A NEW AUSTRALIA-CHINA AGENDA

Experts on the Australia-China Relationship
EDITED BY GEREMIE R BARMÉ AND RYAN MANUEL
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The Australia-China Story

Australian Centre on China in the World

Australian National University

ANU College of Asia & the Pacific
Canberra, Australia
Foreword

The Australia-China relationship touches on virtually every aspect of our national life. Australia and China trade in goods as well as in culture, politics and people, ideas and education, community and personalities. A mature and beneficial engagement of such breadth and depth requires the leadership and support of government at all levels, as well as public stewardship, media understanding, educational enhancement, and the strategic involvement of the business community.

In the lead up to the September 2013 Federal Election, the Australian Centre on China in the World (CIW) invited specialists working on various aspects of the Australia-China relationship to contribute essays to a project titled A New Australia-China Agenda. Published first on-line prior to the election, the selected policy papers and essays, revised and produced here in book form, aimed at offering the incoming government policy suggestions as well as bringing ideas of pressing contemporary interest that could contribute to the bilateral relationship to the attention of the public and the media, politicians and specialists.

This project was suggested to us by Professor Ian Chubb, Chief Scientist of Australia and former Vice-Chancellor of The Australian National University (2001-2011). At ANU Professor Chubb supported strong academic understandings of and exchanges with China. Our Australian Centre on China in the World, a 2010 Commonwealth Government-ANU initiative was created with his advocacy and guidance. CIW is a publicly funded research institution that is grounded in the humanities and which creatively embraces the social sciences while also serving the interests of public policy and the broader public in its engagement with contemporary China, be that the People's Republic or other parts of the global Chinese commonwealth.

The founding Vice-Chancellor of The Australian National University was the noted economist, public servant and diplomat Douglas Copland (1894-1971). Before returning to Canberra to take up his new role in 1948, Copland was one of Australia's last diplomatic emissaries to the government of the Republic of China and an on-the-ground witness to the last throes of the Pacific War in East Asia and the early months of the renewed civil war between the Nationalist and Communist parties. His time in China, his perspicacity and engagement with leading Chinese political figures, economists and thinkers led Copland to alert Canberra to the doomed American policy of support for the corrupt Nationalist leaders of the Chinese Republic and accurately predict the rise of a new, albeit socialist, China in a series of remarkable dispatches. He foretold that this new country would be of vital importance for Australia's Asian future.

Copland's views did not sit comfortably with Canberra, but he pursued his frank advice even when writing to Prime Minister Robert Menzies about the mission of the new institution he would soon run: 'the establishment and maintenance of academic freedom is more important than the actual research and teaching done inside the walls of a university.'

At the time, the China-based historian CP FitzGerald (1902-1992) commended Copland on his forthright dealings with the politicians and thinkers of China, as well as with the other foreign diplomats and journalists who were witness to the momentous events that not long after would see the establishment of the People's Republic of China under a Communist Party-led government. As Copland was leaving his diplomatic post FitzGerald praised him for being a 'candid friend of China', a kind of true friend that was all too rare.

A founding principle of the Australian Centre on China in the World is encapsulated in the ancient Chinese term zhengyou 諍友, that is to be a principled and frank interlocutor with those in positions of authority and power, be they in the intellectual or in the political sphere. We are delighted that the concept of being an unequivocal friend in the Australia-China relationship has now become embedded in official Australian discourse. Zhengyou allowed the then-prime minister Kevin Rudd to address international concerns when he spoke to an audience at Peking University in April 2008; he further explicated it in April 2010 when he announced at ANU the establishment of the Australian Centre on China in the World and, more recently, Prime Minister Tony Abbott redeployed the idea when, facing a fractious relationship with the People's Republic since coming to power, he declared in Beijing in April 2014 that ‘to get rich is indeed glorious – but to be a true friend is sublime’.¹
We celebrate ANU’s history of engagement both with contemporary Chinese realities and with Australian politics while cleaving still to the standards and demands of independent scholarship. We are mindful too of the responsibilities of engagé academics and the specialists who don’t resile from the demands of academe to bring into the public sphere ideas, debates and discussions that can contribute to building solid long-term policy and nurturing informed public awareness.

There is little argument that the changing and maturing relationship between Australia and China is of pressing importance, not merely to business and political cognoscenti but to people involved in nearly every field of endeavor. As never before it matters to Australians how best to analyse and describe the contemporary Chinese world and to think of ways of dealing with it, be it for economic weal, regional security, or indeed the global environment.

We are long beyond finding comfort in nostrums about the special nature or excellent quality of Australia-China relations; such tired platitudes fail to encompass the many fields in which this country requires insightful expertise. As we gathered the contributions of former diplomats, business people, cultural figures, educators, economists and entrepreneurs as part of this New Agenda project, we also reached out to those for whom the importance of the bilateral relationship will only grow with the passage of years: the young.

In their respective contributions to New Agenda David Walker and Stephen Fitzgerald both note the long years of national bilateral oscillation between apathy and engagement with China. Apathy is an inevitable part of the tyranny of complacency that holds sway over the national psyche, but engagement does not have to be the glum burden that is so often feared. New voices are finding their pitch within the national conversation and we are delighted that this modest project has, in some small part, contributed to that. One of our ‘new voices’, Thomas Williams, is an advisor to the government’s New Colombo Plan; the original plan was influenced by yet another of ANU’s founding fathers, Frederic Eggleston (1875-1954), Douglas Copland’s predecessor as Australia’s representative to the Republic of China.

Of vital importance is the need to be mindful of (and to understand) conversations unfolding in China itself. We need to open ourselves to the numerous, often hidden, worlds of contention in which Chinese thinkers and strategists attempt to outline their own thoughts, plans and goals. The essays in this volume by Chinese scholars, including an Australia-focused group at the prestigious Chinese Institutes of Contemporary International Relations (CICIR), a think tank reporting directly to the highest levels of China’s state and party leadership, are valuable contributions to Australia’s understanding of what China wants. These cannot be reduced to such caricatures as those authored by the editors of Global Times in August 2014, at the time of the Clive Palmer fiasco over China, who dismissed our bilateral realities with a line: ‘Australia is a remote business partner, and a place where the Chinese can take a trip and learn some English’.4

The present volume is a polyphonic collection of expert ideas and suggestions that we hope will be part of the unfolding Australia-China discussion. Creating this kind of conversation – and, indeed, maintaining the relationship – also requires determined, long-term public leadership and clear-eyed media involvement. It requires the public to appreciate what its political representatives think about the Australia-China relationship, to understand where its leaders and their advisers think the relationship should or could be directed, and to have information regarding what should or should not be done to make this work for Australia, China and the region. In this sense, there are many chapters still to be written in any Australia-China agenda; we hope that you will take the essays here as a starting point.

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NOTES:
1. A New Australia-China Agenda, online at: http://www.thechinastory.org/the-australia-china-story/
2. The material related to Douglas Copland, Frederic Eggleston and CP FitzGerald in this essay is based on the archival research of William Sima. See his China & ANU Diplomats, Adventurers, Scholars, Canberra: Australian Centre on China in the World, 2014.
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It seemed that despite the White Paper finding, and broad consensus for its proposition that Australia’s economic, cultural and social future is inextricably linked to Asia’s, learning Asian languages was just too hard for Australia(ns), or perhaps just not worth the effort.

Debate about the importance and sustainability of language programs did not start with the White Paper, however. In the preceding year, universities such as La Trobe, Curtin, New South Wales, Western Sydney and Canberra had either threatened to close, or, in Canberra’s case, closed, their language programs.

It seemed that despite the White Paper finding, and broad consensus for its proposition, that Australia’s economic, cultural and social future is inextricably linked to Asia’s, learning Asian languages was just too hard for Australia(ns), or perhaps just not worth the effort.

Nothing could be further from the truth.

It remains the case that speaking (and teaching) only English puts Australia at a disadvantage in the Asian Century and, among other things, in our relationship with China. Moreover, given the right environment and relevant programs, students are interested in languages, and institutions are well financed to teach them.

However, if policy-makers and education institutions are to cultivate broad (and deep) language competencies in the Australian community, they need to develop a pragmatic response to the challenges of language education in Australia, as well as a realistic appraisal of where our efforts should be directed.

This starts with getting some key points clear.

**English is Not Enough (for Most Things)**

Although English is not enough, we must acknowledge that there is much that can be done with English. A pragmatic approach to building Asian language capabilities needs to recognise this: many people have found that a lack of fluency in an Asian language is no impediment to their success in Asia. Elite transnational operators can indeed perform perfectly well in English. Politicians, senior executives of large corporations and university vice-chancellors, for example, are quite capable of successfully engaging with their equally transnational Asian counterparts. Much can be accomplished with English and English alone.
This is not the end of the story, however. As the centre of world economic gravity moves towards Asia, and China in particular, we need to be capable of a depth and breadth of engagement beyond the elites. Australians operating at all levels will have to communicate and negotiate with counterparts in linguistic and cultural settings increasingly removed from elite transnational norms.

In these diverse settings, the bilingual English learner has a distinct advantage economically over the native English monolingual. In small and medium enterprises, the Chinese business owner who learns English may not only compete globally, but also out-compete the monolingual English business owner for Chinese customers. The monolingual English speaker will also struggle to compete in the enormously important intra-Asian trade, where, for example, the supply chain between Korea and Taiwan might equally be negotiated in Japanese or Mandarin, instead of English.

While international education to English-speaking countries benefits Australia’s monolingual population, it is important not to forget that the same student mobility is happening within Asia, so that Japan and Korea’s very large international student populations are dominated by Chinese and Association of Southeast Asian Nations (ASEAN) students. A case in point: according to UNESCO there were 86,553 students from China studying in Japan in 2010; there were only 319 from Australia. For tourism too, monolingual English speakers may well provide the authentic Australian experience. But as incomes rise and Chinese tourists come from a greater cross-section of (non-elite, non-English speaking) Chinese society, we need to be able to understand and cater for them as well. We don’t expect Australian long-weekend visitors to Bali to speak Indonesian; nor should we expect Chinese visitors to have mastered English to experience Australia.

Importantly, when we do not have a firm grasp of the languages and cultures of our regional counterparts, we miss a lot of what we are being told. Translation filters are neither neutral nor objective. Without our own language and cultural experts we must rely on others for translation, leaving us less engaged, less informed and vulnerable.

We also know learning a foreign language makes you or your children smarter. Probably most importantly, we know that learning a second language makes you more globally engaged and empathetic — you meet more people and you have more fun. Moreover, these humanistic reasons for learning a language tend to be the most effective long-term motivation for learners.

Yes, to not know English is a disadvantage, but to only know English further sets back an individual or country. Without the language skills to participate actively in an increasingly internally integrated Asia, we will remain on the periphery, only able to communicate with one language — the useful, but nonetheless outsiders’ ‘second’ language of English. Thus, just as we must invest in numeracy and English literacy, to fail to also invest in the study of languages will leave our children and nation vulnerable and uncultured.

**Languages are Not Expensive to Teach**

All of the recent threats to university language programs have been at least partially based on the argument that they are expensive to deliver. That is a myth. Language teaching is well funded. Government policy-makers fund and support languages on par with allied health, and ahead of subjects in social sciences, humanities, law and business. Unfortunately, university funding models often mean this greater level of government support is not always reflected at the coalface.

Furthermore, the notion that languages need greater contact hours than other subjects, and are thus more expensive, can be challenged. Students still need a considerable number of hours dedicated to language learning as they are starting out, but this does not need to be done in the classroom with an attending academic. Mobile computing and peer-directed learning mean that students can devote the time they need to master their language skills without the constant presence of their teacher.

This does not entail any ‘dumbing down’ of language learning, only that the locus of the time students need to spend on the exercise is shifted from the supervised classroom to a more independent personal or peer setting. Language learning remains as difficult and time consuming as always and no technology or flash pedagogy will miraculously replace that.

**Students are Interested**

The myth that students in Australia do not want to study languages is also fundamentally false. There are many disincentives in place to stop them from doing so, however. In senior secondary systems, restrictive subject selection, poor recognition of languages in Australian Tertiary Admission Rank (ATAR) calculations, and lack of differentiation between native, heritage, continuing and ab initio learners dissuade many students from pursuing languages.

Without these constraints, students study languages. The International Baccalaureate (IB) is a wonderful counter-example to the disappointing situation we have let unfold in the state senior secondary system. Languages are a compulsory subject among the six subjects in the Year 11-12 IB diploma. Languages are fully valued in the calculation of the final IB mark. Importantly, because of the multiplicity of subjects and the compulsion to include all six subjects, the IB mark calculation does not disadvantage those who comparatively do not excel at languages.
Finally, in contrast to the decrease in the number of students pursuing languages within the state senior secondary system, IB enrolments have markedly increased over the recent period.

There is also no lack of students wanting to learn languages in universities. Both the University of Melbourne and the University of Western Australia (UWA) saw significant increases in language students when rigid curriculum rules were imposed. Japanese and French shot through the roof at Melbourne, likely building on the strength of those two languages nationally up until the Year 10 level. The UWA was able to add Korean with the assistance of Korean soft diplomacy money, but the enrolment number exceeded lecture theatre and lecturer capacity resulting in caps.

It is important to note, however, that most of these new learners are not the paradigmatic language student of earlier times. These students are not language majors who are interested or able to make the commitment that those traditional students do. Language is not the end point unto itself, but rather it is an add-on or extra to their other love or discipline.

**Where to From Here**

So, if we need to learn Chinese to build a broader and deeper relationship with China, if the teaching of Chinese is not an unreasonable burden on our educational institutions, and if students would learn Chinese if only they had the right conditions, then what can be done to build broad and (where necessary, deep) language capabilities in the Australian community?

We need to understand the differentiated goals and needs of language learning in the Australian community and structure our language programs and pathways accordingly. This may involve respecting that English is useful in the region, and that some are able to operate successfully with English alone. However, relying on English is not enough to sustain and build deep relationships with our neighbours, particularly China.

Much of the development of the community’s broad capabilities and awareness of Asia and Asian languages can be achieved through compulsory language programs in high schools, even if native-like fluency is neither expected nor achieved. However, disincentives to take-up language at senior secondary levels must be removed.

Universities have a critical role in building our specialised language capabilities, but they also need to recognise their role in providing more general skills through elective ‘broadening’ courses where there is much demand from students. University administrators should recognise the financial viability of language programs, and pass the priority funding received for languages down to areas delivering language programs.

Language teachers and academics must be supported to engage with modern teaching methodologies such as fully realising the potential of modern technology in the language classroom.

With limited resources, we should focus on the three key languages — Chinese, Japanese and Indonesian — with allowance for Korean and Hindi as well as many others such as Tagalog, Thai and Vietnamese as wildcards for schools that have a compelling reason for them.

Finally, we should shift our attention away from primary school language learning to put more focus on secondary and university learning. This may appear to fly in the face of applied linguistic research that suggests the earlier exposure the better for language learning. It is, however, a pragmatic response to the reality of the context in which we operate in Australia, where we are dominated by monolinguals, where quality language teachers are scarce, and where the crowded curriculum means a student is unlikely to get sufficient exposure hours through the early years to have any impact whatsoever. Most significantly, it is a response to the plethora of parents who keep quoting the anecdote of their child learning Japanese for eight years at primary and early secondary school and not being able to say hello (though they are extremely good at origami and a few nursery rhymes).

Delivery of these simple reforms will leave Australia better placed to speak to and engage with China in this Asian Century.

**REFERENCES**


What Do Chinese Leaders Want?
Kerry Brown

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What Do Chinese leaders want? There is one phrase that unites them, and which links them with leadership elites of previous modern regimes and dynasties back to the Qing that have ruled the territory of China: to create a rich, strong country. This is the most non-contentious general objective that any national or provincial leader across contemporary China’s thirty-one provinces and autonomous regions wants to contribute to achieving. ‘Creating a rich, strong country’ is an expression with profound emotional, political and historic meaning, and a meme that runs through leadership and popular discourse across the decades, and the elite levels, uniting them.

But you can detect in the elite discourses two general strategies on how to achieve the final objective of a creating a ‘rich, strong country’. The first of these is a purely functional one: a commitment to the economic development of China, one that was articulated from 1978 and which has been the standard statement of elite leaders ever since. Deng Xiaoping, Hu Yaobang, Zhao Ziyang, Jiang Zemin, Hu Jintao and now Xi Jinping, as party secretaries (or, in Deng’s case, paramount leader), along with all the leadership groups assembled around them, have not strayed from this commitment. The success has been measurable and visible: Double-digit economic growth from most years up to 2011, and a GDP that has quadrupled in size since 2001. The current leadership aim to double this again by 2020. The end point of this economic development, for this phase at least, is the achievement of middle-income status for Chinese people by 2020.

Chinese fifth-generation leaders, in their public discourse, reveal a far more sophisticated intellectual framework through which to see the process of economic development than leaders of previous generations.

But underlying this desire for balance is an issue the current premier and head of government Li Keqiang has written and spoken about most among the new leadership: the issue of how to achieve fast, sustainable growth. Edited transcripts of Li’s speeches about this issue — some dating back to 2009 — have been published in the Chinese Communist Party’s (CCP’s) theoretical magazine, Seeking Truth (Qiushi 求是). They set out a framework in which the aspiration of a ‘rich, strong country’ can be understood. The key elements of this are easy to set down. The 2008 economic crisis in the West proved, in the end, that reliance on growth through the markets there was unreliable; China needed to create sources of growth within itself that it can more easily control and shape; the Chinese people’s greatest strength was China’s vast, underdeveloped internal market, and the mission has to become how to stimulate this. Consumption in China is only forty percent of GDP. Li pointed out in 2010 that this was seventy percent in developed economies. He also pointed out that capital investment in China was still almost half that of GDP, compared to less than fifteen percent in the US or the EU. This economic structure gave the state too great a burden.

To create a country truly in control of its destiny, therefore, is to create a country in charge of how it produces wealth and growth. In this world view, every kind of public good, from health care to education, to civil society, has an economic function, and creates a society where those living in it are less anxious, and thus more willing to play their part in consumption rather than remorselessly saving. Li referred in 2011 to the ways in which housing policy would be a crucial issue in this —
allowing people to use their property to be not only a living place, but a source of economic activity, an investment. The era of China being focused purely on feeding and clothing its people as an overall aspiration is long over; now China has to deal with the consequences of being moderately wealthy, hugely productive and having policy that is always seeking new sectors for growth, from increased domestic consumption to increasing the proportion of high value-added services in an era in which double-digit GDP output is no longer sustainable. The main objective for the leaders in their macroeconomic policy is to ensure that as many sources of growth as possible are ones that China can control within itself.

The message from China’s current leaders of a more diverse, service-orientated, consumption-driven economy in which people’s educational levels are rising, is a strong and unifying one. It is good domestic politics.

The only possible attack on it is one similar to that launched by leftists more supportive of greater central state control of the economy, who wrote an open letter to then-premier Wen Jiabao in 2012 complaining about the China 2030 report for development produced by the World Bank and the Chinese State Council’s Development Reform Commission. The 2030 report had been closely sponsored by Li Keqiang and finally authorised by him as vice-premier. The leftists’ main complaint can be summarised as an argument that the report neglected to appreciate that the strong central state and its prescriptions on economic planning is the best means to maintain stability and uniform rule in China.

The problem with this leftist attack is, however, that their viewpoint has been discredited by the relatively poor economic outputs of a more statist model. In the rush to find more productivity in the economy in a time when GDP is likely to gradually slow down, therefore, to adapt Deng’s phrase, it doesn’t matter if the state is big or small in all this, as long as it creates growth. And the consensus in China now is largely that a small state is better suited to that.

What is more powerful in critiques of the current model, however, relates to the more emotional side of what Chinese leaders believe: the notion of a country with a historic mission — one that has a cultural and moral greatness that it has had stolen from it, one that it is now coming close to having the capacity, and the right, to reacquire.

This is the second part of the strategy to produce a ‘rich, strong country’. Here, the language of Xi Jinping is helpful. His dense attacks on corruption date back to his time as a party leader in Fujian in the 1990s. That he uses language so similar now shows an allegiance to a vision of the Party having both a moral and a political right to rule — a right the Party loses through the poor conduct of its key officials. Of course, Xi’s appeals hit against the deeper knowledge of malfeasance and vested interests running across almost every level of Chinese officialdom in social-media China now. The Party has become so obsessed with its function to forever seek sources of profit that this has been internalised by its officials, and hijacked for their own atomised networks and private interests. Getting rich in China is now embraced and almost fetishised. What the language of fighting corruption from Xi does is push this back from privatised wealth obsession and creation to something for society more broadly, and for the country — a reawakening of patriotic feelings, of belonging to a stronger, rising, revived China of the modern world that is dominant, truly in control of its destiny, and that is culturally confident.

The ‘China Dream’ Xi also refers to now tries to allude rhetorically to the sorts of aspirations that, of course, cannot be easily tabulated in the way that Li Keqiang’s aspirations for a society with faster, balanced growth can. For almost every major Chinese political figure since Mao, the option of policy mobilisation through using more emotional or idealistic formulations has been a treacherous one. The epitome of this was former Party General Secretary Hu Jintao, who talked in the most output-orientated, utilitarian, mechanical language, in which any appeals to personal involvement or emotional attachment were highly militated against.

