008, China and Japan agreed to a 'mutually beneficial relationship based on common strategic interests'.⁴⁴ This followed a difficult period in relations because of Japanese Prime Minister Koizumi's annual visits to the Yasukuni Shrine during his period in office from 2001 to 2006.

Yet China and Japan have been unable to operationalise the five areas agreed for cooperation in the 'mutually beneficial relationship' as relations deteriorated dramatically over the Senkaku/Diaoyu Islands territorial dispute in 2010, and again in 2012 and 2013. Modest improvements in day-to-day relations have taken place since President Xi and Prime Minister Abe met for the first time in the margins of the APEC meeting in Beijing in November 2014 and again in Indonesia at the Bandung Conference in April 2015.

Prior to the leaders' meeting at APEC, Chinese State Councillor Yang Jiechi and Japanese National Security Chief Shotaro Yachi jointly issued a four-point consensus on improving China-Japan ties. The two countries agreed to resume political, diplomatic and security dialogue, while acknowledging differing positions on the Diaoyu/Senkaku Islands.⁴⁵ In his first interview with a Chinese-language television station in Hong Kong, Prime Minister Abe promised 'constant effort' to improve relations with China.⁴⁶ In March 2015, China and Japan held senior officials' security discussions for the first time in four years,⁴⁷ and President Xi hosted 3000 Japanese visitors in May. The two countries have also been making progress on discussion of a mechanism to manage crises at sea to reduce the chances of accidental confrontation in the East China Sea.⁴⁸

The contradiction in Japan-China relations is that economic interdependence has not led to better political relations. Even though the trade and investment relationship remains strong, the economic relationship declined between 2011 and 2013 during a difficult period in the territorial dispute over the Senkaku/Diaoyu Islands. In 2013, Japan's exports to China fell 10.2 per cent to US\$129.88 billion and imports from China dropped by 3.7 per cent for the first time since 2009. Exports of Japanese cars to China declined significantly after anti-Japan protests in China.⁴⁹

Political tensions also affected the trade relationship when China allegedly restricted the rare earths trade with Japan after Japan's arrest of the Chinese captain of a fishing trawler that collided with a Japanese coast guard vessel in the East China Sea in 2010. Japan has since diversified its rare earth supplies to be less reliant on the Chinese market. Considering how difficult relations have been, the economic relationship has been reasonably resilient. China is Japan's largest trading partner and Japan is China's third largest bilateral trading partner after the US and Hong Kong (excluding the EU). Japan and China's total bilateral trade in 2014 was US\$343.7 billion, a small 0.2 per cent increase on the previous year with China's share of Japan's total trade at 20.5 per cent.⁵⁰

While trade relations have been reasonably resilient to political tensions, there are risks for Japan that if exports did decline significantly, this could jeopardise Prime Minister Abe's ambitious program to revive the Japanese economy.⁵¹ The success of 'Abenomics' is critical to Japan's future status as an influential power in Asia. Mike Mochizuki and Samuel Porter argue that as China is a critical destination for Japanese investments, reviving Japan's economy will be 'very difficult if fractious political relation are allowed to damage economic ties'.⁵² Greater trade interdependence provides a disincentive for conflict but it also provides levers of influence. How these levers are used is indicative of the maturity and health of the bilateral relationship, as well as demonstrating how Japan and China will navigate their relationship in future.

Australia has a key interest in Japan and China working to ensure that political tensions do not impact on their trade and investment relations for a couple of reasons. First, economic instability between Australia's two largest trading partners would have a direct impact on Australia's trade and economy. Second, as the second and third largest economies in the world, there is arguably a longer-term normative role for China and Japan in helping define acceptable behaviour and not using trade measures to express a political point.

This is a complex task for both governments. It is reasonably straightforward for governments to avoid taking disruptive measures in response to difficult political or security issues, such as the restriction on the rare earths trade. However, it is much more difficult for governments to influence the choices of consumers who may act in support of rising nationalism, such as decisions by Chinese citizens not to buy Japanese cars or by Japanese consumers not to purchase Chinese food products. Both governments can play a role in dissuading such behaviour but it is politically difficult to do so.