Xi’s formulation of the ‘China Dream’, even as a phrase, opens up space to reintroduce idealism, and to start addressing the vexed issue of how to gain traction over a society of such vast complexity and internal difference, where all of the main forces of change and development in the last three decades have been centripetal, not centrifugal. In this new context, as the poet WB Yeats wrote, ‘Things fall apart, the centre cannot hold’. The sole appeal a leader can make, therefore, is a message to the strengths of unity through the emotional power of being a rich, strong nation. That truly is a China dream; because of course, such dreams — while not real — shape newer realities. That’s their function.

For policy-makers, there are two areas to look at hard in how the Chinese elite now view the world. First, conquering this internal domestic consumption market is a joint challenge. The government wants people to spend and become more dynamic and individual economic actors, and so do external corporate actors and developed economies carrying vast deficits with China. Joint cause in finding imaginative ways in which to engage with this market is critical. It also gives anyone as an outsider a wholly new way of relating to Chinese people, and the complexity of the internal market — as buyers of goods and services, as people who engage in transactions, but also as people who we need to more deeply understand and see into, to see how their consump-
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Information tells us something about their own aspirations, visions and hopes. Very ironically, capitalism may well find its final great frontier in the markets of Chinese small towns and semi-rural areas. It is here where the most zealous practitioners of the old creed will almost certainly be found.

And in our own political discourses on China, we need to see the nuances and complexities of what drives China's national mission, and what this Chinese Dream actually is. Viscerally fearful responses, the creation of false and unnecessary dichotomies, the idea that China's rise means our fall — these sorts of comfortably stark polarities are becoming an impediment to seeing the rich forms of mutual engagement that are now opening up. While, therefore, I have written about what the Chinese political elite have said in this piece, perhaps the most exciting, and the most encouraging reality about China as we see it now is that the voices of these elites become less important and less domineering. In many ways, we will see them wither away. Our politics should prepare, therefore, for a world in which it matters less and less what Chinese leaders believe, and we are able to see, more and more clearly, what different groups, elites and clans in this vast, dynamic and self-renewing country are directly saying not only to us, but, much more importantly, to themselves.
Where the Chinese Communist Party is Going and What it Means for Australia

Rowan Callick


The CCP, perhaps inappropriately for an organisation with a Leninist present and a Marxist past, usually confronts the necessity of change with initial dyspepsia. It would rather rule within a stable universe. Its preferred artworks are those of the past, its favoured architecture — with some exceptions — imperial kitsch.

Nevertheless, it keeps adapting to the changed circumstances in which it finds itself — usually at first with some reluctance, but eventually with a degree of internal consensus and even comfort.

The leadership team now in place is widely described as ‘new’, and this period as ‘transitional’. But the top leader, Party General Secretary Xi Jinping, and his number two, Premier Li Keqiang, were members of the previous Politburo Standing Committee for five years. They are anything but outsiders. And they have held the reins effectively since the Eighteenth Party Congress in November 2012.

If radical change were on its way, we might have seen a few indicators by now. Instead, we are mostly seeing more of the same: incremental and largely welcome economic reforms, implemented following painstaking pilot programs in a few provinces or cities.

This leadership team is being presented as more ‘political’ and less ‘technocratic’ than its predecessors led by Hu Jintao and Wen Jiabao. But it makes most sense to focus on what persists rather than to project a few subtle adaptations into a future that is bound to be hugely contingent. We know that Xi and Li will, barring some unlikely shift in power or events, remain in charge until 2022. We can pretty safely assume that they will not ‘do a Gorbachev’ and recreate their country’s polity in a radical way from within.

Instead of awaiting or speculating about big-picture changes, Australia needs — as a middle power in the Asian region, hugely dependent on China economically — to watch more modest events there with exceptional attention and intelligence. How China behaves and, to a lesser degree, what it says, will affect all our other key relationships too.

That degree of focus, on Australia’s part, must be applied above all in a one-party, unified state, to what the ruling CCP and its government arm wish to do. We need to know what people are talking about and publishing at the Central Party School, and at the other party schools nationwide. We need to know who is providing advice to the leadership, and what is framing those advisors’ own thoughts.

We need to remain attentive to the next generation of leaders, and those emerging behind them, and to seek to ensure they understand Australia and its motivations too.

While China, uniquely among the world’s large powers, is not a federation, its regions, provinces and municipalities retain important capacities for decision-making, especially in the economic arena that is the key area of Australia’s engagement. The return to the concept of free trade zones — spearheaded by Shanghai — may indicate a readiness for further economic decentralisation, though this appetite has fluctuated in the years during and after the Global Financial Crisis (GFC). Thus Australian attention needs to envelope regional China as well as the core organs of the party-state in Beijing.

More broadly, the Party has recommitted itself, in the wake of the sidelined nationalistic opposition by Bo Xilai and others, to globalisation — from which China has been the greatest beneficiary. China’s own private sector, long restrained by lack of access to credit and other handicaps, is starting to aspire again towards a bigger role, Chinese investment offshore continues to grow — with Australia still one of the top targets,
While international capital optimistically waits on the opening of fresh Chinese fields to foreign investment.

A degree of realism is naturally necessary. With the party-state persisting in untrammelled power, albeit in a slowly evolving manner, limits will remain to institutional engagement, however warm the personal relationships that frame it. Essentially, the Party insists on a pervasive capacity — even if not exercised — to control every aspect of Chinese life beyond the personal and family realms, making its governance internationally unique. By contrast, in Australia — at least theoretically — the citizen is sovereign, alongside an independently administered rule of law. There remains massive mutual ground for conversation, and for finding common cause in specific areas — but less for wholehearted consensus.

What will be the key areas of engagement as this relationship starts its second stanza of forty years — with a new Australian Government?

Economic advantage has been the core driver since the days of the mid-nineteenth-century gold rushes that first drew thousands of Chinese adventurers to Australia. Politicians on both sides have been reluctant to expend the political capital necessary to push the long-negotiated comprehensive free trade agreement (FTA) to completion. This is costing opportunities beyond China; Taiwan and Hong Kong, for instance, are eager to strike economic deals with Australia, as they have already done with New Zealand.

Investment and labour are obvious candidates. The countries’ economic priorities are naturally shifting in tandem, as Australia responds to shifting opportunities and priorities for China and, more broadly, Asia. Both wish to diversify and extend their investment in each other. China’s investors wish to bring more of their own labour force down to do construction and other work. And until Australia’s services, agriculture and resources sectors are able to build substantial businesses within China, they will lack the crucial resulting market intelligence. Again, this will test politicians’ willingness and capacity to provide leadership for change within their own countries by reducing or removing barriers.

Australia has already granted preferential deals on investment and labour fronts to a number of other countries such as New Zealand. For China to reciprocate may prove more of a challenge — though not if Beijing is persuaded, and can convince its own domestic interest groups, that Australia can provide a more persuasive testing ground for new economic enmeshments than, say, its FTA with New Zealand. All such interest groups are familiar by now with the concept of domestic pilots; why not extend it to China’s international economic ambitions, on a reciprocal basis?

While economic links will remain at the heart of the bilateral relationship, the countries can also learn more about each other by working together in third countries, or on projects bigger than both.

Joint aid projects, for instance in the Pacific, might form one productive arm. And military conversations might be strengthened through progression from joint exercises towards the occasional joint deployment on UN assignments.

Cultural links remain inadequate for a relationship of these economic dimensions. But there remain subtle barriers towards greater intimacy, with even individual or independent artists in China requiring bureaucratic validation if they are to engage in cultural exchange programs. Cultural enmeshment is growing nevertheless, but often in autonomous, discreet ways beyond official programs.

The same might be said for moves to establish broad-based ‘dialogue’ programs between the countries. While official exchanges are slowly thawing out and developing into potential platforms for more frank exchange, low-key ‘below the radar’ initiatives such as the Australia–China Youth Dialogue (ACYD) are already proving hugely valuable.

Naturally, as the smaller partner, the greater burden falls on Australia to make more of an effort to claim attention. This requires more consultates, more frequent visits by top leaders of all walks of life led by prime ministers, and many more students taking courses in China — the latter perhaps being made possible through the New Colombo Plan. And Australian education authorities need to find ways to re-engineer the teaching of Chinese in schools and universities, so that more Australians study the language who do not speak it in their homes. This means a greater focus on oral skills, and less — initially, at least — on the traditional core of Chinese teaching within China itself, which naturally comprises writing and reading characters.

The welcome flow of Chinese migrants to Australia, of students and tourists to the country, are naturally making a mark. The personal links they create are likely in the long run to create a bond that is more valuable than official programs and visits, important though these remain. Such links will counterbalance the distance, the reserve, that will remain at the formal level however hard both sides try to conceal or even remove it — because of the countries’ deeply contrasting political structures.

The resulting personal intimacy, and readiness to work together to tackle problems and to gain economic benefits, within both countries and further afield, should — with its emphasis on opportunity rather than threat — provide a model that carries universal currency.
China–Australia Economic Co-operation: Towards a Shared Transformation

Sino-Australian Relationship Taskforce, China Institutes of Contemporary International Relations (CICIR)

The China Institutes of Contemporary International Relations (CICIR) is the premier Chinese foreign policy think tank and reports directly to the State Council and to major Communist Party bodies.

CICIR’s Sino-Australia Relationship Project Taskforce was established in 2013. It is an initiative aimed at advancing CICIR’s research work on Australia and at contributing to China–Australia relations in an unfolding environment. The group consists of: Yang Mingjie 杨明杰, Vice-President, CICIR; Zhai Kun 赵昆, Director of the Institute of World Political Studies; Zhang Xuegang 张学纲, Deputy Director of the Institute of World Political Studies; Guo Chunmei 郭春梅, Assistant Research Fellow of the Institute of South and South-east Asian and Oceanian Studies; and, Tian Jingling 田京灵, Assistant Research Fellow of the Institute of South and South-east Asian and Oceanian Studies.

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Following the Global Financial Crisis (GFC), global economic recovery faces unprecedented challenges. And while the Asia-Pacific region will be the most crucial region for development in the twenty-first century, it also faces the arduous task of undertaking a process of economic transformation. Within the halting process of economic recovery, pressure on the Asia-Pacific region to rebalance its economic fundamentals has grown sharply, while it has become more difficult to co-ordinate with other global economies. Existing mechanisms for regional economic co-operation and dialogue are facing challenges, and while attempts to build all kinds of new mechanisms are in full swing, there is a growing gap between differing ideas on how to do so, leaving the process of regional economic integration at risk of breaking down. While Australia and China as individual economies are undergoing their own challenges of restructuring, we should ask whether the two countries could evolve a new form of relationship — one in which each economy still maintains its own distinct characteristics. This new form of relationship would not only affect the future of both our countries, but could create an important model for the region or even the world.

As important regional actors, both China and Australia should adjust to the circumstances they face, and take on the responsibility to make a greater contribution to the development of the region we live in.

China is the world’s second-largest economy. As it faces the reality of an increasingly difficult external trade environment, China has begun a process of rebalancing — moving from an export and investment-led economy to a domestic demand, consumption and services-led model of economic growth by focusing yet more on improving its industry structure and the quality of its economic growth. There are no precedents for this model of economic transformation and it is inevitably experiencing some growing pains, the most recent manifestation of which has been the easing of economic growth leading to a series of social problems.

Australia is a major commodities exporter, and it has reaped the benefits of its ‘dividend’ from the last twenty years of global economic development, particularly in Asia and the Pacific. Post-GFC, Australia faces unprecedented challenges due to its high degree of economic connectivity with the outside world. It will be difficult to continue Australia’s commodities-led economic growth model in the face of a fragile world market and a sharp fall in global commodity prices. Australia’s manufacturing and services industries also face many bottlenecks. So Australia confronts a difficult question: how to restructure its economy to a more sustainable development model — one featuring a ‘diversified economy’?

China is Australia’s biggest trade partner, its biggest export destination, and the greatest source of Australia’s imports. If its economic growth softens or it restructures its economy, there will be a direct impact on Australia. This will manifest itself in a slump in both the quantity and price of iron ore and coal exports, and it is hard to be optimistic about the impact of this on Australia’s economy and jobs. Given the importance of resources trade to bilateral relations, some people believe that the end of the resources boom will mean the end of the ‘honeymoon’ in Australia–China relations. But, in fact, globalisation has gone so far, and the two economies are so closely tied together and have such different economic systems, that their relationship will not ‘disconnect’ from declining trade — rather, they face an opportunity to further develop their relationship through a process of economic restructuring. There are a number of reasons for this:
We have a solid base for co-operation: The past decades have seen us utilise the resources trade to build closer economic engagement and pursue mutual prosperity. This process has allowed two countries at different stages of development, with different histories and cultures, to build up a rich story of co-operation and build a solid foundation of national popular support to continue this collaboration into the future.

We are heading in the same strategic direction: Australia's population base of some twenty-odd million people limits its economic potential. It will have to 'keep looking outwards' in order to develop a more diversified and sustainable economy. Australia sees the Asian Century as a great development opportunity, and for many years it has stressed the need to become 'a part of Asia'. Co-operation with China, which has undoubtedly earned its title of Asia's number one economy, will be one of Australia's most important strategies.

Although China's external economic relations are already global in nature, the process of economic transformation will emphasise even further the need to be based in Asia, giving it an even stronger reason to co-operate with Australia, rather than letting relations wither. This is because Australia is not only geographically close to China, but is also a middle-sized developed country in the region.

There are many points of agreement over restructuring: While China's economic growth is easing, it is still leading the world, and the direction of its economic restructuring has many links with Australia's strategy of broadening its economic development. Such as: China is restructuring (and shrinking) its heavy industries, but the process of industrialisation and urbanisation will continue for a long time, and this will ensure a steady rate of demand for Australian energy and natural resource supplies. As China moves to a more domestic demand-led economy, its middle class will continue to expand, leading to far bigger markets for Australia's agricultural, education, tourism, and high-end manufacturing sectors. As China improves the quality of its economic growth through encouraging the growth of its services sector, it will provide Australia's well-developed services sectors (such as banking, insurance, urban planning and technology transfer) a rare development opportunity. China's comprehensive economic opening up, in combination with the Australian Government's greater attention to developing infrastructure, improving agriculture, and revitalising manufacturing, will make mutual investment easier and broader.

There are new economic frontiers: There has been a general but inevitable trend towards greater integration of international commodity and financial markets, and this trend is in our common interest. But the current fixed-price systems for iron ore and some other commodities are still far from mature, and there are large vulnerabilities. In the area of natural resources, Australia and China should jointly shape natural resource pricing regimes in the region. There is also great potential for jointly setting up futures markets for iron ore and other resources. Furthermore, in recent years, Asia and the Pacific have continued to open up, and regional trade has grown rapidly, becoming a new source of growth for Australia–China development. So now how about we go past simple economic co-operation and explore, along with other countries in the region, a new frontier of regional trade? We should base this new frontier on facts, make sure it is forward-looking, and ensure that it has a focus on institutionalising regional trade co-operation.

Of course, we shouldn't just take this mutual transformation and development model for granted. In the current complicated international situation (where we are only in the initial phases of economic transformation) it is unavoidable that both countries confront a range of difficult problems or potential threats — be this separately or together. We need all sectors of our two societies to negotiate these problems or threats as quickly as possible and move on to exploring positively mutual options and putting forward constructive suggestions.

The bilateral free trade agreement: FTA talks have now been in process for over eight years, and they’ve become a topic that the two countries can’t avoid as they try to update and advance economic relations. The present economic situation (both domestically and globally) requires serious consideration, and both countries maintaining public faith in trade liberalisation is more important than ever. With this in mind, both countries need to be grounded in realities, to re-evaluate and readjust their respective expectations and to nimbly, pragmatically and quickly push on with FTA talks.

The same holds for trade diversification strategies: apart from paying close attention to policy decisions, both countries need to make an effort to reinforce co-operation on joint market studies in order to find suitable models for each country’s respective trading goods. We especially need to find new ways for our businesses to fulfill their joint potential, to strengthen exchange and co-operation on environmental matters, finance, communications, health services and other sectors. Both countries also need to make a special effort to find a balanced system for fixing the price of natural resources in order to continue our sustainable co-operation on natural resources.

On bilateral investment: investment is a particularly prominent and sensitive area for both countries, but it is an area with enormous potential future growth. Both sides should maintain relative independence and stability, while paying close attention to economic co-operation to ensure that co-operation doesn’t suffer any undue disruptions due to changes in the political environment. We should take seriously our social ties, and take measures to strengthen links between our societies to ensure that public opinion related to our friendship remains fair and
impartial. Within the process of boosting investment, we must follow market rules, and improve understanding of the laws and regulations and society of the host country, while steadily increasing the rate of investment in each of our countries.

Apart from this, as important regional actors, both China and Australia should adjust to the circumstances they face, and take on the responsibility to make a greater contribution to the development of the region we live in. For instance: China and Australia should use their proximity to South-East Asia (China in the north and Australia in the south) in order to encourage South-East Asian countries to join with and increase exchange with the Indo-Pacific region. This will open up common markets throughout all of South-East Asia. We must keep open minds and, among other things, contribute positively to the building of greater economic integration in the region through strengthening institutional links and exchanges.

[NOTE: Draft translation by Ryan Manuel with revisions by CICIR’s Sino-Australia Relationship Taskforce.]
Sino-Australian Security Co-operation: Towards a Co-operative Management

Sino-Australian Relationship Taskforce, China Institutes of Contemporary International Relations (CICIR)

Within these challenges, non-traditional security threats have become the major issue that both countries are facing. No one country can solve these threats alone. All countries in the region, including Australia and China, need to work in concert to address them.

As Australia has strengthened its alliance with the US, and as frictions and clashes have complicated the external environment for countries in the region, the Australia–China relationship itself is being tested. Mutual suspicion is rising, and the imbalance between the security and the economic relationship is becoming more serious. Despite the establishment of a strategic partnership, the distance between the goals of the partnership and reality is growing yet wider. Security relations are not only the most sensitive indicator of the bilateral relationship; they are also the most meaningful, and they will have a major impact on the development of the region.

At the moment, Australia and China have a solid base, and the mutual will, to advance security co-operation and to mutually manage and control any crisis. This can both enhance regional strategic interactions, and lead to more positive outcomes for the region.

In regards to China, Australia has a unique appeal in addressing regional and global security affairs. This is due to, among other things, Australia’s position at the heart of the Indo-Pacific; its ceaseless promotion of regional forums; its status — unlike China’s neighbouring countries — of not having any direct conflicts of interest with China; and its position of leadership over other developed countries in regards to establishing security co-operation with China. Co-operation between Australia and China in addressing regional security threats is not only feasible, but indispensable. Moreover, Australia is a resolute ally of the US within the process of the US ‘rebalancing’ towards the Asia-Pacific. Strengthening security co-operation between Australia and China will send a signal that US allies and China can overcome their differences and mutually work towards building trust and peace.

For Australia, China is an essential part of Australia’s influence within the region, and is neither a direct nor immediate security threat. This makes it probable that the two countries together can develop their security co-operation. For Australia, a greater wish to be a ‘positive model of matching one’s national interest with global values’, and a desire to ‘build more space for co-operation and take creative action to improve trust’ in the region has accompanied an increase in Australia’s capacity to act. But
Australia’s image as a ‘faithful follower’ of the US has certainly affected the development of Australia’s influence within the region, and there exist doubts within the region about Australia’s identity and status as a ‘part of Asia’. Should Australia follow the principle of qiu tong cun yi (求同存异) (or ‘seeking common ground while accepting differences’) with China as the basis of developing co-operation, then this will not only help make Australia’s independence obvious, but it will also increase Australia’s influence as a ‘creative middle power’ and make it easier for Australia to ‘become part of Asia’. Moreover, a deepening of Australia–China security co-operation is not only an essential component of the development of a healthy bilateral relationship, but it would also be an important realisation of the Australia–China strategic partnership.

But the sensitivity and complexity of security relations means that you are unlikely to get things right at the first shot. This is all the more so with the wide-ranging differences between Australia and China. Australia faces the predicament of wishing to have more influence within the region, but not willing to involve itself in regional affairs. And it has a contradictory attitude towards China, especially in regards to security co-operation, where there is constant ambiguity and flux. China fears that Australia will become the US’s Asia-Pacific ‘Southern anchor’ and a base for America’s AirSea Battle strategy to restrict China; this, among other things, means that objections to the real intentions and sincerity of Australia’s co-operation with China remain and will persist. From this, China–Australia security co-operation should take into account the deep concerns of each party, should respect each other’s strategic posture and ability, should seek common ground while accepting existing differences and should attempt to control and manage both bilateral and multilateral crises together.