James Manicom is optimistic in arguing that 'integrated production networks, robust direct investment, and bilateral trade underwrite stability in the bilateral relationship'.⁵³ Historically, Japanese investment in China rose after the two countries signed an investment protection agreement in 1988 and large amounts of Japanese aid boosted bilateral ties after 1979.⁵⁴ However, the economic power dynamic between the two countries has shifted dramatically as China's economy grew from US\$147.3 billion in 1978 to US\$ 8.28 trillion by 2013.⁵⁵

China overtook Japan as the world's second largest economy in 2011, and the OECD and IMF predict China's economy will surpass the US as the world's largest economy in 2016 or 2017 respectively, if it has not done so already in purchasing power parity terms.⁵⁶ At a time when China's economy was growing at record rates for consecutive years, Japan's economy stagnated and is only now showing signs of recovery under Abe's economic reforms. Competition for regional influence in trade negotiations and financial infrastructure demonstrates the changed relativities in economic strength between Japan and China. The changed power relativity in China's favour is likely to endure over the next decade despite the economic slow-down in China and modest improvement in Japan's economy.

The competition for regional influence directly engages Australia's interests, as demonstrated by the cautious decision-making process that accompanied Australia's decision to join the China-initiated Asian Infrastructure Investment Bank. Australia also participates in the Trans-Pacific Partnership trade negotiations that do not include China, and the Regional Comprehensive Economic Partnership negotiations that do not include the US. Some see China's initiative to establish the Asian Infrastructure Investment Bank as a challenge to the Japanese and US-dominated Asian Development Bank.

Japan declined to join the Asian Infrastructure Investment Bank as a founding member over concerns about governance arrangements. It has taken a cautious approach and Prime Minister Abe told President Xi in April that 'while Japan shares with others the recognition that there is a high demand for infrastructure in Asia, we need a clear explanation from the Chinese side as to how fair governance of the institution and borrowing countries' debt sustainability will be ensured'.⁵⁷ In May 2015, Abe announced an additional US\$110 billion from Japan and the Asia Development Bank to fund infrastructure in Asia over the next five years.⁵⁸

China's Asian Infrastructure Investment Bank initiative and its broader economic connectivity programs, under the 'the One Belt One Road' initiative, are closely linked and support China's economic development. From China's perspective, global financial institutions like the IMF and World Bank were not responsive enough to China's requests for greater voting rights and a greater say commensurate with

its economic weight. As such, it has used its economic power to establish a new bank to fund infrastructure in Asia for which there is both a strong need and demand. Nick Bisley argues that the Asian Infrastructure Investment Bank 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'.⁵⁹

With respect to trade negotiations, Japan and the US are strongly committed to the Trans-Pacific Partnership negotiations that do not include China. The partnership is a higher-level trade agreement that goes beyond tariffs and seeks to tackle issues like intellectual property, behind the border barriers and investment. Twelve countries, including Australia, are involved in negotiations, collectively comprising 40 per cent of the world's economy and 30 per cent of global trade.⁶⁰

The symbolic value of the partnership goes well beyond free trade. In his April 2015 speech to the US Congress, Prime Minister Abe characterised it as being about spreading values of 'the rule of law, democracy and freedom', as well as security, with its long-term strategic value.⁶¹ In his State of the Union Address in January 2015, President Obama asked Congress to give him the authority to negotiate trade agreements like the Trans-Pacific Partnership as 'China wants to write the rules for the world's fastest-growing region', whereas the US saw that as its role.⁶²

The Asian Infrastructure Investment Bank and Trans-Pacific Partnership debates are a fascinating insight into how Japan and the US view the contest for influence and institution building in the Indo-Pacific, and the reservations about China playing a larger institutional role. Jeffrey Hornung argues that since relations declined with China in 2010, Japan's policy approach to China has shifted from 'soft hedging' to a harder hedge.⁶³ He argues Japan has done this through strengthening its alliance with the US, enhancing ties with Australia and other countries like India, and expanding partnerships with countries in Southeast Asia, particularly The Philippines and Vietnam. Participation in the Trans-Pacific Partnership is also part of Japan's hedging against China.

As China's economic power has grown, it has become more assertive about its maritime territorial claims. The dispute over the Senkaku/Diaoyu Islands in the East China Sea is one of the main reasons for the instability and tension in bilateral relations with Japan since 2010. Issues of identity and nationalism complicate effective management of the disputes for both countries. In Japan, for example, right-wing politicians point to China's 'high-handed manner in territorial disputes to highlight Japan's weakness and subservient identity', bolstering the case for Japan to pursue a more independent security policy as it is doing under Prime Minister Abe.

Confronting China is part of confronting Japan's post-World War 2 identity.⁶⁴ China's rise has seen a push from its population for it to take a hard-line position in territorial disputes with Japan that has resulted in at least three major escalations in recent years. This makes the disputes progressively more difficult for the two governments to de-escalate and manage.

The first diplomatic crisis was in 2010 when the Japanese coastguard detained the captain of a Chinese fishing boat off the Senkaku/Diaoyu Islands and sought to prosecute him in Japan. Japan eventually released the captain but not until China had inflicted diplomatic, trade and societal damage on Japan through mass protests, diplomatic measures against high-level dialogue and ministerial contact, and trade measures on the rare earth trade.

The crisis became even worse in 2012 when the Japanese Government nationalised three of the Senkaku Islands to prevent Tokyo's right-wing Governor Ishihara Shintaro from purchasing the islands from their private owners for development. Beijing did not accept Tokyo's representations that it had no choice but to nationalise the islands to avoid them being purchased by the Governor, who had little interest in maintaining the bilateral relationship with Beijing. From Beijing's perspective, Japan had changed the *status quo* and thus breached the longstanding bilateral understanding that the dispute would be set aside for resolution at a future time. For Tokyo, purchasing the islands was the only way to maintain the *status quo*. Bilateral relations went into a deep freeze over the nationalisation of the islands.

The risk of escalation increased further when Beijing declared an air defence identification zone over the East China Sea in late November 2013. Christopher Johnson sees Beijing's declaration of the zone as part of China's strategy to 'seek Japanese acquiescence to a subordinate position in both the bilateral

relationship and in the overall regional power dynamic'.⁶⁵ Several countries, including Japan, Australia and the US, criticised China's action as increasing regional tensions. However, Beijing 'insisted that its action was legitimate and conformed to normal internationally accepted practice'.⁶⁶ The US took no position on the sovereignty of the islands but did confirm that the Senkaku Islands fell within the US-Japan Security Treaty.⁶⁷ Jian Zhang notes that many Chinese analysts have argued that:

[The] new leadership's growing willingness to demonstrate China's 'bottom line' in international affairs has actually reduced the strategic uncertainties surrounding China's foreign policies, preventing other countries from misjudging China's intention and resolve to protect its national interests.⁶⁸

Japan and China's management of their territorial dispute over the Senkaku/Diaoyu Islands does not inspire confidence that the two countries could de-escalate tensions in the event of an accident on the water or in the air. Increased patrols by both countries have militarised the dispute further and increased the chances of miscalculation. Institutionally, Japan and China lack the tools to manage down any escalation. Domestic politics and nationalism in both countries complicate this vital task, and the indicators are that this trend is likely to continue over the next decade, not least because Japan—which retains administrative control of the islands—refuses to admit that the territory is in dispute.

Japan and China have also moved away from a tacit agreement to set aside the territorial dispute until a future time.⁶⁹ A few years ago, they were discussing joint development of energy resources in the area.⁷⁰ Today, the dispute is a highly-dangerous regional flashpoint, where the lack of trust and confidence between the two countries has raised regional security risks significantly. On the other hand, despite heightened tensions for five years, Japan and China have managed to avoid conflict on the water or in the air, and there has been no loss of life.

Both countries are making efforts to improve crisis management mechanisms, including discussions about a hotline, a four-point consensus agreed in November 2014 to acknowledge differences on the Senkaku/Diaoyu issue and resume diplomatic and security discussions on other issues, as well as work on a mechanism to manage crises at sea. Sustaining these crisis management tools over the next decade may mitigate the risk of conflict that is likely to remain high as Beijing becomes more insistent on protecting its core interests.

The territorial disputes between Japan and China are indivisible from extremely complex and sensitive, unresolved historical animosities. China sees Japan's administration of the Senkaku Islands as Japan gaining from territory acquired from imperialism.⁷¹ Even though it is in Japan and China's strategic interests to promote historical reconciliation, it is difficult to see how Japan and China can move past their animosity over differing interpretations of history, particularly when sensitivities are high over the 70th anniversary of the end of the Second World War. Lai Yew Meng argues that:

[N]ationalism/identity politics has been an ever-present determinant in Japanese-Chinese relations due to the complex interplay between their shared history and culture, and the evolving power dynamics that have shaped their past and present interactions.⁷²

Relations have worsened at a time when nationalism is gaining currency in both countries.⁷³ Nationalist pressures in both countries are likely to increase in coming years as both countries grapple with significant internal economic and political challenges. Differing interpretations of history and rising nationalism is a fundamental problem in relations. Issues that come up repeatedly include the inadequacy of Japan's apologies for wartime atrocities in China; the treatment of the 'comfort women' who acted as sexual slaves to the Japanese military; and official visits by Japan's Prime Minister, and other senior Japanese representatives, to the Yasukuni Shrine where the spirits of 14 high-profile war criminals are honoured.