Some Recommendations

First, strengthen bilateral strategic trust. Mutual strategic trust is the key to regional peace and stability, as well as acting as the touchstone for bilateral relationship. Both sides should begin ‘track two’ dialogues. Both sides face common threats that could be confronted through strengthening exchange; promoting common understanding and, to the best of each side’s ability, offering a desirable public opinion environment for security co-operation. With this as the foundation, this ‘track two’ dialogue could gradually be filled out into formal track one dialogue talks on security. For example: under the framework of the newly arranged annual prime ministerial meeting, both sides could enjoy frank discussion of regional security threats, could reduce uncertainty, could prepare to build defence and foreign policy ‘2+2’ consultation mechanisms between department secretaries and directors-general in order to build further levels of mutual trust at the working level.

Second, deepen and expand co-operation on non-traditional security challenges. As we already have a base for co-operation, and in view of the different threats the Asia-Pacific region is facing, we should both renew and progressively increase our tradition of co-operation on non-traditional security threats. For example: we should continue to strengthen bilateral naval co-operation, including naval exchange visits; disaster relief; marine search and rescue operations; and joint anti-piracy exercises. Moreover, both sides should widen the scope of co-operation to new fields such as cybersecurity dialogues, outer space and the common sharing of resources in the polar regions.

Third, strengthen communication and negotiation with third parties within the region. This will counter the possibility of strategic conflict or crisis occurring in the region. Aside from pushing forward their own bilateral co-operation, China and Australia should also take co-operation with third parties seriously. For example, the US uniformly possesses superior levels of ‘compatibility’, of ‘mutual beneficiality’, and of influence; so with the backing of both China and Australia, we should look into the possibility of building trilateral security co-operation between all three parties, using Australia as a ‘bridge’. Using regional multilateral platforms, we should strengthen communication and co-ordination with third parties, especially including strengthening co-operation on the South Pacific in the future. Together with regional countries, we should enquire into and participate in building a more dynamic timely, and open regional security framework, especially for the investigation and formulation of new codes of conduct (CoC) governing, for example, cybersecurity behaviour and the development of greater capacity to effectively manage crises.

Last, we should raise the level of our co-operation on global security governance. China and Australia need to use the strategic partnership as the basis of more active participation in global security governance. Both sides should increase communication and co-ordination, and make great efforts to build strategic consensus on traditional security issues, including, on arms control and nuclear non-proliferation. Similarly, both sides should strengthen co-ordination and work on a higher level of co-operation on non-traditional security threats such as humanitarian rescue efforts, countering transnational crime, refugee resettlement and evacuation. In order to develop an even more positive attitude towards participation in international affairs, we need to address global challenges together.

[NOTE: Draft translation by Ryan Manuel with revisions by CICIR’s Sino-Australia Relationship Taskforce.]
Joint Innovation: Social Developments in China and Australia

Sino-Australian Relationship Taskforce, China Institutes of Contemporary International Relations (CICIR)

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This report is also available in the original Chinese at: http://www.thechinastory.org/agenda2013/joint-innovation-social-developments-in-china-and-australia/

Following the GFC, the world has entered a time of both further tension developing and a greater risk associated with transformation. Developed economies in the West are facing ‘recovery fatigue’. The myth of continuing to have ‘above average welfare’ faces serious questions, and further social development has hit significant bottlenecks. Emerging powers, however, are proving to be exceptional cases: seeing unprecedented social and economic development and witnessing impressive deployments of urbanisation, but with their existing societal structures and governance models unable to adapt to the increasing power of their country. There are more challenges for the stable development of societies, and thus the need for emerging countries to transform the development of their societies is becoming a topic of global interest. Under the conditions of further globalisation and greater usage of high-tech communications, it is impossible for any country to confine social problems from spreading beyond one’s own borders. All countries of the world should work hard together to find innovative ways of managing society.

During the more than forty years of the modern Australia–China relationship, close economic linkages have always been the main content of the relationship. In recent years, security and defence co-operation has steadily improved. But there exists a major difference in the social contact, mutual regard and the reality of the relations between the people of our two nations: there is still vast room in which we can develop further co-operation between our societies. Positive social interactions and well-developed mechanisms for social co-operation can help to deepen strategic mutual trust and develop a stronger foundation to improve our bilateral relations. Social co-operation between China and

Australia itself can both contribute to social development in the region and can also act as a model of co-operation between countries at different stages of development.

China and Australia share both a strong wish to co-operate and a common concept of development. The bilateral relationship is in an unprecedentedly strong position: the many mechanisms, such as the strategic partnership and regular leadership meetings, are running smoothly. We are both open countries, wishing to develop our societies, making great efforts to explore ways to boost the happiness of our people and positively bring forward new ideas. And we share common ideals of governance. Since the 1980s, Australia has been promoting the ideal of multiculturalism and trying to maintain the multicultural nature of its society — an effort that precluded the push to become ‘a part of Asia’. China enjoys a long history of many ethnicities and initiated the notion of a ‘harmonious society’. ‘Harmony’ means ‘harmony in diversity’. It reflects a will to promote the common development of all cultures on the basis of social stability. Following the period of ‘Reform and Opening up’, China’s government has promoted a more tolerant and open attitude towards social diversity. Consequently, although they are at different stages of development, both countries hold the same ‘understanding, tolerant and open’ mentality regarding social change. This can be the cornerstone of social co-operation between our countries.

There is a growing number of young ‘elites’ in both societies bringing plentiful amounts of energy and social innovation. Groups of young people, especially those born after 1980 (or the ‘post-80’ generation), are gradually becoming a mainstay of society. For example, young people have become the main force of innovation in China’s aerospace industry. In the field of aerospace research, ‘post-80s’ researchers account for two-thirds of the total cohort; the chief system designer of the Tiangong-1 spacecraft and the general electric designer of the Shenzhou X spacecraft are both ‘post-80’. At the same time, the number of Australian young people playing important roles in society — including political, commercial, academic and media roles — is nothing to sneeze at. In the 2013 Australian federal election, the candidates and campaign staff of both parties had no lack of young talent.
Moreover, the youth exchange between China and Australia has flourished in recent years and has become a major component of the two countries' contact with each other. Both countries have advanced exchange programs and constantly lifted the quality of exchange, with examples including the exchange plan for Chinese and Australian young scientists, and the Sino–Australian Youth Forum. And China is the greatest source of foreign students studying in Australia: now, there are 160,000 Chinese students in Australia. Meanwhile, the number of Australians studying in China has increased nearly fifty per cent in the past five years. Youth exchange will be an important channel to improve understanding and awareness between both societies and peoples. This emerging force of the flow of people will accelerate the process of ‘the new replacing the old’ in both societies, leading to constant vigour and creativity in social development and becoming the force driving social innovation in China and Australia.

The growth of new media places even higher demands on the ability of Chinese and Australian governments to govern. In the twenty-first century, scientific and technological progress has allowed social media to flourish, supporting the wide use of social network services and instant communication tools. Information now spreads more quickly and to a larger range of people than ever before. New media not only changes the way people communicate, but to a certain extent changes the ability of governments to make policy. The development of new media, and the ability to self-broadcast, has meant that the volume of information available to society has grown dramatically. Society is less able to distinguish the differences between new and old media. Irrational elements in society have grown sharply, and it becomes easier yet to excite mass disturbances or incidents. Social networks turn opinions into public issues, creating situations where government is ‘kidnapped’ by popular will, influencing both the function and form of governance. Though Australia and China’s social structure and government policies are somewhat different, the aforementioned problems will bring similarly uncontrollable forces. In recent years, bilateral relations have regularly been influenced like this. Moreover, other countries also face this predicament. In this sense, a common exploration of the correct form of governance and guidance of new media between China and Australia can be shared with others who seek a plan to deal with new media.

Shared problems in our social development could bring us to a turning point in our co-operation. Australian society is in the latter stages of modernisation: its development is quite well-progressed, but its low birthrate exacerbates the ageing of society, bringing challenges for society’s development. On one hand, an ageing population increases the burden on society and exacerbates the contradiction between fiscal shortfalls and high levels of welfare. On the other hand, as the ageing population grows, it will worsen the already-apparent discrimination of the elderly and ageing of the labour force and future labour shortfalls will trigger more social problems. China’s demographic situation is also not looking optimistic. Depending on the forecasts, it is estimated that by the middle period of this century China’s elderly population will account for more than thirty percent of China’s total population. Community and institutional mechanisms for elderly care in China lag behind those of developed countries, and family care remains essential. An ageing population will lead to greater costs for households, and will place even greater demands on the aged care system. Moreover, unlike Australia, China is still in the development phase. For China, ‘getting old before getting rich’ will negate any potential ‘demographic dividends’, and China’s economy will rely on developing higher levels of total factor productivity.

To summarise, there is much room for China and Australia to expand social co-operation and innovation. At the bilateral level, the two countries should fully use the strategic partnership as a platform to establish effective institutions for co-operation and unblock channels of communication. Greater social exchange on different levels will increase our understanding of each other's people and place. We should gradually expand from the model of ‘sister city’ relationships to more first-tier cities in order to jointly bring about new ideas. We should exchange development experiences from areas of rich natural resources. To address our mutual problems, both sides are going to have to explore actively new methods of administration, and expand our scope of social innovation, in order to raise our level of governance. At the regional level, China and Australia are not alone in facing problems of social transformation. Aside from the ageing population, other issues such as youth unemployment, immigration and border control, and governance of society following natural disasters are all relatively common to the region. As influential powers in the region, China and Australia should make full use of multilateral platforms, and promote joint research initiatives into new forms of social co-operation. Both countries should also push for the establishment of regional mechanisms for governing society and urge regional society to look for ‘transformation’. At the international level, China and Australia should look to create new ideas for broader social innovation, and actively use the power of civil society to broaden international co-operation on social governance. For example, we should work together to help reach the UN’s Millenium Development Goals, working towards the elimination of poverty and hunger, increasing the spread of primary education, reducing infant mortality, managing and containing the spread of the HIV/AIDS virus, and ensuring more environmentally sustainable development.

[NOTE: Draft translation by Ryan Manuel with revisions by CICIR’s Sino-Australia Relationship Taskforce.]
What Should Be Done on the South China Sea?
Andrew Chubb

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All Bets are Off the Mark

The most important principle for outsiders when dealing with the South China Sea disputes is to avoid taking sides, for all the sovereignty claims there are highly dubious. China’s nine-dashed line — the ‘lolling cow’s tongue’ of maps produced by the People’s Republic of China (PRC), lapping up what appears to be the entire sea — rightly attracts international bewilderment and concern, but Vietnam’s claim to ‘indisputable sovereignty’ over the sprawling Spratly and Paracel archipelagos is almost as expansive, equally ill-defined, and based on similarly debatable historical evidence.

The Philippines at least has well-defined lines marking the limits of its ‘Kalayaan Island Group’ (comprising about two-thirds of the Spratly Islands) — but its claim dates back only as far as 1956, when a canned-fish entrepreneur named Tomas Cloma ‘discovered’ one island, proclaimed the founding of his own country called ‘Freedomland’, and shortly afterwards decided to sell it to the Philippines government for one peso.

Taiwan, as the Republic of China, makes the same claim as the PRC except that its version of the ‘nine-dash line’ still retains the eleven dashes it started with (two dashes were shorn off the PRC’s version when it reached an agreement with Vietnam to delimit a boundary in the Gulf of Tonkin).

Malaysia, meanwhile, gave notice in 1979 of its claim to the southern Spratly Islands, based on the flimsy contention that because the islands sit on the continental shelf off Borneo, Malaysia is entitled to sovereignty. Brunei’s is the most reasonable claim: an ambitious 380-kilometre-long rectangle of exclusive economic zone jutting out sharply from its tiny coast.

Underpinning the entire dispute is the question of sovereignty over maritime territorial features — shoals, reefs, rocks and islands. But no country exercised sovereignty in the area in any meaningful sense — such as continuous occupation or exercise of legal jurisdiction — until a 1968 UN report suggested the Spratly Islands could have black gold in their bellies.

Elevated tensions will at best drive up shipping costs, may stifle trade and could, at worst, plunge the region into conflict.
The biggest loser in the ensuing scramble for the islands was mainland China, which, in the grip of the Cultural Revolution, was nowhere in sight as Vietnam and the Philippines occupied one island after the other. Taiwan’s Generalissimo Chiang Kai-shek, meanwhile, was happy just to maintain a base on the largest island of the South China Sea, Taiping, from which Taiwan could harass PRC shipping.

Forty-five years later, the oil rush has still not materialised, and a 2013 US Energy Information Agency report noted that the contested parts of the sea probably contain few commercially viable reserves. But there is a much more reliable, not to say emotive, resource at stake: fish.

For European sailors, the South China Sea was a dangerous thoroughfare beset with treacherous shipwreck shoals. But for fisherfolk (and pirates) from around the region, the archipelagos have long been a bountiful harvesting ground — at least for those adventurous enough to make the perilous journey out there. Stories circulate of a time just a few years ago when the remote lagoons were places of maritime fraternity, goods bartering, cigarette swapping, and assistance for whoever needed it. The fish were plentiful and the company scarce.

All the claimant states, therefore, are justified in asserting that the South China Sea’s islands are traditional fishing grounds of their coastal communities. But they’re all wrong when they equate this with exclusive sovereign rights.

**Unintended Consequences**

In recent years, there has been a notable increase in small-scale provocations and retaliations among the claimants, with a majority of these incidents involving the PRC. While it is hard to distinguish calculated moves from accidents and overzealous law enforcement activities, what is clear is that unintended negative consequences have often resulted for the original provocateur.

In the first half of 2011, PRC vessels twice cut the seismic cables of Vietnamese energy survey ships operating as close as 120 kilometres from Vietnam’s coast. This prompted twelve consecutive weeks of anti-China protests in Hanoi and Ho Chi Minh City — an extraordinary occurrence in socialist Vietnam. These and a number of similar incidents have helped spur Vietnam and the Philippines to seek closer relations with the US, Japan and India — the PRC’s regional strategic rivals. Dysfunction, loose command structures and competition between different PRC maritime law enforcement agencies may explain such apparently counterproductive behaviour, according to an International Crisis Group report.

A more recent example was a loudly trumpeted appearance by the People’s Liberation Army (PLA) Navy at China’s southern-most claimed ‘territory’ (actually it is more than twenty metres below the surface of the water), where soldiers performed a grandiose sovereignty ceremony for accompanying state TV crews. Malaysia has, for several years, avoided any semblance of tension with the PRC over the issue, even as other claimants have grown increasingly agitated, but this show of Chinese force at James Shoal, just eighty kilometres from the coast of Borneo, prompted a Malaysian government think tank to warn ‘Malaysia will have to deal with China’s military and enforcement actions by increasing its presence in the South China Sea and be operationally ready to counter Chinese encroachments’.

It also appears to have reignited Malaysia’s willingness to join the other ASEAN claimant states in their push for a binding Code of Conduct (CoC) to regulate behaviour in the South China Sea. Prime Minister Najib Razak has raised the proposal in two recent speeches.

**Opportunistic Assertiveness**

The Philippines and Vietnam have also shot themselves in the foot through operational incompetence and sloppy strategies. Taking advantage of this, China’s approach since early 2012 has been to latch onto any perceived provocation, and to use it as a rationale for tough responses that change the status quo in its favour.

At Scarborough Shoal in 2012, the Philippines sent its biggest naval vessel — a reconditioned 1960s US coastguard cutter — to arrest some Chinese fishermen for alleged poaching. The warship was too big to enter the lagoon, so the Filipino officers temporarily returned to their ship, during which time Chinese maritime law enforcement ships had been able to rush to the scene and block the entrance. The ensuing standoff ended two months later with China in control of the shoal.

Likewise, when Vietnam passed a new maritime law formalising its claim to the Paracels and Spratlys in June 2012, China announced the very same afternoon that its Paracel Islands outpost would henceforth become ‘Sansha City’ — an administrative elevation that would entail significant infrastructure upgrades to the outpost, in violation of the Declaration of Conduct the ASEAN countries and China signed in 2002. The plan had been slated for several years but never followed through, presumably due to international perceptions. The PRC’s tactic was to wait for Vietnam’s provocation, then immediately respond in kind.

The same approach was evident over the Diaoyu/Senkaku Islands dispute with Japan in the East China Sea last year. China, during a fit of national rage at the Japanese government’s purchase of the islands, announced baselines defining its territorial waters and regularised...
its previously rare patrols there. Academics argue over whether this is better seen as a result of opportunism or reactive insecurity, but the pattern is clear: China, under the cover of national indignation, advances its position on the water. The lesson? It is in other South China Sea claimant countries’ interests to not provoke China.

**Australia’s Interests**

According to former foreign minister Bob Carr, more than half of Australia’s trade passes through the South China Sea. Conventional wisdom, therefore, suggests that Australia’s primary interests lie in the ongoing security of these international sea lanes, and regional stability more generally. Elevated tensions will, at best, drive up shipping costs, may stifle trade and could, at worst, plunge the region into conflict.

There are at least three other Australian interests worthy of note. First, Australia’s official position, identical to that of Singapore, is that it does not take sides, but that the disputes should be resolved in accordance with international law. That would appear to put us, if only by default, in support of the Philippines’ attempt to seek an international arbitral ruling on China’s claims and activities in the disputed areas. China has rejected the proceedings, as is its prerogative under the United Nations Convention on the Law of the Sea, but they will proceed regardless.

Second, the Oakajee port and rail project in WA, whose delay Western Australian Premier Colin Barnett blames partially on the Diaoyu/Senkaku dispute, illustrates how tensions between Asian countries can have direct impacts on the Australian economy. Australia, in other words, needs Asia to co-operate.

This leads to a third Australian interest: The US–China balance and mutual recognition of each other’s legitimate role in the region. Whether or not Australia defines its interest on one side or another of the South China Sea disputes will ultimately depend on an assessment of China’s intentions, specifically, whether or not its actions are challenging the status quo of US military dominance. One positive sign among the plethora of maritime incidents in the disputed sea is that there have been no notable US–PRC incidents since March 2009.

**What Can We Do?**

1. **Encourage the PRC–ASEAN process towards a binding CoC** for the South China Sea. This is a rather obvious suggestion, and one that is apparently already Australia’s policy, but it’s hard to overstate the significance of a CoC, which could potentially function like the US–Soviet Incidents at Sea Agreement that helped keep the Cold War on ice. While some learned commentators have argued that CoC negotiations are a waste of time because the PRC will not negotiate with ASEAN as a bloc, there are in fact some hopeful signs following 2012’s debacle in Phnom Penh, with China’s new Foreign Minister Wang Yi describing the idea in positive terms on three separate occasions in 2013, in stark contrast to his predecessor.

2. **With the PRC, Australia should:**
   a) Make clear Australia’s overriding interest in stability, while acknowledging the PRC’s official view of its recent actions as responses, rather than unilateral aggressive actions
   b) Explain the benefits for China of signing up to the CoC, both in terms of international public opinion and improving relations with ASEAN countries, which would thereby diminish ASEAN countries’ need for closer relations with, and increased presence of, the US military
   c) Emphasise how the lack of clarity of the nine-dash-line-based claim greatly affects the PRC’s international legitimacy, and how clarification of that would require no ceding of territorial claims; and,
   d) Affirm also that shelving disputes and jointly developing resources (gezhi zhengyi, gongtong kaifa 共管争议, 共同开发) has long been the official policy of the PRC, and represents a constructive way forward — acknowledging, for example, that in public discourse joint development sometimes gets put forward as a creative solution, without recognition that China has been officially advocating this for many years.

3. **With other claimant countries, notably Vietnam and the Philippines,** continue to strengthen ties through military-to-military exchanges, government consultations, and joint training, while discouraging unnecessary or accidental provocations of PRC by fully and frankly emphasising how counterproductive this has been in the recent past.

4. **Constructively to the above end, Australia could offer training** and organisational management expertise to claimants’ law enforcement agencies, especially those of the Philippines, and perhaps Vietnam too. Such expert training could help prevent incidents like the senseless shooting in May 2013 of a Taiwanese fisherman, and subsequent diplomatic crisis, which was only the latest in a series of terrible mistakes by Philippines on-the-water staff. This could be particularly important given the Philippines and Vietnam are both boosting their law enforcement presences in disputed areas.

5. **Advocate joint hydrocarbon exploration,** in contrast to counterproductive unilateral projects that elevate tensions and invite retaliation or interference — which, in turn, disrupts resource development and explorations. Joint explorations are underway between Brunei and Malaysia.
6. **Try to get joint fisheries management initiatives onto the agenda** with all sides, emphasising the importance of long-term sustainability, and promoting the view that the requirement for fisheries to be sustainably managed means they are in fact not zero-sum. Highlight the long and admirable tradition of friendly relations between fishermen of different nationalities in the area, and that all sides are correct when they claim the Spratlys are traditional fishing grounds for their coastal communities. In the absence of joint fisheries management, there are at least joint environmental management and search and rescue cooperation among other confidence-building measures that offer obvious immediate payoffs to all sides; and,

7. **Co-ordinate our approach with Indonesia**, a fellow non-claimant democracy, and large regional trading economy that is directly engaged in the China–ASEAN negotiations. Australia has already harmonised its position with Singapore.
An Australia–China Scientific Partnership of Influence

Ian Chubb

Ian Chubb was appointed as Australia’s Chief Scientist in 2011. Prior to this, Professor Chubb was Vice-Chancellor at ANU from January 2001 to February 2011. He was also Vice-Chancellor of Flinders University of South Australia for six years, the Senior Deputy Vice-Chancellor of Monash University for two years and the Deputy Vice-Chancellor at The University of Wollongong for six years.