China continues to press Japan to 'face up to history in order to unload the historical burden and advance toward the future with its neighbours'.⁷⁴ Resolving history issues or at least coming to a common understanding so that differences can be managed is indispensable to improving bilateral relations in the long term. Following a recent trilateral meeting with Japan and South Korea, China's Foreign Minister Wang Yi asserted that 'the war has been over for 70 years, but the problem with history remains a present issue, not an issue of the past'.⁷⁵

The focus for China is the adequacy of Japan's apologies for its past behaviour. Japan believes it has apologised sufficiently, and wants to focus on the future.⁷⁶ One barrier to resolving the history issue is that China does not appear to trust Prime Minister Abe's word because of statements he has made, which China sees as undermining previous apologies like the Murayama statement in 1995. For example, in remarks he made to the Japanese Parliament in April 2013, Abe questioned whether Japan had engaged in aggression in the lead-up to and during World War 2; his 2006 book, *Toward a Beautiful Nation*, also outlines his views on Japan's need to strengthen national defence and revise the pacifist constitution, as well as articulating his nationalistic views about history.⁷⁷

The irony is that most Japanese people have a penitent view of Japan's role in history. However, right-wing nationalist views gain the most attention and are those that China chooses to focus on.⁷⁸ A survey after the last Japanese elections found that only nine per cent of Japanese voters wanted Abe to focus on foreign and security policy, and only four per cent thought constitutional revisionism should take priority.⁷⁹

The Abe Government's new security policy is an additional source of tension with China because of the lack of trust between them. China thinks Japan is at risk of remilitarising as it reinterprets Article 9 of its post-war pacifist constitution and plays a larger role in regional peace and security, including through exercising its right to collective defence. There will also be greater flexibility in the kind of support Japan can provide to the US in exercising collective defence following their joint agreement on new US-Japan defence guidelines during Prime Minister Abe's April 2015 visit to Washington, albeit they are subject to the passage of implementing defence legislation in Japan's Parliament.⁸⁰

China's view about Japan's failure to face history compounds its suspicions about Japan's future intentions. Japan thinks it has apologised for its imperial past and that its record of accomplishment for the past 70 years as a peaceful, democratic contributor to the international community proves that it is ready to play a more active role in maintaining regional security. Yet a key reason for Japan's changing security policy is its concern about China's growing military power. Between 1990 and 2012, China's defence budget grew at an average annual rate of 10 per cent.⁸¹ Its defence budget in 2015 is expected to be around US\$145 billion, compared with only US\$10 billion in 1997.⁸²

Japan has articulated its concerns about China's rise and its efforts to change the *status quo* in the East China Sea in its most recent National Security Strategy and its 2014 National Defence Policy Guidelines.⁸³ They say that Japan expects China to play a more active cooperative role in the region and the world. But they also make clear that Japan is concerned about China's continuing increases in military expenditure, as well as its military modernisation, asserting that China is trying to 'strengthen its asymmetrical military capabilities to prevent military activity by other countries in the region by denying access and deployment of foreign militaries to its surrounding areas'; Japan is also concerned about the lack of transparency in the goals behind China's military build-up.⁸⁴

This section of the paper has outlined Japan and China's patchy recent history in managing their bilateral relations. The shift in power dynamics between them, in China's favour, and the immaturity of the institutional management structures for the bilateral relationship increase the risk of territorial disputes escalating into conflict over the next decade. Rising nationalism and unresolved historical animosity add to a difficult management environment for both governments.

How China and Japan interrelate with each other matters for Australia's interests and growing partnership with both countries for two reasons. China and Japan are the largest powers in Asia and if they cannot get along productively, that has flow-on security effects for all middle and smaller powers in the region, including Australia. Improving China-Japan relations is critical to the stability of the Indo-Pacific region. China and Japan are both critical partners for Australia, its largest and second largest trading partners respectively, with strengthening strategic cooperation with both. Without confidence in Japan and China's ability to manage their relationship, it is difficult for Australia to trust the policy motives or agenda of either country in strengthening ties with Australia.

Australia's response to China-Japan tensions

One of the challenges for Australia in balancing its strengthening relations with China and Japan is managing expectations about how Australia should react to incidents between China and Japan. One

argument against Australia strengthening its security partnership with Japan is that it could more often put Australia in the position of having to side with one country against the other's view. Japan may expect Australia to take its position because of the closer security ties. Likewise, the strengthening partnership with both Japan and the US through the Trilateral Strategic Dialogue increases the pressure for Australia to align itself consistently with the US and Japan on security issues.

China may also reasonably expect that its comprehensive strategic partnership with Australia will have some influence on Australia's position. Either way, Australia can expect to have to show its hand more often in future and, at times, this will likely be uncomfortable. If Japan-China relations are difficult, then the rub points for Australia are likely to be more frequent and complicate Australia's policy objectives of building closer ties with both Japan and China.

China's unilateral announcement of the air defence identification zone over the East China Sea in November 2013 demonstrates the dilemma for Australia of managing competing expectations from partners.⁸⁵ The announcement required aircraft flying in the designated area to abide by certain rules and provide flight plans to Chinese authorities, with China's armed forces adopting defensive emergency measures to respond to aircraft that did not follow these instructions.⁸⁶ When asked why it had declared the zone, China's Ministry of Defence stated it had been 'a necessary measure taken by China in exercising its self-defense right' and that it was 'not directed against any specific country'; the aim was 'safeguarding state sovereignty, territorial land and air security, and maintaining flight order'.⁸⁷

Japan reacted swiftly, accusing China of 'profoundly dangerous acts that unilaterally change the status quo in the East China Sea, escalating the situation, and that may cause unintended consequences in the East China Sea'.⁸⁸ The US issued a similarly-strongly worded statement that 'this unilateral action constitutes an attempt to change the status quo in the East China Sea'.⁸⁹ Australia's Foreign Minister issued a statement expressing concern about the sudden announcement, its impact on regional stability and Australia's 'opposition to any coercive or unilateral actions to change the *status quo* in the East China Sea'.⁹⁰

China labelled Australia's statement 'irresponsible' and urged 'the Australian side to immediately correct its mistakes so as to avoid hurting the co-operative relationship between China and Australia'.⁹¹ During a subsequent visit to China, Foreign Minister Wang Yi berated Australia's Foreign Minister publicly for the position it had taken, pointing out that Australia's words and actions had 'jeopardized bilateral mutual trust and affected the sound growth of bilateral relations'.⁹² Australia's Foreign Minister responded that Australia respected China's right to speak out on issues that affect China and hoped China would respect Australia's right to speak out on actions that affect a region of critical security importance to Australia.⁹³

Bisley has argued that Australia's choice of language, opposing unilateral efforts to change the *status quo* in the East China Sea, supported Japan and that, from China's perspective, Japan disrupted the *status quo* when it nationalised the Senkaku/Diaoyu Islands in 2012.⁹⁴ Bisley argues that taking Japan's side, and by implying it was China that changed the *status quo*, 'builds expectations of support from Tokyo and can be seen by Beijing as Australia backing Japan's position'.⁹⁵ Japan, Australia, and the US pointed to China's behaviour as destabilising, whereas the UK and the EU encouraged peaceful resolution without singling out China.⁹⁶

Australia's public association with Japan's position does not appear to have done lasting damage to Australia's relations with China. Just a year and half later, the two countries have signed a Free Trade Agreement, upgraded relations to a Comprehensive Strategic Partnership, and hosted reciprocal leaders' visits. China is 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. China did not appreciate the position Australia took and made its views known but did not let the issue get in the way of bilateral cooperation. Arguably, this is a sign of growing maturity in the Australia-China relationship.

Australia-China relations

Since Xi Jinping became President in 2012, Australia and China have instituted the building of a more robust architecture for the relationship. At its apex is an annual leaders' meeting, under the framework of the strategic partnership agreed in 2013. In 2014, this was upgraded to a 'comprehensive strategic partnership' during Xi's visit to Australia. It is not clear how a 'comprehensive strategic partnership' is

materially different from a 'strategic partnership', other than signalling both countries' commitment to continue to expand engagement beyond trade and investment and to build trust. The two foreign ministers have initiated a Foreign and Strategic Dialogue that has met twice.⁹⁷ The first bilateral Strategic Economic Dialogue took place between Australia's Treasurer and Trade and Investment Minister and their Chinese counterparts in 2014 to discuss bilateral, regional and global economic issues.⁹⁸

These dialogues are a useful way to develop Australia's political relationship and for the two governments to know each other better. Jakobsen argued in 2012 that the lack of regular ministerial contact with China was detrimental to Australia's interests because of China's crucial political and security role in the region, asserting that less than optimal engagement with China weakened Australia's influence and increased the risk of escalation due to lack of trust and familiarity with each other.⁹⁹

Building trust at senior levels of government requires years of effort and a strong foundation.¹⁰⁰ Australia and China are also strengthening the relationship through senior-level dialogue, education, reciprocal naval ship visits, and humanitarian assistance and disaster-relief exercises.¹⁰¹ The two militaries have also expanded their operational cooperation and familiarisation through their joint search for the Malaysian Airlines flight that tragically crashed into the Indian Ocean in March 2014.