In the four decades since formal diplomatic relations began, China has not only become Australia’s largest trading partner, but also our most significant single education partner, and a growing research partner. The last point in particular represents a scientific engagement that began even before diplomatic relations were established.

So Australia and China now share a strong and highly productive relationship in science — I will use science in this paper as shorthand for STEM: science, technology, engineering and mathematics — that has been built over more than fifty years.

Our relationship with China is important — to us and, given the recent growth, I think I can presume to the Chinese as well.

A Worthwhile Partnership

While we can’t do everything with China because we are relatively small, we have some comparative advantages and strengths that are compatible with their needs and aspirations — and vice versa. And we have been in partnership with Chinese scientists for a long time; we know how to work with them.

For us, persistent linkages with a potential scientific superpower are important. To be longstanding and trusted partners, in a culturally aware partnership which we can together mould and share, is a better and more secure place for us both than a fly-by, opportunistic, purely mercantile arrangement.

Our scientific relationship with the People’s Republic of China is not opportunistic — it began formally in 1973. It has prospered since then because each of us brings, and has brought, scientific capacity of quality, and a need to the relationship, based on quite different intellectual traditions that come together in exciting ways to create new knowledge. We have been doing it for fifty years, and it is growing, not stagnating. Science and scientists have helped us relate, country to country, in an enduring way.

The relationship has been scientifically productive. It has given rise to many exciting discoveries, innovative new products and strategic new relationships.

These include: the development of the first electricity-generating plants to capture carbon dioxide for storage, so contributing to world-leading research on reducing carbon pollution from coal-fired power stations; clinical trials of potential treatments for diabetes and pre-diabetes conditions; the discovery of biological control agents that have the potential to improve China’s national wheat harvest by up to ten percent.

And it is not just academic researcher to academic researcher. It includes academics working with industry. The Baosteel–Australia Joint Research and Development Centre is a world-first joint venture between the Chinese steel company and four Australian universities — the University of Queensland, the University of NSW, Monash University and the University of Wollongong.

The collaboration is designed to ensure a more holistic approach to research in order to drive innovation and develop new products.

Building Better Education Together

When we think about another plank in our relationship, education, the connection is also strong.

In 2012, Chinese students accounted for around thirty percent of all international student enrolments in Australia and forty percent of all international enrolments in higher education.

Australia places great value on the contribution our Chinese students make to our institutions and to our communities — a value well beyond simple economics.
The presence of so many smart young Chinese in Australia helps us to learn about China, and them to learn about Australia. An Australian of my age, who was in our education system when I was, saw the first students here under the Colombo Plan up close and personal. We saw the importance of the ‘learning’ that comes from sharing a classroom, a tutorial group or a bench in the practical class with students from other cultures. And we made some enduring friendships along the way.

China and Australia are now solid partners aspiring for a better future: both are deeply committed to the generation of knowledge and its use, and to education that will combine to deliver improved economic, social and environmental outcomes for all.

**Shared Issues, Shared Goals**

It is clear that science is a universal ‘language’ and it isn’t even political, although we have seen how it can be politicised. But it is the issues that draw us together; it is the issues that encourage Australia and China to collaborate. The shared ‘language’ makes it possible.

But why does that collaboration matter? Why does international science collaboration matter?

I think it is important to note that scientific collaboration is part of a much broader international effort.

It is also important to note that many of the problems that confront us in Australia are global in character: issues related to climate are not uniquely Australian problems; nor are pandemics, antibiotic resistant microbes, influenza, food security both for citizens and nations, to name just a few.

No one country can find the way to solve, or manage, or mitigate any of these huge problems on their own. We cannot, for example, face down bird flu without working seriously with neighbours to our north. We can’t do on our own all there is to do on antibiotic resistance given our propensity to travel and to be travelled to. How could we, to paraphrase Jane Lubchenco from the US National Oceanic and Atmospheric Administration, ‘manage the unavoidable and avoid the unmanageable’ without a concerted and co-ordinated international effort?

It is, I think, self-evident that science will be at the core of many of the solutions to the big problems facing humanity. It will be science that finds the new antibiotic, or a new way to treat microbial infections. It will be science that is at the heart of approaches to feed the people of the planet; and science will help us understand the climate and the environment. It will be science that has a big part to play in finding the ways of managing the unavoidable and avoiding the unmanageable.

I don’t argue that science (or STEM) will be there on its own; but it will be a constant. And I can’t possibly argue that it will be Australia on its own; but I will and do argue that Australia as part of a globally connected system will help define the pathways we need to take; and we will be a partner because we earned the right. Because we are a partner, we will make our contribution to worldwide prosperity and global security.

The point really is simple: Australian science has been internationally networked from the time we got truly serious about it — from 1946 onwards. And it was networked because it had to be. We did not produce our first PhD graduate until 1948, so when the ANU was established a fair bit of its early budget was spent either recruiting from overseas or sending people overseas to get the qualification to bring research expertise into the country. Many of those links were sustained over the years — primarily, though not exclusively, with the UK and the US.

While the output from these links has grown in recent times, there has also been substantial growth with researchers in many countries in our region.

I think Australia learnt a lesson back then — one that I hope is not forgotten.

Until we did research on a reasonable scale in Australia, until our universities were expected to engage in the search for knowledge, until we became a contributor to the world’s bank of knowledge, we were outside the tent relying on others to tell us what we needed to know.

Whether or not they did that is one thing; but as part of post-war reconstruction, it was a clear resolve of the leadership at the time that we should not find ourselves in that situation again. We should contribute, and therefore get to sit at the table where important knowledge is exchanged and important decisions are made. That we should offer knowledge to draw benefit from the work of others might have been a suitable mantra for the time. It still is.

We have seen change: some thirty-five percent of articles published in international journals in 2008 were internationally co-authored. Twelve years ago, that figure was twenty-five percent. The proportion of internationally co-authored publications from Australian science has risen from twenty-five percent in 1996 to forty-five percent in 2009. International collaboration has grown faster than domestic-only research in countries like Australia, the UK and Switzerland.

For China, the proportion has remained at around twenty-five percent, although this a constant proportion of a much larger volume — from fewer than 3,500 papers to over 30,000 during the period 1996–2009. Australian papers co-authored with Chinese colleagues has risen from four percent to fourteen percent during that time.
The message is clear, particularly for Australia: STEM activities in any country with aspirations for the future will be internationalised at their core; and global presence is essential, not an optional add-on.

Collaboration on Science

China is moving up the global ladder in terms of the number of research publications. It has overtaken the UK as the second-ranked country in scientific publication output and, on current trends, will probably overtake the US by the end of the decade — if those trends continue.

China is also collaborating more with other nations, and even more so with Australia. Between 1995 and 2010, Australia–China collaboration grew faster than China’s overall collaboration with the world, and faster than China’s collaboration with the US.

There are now 885 formal university-to-university partnership agreements in place to support exchange and co-operation between Australia and China — seventy-two percent more agreements than a decade ago — a situation that for the first time outnumbers US–Australian agreements. Some 2000 or so Australian students travelled to China to study in 2011 — and three universities have established joint campuses in China.

In several fields of research — such as mathematics, engineering and chemistry — China is now Australia’s leading partner in collaboration. And it is the second-top source in agricultural and veterinary science and immunology.

But there’s more! Joint publications with China in more than half the subject areas examined have an average citation impact higher than that for all Australian publications in the subject area.

The China–Australia science relationship has been based on mutual benefit — surely the right way to go. How do we identify areas where we want to work together, put the processes in place, share know-how, and both get benefit?

As it happens, Australia and China appear to have complementary research foci. And we do share some research priorities. We both have concerns related to (but by no means confined to): issues of adapting to changing climatic conditions; meeting the health care needs of ageing populations; the environment; energy and food security and, future economic directions to build and sustain prosperity. The question is, then, one of how we develop the policy approaches to address these common interests.

Possible Approaches for Policy

We need two approaches to our international collaboration: one approach is to align with shared challenges so that we can ensure focus and scale; the second is to ensure that individual researchers can participate in projects with colleagues that might arise because of a shared curiosity and the like.

An example of the first approach is the Joint Research Centres program (or JRC as I will call them). These are virtual centres that link Australian and Chinese research institutions conducting a portfolio of research-related activities in a specified field of research.

The JRC for Energy will develop advanced energy technologies for improved energy security and reduced carbon dioxide emissions from both countries.

The JRC for Light Metals will develop revolutionary light-weight alloys and advanced manufacturing processes that will ultimately lead to greener, cheaper transport systems.

The JRC for Wheat Improvement aims to achieve major technical advancements in grain quality for wheat improvement.

The JRC for Minerals, Metallurgy and Materials (the 3-M Centre) aims to facilitate Australia–China collaboration for excellence in minerals, metallurgy and materials.

The JRC for River Basin Management aims to increase water productivity, food security, and economic returns while protecting water ecosystems.

The ANSTO–SINAP Joint Materials Research Centre Development will develop materials that will lead to zero-carbon emission technology for power generation and hydrogen fuel production.

These Joint Research Centres were announced during the visit to Australia in 2012 by then state councillor and now Vice-Premier Madam Liu Yandong.

Examples of the second approach — really a hybrid of the two approaches I mentioned — are the visits planned and supported by the Australia–China Science and Research Fund.

In 2014, the fund will have supported over eighty Australian research groups to travel to China; two groups of mid-career researchers to China (and two groups to Australia); one knowledge exchange symposium; and two Australia–China Science Academies Symposia (one in Australia, one in China).
All of this is good. All of this is worthwhile. But all of this will not be enough for either country.

What we need to do — both nations — is ensure we have sufficient alignment, focus and scale in order to increase the level and impact of China–Australia collaboration, and to get more influence from the partnership.

Australia can build capacity if we commit to a strategy. This becomes even more important when we hear that the resources boom is going off the boil. Our relationship with China will enter a new and different phase. We will need to start now to work out how to build from the base that has been constructed by all these people over all these years.

I recently laid out the case for such a strategy in a position paper, which is available on the Australia’s Chief Scientist website.

It proposes many key actions, one of which is the establishment of an Asian-Area Research Zone. It is important that none of them are read in isolation.

That’s the point of having a strategy to guide Australia’s STEM enterprise — education, research, innovation and influence. It must be done in its entirety.

And if we have a strategy, as China does, we can be partners in influence: changing the way we do what we do and how we think about the important issues that we need to be concerned about.

And that with China is surely what we want — a real and effective partnership between friends and colleagues — and a partnership of influence in world affairs.

[NOTE: This essay is an edited version of the Third Annual Lecture of the Australian Centre on China in the World, presented on 14 August 2013.]
Greater fairness and equal treatment is needed in both directions: from foreign companies in operating their businesses in China, and from the Chinese government in regulating foreign business.
A slowing domestic economy, rising labour costs and a stronger renminbi are the most immediate and obvious challenges, especially to exporters. However, structural changes to the Chinese economy, as the government seeks to move from an investment-led to a consumption-led domestic economy, mean that foreign businesses will increasingly be moving from manufacturing in China to selling to China. This brings foreign businesses into direct competition in the domestic markets with local companies. Now more than ever it will be important to foreign businesses to be treated fairly if they are to succeed in the Chinese market. However, there are many signs that this fair treatment is not currently the case.

The 2013 European Union Chamber of Commerce in China ‘Business Confidence Survey’ showed fifty-three percent of respondents citing market access barriers as being a significant challenge to their future business in China, while forty-seven percent cited discretionary enforcement of regulations. In the same survey, thirty percent of respondents said that the regulatory environment has increasingly discriminated against foreign investors, or is generally much less fair now than it was two years ago.

**Market Access and Reciprocity**

The ‘FDI Regulatory Restrictiveness Index’ compiled by the OECD identifies China as having the most ‘closed’ economy among all OECD and G20 nations, having regard to foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners and operational restrictions.

Sectors that remain restricted or wholly closed to foreign investment include key areas where Australian businesses possess particular know-how and competitive advantage: energy and natural resources, and agriculture. These also happen to be the sectors that are most attractive to Chinese investors seeking to invest in Australia.

While this is patently unfair, the gap also presents an opportunity for Australian policy-makers to push their Chinese counterparts for a policy of ‘reciprocity’ to prevail — to highlight that Australia welcomes Chinese investment, but expects the same treatment for its companies in China as it affords Chinese investors in Australia. This reciprocity should extend to market access, approval processes and other restrictions.

More reciprocity would have benefits beyond just those traditional sectors of Australian strength that I have mentioned. Our services industries — including education, tourism, legal services and other areas where Australia has significant strengths — remain subject to various market access and licensing restrictions that impede Australian business success in China, and would equally benefit from greater reciprocity.

**Fairness and Transparency**

Fairness in treatment and consistency in application of regulations and policies is one of the biggest challenges facing foreign investors. This has manifested in a number of different areas:

**Food and health safety and standards**

Food safety is an increasingly sensitive political issue in China as numerous food scandals — from melamine-tainted milk powder to diseased pork; from cadmium rice to exploding watermelons — have drawn the ire of the populace, putting pressure on the authorities to investigate and punish offenders and reassure its people that they can eat safely.

However, foreign companies appear to be frequent and public targets of these investigations, as local officials eager to show that they are serious about tackling food safety issues see foreign operators as easier targets, as they are not entrenched local interests, and lack political protection. Such food safety crackdowns are often accompanied by adverse publicity campaigns in state-run media.

Targets have included:

- Wal-Mart, which was subject to a number of charges, including mislabelling regular pork as more expensive organic pork — a scandal that led to the temporary closure of thirteen stores and the arrest of two employees — and selling products with hazardous levels of chemicals. Wal-Mart has since agreed to invest RMB100 million to enhance food safety management at its stores in China.
- KFC — one of the most longstanding and successful Western businesses in China — faced an online outcry and falling sales after Chinese food regulators announced they had found excessive levels of antibiotics and hormones in chickens from some KFC suppliers, and more recently CCTV media reported that its ice cubes contained excessive levels of bacteria.

**Antitrust and consumer investigations**

- Since China introduced its first comprehensive trade practices law in the form of the Anti-Monopoly Law of 2008, much of the focus internationally has been on the role of the Ministry of Commerce (‘Mofcom’) in overseeing merger control under the new law. Mofcom has made rulings on a number of overseas merger and acquisition transactions, as it seeks to become a globally influential antitrust regulator alongside the US Department of Justice and the European Commission.
However, it is the lesser remarked upon role of the National Development and Reform Commission (NDRC) to act as the frontline regulator on pricing practices and anti-competitive behaviour. Its actions in preventing monopolies and unfair pricing practices also serve a political goal that is having an increasing impact on foreign business on the ground in China: pushing down prices for consumers is good public relations for the Chinese government, and at the same time supports Beijing’s efforts to boost the consumer-led economy.

Again, foreign companies have been apparently disproportionately subject to the NDRC scrutiny in a number of recent cases:

- In 2011, global consumer products giant Unilever was fined RMB2 million for announcing to the media that it intended to raise prices. Prices were never actually raised, but Unilever was fined in any event for allegedly creating a consumer panic through its public statements.
- A group of the five largest global infant formula manufacturers — including Nestlé and Danone among other prominent global players — agreed to reduce the prices of their infant formula products in China after the NDRC announced it was investigating the companies for alleged price fixing in China. The NDRC subsequently levied significant fines on a number of the companies.
- The NDRC led an investigation apparently into foreign pharmaceutical pricing, although that has led to a broader corruption investigation, discussed below.

**Bribery and corruption**

Corruption is endemic in China, affecting all levels of government and business. Foreign companies also find themselves the target of corruption investigations, although again the timing and motivation for such investigations raise some questions.

In the most notable case for Australia, several Rio Tinto executives were jailed for accepting bribes and stealing commercial secrets. While not questioning the conclusions of the Chinese judicial process that found the Rio employees guilty, it is notable that the investigation came shortly after the collapse of Chinese state-owned mining giant Chinalco’s attempted investment in Rio Tinto and during a fraught annual benchmark iron ore price negotiation process.

Most recently, British pharmaceuticals giant GlaxoSmithKline was charged with a scheme of bribery involving payments to officials and doctors. In the context of a chronically underfunded health system, rampant counterfeiting of drugs and poorly paid doctors who seek to supplement their salaries — whether with kickbacks from pharmaeu-
tical firms or bribes from patients’ families to ensure priority treatment — there is clearly much that needs to be fixed in China’s health system. It is curious that a large foreign drug company should be the starting point. Notably, following the charges being laid, GlaxoSmithKline announced price cuts at the same time as confirming that some of its executives appeared to have breached Chinese law.

**A Way Forward**

None of the above is intended to excuse foreign companies for their misbehaviour in China. All companies must fully comply with the local law in all countries where they do business, and those that do not should be penalised in accordance with the law. However, concerns remain about the consistency and fairness with which such laws are applied to foreign businesses in China. There are also concerns that the public relations exercises in state-controlled media that generally accompany regulatory investigations appear to be part of a strategy to discredit or constrain foreign businesses in their attempts to compete in the domestic consumer market. Australian policy-makers should press their Chinese counterparts to ensure that:

- laws and regulations are clearly drafted and publicly disseminated, and do not contain vague provisions that can be subject to discretionary interpretation by regulatory authorities
- foreign and domestic companies are treated fairly and consistently when it comes to the application of laws and regulations
- investigations are conducted transparently, sound evidence is provided to support allegations of misconduct, and state-owned media are not favoured in dissemination of information on regulatory actions.

At the same time, foreign businesses in China need to understand that public relations and active image management is now just as important in China as it is in any other market. There once may have been a perception that China was ‘just’ a developing market, where investors could ignore public relations and take a lax approach to regulatory compliance. This is clearly no longer the case.

Greater fairness and equal treatment is needed in both directions — from foreign companies in operating their businesses in China, and from the Chinese government in regulating foreign business. This would lead to benefits for all involved. Australian governments and businesses should seek to be leaders in this respect, and place themselves at the forefront of a new era of engagement between China and the world.
The Australian Economy in China’s Shadow

Ding Dou

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The focus of the last federal election debate was on how to improve the domestic economy, currently in a muddle due to the well-nigh exhausted mining boom, so it is relatively easy to recognise the shadow of Chinese economics in Australia. A string of thorny issues that Australia faced in the cheerful times of its mining boom, such as the best terms of trade in history, the Australian dollar reaching historically high values, the two-speed economy, the mineral resources rent tax, and even the carbon tax, were brought about more or less by Australia coupling its wagon to the Chinese economic engine.

China has certainly increased the pull of its economic gravity on Australia, commensurate with the recent growth of its economy compared to Australia’s — the International Monetary Fund put China’s nominal GDP as being 5.3 times that of Australia in 2012.

In the field of bilateral trade, China has been Australia’s largest merchandise trading partner for several years, in terms of both merchandise exports and imports, while Australia was ranked as China’s sixth-largest importer and China’s eleventh-largest exporter in 2012.

But China has a much greater influence on Australia’s economy than Australia has had on China’s. In 2012, Australia’s exports to China peaked at 29.5 percent of its total exports, implying almost one-third of Australia’s exports went to China. Meanwhile, China’s exports to Australia account for a mere 1.8 percent of China’s total exports. Some 18.4 percent of Australia’s imports come from China but, even with the booming resources trade, only 4.3 percent of China’s imports come from Australia. In the nascent services trade, only 11.3 percent of total Australia’s services exports went to China in 2012.

It is worthwhile to note that, for three decades now, China has had a long-run trade deficit with Australia. And the deficit is growing bigger.

Resources have underpinned Australia’s exports to China. In 2012, minerals exports made the big bucks, accounting for 74.1 percent of Australia’s exports to China. Australia has prospered from its mining boom over the past years — its mining boom has been heavily reliant upon its trade with China.

It is worthwhile to note that, for three decades now, China has had a long-term trade deficit with Australia. And the deficit is growing bigger and bigger. In 2012, the trade deficit ran to AUD$95.4 billion — China’s third-largest trade deficit after Taiwan and Korea. More importantly, China has never grumbled about this trade deficit in negotiations — in stark contrast to the regular pressure China faces from the US and EU, while both of these areas run massive trade deficits to China.

China has risen to become a trading superpower, posing vital trade opportunities and potential to Australia. According to data from China’s Customs Bureau, in 2012 China was ranked first in global merchandise exports, accounting for 11.1 percent of world exports, and second in merchandise imports, accounting for 9.8 percent of world imports. And the 29.5 percent of Australia’s exports to China in its total exports is 2.5 times the figure of the 9.8 percent of China’s share in world imports, highlighting that access to China’s market is especially generous to Australia.

From the aforementioned, including China’s three-decades-long trade deficit with Australia, we might see the years of Australian success in China’s market has made relations plausible, privileged, and even coddled.

Australia’s high levels of imports from China portray another beneficiary picture. As the argument of ‘China exporting deflation’ claimed, the flood of Chinese manufactured goods have greatly lowered the price of goods around the world, of course including Australia. According to an article on the official website of the Australian Treasury, the ‘made in China’ tag has been common for some time now on manufactured products found in Australian homes. Australia imports around 25 percent of its manufactured imports from China, and the
fall in manufacturing prices has made many of these imports cheaper. The price of imported household electrical items has fallen by around 60 percent in nominal terms since the end of 2001, while the price of imported toys, books and leisure goods has dropped by more than 35 percent over the same period. Prices have fallen further in real terms given the rise in Australian wages over this period.

Chinese imports have significantly improved the welfare of Australian people.

As manufactured imports from China brought down the price of consumption across Australia, Australian resources began to catch the wave of the voracious demand of China’s rapid industrialisation and urbanisation. Australia is the largest exporter of iron ore to China, providing over 45 percent of Chinese imports. Between 1999 and 2011, the annual iron ore exports to China grew at an average rate of 23 percent each year, growing from 26 million tonnes to 305 million tonnes. As a consequence, the price of iron ore has soared. Since 2005, its price began to rise dramatically, peaking at around US$190 per tonne in 2011. There is no doubt that this price and quantity of exports contributes vitally to Australia’s mining boom. In addition, the much higher price of mineral exports, combined with the much lower price of manufacture imports, have helped Australia’s terms of trade to skyrocket to record levels, levels previously unseen in more than one hundred years.

China’s dizzying direct investment in Australian mines equally contributes to Australia’s mining boom. As China has sought to ‘go global’ with its capital since 2005 — with its renminbi kickstarting the pace of appreciation — China’s investment in Australia has surged. Over the recent years, Australia has been China’s top overseas foreign direct investment (FDI) destination. The stock of Chinese investment in Australia until 2012 was $22.9 billion, more than four times the size it was in 2007. Meanwhile, China has been ranked in Australia as the third-largest source of proposed in-country investment for the last three years. Apparently, the majority of these direct investments have flocked to mining and resources investments, though some now also turn to the agriculture and property markets. These investments have helped create Australian jobs and provided economic benefits.

The mining boom, together with the record high price of Australian minerals exports, has made the Australian dollar a ‘commodity currency’. Thus, the Australian exchange rate reached record levels not seen since the dollar was made freely convertible in early 1980s. This high Australian dollar makes imports cheaper, and keeps the price of domestic consumption goods down, but it makes Australian exports more expensive, hurting the already faltering domestic manufacturing industry.

While enjoying the benefits mentioned above, the Australian economy has suffered some pains from its strong links with China. The Australian media coined the term ‘the two-speed economy’ to define the plight of widening divides between regions in Australia caused partly by its mining boom. The states of Western Australia and Queensland, plus the Northern Territory, with their rapid economic growth rate, have become the upstarts, built upon a flood of exports of their mineral resources to China, and the subsequent Chinese investment wave.

However, other states in Australia, such as Victoria, with its slower economic growth rate, bear the brunt of lost manufacturing sector jobs, which have been caused in part by the movement of capital and labour into the more profitable mining sector. This yawning divide helped create some political strains within different Australian states. For example, Western Australia advocates integrating itself more into the Asian region and asks for greater economic autonomy.

In classical economics terms, this ‘two-speed economy’ could also be called a case of the ‘Dutch disease’. Many other countries in the world, including Russia and some Latin American countries, have suffered from the same disease based on their growing resource exports to China and the simultaneous squeezing out of their manufactured goods. In this sense, we can understand how the economic rise of China has changed the landscape of world economics.

China has become so important to Australia that Australia thinks it necessary to brace for the coming challenges and opportunities.

What’s interesting here is that the mining boom has spawned some thorny issues in the Australian political agenda. The issue of the Minerals and Resources Rents Tax was brought about by the federal government’s intention to grab some of the bigger pie of mining profits caused by the mining boom. This issue afflicted the Labor Party and Team Rudd, deeply. Another issue was the controversial carbon tax. Labor wanted to make use of the rare and valuable opportunity of the mining boom to do something about climate change. But the Coalition scrapped the carbon tax.

It is because the Chinese economy is so important to Australia that Australia now always worries about what's happening in the Chinese economy. Indeed, we could even say that China’s economic cough might cause economic pneumonia in Australia if it is not addressed properly. With a Chinese economic slowdown looming large, the mining boom in Australia appears that it might soon draw to a close. How will the Australian economy survive and grow while the shadow of the Chinese economy shrinks?
The Best Job in the World? Taiwan, Australia and Working Holiday Visas

Paul J Farrelly

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IN THE SECOND HALF OF 2012, nearly 18,000 young Taiwanese strapped on their backpacks and headed for Australia for a working holiday. Only the UK provided more workers. These figures are a big increase on Taiwanese visitors the previous year — first working holiday visas jumped up by 105.1 percent over the same period in 2011 and second working holiday visas increased by 65.8 percent. Backpackers are a lucrative demographic — in 2012 the average young visitor spent $7,259 while in Australia.

When put together, these are serious numbers and indicate that the human dimension of contact between Australia and Taiwan warrants further consideration.

Perfect One Day, Hideously Expensive the Next

‘One slurpee costs $150 NTD [~$5.62 AUD].’

Thus began the much publicised lament of the popular Taiwanese television personality and blogger Matilda Tao 陶晶莹 after her trip to Queensland. Having catalogued a number of comparatively high prices for consumer goods, Ms Tao groaned ‘prices in Australia are a tragedy for normal people’.

But Ms Tao’s beef with Australia was about more than just the steep prices and poor quality food. Yes, she acknowledged, the weather is good and the environment pristine, but there was something that really annoyed her. ‘The severe financial discrimination of Chinese by Caucasians was enough to fill your belly with obscenities’, Ms Tao wrote. The young Taiwanese she met were earning a decent wage but felt like they could not fit in to Australian society and would ultimately return to Taiwan. It was an unflattering portrait of an unfortunate and expensive holiday — and perfect fodder for Taiwan’s rapacious tabloid media, which promptly broadcast Ms Tao’s complaints about Australia (and the economic opportunities it gives migrants) far and wide.

Once Ms Tao’s grievances were picked up by the Taiwanese media, Steven Huang — a Taiwan-born Brisbane city councillor — was moved to rebuke her harsh words. In his statement, Councillor Huang mentioned the difficulties faced by small business owners (hence the high food prices) and stated that as a nation of migrants, Australia is a friendly place full of opportunities. Echoing the oft-heard mantra of contemporary Australia, he closed by stating Australia’s future is closely aligned with Asia.

But while this statement might be true, it is important that we ensure this alignment is not based on a solely financial relationship. How Australia connects with the people of Asia and, in this instance, Taiwan, is a very real dimension of our Asian Century.

What do Taiwanese Really Think of Australia?

The general perception Taiwanese have of Australia is positive. The experiences of Hsieh Hsin-hsuan 謝昕璇, one of the finalists in Tourism Australia’s much-hyped ‘Best Job in the World’ competition, confirm this. Despite ultimately missing out on the gig, Ms Hsieh managed to attract media attention at home as she strived to win a job as a wildlife caretaker. Ms Hsieh had such a great time during the week-long final selection process that she plans to return to Australia on a working holiday visa. And when does return, she will not be alone.

Lured by the potential of plentiful work opportunities and relatively high wages, travelling in Taiwan in 2012 I met many youngsters eager to quiz me about living and working in Australia. Two or three brave ones even pulled out their application forms and asked for clarification in decoding near-impenetrable bureaucratese. All were excited about the adventures awaiting them in Australia.
Yet despite the prospect of economic opportunities for young Taiwanese, negative perceptions of Australia remain. The *Taipei Times* was sufficiently moved by the comments of a university graduate working in an Australian abattoir to editorialise on Taiwan's loss of skilled labour. Having trouble finding work at home, this young man ended up having 'to do jobs that most Australians are unwilling to do'.

But while slaughtering livestock certainly lacks the romance of being a scuba instructor on the Great Barrier Reef or pulling beers in a hip inner-city bar, it brings home the bacon, so to speak. And so, given the difficulty in finding well-paid work in Taiwan, it is not surprising that young Taiwanese want to take advantage of the generous Australian visa and head down under for some hard yakka. Questions remain about what they think of Australia after they’ve come here — and what this relationship tells us about Australia's use of its working holiday visas to improve ties with Asia.

**Everybody Needs Good Neighbours**

When talking about Australia and Taiwan there are features that tend to be mentioned: similar-sized populations, developed democracies, connections with the Pacific island nations, strong economic ties, a penchant for wearing Ugg boots in public. These are all true. Yet while Taiwan unfortunately does not have the cachet among young Australians of other Asian destinations, many do visit, especially to study Chinese or teach English. As both Joel Atkinson and Sue Chen have observed, Taiwan was given scant recognition in the Australian Government's 2012 White Paper *Australia in the Asian Century*. Nor does Taiwan appear in the government's country strategy for China.

The New Zealand government, on the other hand, has been more strategically engaged with Taiwan, and in early July 2013 signed an FTA. The resulting reduction in tariffs is claimed to save New Zealand exporters NZ$40 million a year. Interestingly, the FTA recognises the links between the indigenous peoples of New Zealand and Taiwan and includes measures to foster this connection.

Australia and Taiwan do not have such cultural connections; however, the significant number of young people who spend long periods of time in the other country are worthy of more consideration. The masses of young Taiwanese coming to Australia each year present a great opportunity for Australian governments. As part of the hubbub generated by the previous government's White Paper, for example, the need to foster a generation of 'Asia-literate' young Aussies was frequently cited. But there already exists a deep well of Asia-literacy in Australia courtesy of our expansive pool of migrant talent. These people — many of whom are Taiwanese — are a resource that should not be ignored.

Taking this idea further, we could perhaps look at how better to integrate Taiwanese visitors (and those from other Asian countries too, for that matter, into our society). If we do not draw on their direct experience and skills, then we should at least examine how we give them the infrastructure to have a positive experience, as well as exploring how to make them feel like they are wanted here, especially in the remote locations where many are now working. Offering more government publications and tourism resources in Chinese would be a start.

The Australian Government has identified Mandarin as a national priority language — yet Mandarin programs face funding dilemmas. Perhaps Taiwanese backpackers could be organised in a way to teach Mandarin across Australia, similar to the long-running JET program in Japan.

Staying here long term, our young Taiwanese guests are a gift to Australia; but this raises the question of how we can encourage other countries to send more of their young people our way. Scouring the statistics on working holiday visas, one quickly becomes aware of two very large omissions — India and China. Were working holiday visas available to the youth of India and China, the dynamics in Australia could be very different. Not just because of the sheer volume of potential workers, but also how these visitors are integrated into the Australian economy in a meaningful and productive way. If Australian education providers are having trouble attracting international students, then the Australian lifestyle, broadly speaking, might be able to draw foreign youth in. Having enjoyed their time as workers, some might be encouraged to stay on as students.

Yet, it is important that we also pause and think of the ongoing hoopla around 457 visas and the risks and complications — real or otherwise — that these migrant workers really pose to Australia. It would be a tough sell for politicians to convince the electorate of the benefits of allowing thousands more young foreigners into the country. And as working holiday visas are often arranged as reciprocal arrangements, we must also consider the diplomatic angle.

Given this context, Taiwan's relatively small pool of backpacker labour, while a large part of the working holiday visa population, may appear much more manageable for the government. And given the growing numbers of Taiwanese working here, this could be a valuable example for the government in understanding how to manage effectively large numbers from a non-English speaking country. Taiwan could serve as a role model for other, trickier visa negotiations.

After her traumatic Australian experience, Ms Tao felt that ‘I have never so much wanted to return to Taiwan’. The cheap meal of Taiwanese staple foods that she lovingly ate on her return probably tasted better than ever before. Ms Tao concluded her blog post with the emphatic:
Unfortunately the price of slurpees in Australia is not going to go down any time soon. But maybe just letting our Taiwanese guests know that there is some love for them here could be an effective way of strengthening the bonds between our two countries. When Australia is able to meaningfully engage Taiwanese and other Asian working holiday visa holders as part of Australia’s Asian Century and provide more Chinese-language resources for visitors to Australia, then hopefully Ms Tao will be able to return and blog ‘I love Australia’. And let us hope that the Indian and mainland Chinese equivalents of Ms Tao can similarly, one day, do the same.

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China–Japan: What Comes Next?

Amy King

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ON 21 MAY 2013 [a date randomly selected by this author], the China Daily ran an article that criticised Japan’s ‘unilateral actions’ in nationalising the Senkaku/Diaoyu islands, and put forward evidence that challenged Japan’s historical claim to the disputed islands. That same day, the China Daily also ran a story about Megumu Ubasako — the fifty-seven-year-old Japanese chairman of the 7-Eleven franchise in China — whose ninety stores in Chengdu have contributed more than 150 million yuan to the local economy this year. In Japan, articles in the Nikkei on 21 May noted that major Japanese medical equipment manufacturers were accelerating product development and manufacturing in China, and that the share prices of Japanese steelmakers had risen on the back of the Chinese government’s new economic reform plans. Yet that same day, the Japan Times also published a report on China’s most recent Defense White Paper, warning of the ‘relentless modernisation’ of China’s military capabilities, and calling on China to explain better its strategic thinking.

How should we, in Australia, make sense of these seemingly incompatible strands in the China–Japan relationship? The stark contrast between booming economic ties and tense political and military relations understandably leaves many of us perplexed. I suggest that the factors that have produced this particular combination of economic interdependence and political and military tension in the China–Japan relationship are not as incompatible as we might think. In fact, the history of the China–Japan relationship is one in which the economic story is deeply intertwined with the political and military story. For either country to achieve its national ambitions has required close economic integration with the other.

Japan’s first war against China in 1894–1895 gave Japan access to the raw materials and export markets that it needed to rapidly industrialise and develop its military so that it could stand up to foreign powers in the West. Not content with the territorial and economic rights it acquired through this war, however, Japan pushed further, and in 1932 formally occupied China’s north-east region of Manchuria. Manchuria’s mineral deposits and agricultural produce were vital to Japan’s economy and military supply lines. By the outbreak of the Second World War, this occupied region of north-east China had become a lifeline for the Japanese Imperial Army as it waged brutal war, first in China, and then throughout the Pacific.

China’s population and economy were decimated by this experience of war with Japan. Yet, astonishingly, in the immediate decades after the Second World War, both the Chinese and Japanese governments worked hard to leave the bitter legacy of war in the past. The Chinese Communist Party deliberately played down Japan’s aggressive history in order to try and build an economic relationship with Japan. Although the Cold War prevented the two countries from establishing diplomatic relations, Chinese officials welcomed scores of Japanese industrialists and business groups — many of whom had served as ‘imperialists’ in Japan’s colony of Manchuria — to China in the 1950s, 1960s and 1970s to provide advice on developing China’s post-war economy. These Japanese advisors helped to develop China’s industrial base, transform China’s agricultural output through the use of Japanese farming techniques and fertiliser, and re-establish limited trade networks between Japanese and Chinese firms.

In Japan, politicians and business leaders from across the political spectrum were more than willing to encourage these economic ties with China. Japanese on the right recognised the economic benefits to Japan of trading with China, while those on the left believed that providing economic assistance to China was a way for Japan to atone for its imperial and wartime aggression in China. For elites in both China and Japan, the bitter political and military legacy of the Second World War took a back seat to the more pressing demands of economic development at home.
However, all this began to change in the 1980s and 1990s as historical tensions flooded back into the China–Japan relationship. In China, a combination of the effects of the Reform and Opening Up policy and the Tiananmen Incident of 4 June 1989 created uncertainty both within China and in its foreign relations. China’s leaders then used the history of war with Japan to forge a unified Chinese national identity and to shore up domestic support for the Communist Party. Throughout the 1980s and 1990s, memories of the war were instrumentally introduced into the Chinese national consciousness through history textbooks, museums and national commemorations.

In Japan, the economic downturn of the 1990s and 2000s — against the backdrop of China’s seemingly unstoppable economic rise — cast a pall on the Japanese economic miracle and led to much soul-searching about Japan’s place in the world. Research by Amy Catalinac of the ANU also suggests that changes to Japan’s electoral system in the mid-1990s compounded tensions in the China–Japan relationship. Japan’s new single-member district electoral system demanded that politicians focus on issues of national policy rather than simply pork barrel for their districts. Making hawkish statements about Japan’s wartime history became one way for Japanese politicians to demonstrate their attention to national security policy.

Yet, in the midst of these tense political relations in the 1980s and 1990s, the China–Japan economic relationship soared. Freed from the diplomatic shackles of the early Cold War, and encouraged by Deng Xiaoping’s Reform and Opening Up, total China–Japan trade in 1995 was seventy times that of the level reached in 1970. Today, the bilateral trade relationship between China and Japan is the third-largest in the world. Furthermore, Japan is one of China’s most important sources of foreign capital, and since the late 1990s Japan’s investment in China has grown by a factor of ten as Japanese factories have shifted their manufacturing operations to China.

Increasingly nationalistic discourse and military tensions in the East China Sea belied this booming economic relationship between China and Japan. In the past few years, comments by Japanese Prime Minister Abe Shinzō 安倍晋三, Osaka Mayor Hashimoto Tōru 橋下徹 and former Tokyo mayor Ishihara Shintarō 石原慎太郎 on Japanese aggression during the Second World War, the Senkaku/Diaoyu islands and revision of the Japanese ‘Peace’ Constitution, have not only attracted widespread condemnation in China — where the *Global Times* newspaper has argued that right-wing discourse is pushing Japan ‘back to the era of imperialism’ — but have also shaped Chinese perceptions of the security threat posed by Japan. In January 2013, Lieutenant Qi Jianguo 戚建国, Deputy Chief of the PLA General Staff with responsibility for foreign affairs, described a list of ‘serious risks and challenges’ (yandu fengxian tiaozhan 严峻的风险挑战) presently facing China. The second of the risks described by Qi was Japan’s political ‘right-wing turn’ (youqinghua 右倾化) which, he argued, had caused Japan’s military strategy to shift from one of pure self-defence, to ‘a more externally oriented and offensive type’. On the Chinese side, articles by scholars affiliated to the Chinese Academy of Social Sciences, and statements by outspoken military generals questioning Japan’s sovereignty over the island of Okinawa have sparked similar outrage in Japan. Although the Chinese government has taken pains to assert that this is not the official Chinese position, these comments — combined with the increasing presence of Chinese surveillance vessels in disputed territorial waters — have further bolstered concerns in Tokyo about China’s growing ‘assertiveness’ in the East China Sea.

Yet this nationalistic discourse comes at a time when both the Chinese and Japanese governments are trying to introduce ambitious reform programs. In China, Xi Jinping’s new government is busy articulating its vision of the ‘China Dream’. Though the precise contents are still ambiguous, the underlying goal — to make China both more economically prosperous and militarily powerful — is one that has not changed since China’s Qing government faced Japanese aggression in 1894, or since the Chinese party-state looked to Japan for industrial advice to modernise and strengthen China after the Cultural Revolution. Today, Xi’s ability to realise the ‘China Dream’ continues to rest, in part, on maintaining strong economic ties with Japan. However, the second goal of making China more militarily powerful alienates Japan.

Similarly, in Japan, Prime Minister Abe Shinzō is unrolling an ambitious economic reform program to counter long-term Japanese deflation and slow growth. At the same time, Abe uses the boost in opinion polls he has achieved from these economic reforms to bring in controversial revisions to the Japanese constitution. These revisions, he argued, are necessary to give constitutional recognition to a Japanese military force. But there is a dilemma: constitutional revision will further weaken Japan’s relations with China at a time when Abe needs strong economic ties with China to lift Japan out of recession.

This dilemma has existed in the China–Japan relationship for over a century. For China and Japan to achieve their national goals rests, in part, on ongoing economic co-operation with the other. Yet casting each other in dangerously nationalistic terms as the ‘enemy’ often helps the Chinese and Japanese governments shore up the domestic support that is also needed to achieve these national goals. Resolving this dilemma will not be easy. While there have been attempts made on both sides to reduce the level of anti-Chinese or anti-Japanese sentiment through student exchanges, joint history textbooks and friend-
ship associations, these efforts have been limited by a lack of political openness in China, and electoral incentives in Japan that favour anti-Chinese rhetoric.

**What Can We Do?**

As we watch this relationship from Australia, we need to remind ourselves that we cannot separate the economic dimension of the China–Japan relationship from its political–military dimensions. We must also remember that although economic ties have not translated into warmer political or military relations between China and Japan, economic interdependence has prevented the relationship from getting worse. Australia can enhance the positive economic dimensions of the China–Japan relationship by continuing to champion the WTO-led liberal international economic order, and giving support to region-wide efforts to bolster free trade and investment. Furthermore, Australia should lobby organisations such as Japan’s business federation, the Keidanren 日本経団連, and the Japan-China Economic Association to draw greater attention to the positive dimensions of the China–Japan relationship. These organisations, together with individuals and businesses, generate so much of the day-to-day co-operation between China and Japan that tends to go unnoticed amidst headlines about the Yasukuni Shrine, disputes over the Senkaku/Diaoyu islands or Chinese military modernisation. While we should not underestimate the risks posed by a potential military clash between China and Japan, it would be equally foolhardy to expect China and Japan to recklessly throw away a century of economic interdependence. The China–Japan economic relationship is central to the domestic reform goals of the new governments in both countries.
Building Cultural Relations

Carrillo Gantner

We need to develop a more strategic focus, longer-term plans and a more patient understanding of the time frames necessary to achieve valuable outcomes. These are Chinese strengths we could well learn to emulate.