Trust has become an important part of the bilateral narrative and it will be critical for Australia and China to build trust gradually over the next decade through increased political and practical engagement. Former Prime Minister Abbott described the signing of the China-Australia Free Trade Agreement in June 2015 as 'a truly historic step forward in our comprehensive strategic partnership ... [in] a shared future of prosperity based on trust and respect'.¹⁰² Earlier, in September 2014, China's Foreign Minister Wang Yi had 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.¹⁰³

Australia and China are in the early stages of filling out the bilateral security architecture and building trust. Yet it is difficult to lay solid foundations when Australia does not know how China intends to use its growing power. China's consistent message about peaceful development belies its assertive maritime behaviour, as well as its lack of consultation with regional countries on issues that concern them, such as the imposition of the air defence identification zone in the East China Sea. It will be difficult to build trust unless China develops better practices in consultation and transparency.

Australia is just one of many countries in the Indo-Pacific region for which China's rise creates strategic uncertainty but also enormous economic opportunity. China's economic rise has had a profound effect on the Australian economy and this is expected to continue with the implementation of the Free Trade Agreement, which will liberalise trade in goods, services and investment with Australia's largest trading partner and the world's second largest economy.

The signing of the agreement occurred only a few months after Australia signed an Economic Partnership Agreement with Japan. The Australian Government's messaging is that the Free Trade Agreement with China 'completes a historic trifecta of trade agreements [including with South Korea] with our top three export markets, accounting for more than 55 per cent of our total goods and services exports'.¹⁰⁴ China, Japan and Australia are also negotiating the ASEAN-centred Regional Comprehensive Economic Partnership between 16 regional countries.

Unlike Japan, which took a cautious approach, Australia also joined the Asian Infrastructure Investment Bank as a founding member and the sixth largest shareholder, contributing around A\$930 million over five years.¹⁰⁵ This decision provides more opportunities to engage with China and other members on finance and infrastructure issues in the region, to which Australia can bring its experience of involvement in other financial institutions like the Asian Development Bank.

Australian community sentiment about China leans in favour of the economic opportunity of the relationship. According to a 2015 poll undertaken by the Lowy Institute, 77 per cent of Australian respondents see China as 'more of an economic partner to Australia' than a 'military threat', while only 15 per cent see it as 'more of a military threat'.¹⁰⁶ Most respondents (84 per cent) thought Australia should

stay neutral in the event of a 'military conflict between China and Japan', while 11 per cent said Australia should support Japan and three per cent said Australia should support China.¹⁰⁷ Feelings in general toward China were slightly below that of Japan, with China scoring 58 and Japan 68 out of 100.¹⁰⁸ The poll indicated strong support for the Government's policy approach, with 73 per cent of respondents agreeing that 'Australia should develop closer relations with China as it grows in influence' and more than half (52 per cent) saying they did not think that Australia should join with other countries to limit China's influence.¹⁰⁹

An important issue Australia will need to manage is whether the 'comprehensive strategic partnership' with China raises expectations that Australia will modify its strategic calculations to better accommodate China's interests and modify its behaviour towards Japan and the US. It would be reasonable for China to expect the 'comprehensive strategic partnership' to generate a higher level of consultation from Canberra on issues which impact on China's interests, and that Australia will take its views seriously.

Rory Medcalf argues that the evidence does not support the view that China will seek to constrain Australia's 'political and strategic choices owing to mutual economic reliance and vulnerability' and that Australia's deepening relationship with Japan has taken place when trade with China is increasing.¹¹⁰ Instead, the trade relationship will be one factor to consider, and Australia will try to limit the number and intensity of disagreements with China.¹¹¹ This is a reasonable assumption and applies equally to any other important bilateral relationship. It is easier to have disputes and disagreements with countries with which one has minimal ties because there is nothing to lose. A potential mismatch between Australia and Japan's approach could arise in future if Japan does not try to minimise its disputes with China but expects Australia's support in circumstances where Australia thinks Japan and China could have done more to manage down tensions.