Carrillo Gantner trained as an actor and director in the USA. He founded the Playbox Theatre Company in 1976 and served as Cultural Counsellor at the Australian Embassy in Beijing for several years from 1985. He was Chairman of the AsiaLink Centre at the University of Melbourne for fourteen years, President of the Victorian Arts Centre Trust for nine years, and he currently serves as President of the Melbourne Festival. Carrillo was formerly a member of the Advisory Board of the Australian Centre on China in the World.

Julia Gillard [then Prime Minister], led a major delegation to China in early April 2013. She and Bob Carr [then Foreign Minister] had meetings with the new leadership in Beijing, and the accompanying delegation of Australian business leaders had considerable access to their Chinese counterparts. The visit was hailed in our media as a great success as out of it came the establishment of a formal annual leadership dialogue, closer military engagement with the PLA and expanded business linkages. All of this is excellent news, but was I the only one to notice that not one report of the PM’s visit gave even the most cursory mention to anything even vaguely related to Australia–China cultural relations?

Apart from the PM’s photo opportunity secondary school visit in Beijing, I am not aware that her program, or indeed the program of any members of her delegation, had even the remotest cultural content, even if you define culture in very broad-brush terms. I will very happily stand corrected, but I imagine that the Prime Minister’s advisors, like the majority of Australians, might well say, ‘Who cares?’

Who Cares?

The answer is that the Chinese care because they notice these things. Australians tend to define culture in narrow terms of entertainment and recreation. Culture is what you do on Saturday night. The Chinese, on the other hand, like people in most Asian societies, tend to think of culture in vastly broader terms: culture is who you are and how you live; it is your history, language and philosophy; your family and your food; your heritage and collective aspirations. It is therefore inextricably linked as a bedfellow with ideology and national vision. The arts exist to give tangible expression to this notion of who you are as a people, or sometimes what sort of people the government wants you to be. That is why the arts are so powerful. In China the arts matter. Mao Zedong wanted to use the arts to serve the revolution. It is also why today artistic dissidents such as Ai Weiwei sometimes receive such heavy-handed treatment. I think of this as a form of reverse flattery from a leadership that knows that the arts are very influential. In Australia, while a few artists are fawned upon as mass media celebrities and harnessed to give their name to various causes, the majority are largely ignored by government and much of the wider population.

Going Backwards

In many ways, Australian cultural engagement with China has gone backwards over the last twenty years or so. That matters. It matters because the depth of the relationship with China suffers without the cultural dimension and broad people-to-people links. The Australian Government thinks of the relationship in strategic and economic terms; Australian business thinks in immediate transactional terms. But who is thinking of the understanding that is necessary between our peoples if we are really to enjoy a relationship that is enriched by knowledge and understanding, not just made wealthy by iron ore and coal? It is almost ironic, then, that there are great long-term strategic and financial benefits in building a broadly based relationship through culture, education and other values-based programs.

There is a range of reasons why the cultural relationship has gone backwards. Perhaps most important is the failure of leadership at the very top. Not since Paul Keating have we had a PM who was remotely interested in the arts. I am talking bipartisanship here: you could bottle the rare occasions on which John Howard, Kevin Rudd or Julia Gillard were ever heard to comment on the arts and when they did, you almost always wished they hadn’t. Think of Rudd’s bilious comments on the work of Bill Henson, which encouraged every nutter to come out of the closet. None of these PMs would choose to go to the theatre or visit an art gallery. None of them have endorsed, let alone put real resources behind, broad cultural engagement with countries in Asia. Apart from trying to be identified with sporting success (and I count sport as an important part of our culture), they have been almost proud of being...
cultural philistines and I have no doubt they have been surrounded by apparatchiks who advise them that no-one will notice. But it matters because our leaders set the tone. Leadership matters.

To be fair, near the very end of Howard’s eleven years as PM, in response to sustained lobbying from the sector and more particularly the joint submission of Foreign Minister Alexander Downer and Arts Minister Rod Kemp, Howard announced new support of $20 million over four years to take Australian performing arts to the world and especially to Asia. The Rudd government came to power shortly thereafter and imposed a two percent ‘efficiency dividend’ on all federal departments. Would notice. Perhaps in Australia that was so, but the Chinese government noticed. There is still a specialist and well-connected cultural counsellor in their embassy in Canberra.

The Australia Council

Another critical reason our cultural links with China are so weak has been the abysmal failure of the Australia Council to use more than a very small percentage of its international funding to support exchange programs with Asia over the last twenty years. In the Howard years, Asia fell off the Australia Council’s map. When he was arts minister (and he was a very good one), Simon Crean understood the importance of the cultural dimension in Australia’s engagement with our region. He went to China to reinforce this point through his program and discussions with the Ministry of Culture. And he stood on the toes of the Australia Council to make them rebalance their international funding towards Asia. The council’s new chairman, Rupert Myer (my cousin), understands the issue and various worthy Asia-centric statements have come out of the Council in recent times. We are yet to see, however, whether these translate into significant change. There are hardly any Australian arts managers with real China experience or knowledge, let alone language proficiency. There are certainly none at the Australia Council.

Australia used to have specialist arts people as cultural counsellors in our major Asian embassies. I worked in this capacity in Beijing for three years from 1985 to 1987. I had a fluency with the Australian arts sector and strong cultural networks in both countries, allowing me to make real connections and support the wide-ranging initiatives of others from both sides. I had Australian Government-endorsed ‘clout’ with cultural and government circles in China. I had the strong support of an activist ambassador, Ross Garnaut, who was focused on results. In the Howard years, the cultural counsellors were removed from our Beijing, Tokyo and Jakarta embassies as a DFAT cost-saving measure, but no-one put the real cost on the loss. No doubt they thought no-one would notice. Perhaps in Australia that was so, but the Chinese government noticed. There is still a specialist and well-connected cultural counsellor in their embassy in Canberra.

The Australia–China Council

Our federal government expects the Australia–China Council to be responsible for the support of all aspects of the people-to-people relationship with China including culture, media, education, science and technology, Australian studies programs, law, conservation — you name it. It is meant to do this on about $700,000 plus a year — less than it received when it was established about twenty-five years ago. It is an almost frivolous amount of money for the task, but no government has had the guts to address the issue. The same is true for the Australia–Japan Foundation, Australia–Korea Foundation, Australia–Indonesia Institute, and the other bilateral councils under DFAT. In recent years, I suggested that at least the three North Asian bilateral councils might be combined so that their meagre funds might be used more strategically and outside of the silo mentality that currently exists in each. I was told by a senior DFAT officer that while it sounded logical and beneficial to have one strategic pot of $3–4 million instead of three $1 million plus pots, this would only encourage the government’s toe cutters to slash the funding. With the current pathetic funding in each individual council, the toe cutters were restrained as they didn’t dare cut any more for fear of provoking severe criticism from the focus country.

The Australian International Cultural Council (AICC), which is funded by DFAT and chaired by the Minister for Foreign Affairs, was meant to fill part of the cultural vacuum, but as DFAT’s own departmental funding, and not least funding for its Cultural Relations Branch, has been hacked away by successive governments, the AICC budget has been a secretive honey pot used to replace or replenish other departmental program funding, while its own cultural programs have gone into virtual abeyance. The cultural section of the Australia in the Asian Century White Paper says that one of the government’s aspirations was to revive the AICC as an active player on the cultural field but, as nothing further has been heard of this, it seems reasonable to assume that the Foreign Minister has so far shielded this nest egg from the hands of the Minister and Department of the Arts.

What Can We Do?

Increase and focus funding through every related agency, of course (I can hear the cries: ‘You would say that, wouldn’t you’).

Establish quotas for Australia Council and DFAT Cultural Relations funding allocated to Asian cultural engagement. This is in the national interest. The White Paper suggested quotas and targets for various Asian strategies in business, education and other areas, but its recommendations in the cultural field were woefully vague.
Promote and support creative collaborations between Australian artists and their Chinese counterparts. If I might be allowed a personal example, last year, Ziyin Wang Gantner, who happens to be my wife, initiated and produced a bilingual musical theatre work _Cho Cho_ with the National Theatre of China and Arts Centre Melbourne as partners. It has a cast of actor-singers drawn from China and Australia, an Australian script, director and designer working with a Chinese composer and lighting designer. It is a genuine and challenging cross-cultural collaboration, which has produced a superb show seen in Beijing, Shenzhen, other Chinese cities and Australia. The Ministry of Culture in Beijing sees it as a model project and has given it major support. As of writing, the Australian partners are yet to receive one cent of Australian Government funding. We need lots more of these initiatives and they need to be supported.

A senior Australia-based cultural director recruited from the ranks of professional arts and cultural managers should once again be appointed to our embassy in Beijing.

Programming decisions need to be made with a detailed eye for the tastes of the target audience. This obviously requires knowledge and experience of the ‘Other’.

We would benefit greatly from the strategic framework and co-ordinated program delivery that would result from bringing all related federal government funding together into one externally focused international cultural agency. This model works very successfully for many other countries, but existing Australian agencies seem to guard their territories and resist change with far more vigour than they apply to promoting in-depth cultural engagement.

The principle of reciprocity is as important for the new agency as it is for every individual and organisation working in this field. A good example in the early days of sister state relationships was the Victoria–Jiangsu link, under which the presentation in Australia of major arts companies from Jiangsu province built trust and led directly to broader dealings in education and business. Recent reciprocal cultural commitments between South Australia and Shandong seem likely to yield similar positive results.

A new international agency might also work more closely with Australian business to encourage them to understand the long-term benefits of richer cultural engagement with China. Some Australian businesses are making billions in their dealings with China but they invest only peanuts in support of broadening the bilateral relationship through people-to-people programs so that it can withstand the inevitable ‘bumps’ along the road. It should surprise no-one that many of these ‘bumps’ arise directly from a lack of cultural understanding.

We need to reinforce the importance of regular and agreed ‘Implementing Programs’ under the Cultural Agreement with China and these need to operate with known and agreed reciprocal financial parameters. DFAT removed these years ago to cut its own costs, but the costs for every Australian arts company and touring management dealing with China increased as every deal had to be negotiated from scratch. Where is the benefit for Australia in that?

Every Australian tertiary arts training institution should develop China-related content in their core curricula, including study of cultural history, art forms and both traditional and contemporary practice. They should be engaging visiting Chinese artists and teachers as well as providing opportunities for their own students and faculty to undertake exchange programs in China.

It is important to develop strong personal relationships with counterparts in China, whether they be in the Ministry of Culture, in provincial cultural agencies, cultural associations, touring managements or arts companies. This requires time and travel.

Working with China, we need to develop a more strategic focus, longer term plans and a more patient understanding of the time frames necessary to achieve valuable outcomes. These are Chinese strengths we could well learn to emulate.

In short, real leadership, backed by strong strategic commitment, is needed if we are to maximise the benefits of broader and deeper cultural engagement with China. We always hope a new government will be better than the last, but we are so often disappointed. I am not holding my breath, yet I remain a battered but eternal optimist.
Lessons of Bo Xilai: Princelings and the State of Law in China

John Garnaut

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When Tony Abbott arrived on his first trip to Beijing as opposition leader in July 2012, he injected values and human rights into the Coalition’s China relationship, where previously they had not featured. He visited a state-sanctioned Catholic church, and was deeply moved by the experience, and spoke publicly in unusually strident terms. ‘As prime minister I would hope for political reform to match China’s economic liberalisation’, said Abbott.

But as Australia’s prime minister, he comes under pressure from some of his wealthiest backers to tone down the advocacy for the sake of a bilateral relationship that accounts for about one-third of Australian exports. Some have made their views known publicly, but the heaviest pressure has been applied behind closed doors, according to sources who have been subjected to it.

Abbott also contends with an Australian foreign affairs bureaucracy that instinctively minimises differences between the two countries, even when they are important. In the eyes of Australian officials in Canberra and Beijing — with several honourable exceptions — the growing list of successful Australian business people who have been detained and dispossessed in China would have, and should have, remained ‘mere consular matters’, were it not for meddlesome media attention.

But it is not in Australia’s interests to tout the blue-sky potential for doing business in China while burying those who have pioneered the field. Some of the leading Australian investors in Chinese biotechnology (Du Zuying), tourism (Matthew Ng) and education (Charlotte Chou) are all behind bars in China, while their business partners and related officials have redistributed their assets among themselves. The cases against them were flimsy, at best.

The Australian Government should support, not undermine, the painful and uncertain project of building the rule of law in China. This requires strategy and consistency, and, at the very least, that Australia does not assist in covering up and excusing official thuggery. Australian officials, politicians and also business leaders should study and take their cues from the experts in the field, such as lawyer Chen Youxi 谢有西, who acted for both Matthew Ng and Charlotte Chou in their kangaroo-court trials in Guangzhou. It is unlikely that Chen’s powerful and courageous performances in court reduced the sentence of his clients. But he did defend the principles of truth and law as well as his clients’ dignity. Most importantly, lawyers such as him impose a public relations cost on bad behaviour. If that doesn’t sound like much, then it’s worth looking more closely at the central role that Chen and other lawyers and public advocates played in the fall of Bo Xilai.

Bo on Trial

Amid the sordid tales of murder, philandering, corruption and generally world-class hypocrisy, it was possible to miss the significance of Bo Xilai picking up his pen, peering over his reading glasses and lecturing Chief Judge Wang Xuguang 王旭光 on basic principles of jurisprudence. But there he was — the man whose Mao-revivalist campaigns and torture-based methods of justice had made even hardened colleagues blush — explaining and exposing the weaknesses of the confession-based evidence that the prosecution had arraigned against him.

With trademark flair, Bo shredded the credibility of prosecution witnesses. His former attack dog, police chief Wang Lijun, was a ‘vile’ compulsive liar and his mentally unstable wife was forced to fabricate evidence to save herself. ‘Under the circumstances of her mental illness, the investigators placed huge pressure on her to expose me’, said Bo. ‘Her testimony as far as I am concerned, was made under psychological pressure, and driven by (hope of) a reduced sentence.’ Bo explained that even his own confession was not worth the paper it was written on. ‘It was written under circumstances when I was suffering some improper pressure’, said Bo, while hinting at the complex political dynamic that had led him to retract it. ‘I thought the direction my case was heading toward was irreversible.’

What is new about Bo’s case is that the Chinese public was able to hear of his concerns in a relatively transparent fashion and the prosecution was prepared to take some steps to cater to them.
It was to be expected that Bo, whose four-year reign in Chongqing municipality came to be dubbed ‘the Red Terror’, would fight to uphold universal norms and principles of justice that he had previously attacked as soon as he was personally deprived of them. That’s how it has been with most of China’s purged and discarded leaders, who conceived law as a weapon more than a shield until it was no longer in their hands. What is new about Bo’s case is that the Chinese public was able to hear of his concerns in a relatively transparent fashion and the prosecution was prepared to take some steps to cater to them.

In all analogous cases in the history of the PRC, leaders have purged their perceived rivals without bothering to present an evidence-based case and have it tested in a (relatively) open court. In the old days Chinese leaders didn’t need any court of law to resolve their differences, let alone a transparent one. Mao destroyed his imagined rivals, physically or mentally, based partly on testimony extracted from their family members and underlings. He would then deploy wall posters, megaphones and cult-like ‘struggle’ and ‘study’ sessions to drum his version of the facts into the elite and the masses until their brains were too numb to think. Deng locked rivals in their houses until death, or left them in living purgatory at their desks, and simply wrote them out of history. Gradually, the political purges shifted into courtrooms, where corruption laws were applied selectively in closed-door hearings, as less-dominant leaders were forced to present an appearance of having justice on their side.

This time, Bo has been given the right to contest the case against him, cross-examine prosecution witnesses and have his argument presented to the public via the court’s own Weibo (microblog) account. Bo’s testimony implies that the prosecution shifted from the old, seemingly ‘irreversible’ course to something more contestable at some point after President Xi Jinping’s elevation to power. The change coincided with an upwelling of dissatisfaction among representatives of China’s ruling families, many of whom did not support Bo’s policies but were nevertheless alarmed at the precedent of the Party arbitrarily destroying its own children.

It seems likely that President Xi Jinping defined the charges against his princeling rival narrowly and gave Bo the capacity to defend himself in order to impose peace among the families and preserve his fragile legitimacy. Indeed, a look back at Bo’s own methods in Chongqing demonstrates that the old ways of purging rivals served Bo spectacularly well, for a short while, and then brought him crashing down. Power is becoming too fragmented, truth too hard to control, and universal understandings of justice too entrenched for the old ways to work like they used to.

Rough Justice: Bo in Chongqing

To many Chinese, Bo Xilai’s moral offense, when he was party chief of Chongqing municipality from November 2007 to March 2012, was to build a wave of Mao revivalism that glossed over the tens of millions who lost their lives under Mao’s mass campaigns, including his own mother. And his true crimes, for which he should have been tried, related to the reign of police terror that he unleashed across the city. Senior officials were tortured, business associates were framed, and lawyers were arrested for doing their jobs — far beyond what was normal conduct. Bo redeployed Mao-era political games into the city’s courts, as exemplified by the case of the old Chongqing police chief, Wen Qiang 文强.

Like most established police chiefs in China, Wen Qiang’s power extended well beyond his official portfolio. His patrons included one of Bo’s powerful predecessors, who had been promoted to the Politburo Standing Committee, and protégés were stacked throughout the municipal political-legal establishment. Wen controlled many of the city’s bathhouses, where business was often done, and there were few entrepreneurs who could succeed in the city without developing a relationship with his people in order to gain approvals and protection and clear away tangles of red tape. Chongqing entrepreneurs have told me that more than half of their time was invested in banquet halls, bathhouses and other forums for establishing and managing political guanxi 关系. In other words, Chongqing was an ordinary mainland city in which a new leader who lacked local patronage ties had little hope of getting anything done — unless he could purge the old regime.

Bo’s first major political move after arriving at the Yangtze River metropolis was to moved his family’s attack dog, Wang Lijun, to be Wen Qiang’s deputy police chief, along with a team of Wang’s own protégés, from where they could collect intelligence and map Wen’s patronage ties. In March 2009, Bo shifted Wen Qiang sideways to be the minister of justice, while promoting Wang Lijun to take his place and arresting Wen’s key police department deputies and protégés. One of them reportedly died of a heart attack in custody. Another reportedly died by smashing his head against a wall. Wen’s sister-in-law was dubbed the ‘Godmother of the Underworld’ and sentenced to eighteen years’ jail. Wen’s wife was shown pictures of her husband with an underage prostitute — and she promptly led police to the family millions, buried under a gold fishpond.

With potential critics silenced, and unenthusiastic officials locked in jail (including the head of Chongqing TV, who was concerned that viewers were refusing to watch his ‘red’ programming), the completion of Bo’s ascendancy was announced by text message. The front-page headline read: ‘Wen Qiang is Dead, the People Rejoice, Chongqing is at Peace’. Newspapers recounted the last hours of his life...
Bo and his sidekick Wang Lijun moved through the city’s commercial precincts. Police were given quotas of ‘black society’ members to detain in each district. Alleged gangsters were asked to testify against wealthy entrepreneurs who, in turn, were forced to testify against higher political targets. ‘Basically, the 20 richest guys in Chongqing, he sent them all to jail and confiscated all their assets’, said Wang Boming, publisher of Caijing Magazine, in an interview.

The system of justice, based mostly on lies extracted by torture, proved to be a phenomenally powerful tool of political control. Bo became locally popular for articulating social concerns and cleaning up the streets. Nationally, he became the hero of China’s growing neo-Maoist and New Left movements. Ambitious scholars, entrepreneurs, officials, generals and international statesmen were drawn into his orbit. By the start of 2012 he seemed to be on the cusp of breaking into the top leadership sanctum.

But Bo’s methods were so brutal, and so out of kilter with the values of China’s increasingly pluralistic and sophisticated society, that they galvanised a new breed of courageous, professional and strategically calculating lawyers to take a historic stand. Relatives of Wen Qiang used military police contacts to approach an able and well-connected Beijing lawyer, Li Zhuang 李庄. Li declined to take on Wen’s case, but did accept the case of one of Wen’s entrepreneur associates, Gong Gangmo 龚刚模, whose wife was stricken with cancer and whose brother was tortured at his feet. Gong, who had made his billions making motorcycles, was charged with bribing Wen Qiang and leading an underworld gang. Li, the lawyer, says the bribery allegations were probably true but the mobster charges were entirely fabricated.

To provide some insight into the interrogation process that produced Gong’s confession, the experience of his co-accused was such that he tried twice to kill himself by beating his head against the wall and then attempted to chew his own tongue off (he succeeded with help from a prison guard). We know this only because his lawyer, Zhu Mingyong 朱明勇, risked his own life to interview him about the six-month routine of daily torture and display his grotesque wounds on a video, which he uploaded on the Internet in a last-ditch (but unsuccessful) effort to save his client from execution. ‘The whole investigation and trial process has been so flawed; I must provide every single piece of information I have now to save [my client’s] life’, said the lawyer, Zhu.