Depending on the US view, expectations on Australia could increase in trilateral forums like the Trilateral Strategic Dialogue. Andrew Davies and Benjamin Schreer similarly argue that there is no evidence that closer strategic ties with Japan have damaged Australia's political and economic relations with China.¹¹² Trade and investment continue to grow and military exercises are expanding, and a zero-sum logic does not apply. China is pragmatic and aware of the impact of Australia's alliance with the US and strategic closeness to Japan but this does not exclude expanding security cooperation between Australia and China.¹¹³

Australia and Japan

Australia and Japan have a well-developed and longstanding bilateral relationship covering political, economic, people-to-people and security links. Shared values are at the heart of the partnership, which has developed in an incremental way since diplomatic relations were established in 1952, starting with trade and then moving into cultural and people-to-people links and, more recently, security.¹¹⁴

The political and security elements of Australia's relationship with Japan are more advanced than with China. Growth in the security partnership has been limited in the past partly by Japan's constitutional constraints. This is changing under the Abe Government's new security policy that aims to shift Japan's security role to a more 'normal' posture.

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 2007.¹¹⁵ Prior to that, security cooperation took place in multilateral contexts including in relation to Cambodia, Timor-Leste, tsunami relief in 2004, and Iraq.¹¹⁶ The Joint Declaration established regular '2+2' meetings of Foreign and Defence Ministers. Defence and security cooperation has grown rapidly since then, including the entry into force of an Acquisition and Cross-Servicing Agreement in 2013 that facilitates cooperation in humanitarian assistance, disaster relief, peacekeeping, exercises and training.¹¹⁷ An Information Sharing Agreement was finalised in 2012 to provide a legal framework to share classified information.¹¹⁸

In 2014, Japan and Australia elevated their strategic partnership to a 'new special relationship', 'based on common values and interests including democracy, human rights, and the rule of law, open markets and free trade'.¹¹⁹ A Defence, Science and Technology Agreement was signed in 2014 to facilitate access to defence technology and enhance research cooperation, and Australia and Japan are working towards an

agreement in 2015 to facilitate the movement of military personnel into each other's countries for joint exercises.¹²⁰

Australia and Japan have established a robust institutional framework, matched by political commitment to strengthen security cooperation over the next decade. Domestic politics in both countries pose a risk to the strengthening partnership if there is a change of government in either country. It is possible that Japan's population will decide that Abe's efforts to reinterpret the constitution and play a more normal security role in future do not make Japan more secure. Likewise, a change of government in Australia could lead to a shift in how Australia balances its relations with Japan and China to moderate the rapid progress in security relations with Japan. However, Australia and Japan have such a long and trusted partnership that while domestic politics could affect the tempo of security relations, the foundations of increased cooperation are more or less set for the next decade.

Japan and Australia support a continued US commitment to the region as critical to their national security interests. This was confirmed by the Foreign and Defence Ministers at the '2+2' meeting in 2014, at which the Ministers 'reaffirmed that their respective Alliances with the United States made a significant contribution to peace and security in the region ... [and] underscored the importance of strong US engagement in the region and strong support for the US rebalance'.¹²¹

The strengthening of the bilateral security partnership complements the alliance relationships that Japan and Australia have with the US, and trilateral cooperation. For example, if Australia decides to select a Japanese design for its next submarine, there would be obvious potential for trilateral collaboration if the design also integrated American systems.¹²² On an unrelated note, Japan has also sent 40 personnel to participate for the first time in 2015 in the US-Australia joint exercise Talisman Sabre.¹²³

The rapid increase in security cooperation with Japan is one element of Japan's policy to play a more active role in regional security. Japan's national security strategy outlines a policy of 'Proactive Contribution to Peace', based on international cooperation.¹²⁴ Its security policy reforms have internal and external elements. Internally, Japan established a National Security Council to provide leadership for the implementation of the strategy. It is also seeking to reinterpret the constitution to allow it to exercise the right to collective self-defence, which would allow Japan to use military force to defend allies and partners in the case of attack and facilitate more effective cooperation with security partners like Australia.¹²⁵

Japan is bolstering the capability of its armed forces in several areas, including air, naval, amphibious landings, intelligence, interoperability and ballistic-missile defence.¹²⁶ It has also changed its defence posture to focus more on the defence of its south-western islands.¹²⁷ Japan has increased its defence budget for the past three years, running to US\$42 billion in 2015.¹²⁸ Externally, Japan has strengthened its alliance with the US and agreed updated defence cooperation guidelines.¹²⁹ It is strengthening security and defence cooperation with other regional partners, including Australia. Japan's National Defense Program Guidelines for 2014 noted that:

Japan will strengthen cooperation in fields such as international peacekeeping activities, and will also actively conduct joint trainings and other activities so as to improve interoperability with Australia.¹³⁰

Australia has long accepted that today's Japan is a different country to pre-World War Two 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. Japan's National Defense Program Guidelines make clear that it intends to maintain an exclusively defence-oriented policy and will not become a military power that poses a threat to other countries.¹³¹

China suspects Abe's security policy is directed against it and questions whether Japan could return to its militaristic past if it removes constitutional constraints. China's military strategy document, released in May 2015, states that 'Japan is sparing no effort to dodge the post-war mechanism, overhauling its military and security policies.... [and that] such development has caused grave concerns among other countries in the region'.¹³² In China's view, Japan's perceived failure to atone properly for its militaristic past is evidence that Japan's future security intentions are not necessarily benign for China's interests.

Australia needs to be conscious of the trust deficit between Japan and China and the potential for China's lack of trust about Japan's intentions to pollute China's views about Australia's policy settings.

Japan and Australia have also worked closely to shape a regional architecture that is open, inclusive and rules-based. In ASEAN-centred regional institutions like the East Asia Summit, the ASEAN Defence Ministers' Meeting Plus and the ASEAN Regional Forum, Japan and Australia aim to build 'a more resilient regional order that can successfully accommodate the rise of China'.¹³³ Inherent is an assessment that the existing post-World War 2 regional order—in which the US plays the dominant role in maintaining peace and security through its 'hub-and-spokes' alliance networks—remains the most effective guarantee of regional security. It is also an order that has the capacity to accommodate a rising China.

Australia and Japan have made clear choices about strategic alignment. Medcalf describes Australia's China policy as a combination of hedging and engagement, asserting that:

Canberra is not fence-sitting when it comes to strategic alignment; it has made a choice, and that choice is the US alliance. Rather, Australia is hedging in the sense that, while it is hoping and preparing for a peaceful and prosperous Asian Century, it is taking security precautions against the possibility of a breakdown of regional order.¹³⁴

Likewise, Bisley argues that 'the choices Australia has made about its strategic future are heavily invested in the belief that US primacy can endure over the long term'.¹³⁵ Nevertheless, he argues that this choice is risky as China's actions show that as its economic and military power grow, it is likely to want to change the *status quo* to reflect its interests.¹³⁶ Moreover, it is already seeking to do this through assertive maritime activity and through regional initiatives like the Asian Infrastructure Investment Bank.

China's legitimate desire to shape its international environment to reflect its interests will continue to have practical implications for the Japan-Australia security partnership over the next decade. There will be times when Japan and Australia make different decisions based on different assessments of opportunities and risks. For example, Australia decided to join the Asian Infrastructure Investment Bank while Japan took a more cautious approach and did not.

The key to ensuring that Australia can manage the risks of strengthening partnerships with both Japan and China is policy flexibility and adaptability. At the same time, policy predictability is important to ensure that Australia can manage Japanese and Chinese expectations and that both countries trust Australia. It is also important that the trust is sustained over the coming decade.

Conclusion

This paper has argued that Australia should continue to strengthen its strategic relationship with Japan, and that the resultant risks to Australia's relations with China are minimal and manageable over the next decade. It rejects the 'zero sum game' contention that Australia may need to choose between a stronger partnership with Japan and its growing relationship with China.

A closer security partnership with Japan may increase the expectation that Australia would respond positively to any request for support in the event of conflict between China and Japan, particularly given the separate alliance relationships that Australia and Japan have with the US. The paper contends that the principal challenge for Australia will be in maintaining freedom of policy manoeuvre, requiring a policy toolbox that needs to become more sophisticated and nimble to manage effectively a combined policy of engagement and hedging in making decisions in Australia's national interests.

However, the instances where Australia's policy choices may be constrained are likely to be fewer if the relationship between Japan and China 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 Australia and Japan's increased security cooperation as being directed against it. Therefore, part of both countries' trust-building with China over the next decade should include increasing Chinese involvement in exercises and for political discussions to focus on building crisis management tools and maintaining communication to help de-escalate crises.

While uncertainty about how China will use its growing power is one of the key reasons Australia and Japan are worried about strategic stability, this paper emphasises the need for the cooperative development of an open, inclusive, rules-based regional architecture to manage tensions. The potential for friction is where there are different views about the shape and purpose of the regional architecture—and if China does not think its interests are served by the current structure that sees the US role in the Indo-Pacific as essential for regional stability.

Realism dictates that the adversarial nature of Japan-China ties is likely to continue, given the deep-seated nature of the historical and territorial issues between them. For neighbouring and regional states, the tension between Japan and China increases the challenge of managing relationships with both. In this complex environment, it will be essential for Australia to articulate clearly its interests, to manage expectations, and to be active in helping advocate to Japan and China that their mutual security interests are better served by improving their bilateral relations.

Notes

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