Li Zhuang, lawyer for Gong Gangmo, took similar risks. It is of some interest, given Bo Xilai’s retraction of his own confession, that when Gong retracted his confession in court Bo and police chief Wang were so furious that they arrested Gong’s lawyer, Li Zhuang, for allegedly coaching his client to lie. Li’s eighteen-month ordeal inside the organs of Chongqing justice, during which he was about to be re-arrested when on the verge of being released, sent waves of protest across the country.

Bo’s brutal excesses in Chongqing established his political dominance for a while, but also served to galvanise lawyers, editors, historians and other intellectuals to fight to protect personal and public interests. The only weapon they had was to talk truth, in and outside the courtroom, while letting China’s information revolution and an increasingly engaged public take their course. Several of them warned of a return to the most lawless chapter of China’s recent despotic past.

‘During the Cultural Revolution there was nothing left of the law, and this caused the entire nation to slide into civil strife’, said Li Zhuang’s lawyer, Chen Youxi, writing in the Southern Weekend newspaper. ‘Injustice prevailed everywhere and even the Chairman of the Republic (a reference to Liu Shaoqi) could not be protected’, said Chen, framing his views in ways that China’s rising princeling leaders could understand. A fortnight later he penned another piece, more squarely directed at Bo’s Chongqing, which was immediately censored from Wang Boming’s Caijing website.

China’s nascent civil society network, by this time woven together by microblog, did not build a credible legal system overnight but it did raise the political cost of committing grotesque judicial abuses. Eventually, the pressure forced open cracks in the political elite. Bo’s court room persecutions of his rivals were so perverse and so public — despite his prodigious censorship and propaganda efforts — that enemies sharpened their hatchets and allies found it harder to defend him. Indirectly, as I argue in The Rise and Fall of the House of Bo, this is what brought Bo crashing down.

Since then, the trials of Wang Lijun (defection) and Gu Kailai 谷开来 (murder) were judged to be so unprofessional and opaque — by the new and higher standards of Chinese civil society — that basic things that probably were true seemed like make-believe. Transparency was so minimal and murky confessions so pivotal to the cases that even the most fundamental facts were seriously questioned, including whether the lady in court was actually Gu Kailai.

**Lessons from Bo**

Bo’s experience in Chongqing is instructive in the search for clues as to why President Xi Jinping and his new team took the unprecedented step of posting regular (although incomplete) transcripts of the Bo Xilai proceedings on social media and giving the defendant the right to cross-examine prosecution witnesses. Given the precarious balance of patrons,
facions, families and interests that Xi must hold together, he could not afford the prosecution of his charismatic and capable rival to be seen as farce.

It is possible that Xi genuinely wants to build something closer to a workable legal system than the one he has inherited. Currently, the absence of a credible legal system is draining the Party’s legitimacy and making management of a complex, pluralistic, modern society almost unworkable. It is also probable, I think, that as Chinese political power grows increasingly dispersed, China’s ruling families and competing elites are being forced to find new ways and set new conventions to resolve their differences. Relative court room transparency and the cross-examination of witnesses may seem mundane in the West, where the rule of law has already been predetermined and proclaimed in the official media. Reports in the South China Morning Post and the New York Times have shown how the published transcript released to the Chinese public excised important parts of Bo’s testimony, including testimony implicating superiors and implicit threats leveled against him to force him to co-operate.

The prosecution in Bo’s case was forced to buttress its argument with a chain of evidence that could withstand the tainting of confession-based evidence. The more robust legal process has made it possible, at least, for China’s ruling families to walk away satisfied that their man has had his day in court and that his reputation, or at least his dignity, has not been gratuitously shredded. Bo’s conviction will be more stable than if Xi had not given some concessions to legal process. It’s not by accident that Chinese scholars, and individuals within the princeling elite, are delving back into the history of British jurisprudence.

The legal privileges afforded Bo flowed, of course, from his unique status as the child of a leading revolutionary, a friend of other powerful scions, and icon of the neo-Maoist left. But what may have been intended as a one-off flicker of transparency has lifted the bar for what is possible and raised the cost of the litany of daily judicial abuses that will continue to take place. Certainly, the defendant lawyers who did so much to limit Bo’s abuses in Chongqing believe they have a new precedent to work with.

‘This trial is extraordinary’, said Li Zhuang, the lawyer who was jailed when his client retracted his confession in court, and whose courage helped bring Bo undone. ‘This [the Bo trial] has almost reached a genuine level of... transparency’, said Li, speaking with Phillip Wen of the Sydney Morning Herald.

Li Zhuang’s lawyer Chen Youxi, who had warned that conditions in Bo’s Chongqing resembled those in the Cultural Revolution, went further. The new precedent set by the Bo trial ‘will have a profound and far-reaching impact on Chinese criminal trials’, said Chen, writing on his personal blog.

The fact that politicians broadly predetermined Bo Xilai’s verdict means the trial was still a show-trial, despite the improvements in legal process. The decision to prosecute Bo was entirely political and far more egregious cases of corruption remain unpunished. Reports in the South China Morning Post and the New York Times have shown how the published transcript released to the Chinese public excised important parts of Bo’s testimony, including testimony implicating superiors and implicit threats leveled against him to force him to co-operate.

But the fact that Bo, of all people, clung to universal principles of justice to defend himself adds to the legitimacy-costs of the Party continuing to hold itself above its own laws. And beyond the French mansions and tragic love triangles of Bo’s inner court, it was revealing that Bo used the same arguments and techniques to defend himself as Li Zhuang and his framed mobster client, Gong Gangmo, had once used to devastating effect pleading their own case in Chongqing when it was ruled by Bo.

On the fifth and final day of proceedings, for example, Bo lectured Chief Judge Gu on how the right to retract an earlier confession was deliberately endowed by law in order to prevent miscarriages of justice. And Bo’s words that followed, with their deliberate repetition to labour his point, are worth reproducing in full:

我国法律为了防止冤假错案，设置了公、检、法相互制约的制度，特别是检法的互相制约的机制，还包括辩护人，就是为了防止冤假错案，如果只听检察机关的一面之辞，会导致冤假错案大量发生。

This translates as:

China’s laws established a sensitive system of mutually reinforcing checks, balances and laws to prevent unjust, falsified and mistaken cases. This is especially the case with the mechanisms of the justice system, which include access to counsel. Again, this is to prevent unjust, falsified, and mistaken cases. If you only listen to the one-sided language of the prosecution, it can lead to a large number of unjust, falsified, and mistaken cases happening.

Earlier, in comments cut from the published transcript (but published in a report in the South China Morning Post), Bo complained that his guilt had already been predetermined and proclaimed in the official media. ‘This was not consistent with the spirit of rule of law, democracy, fairness and justice’, said Bo.

This spirit, expressed by a fallen neo-Maoist icon in his moment of need, is something that Australian officials, business leaders and politicians should bear in mind when dealing with China.
The major challenge for Xi and Li is to implement reforms in a way that not only sustains growth and rebalances the economy, but that also ‘unswervingly upholds’ the principles of ‘Socialism with Chinese Characteristics’. 

**Background**

The pursuit of balanced economic development has always been a cornerstone of Party rhetoric. Shortly after rising to power in 1949, Mao Zedong claimed that foreign domination had resulted in an ‘irrational’ pattern of industrial development that was excessively concentrated in the coastal region. During the subsequent three decades, China adopted a Soviet-style command planning system, through which an Interior Development Strategy explicitly sought to rectify this regional imbalance. Following Mao’s death in 1976, and under the new leadership of Deng Xiaoping, the Chinese government began to recognise more openly the limitations and failures of command planning, of which the Interior Development Strategy was one. From the end of the 1970s through to the turn of the millennium, a process of gradual, incremental and piecemeal reforms focused primarily on encouraging efficiency and rapid growth in the more developed coastal region, with Deng famously declaring that some regions and people in China would need to become prosperous before others. And they did.

Throughout his latter years, Deng made it clear that China was not on the path towards capitalism, but, rather, was transitioning towards ‘Socialism with Chinese Characteristics’, which he defined according to the principles of single-party rule, a dominant role for state ownership, public ownership of the land and state economic planning. He was also adamant that all Chinese people would prosper eventually and that there would be ‘no polarisation of rich and poor, that’s what socialism means’. Deng ‘predicted’ that the turn of the millennium would be the appropriate time to do something about the unbalanced economic growth that his reforms had created. Right on cue, President Jiang Zemin introduced the Western Development Strategy in 2000, identifying the large-scale development of central and western China as a major policy priority for the new century. The commitment to rebalancing, in a geographic sense at least, began.

Soon after taking over the top leadership position in 2003, President Hu Jintao took the notion of balance to a new level with his ‘Scientific Outlook on Development’, which called for balance not only between regions, but also between urban and rural areas, economic and social...
development, man and nature, domestic and international priorities, personal and collective needs and the short and long runs. Despite this rhetoric, which culminated in the strong emphasis on rebalancing in the Twelfth Five-Year Plan (2011–2015), the Hu–Wen decade saw rising imbalances on all these fronts. Indeed, in his final report to the National People's Congress in March 2013, Premier Wen Jiabao reiterated a point he'd been making for many years: that China's domestic economy was ‘unstable, unbalanced, unco-ordinated and ultimately unsustainable’.

As outgoing premier Wen was declaring the ‘urgent need’ for a new model of economic growth, outgoing president Hu Jintao was emphasising that ‘the path of Socialism with Chinese Characteristics, the system of theories of Socialism with Chinese Characteristics and the Socialist system with Chinese Characteristics are the fundamental accomplishments of the Party and people in the course of arduous struggle over the past ninety-plus years’. Xi Jinping has made no indication that he intends to deviate from this party line, using the term ‘Socialism with Chinese Characteristics’ not once, but seventy-five times in his opening address as president. Nevertheless, in their first three months in power, Xi and Li both signalled a serious commitment to embarking on wide-ranging reforms that will rebalance the economy: in his first press conference as premier, Li referred to ‘reform’ more than twenty times.

The major challenge for Xi and Li is to implement these reforms in a way that not only sustains growth and rebalances the economy, but that also ‘unswervingly upholds’ the principles of ‘Socialism with Chinese Characteristics’. Finding a way to simultaneously reform the system without fundamentally changing it will be no mean feat. Welcome to the tightrope of Chinese politics.

**Decision Time**

There is a tendency for international commentators to write about what China should do to rebalance the economy, as opposed to what it will or might do. For example, in February 2013, Nicholas Lardy and Nicholas Borst, of the Peterson Institute for International Economics in Washington DC, published ‘A Blueprint for Rebalancing the Chinese Economy’. They point out that the imbalances in China's economy have emerged because of distortions to interest rates, exchange rates and energy prices, so rebalancing will best be achieved by removing all of these distortions. Their logic is flawless, except for one crucial point: it is highly unlikely that the Chinese government will follow it, because the end point of such a blueprint comes too close to a textbook version of unbridled capitalism, and, as Hu and Xi have made clear, this is not where the system is headed.

This does not imply that these distortions will remain fully in place either. In May 2013, the State Council endorsed a set of ambitious reform plans — drafted by the National Development Reform Commission (NDRC) under the leadership of Xi Jinping — to be presented at the Third Plenum of the Eighteenth Central Committee of the Party in November 2013. The lengthy ‘to do’ list includes interest rate liberalisation; gradual progress towards capital account convertibility and an increasingly flexible exchange rate; greater fiscal decentralisation; the promotion of private investment in strategic sectors of the economy (including finance, energy, telecommunications and transportation); price reforms in electricity, natural gas and water; improvements in the social welfare, health and education systems; and the gradual reform of the household registration system to encourage rural–urban migration and promote urbanisation.

Headlines in the international media following the release of this list were along the lines of ‘China plans to reduce the state's role in the economy’, and ‘China president takes charge of sweeping economic reform plans’: articles that emphasise the government’s intention to ‘get out of the way’. But the list is open to a different and, I would argue, more realistic interpretation: as a set of guidelines that will be pursued to the extent that they sustain economic growth (and thus preserve the Party’s main source of legitimacy) and rebalance the economy (even if only gradually, thereby addressing a major source of social unrest), while still maintaining a system that has the façade of being socialist enough to be called socialist.

A few examples illustrate this point:

First, for decades, the savings of households deposited in low-interest bearing accounts in state-owned banks have been channelled towards large SoEs, local governments, exporting industries, and investment overseas. As a result, local governments have accumulated more than eleven trillion yuan (US$1.8 trillion) of debt and many of China’s state-owned companies may, in fact, be returning negative real profits, once you account for their access to the cheap credit provided through the state banking system (and a range of other subsidies). Some degree of interest rate liberalisation, to provide household savers with higher returns and increase competitiveness in the banking sector, will assist in rebalancing the economy towards domestic consumers and the credit-starved private sector (which has meanwhile turned to a ‘shadow’ banking system as an alternative, high-risk source of credit). But rapid, full-blown interest rate liberalisation is highly unlikely because the costs this would impose on SOEs would be simply too great — and, given the principles of a socialist economy, this will not be acceptable.
Second, the People’s Bank of China has allowed the exchange rate to become increasingly flexible in recent years, resulting in a substantial appreciation of the renminbi since 2005. This appreciation has contributed to the decline in China’s current account surplus (from a peak of 10.8 percent of GDP in 2007 to 2.6 percent in 2012), so it has clearly been beneficial for China in terms of rebalancing away from exports and toward domestic consumption. Equally important, however, is that the stronger currency has increased the buying power of large SOEs seeking to invest in energy, resource and other markets overseas, thereby preserving their dominant position in the domestic economy, but also enabling them to strengthen their presence in the global economy as well. In this context, further reforms to the exchange rate regime seem likely.

Third, urbanisation is seen by many — and Li Keqiang in particular — as the major source of growth for China in the decade ahead, as evidenced by the announcement in June 2013 of plans to move 250 million rural residents into new and expanding towns and cities by 2025. A further relaxation of controls on rural migration is essential for this grand urbanisation plan, which, if effective, will reduce the ‘polarisation’ of China’s urban rich and rural poor and create a huge new pool of domestic consumers. This combination of reforms therefore ticks plenty of boxes in terms of growth and rebalancing without posing any obvious threats to the system itself.

Fiscal decentralisation, to restore the capacity of local governments to raise revenue and reduce their reliance on the state-owned banking sector, is another reform that makes perfect sense in this context. This would facilitate multiple rebalancing objectives, by enabling local governments to finance essential infrastructure for urbanisation, and by freeing up banking funds for the credit-starved private sector. Importantly, fiscal decentralisation would not necessarily reduce the role of the state, but rather shift economic power from higher to lower levels of government. Likewise, ‘encouraging the private sector’ will not mean eliminating the state sector, but rather motivating it to become more innovative, entrepreneurial, competitive and strong. Don’t expect SOEs to vanish altogether. They simply won’t.

In an April 2013 article in *Foreign Affairs* entitled ‘The Rise of China’s Reformers: Why economic change could come sooner than you think’, Evan Feigenbaum and Damien Ma expressed optimism about the prospects for economic reform in China, on the grounds that three conditions for ‘real and enduring economic change’ are already in place: a crisis of domestic political legitimacy, heightened vulnerability to external economic shocks, and a tough-minded leadership that knows what the problems are, and how to fix many of them, on paper at least. This optimism is well founded, but it can also give the impression to outside observers that fundamental and dramatic change to China’s economic system may be just around the corner. The overriding objective of this policy brief has been to suggest that this impression is misguided. Now we have to wait and see.

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Improving Australia’s Investment Environment
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To develop capital-intensive sectors of the Australian economy, such as mining and infrastructure, foreign investment is a necessity, not an option. Given Australia’s small population and vast geography, the domestic savings pool has always been too small to fund large-scale projects in these sectors, at least outright, meaning that foreign savings must be drawn upon if growth and jobs are to be unlocked.

For many decades, foreign investment came overwhelmingly from our traditional economic partners, such as the US, UK and Japan.

In more recent years, however, considerable press attention has been devoted to instances of Chinese firms seeking to invest in Australia. Prominent examples that have reached fruition include China’s Minmetals buying most of the assets of OZ Minerals in 2009, and the purchase of Cubbie Station by a consortium led by China’s Shandong Ruyi in 2012.

Indeed, according to data compiled by the Heritage Foundation, over the period 2005–2012 Australia attracted more large-scale investment attention from China than did any other country, including the US.

Such headlines give the impression that as China’s global economic status has risen, Australia has managed to tap successfully its capital markets, in much the same way it did with the US, the UK, and Japan in earlier times. Given the economic malaise that now exists in traditional source-funding countries, China’s emergence would seem particularly timely.

Research by the Australia–China Business Council has reported a widespread perception amongst Chinese investors that they did not feel as welcome in Australia as they did in some other host countries.

Such an impression, however, is misleading. Other data, apparently less worthy of media attention, suggest that Australia’s utilisation of China’s vast pool of domestic savings has been surprisingly limited.

Consider this: over the past decade, the US has been one of the world’s largest net capital importers. Yet in spite of this, according to balance of payments data compiled by the Australian Bureau of Statistics (ABS), Australia managed to play host to an additional AU$330 billion in US investment over the period 2003–2012. The accumulated stock of US investment in Australia at the end of 2012 stood at AU$617.6 billion. Meanwhile, over the same period, in spite of China being one of the world’s largest net capital exporters, Australia only managed to attract an additional $20 billion in Chinese investment. The stock of Chinese investment in Australia currently stands at just $22.9 billion, a mere 1.1 percent of the total stock of foreign investment, and 1.6 percent of GDP.

Balance of payments data are particularly instructive because they measure capital inflows in net terms. It can hardly be considered that China has become a more important supplier of capital to Australia if large inflows in a given year are matched by equally large repatriations. Balance of payments data also seek to capture actual capital flows, not mere expressions of investment intent.

Some Chinese capital no doubt also finds its way to Australia through the Hong Kong Special Administrative Region, which is listed as a separate source country by the ABS, as well as via tax havens such as the Cayman Islands. But even if allowances are made for this, the basic conclusion remains: Chinese investment in Australia is marginal.

The small amount of Chinese investment in Australia is also not simply a matter of China being late to the party, with the trend now being irrevocably upwards. ABS data show that in 2012, net inflows of Chinese investment amounted to $3.9 billion, not much higher than the average annual value since 2006, and well down on the high of $7.8 billion in 2009. Net inflows of US investment in 2012, however, were $43.7 billion. Even if only direct investment is considered, as opposed to also
including portfolio investment, net inflows from the US were still four times larger than those from China.

The immaturity of Australia’s investment relationship with China stands in sharp contrast to the trade relationship, where China is both our most important export destination and import source.

One reason the inward investment numbers are so small is because China maintains a fairly extensive system of capital controls. For example, any Chinese company wanting to invest abroad must obtain approvals from the National Development and Reform Commission, the Ministry of Commerce and the State Administration of Foreign Exchange. Such a bureaucratic approvals process is likely to discourage overseas investment by Chinese private sector firms.

There is another reason, however: disincentives to Chinese investment erected at the Australian end.

By far the most significant of these is the requirement that, irrespective of size, proposals for inward investment from ‘foreign governments’, which includes SOEs, must go through the Foreign Investment Review Board (FIRB) approvals process to determine whether they are in the ‘national interest’. In contrast, inward investment by privately owned firms only requires FIRB approval if the amount is more than $248 million, and in the case of US and New Zealand firms, the threshold is raised further to $1.08 billion.

What these rules mean in practice is that nearly all Chinese inward investment must go through a lengthy and uncertain approvals process. Joint work by KPMG and Sydney University estimates that nearly ninety percent of the Chinese investment that has made its way to Australia has come from SOEs. This is consistent with the pattern of China’s overseas investment globally.

Further complicating matters is that having ultimate say on whether a proposed investment is in the ‘national interest’ is the Commonwealth treasurer, a popularly elected official. Among the Australian public, there is a well-documented widespread distrust of foreign investment. A 2013 Lowy Institute poll found that a majority of Australians (fifty-seven percent) felt, ‘the Australian government is allowing too much investment from China’ — a staggering finding given the small actual numbers involved.

The justification for the acute attention paid to ‘foreign SOEs’ — which more often than not means Chinese SOEs — is the assumption that they are more likely to have ‘non-commercial’ or ‘external strategic’ motivations as compared to private sector firms. Suspicions surrounding Chinese SOEs were clearly evident in Tony Abbott’s statement in Beijing in 2012 that: ‘it would rarely be in Australia’s national interest to allow a foreign government or its agencies to control an Australian business’.

Not surprisingly then, research by the Australia–China Business Council has reported a widespread perception among Chinese investors that they did not feel as welcome in Australia as they did in some other host countries.

**What Can We Do?**

1. **Reduce the relevance of ownership type when determining whether proposed foreign investment should attract special FIRB attention.**

   To the extent that the current inward investment regime acts to deter investment by Chinese SOEs, it is clear that there will be high costs to the national interest in terms of the growth of the capital stock, and therefore in terms of labour productivity and job creation.

   What is less clear is how the inward investment regime benefits our national interest in some broader sense.

   The most basic point to note here is that any firm operating in Australia, whether they are domestic or foreign (and if foreign, whether they are state-owned or private), is subject to a comprehensive set of laws and regulations that aim to promote fair competition based on commercial principles and transparent reporting. There also exist rules and regulations to guard the integrity of the tax base, the industrial relations system and the environment. If these laws are inadequate in some way, then they will be inadequate for all firms, from domestic privately owned firms to Chinese SOEs.

   All too frequently we see other issues being conflated with investment by Chinese SOEs. For example, much angst has been expressed regarding the purchase of Australian farms by Chinese SOEs for the purposes of minerals exploration. But this is clearly a land use question, not a foreign investment one, and whether land currently used for agriculture and livestock production can be used for mining purposes in the future is a decision that resides exclusively with Australian governments, not Chinese SOEs.

2. **We need to appreciate that Chinese SOEs are acutely aware of their position as ambassadors of China abroad. They are cognisant of the fact that any misstep in terms of contravening Australian laws and regulations will be latched upon by a local press that is hungry for controversy, and politicians willing to exploit such controversy. It is largely for this reason that Chinese SOEs such as Minmetals and Yancoal have preferred to appoint locals to senior management positions. This ambassadorial role is likely to be felt far more keenly by Chinese SOEs than Chinese privately owned firms.**
3. When designing rules that so clearly impact upon inward Chinese investment, we need to consult extensively with Australians who have direct experience in such matters. A small but growing number of Australian business leaders now operate in companies that have Chinese SOE parents. Figures such as Andrew Michelmore, CEO of MMG Limited, are able to quickly dispel myths such that since his company became majority-owned by a Chinese SOE, his day-to-day decision-making has been impacted upon by Party officials sitting in Beijing. Such people are also able to elucidate the distinct benefits that having a Chinese SOE parent can bring. For example, Michelmore has noted that the stable funding base afforded by China’s Minmetals has allowed him to focus on executing the long-term strategic goals of the company, which is publically listed in Hong Kong, rather than being preoccupied with frequent trips into volatile global capital markets.

4. Work with China to fast track formal agreements such as the 2012 Memorandum of Understanding on Infrastructure Co-operation to tangible projects.

5. Take opportunities as they arise to press the case to China that loosening capital controls at home will bring mutual benefits for both countries. For Australia, it would help to facilitate more inward investment by Chinese privately owned firms.

6. The government of the day needs to communicate an unequivocal line on the net benefits afforded by Chinese inward investment. Presently we have an incongruous situation where among the general public there is a general reticence towards Chinese firms wanting to invest in Australia, while at the same time decisions by other foreign companies such as Mitsubishi and Ford to abandon their Australian operations are greatly lamented. As former Commonwealth Treasury secretary, Ken Henry, has put it so aptly: ‘They don’t want them to come, it appears, but they don’t want them to leave either’. The need for strong leadership is obvious.
**Engaging Australia’s Younger Generation with China**

Anne McLaren

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*China’s Younger Generation Elites* have learnt English during their school days, visited Western countries as tourists and, most likely, completed one or more degrees in the US, the UK, Canada or Australia. Fluent in Standard (Mandarin) Chinese, English and possibly a non-Mandarin mother tongue, they feel at home in a world where China is increasingly accorded respect as a rising if not already great global power.

**Asymmetry of Information**

However, there exists a growing asymmetry of information between China and Australia. Increasingly, Chinese decision-makers can read any Australian document or view any broadcast that is available online any time they wish. The Australian counterpart is limited to what has been translated into English, often a translation provided by Chinese counterparts in an incomplete or ‘massaged’ format.

Chinese workplaces are equipped with faster broadband networks than in most Australian offices. Younger generation company managers or government cadres can surf the English-language World Wide Web with ease, soaking up the latest news and trends in their areas of interest. An official working on Asia and the Pacific, for example, could begin his or her day by skimming the latest headlines from Australia’s leading newspapers, or watch the latest broadcasts featuring Australian politicians.

Increasingly, Chinese decision-makers can read any Australian document or view any broadcast that is available online any time they wish. The Australian counterpart is limited to what has been translated into English.

The avalanche of news and information provided by Australia’s media and lively civil society offers these young elites abundant insight into Australian attitudes and debates. In future, this free flow of information will undoubtedly shape how these highly educated elites determine China’s strategy for negotiating with Australia.

The younger generation Australian counterpart working in DFAT, or for an Australian company, is unlikely to be able to glean the same insight into what is going on right now in China, nor into how China sees Australia on a day-by-day basis. The problem is not just a linguistic one. Chinese is a difficult language and only a handful of Australians of non-Chinese background learn enough Chinese to read an online newspaper or government report with relative ease. But even more difficult to navigate are the constraints imposed by the Chinese state on all Chinese public media, a phenomenon the US scholar Perry Link has called ‘the anaconda in the chandelier’, the forces of censorship that tightly contain the flow of information in the one-party state. As well as learning how to read Chinese, a difficult task in itself, it is also necessary to find one’s way through the labyrinthine portals of the state-controlled web in China; in other words, to learn to ‘read China’ with the same skill as Chinese elites.

What are we missing out on and why does it matter? A glance at the semi-official, pro-government Chinese paper *Global Times*, in both its Chinese and English language renditions for 20 August 2013 provides some insight into this. In its lead article, the English *Global Times* offers a reassuring portrayal of both the US and Chinese Defence chiefs seeking to build trust in the Pacific region. The Chinese *Global Times*, designed for readers in China, puts forward a tougher image of the Chinese Defence minister. He questions whether US activities in the region are directed against China and hence dangerous to the region. Many articles in the Chinese-language *Global Times* on 20 August, as on virtually every other day, point to China’s grave concern with perceived anti-China activities by Japan. Anti-Japanese material is much less prevalent in the English *Global Times*. The only item about Australia in the Chinese *Global Times* on this day relates how a right-wing Australian political candidate criticised the gift of an elaborate ‘friendship
gate’ from the Chinese city of Ürümqi to its sister city, the NSW Riverina township of Narrandera. The fact that the Narrandera Shire Council had decided to accept the gift was not mentioned. This article implicitly highlights residual racism in Australian society.

China-produced media tends to be Janus-faced, presenting a friendly reassuring face to the English-speaking world and a strident, more assertive face to its domestic audience. If Australians are only aware of one face and not the other, then we are missing out on understanding how the Chinese elite talk to each other, and how they talk to their domestic audience.

**Access to Global Information**

What would it take for younger generation Australians to be as well-informed about China as their Chinese counterparts will be informed about Australia? The previous government’s *Australia in the Asian Century* White Paper set out a plan for Australia to become a ‘more Asia-literate and Asia-capable’ nation. This includes broadening and deepening ‘our understanding of Asian cultures and languages’ in order to ‘build stronger connections and partnerships across the region’ (Executive Summary, p.2). The New Colombo Plan calls for thousands of young Australians to spend times in Asian countries in order to learn how to engage with Asian counterparts. Australia is entering another period when young Australians are being encouraged by a non-partisan government policy to gain Asia-relevant capabilities.

Learning an Asian language is integral to strengthening engagement with Asian counterparts. In the case of China, the Chinese government is very aware of the linguistic hegemony of English as the leading global language. The fact that Chinese families invest so much effort in ensuring that their offspring learn English, while very few Westerners learn Chinese, is a cause of disquiet if not resentment. As China rises, it will expect a greater space for Chinese as a significant global language. For decades, the Chinese state has been promoting the teaching of Mandarin Chinese overseas. This is one of the motives behind the establishment of Confucius Institutes on college campuses throughout the Western world, and the exporting of Chinese-language teachers overseas.

Elites in East Asian countries, such as Japan and South Korea, have been quick to understand that in their region Chinese language is the key to deepening engagement with their peers in China. Australia has been slower in this regard. Australia has largely failed to grasp that Mandarin Chinese is likely to emerge this century as the *lingua franca* of northern East Asia.

**A New Strategy**

If the younger generation of Australians are to have the chance to become as linguistically capable as their Asian counterparts, then a new strategy needs to be devised for the teaching of Asian languages. Recent developments in the use of digital tools offer new ways to teach spoken and written Chinese, to make curriculum material more widely accessible across educational sectors, to provide more customised ‘packages’ of language material to meet different needs, and to enable language students to reach a range of practical objectives, from learning elementary conversation to reading and responding to Chinese-language blogs.

These technologies rely on the downloading of commercially available digital language applications to tablets and smartphones. Using a smartphone, a Chinese learner can simply point his or her phone at a portion of text to digitally capture a Chinese expression and instantly look up its sound and meaning. A digital course reader could be opened in an online dictionary application and read with far more ease than the cumbersome method of looking up words in a Chinese dictionary, or relying on a teacher. Some applications offer electronic flash cards of new vocabulary to allow for spaced repetition of new material. Other applications show the student how to write the stroke order of Chinese characters. Online programs are available on the web to assist with learning the sounds and tones of Mandarin Chinese. Self-correcting programs using a microphone are also available. Commercial businesses in Chinese cities now offer one-on-one conversation lessons using Skype technology to learners around the world at modest cost. These new e-learning aids promise to transform radically the experiences of learning Chinese for the Western student (McLaren & Bettinsson 2013).

Chinese language programs in Australia have begun to take advantage of some of these emerging digital applications, but there is much work to be done. While the heavy lifting will necessarily be done by language educators, Australian leaders and decision-makers can help to promote the teaching of Chinese to young Australians in the following ways.

**What Can We Do?**

We can encourage the teaching of Chinese (together with other key languages) at all levels of the education system and to Australian students of all backgrounds. There are enormous advantages in beginning a language in primary school and thus ‘normalising’ the experience of learning a foreign language. Currently, Chinese language programs at secondary and tertiary level in Australia are dominated by students of Chinese background. This group is a valuable resource for Australia as it improves its Asia-relevant capabilities. However, as a matter of equity, Australia needs non-Chinese-background Australians to have the same opportunities afforded by the Asian Century.
For reasons of national security, critical skills and key knowledge should not be ‘outsourced’ to people of one ethnic background and largely denied other groups in society.

Given the diversity of learners of Chinese in Australia, it is essential to encourage the development of curriculum and strategies suitable for both background speakers and non-background speakers. Currently non-background speakers are often discouraged by the presence of large numbers of background speakers in the Chinese classroom. This is a significant problem in the teaching of Chinese in Australian schools (Orton 2008).

We can encourage the development of research into e-learning technologies and how these could promote new ways of teaching Chinese language across educational sectors, to members of the Australian public, and across institutional and distance barriers.

We can monitor enrolments in Asian languages across educational sectors. Now, only Year 12 enrolments are regularly reported. Tertiary enrolments in Asian languages are not monitored by any government agency. The Association of Asian Studies of Australia produces biannual reports on Asian language enrolments in higher education (McLaren 2011).

We can ensure that young Australians planning to visit Asia as part of government or private programs are able to participate in suitable Asia-literacy and Asian language programs to make the very best of their opportunity to live in Asia.

Languages should be considered a national resource. The Education Minister, Christopher Pyne, should ensure that universities regularly report enrolments in Asian languages across all sectors, and this data should be monitored to indicate trends and gaps in provision.

The nations in our region, aware of new emerging powers and changing world alignments, are investing hugely in education. The Asian Century is likely to be at least as complex and challenging as the twentieth century. The ability to access and interpret global information is the key to success in the information age. We have the opportunity now to strengthen the linguistic capacity of young Australians to prepare them for the challenges ahead. New e-learning tools offer significant potential to transform the way younger generation Australians gain China-relevant skills and engage with the region.

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Australia’s Relations with China and India
Louise Merrington

Louise Merrington graduated in 2012 with a PhD in political science from ANU. Her thesis examined co-operation, competition and conflict in the China-India relationship in central, south and south-east Asia. In 2008, she was a delegate to the Australia 2020 Summit, focusing on developing Australia’s Asian engagement. Louise was awarded an Endeavour Research Fellowship in 2009-2010. She was a 2013 fellow in the ANU/Torino World Affairs Institute Global Emerging Voices program, which brings together young academics and professionals from across the Asia-Pacific to discuss Asia-Europe engagement. Louise’s other research interests include central Asian energy politics, and the development of Asia-Pacific regionalism.

One of the most significant relationships set to shape the Asian Century is that of China and India. As well as being increasingly significant actors in international politics, China and India also play important social, political and economic roles for Australia. Increasingly, if we want to understand ourselves as a nation and understand our place in Asia and the world, we need to understand China and India. We also have a unique opportunity to develop nuanced insights into the often-fractious Sino-Indian relationship and its ramifications, and to potentially help mitigate some of the tensions that characterise it by contributing to cross-cultural knowledge. However, although our understanding of China’s politics and strategy is improving, similar investments have not been made in Indian/South Asian Studies. This has ramifications for Australia’s own relationship with India, as well as for our understanding of India-China relations and the wider Indo-Pacific strategic system. It will need to change if we want to capitalise fully on the opportunities provided by our location at the heart of Asia.

China and India’s difficult relations have their roots in colonialism and disputes over Tibet in the nineteenth and early twentieth century. The PRC was founded in 1949, only two years after India became independent from Britain, creating Pakistan in the process. The new regimes in India and China inherited a 3225-kilometre-long disputed Himalayan border. By 1962, the dispute over the boundaries laid down by the departing British Empire had generated a crisis between the two new sovereign states, and in October that year Chinese forces advanced across the Line of Actual Control (LAC). The result, for the Indians, was a wholesale rout. In November, the Chinese declared a ceasefire and both sides retreated to their original positions.

The 1962 defeat remains a potent touchstone in Indian politics and media. It is this historical memory as much as any immediate strategic interests that has contributed to border tensions in recent years. In April 2013, China and India entered a three-week Himalayan standoff, which was only resolved due to political pressure from new Chinese Premier Li Keqiang’s first visit to India in May. In July 2013, India announced it will spend US$11 billion on forming a new ‘mountain strike corps’ of 50,000 troops to guard the border. According to the current rhetoric in Delhi, the biggest threat to India is no longer its old arch-rival, Pakistan, but its monolithic northern neighbour.

Prospects for resolving the border issue remain bleak. However, the relatively peaceful status quo has been maintained for the last forty years, and it is in both sides’ economic interests for it to continue. Bilateral trade also grew significantly throughout the 1990s and 2000s, from just US$2 billion in 2002 to US$68 billion in 2013. But even this trade relationship remains highly imbalanced, with India now running a US$40 billion trade deficit, up from US$1 billion in 2000 — another potential source of tension.

As the two countries grow and flex their muscles, other points of friction are also likely to emerge. The most problematic of these for Australia is the Indian Ocean. Both China and India are working towards developing blue-water, expeditionist naval capabilities; at some point China will probably venture west into the Indian Ocean, while India has already conducted naval exercises with Vietnam in China’s backyard. This strategic posturing has also spilled over into regional multilateral organisations and into both countries’ bilateral relations with regional countries such as Pakistan, Japan, Vietnam and the US. As a middle power with relatively good relations with both India and China, and extensive involvement in regional multilateralism, Australia is in a good position to help mitigate some of these tensions and build mutual understanding.
International Impact: The Rise of the Indo-Pacific

China and India lie at the heart of the ‘Indo-Pacific’, the Australian foreign policy term du jour. There is currently no widely accepted definition of ‘Indo-Pacific’, but a good starting point looks at it as a maritime system comprising the world’s busiest sea lines of communication, stretching across the Indian Ocean from the Gulf, through the Straits of Malacca to the Western Pacific. Instead of focusing on a region divided by national borders, this definition of the Indo-Pacific sees the region as an interlinking system. This makes sense when we consider:

- China’s major border disputes (except for its dispute with India) are all maritime.
- China is intent on developing a blue-water navy with an expeditionary capacity out into the Western Pacific and eventually the Indian Ocean.
- India’s revised naval doctrine has now moved its focus away from its coast to claiming a large chunk of the northern Indian Ocean as its ‘strategic backyard’.
- Australia is also an Indian Ocean power, and current chair of the Indian Ocean Rim Association for Regional Cooperation, of which China is an associate member.
- Some eighty percent of the world’s seaborne trade in oil passes through Indian Ocean choke points.

The rise of China has rewritten the security balance in Asia. Although the US remains the dominant global power — and claims of its decline are greatly exaggerated — it no longer has the unimpeded freedom of access to Asia it once did. China’s growth as an economic and military force in the region has caused other countries, Australia included, to start hedging their bets. The increasing warmth in India–US relations in recent years is just one outcome of this, as is India’s growing closeness with Japan. ASEAN’s embrace of the US, India and Russia as part of the East Asia Summit and other regional multilateral organisations is also quite clearly aimed at balancing China. And, in Australia, many thousands of column inches have been devoted to discussion of whether we need to make a ‘China choice’ between our largest trading partner and our closest ally.

The ‘China choice’ argument has been well documented, and it is not the purpose of this paper to revisit it. But looking at the region in purely zero-sum terms — the rise of China versus the decline of the US, for example — denies any number of complexities that make the Indo-Pacific such a fascinating and difficult place to study.

The China–India relationship is one such complexity. China and India’s long and fractious relationship affects all aspects of Indo-Pacific politics, from how they relate to the US, to hedging and balancing by ASEAN, to the efficacy of regional multilateral organisations. Many of these challenges are also integral to Australia’s interests in the region. And developing a strong knowledge of China and India among Australians is crucial not only for helping maintain regional peace and security, but for domestic reasons as well.

Domestic Impact: Chinese and Indian Diasporas in Australia

Chinese and Indians are now the third- and fourth-largest immigrant groups respectively in Australia, after Britons and New Zealanders. The 2011 census recorded 318,969 China-born and 295,362 India-born people living in Australia — and this doesn’t include Australian citizens of Chinese and Indian ancestry. Moreover, this group has grown rapidly. Between 2001 and 2011, the number of Chinese immigrants increased from 0.8 percent to 1.8 percent of the population, while Indian immigrants now make up 1.5 percent of the population, up from 0.5 percent in 2001.

Trade with both China and India is also increasingly important to Australia. In 2012, Australia’s two-way trade with China was $125 billion, while trade with India was lower but not insignificant, at $17.4 billion. China is Australia’s top export destination, while India is fourth. China and India are also the two biggest sources — by a considerable margin — of international students in Australia. The Department of Immigration granted 42,625 visas to Chinese students in 2012–2013, and 18,189 to Indian students. While this represented a 14.3 percent increase in the number of Chinese students from 2011–2012, the number of Indian students fell thirty-four percent in the same period. This is a worrying trend, following the highly publicised attacks on Indian students in Australia in 2010; the amount of reputational damage Australia sustained in India during this time should not be underestimated. If Australia wants to be accepted as a full member of Asia, rather than just an outsider looking in, we need to better engage our Chinese and Indian diasporas to help us enhance our regional reputation and capitalise on the strength of these two emerging powers.

What Can We Do?

Given our large Chinese and Indian expatriate communities, Australia is in a unique position to encourage the development of people-to-people connections between China and India. Chinese and Indian perceptions of each other are generally quite poor, and the level of cross-cultural understanding is low. By encouraging the development of better understanding through multicultural events, language training, and networking opportunities for the large Chinese and Indian student and business communities, Australia can help shape the views of those who will potentially go on to be future leaders of their countries. Stronger people-to-people connections between Chinese, Indians and Australians will not only reflect well on Australia, it could also help mitigate future regional tensions.
Australia needs to engage with and leverage its diaspora communities better. Whether it is through encouraging their contributions to Australian politics and society — for example, through careers in the traditionally Anglo-Saxon-dominated public service — or by taking a positive experience of Australia back to their home countries, the Chinese and Indian communities in Australia represent a wealth of knowledge and human capital that we have yet to fully engage.

If Australia is serious about capitalising on its Chinese and Indian diasporas and better engaging with the Indo-Pacific region, it needs to develop a stronger understanding of these countries’ histories, cultures, languages and politics. Consistent emphasis on China and Chinese Studies over the last two decades has put Australia in a good position in this regard — although there is always more to be done, particularly in the area of language education. When it comes to India, however, Australia’s cross-cultural understanding and investment, both among the general public and the state and federal bureaucracies, is very poor. While Chinese Studies is going from strength to strength, Indian and South Asian Studies is in need of resuscitation. Although Hindi is the second-most widely spoken language in the world after Mandarin, only two universities in the country teach it, and these programs are small. Tamil is not taught at all. This is just one example of the neglect that has plagued the Australia–India relationship in the last few decades. The identification of India as a priority country in the previous government’s Australia in the Asian Century White Paper was a start towards reversing this, but it now needs to be backed up with real commitment and funding.

A renewed emphasis in developing a solid understanding of China and India, and the relationship between them, needs to grow across the whole of government. China and India affect so many aspects of Australian politics — immigration, education, economics and trade, foreign affairs and defence, to name just a few — that a piecemeal approach is doomed to failure. A co-ordinated national approach, however, coupled with greater emphasis on China–India literacy across the state and federal bureaucracies, will allow Australia to capitalise fully on all aspects of these relationships and further cement its standing as a strong middle power in Asia.

China and India are at the forefront of Asia’s rapid economic and political growth. Geographically situated in the region, with large immigrant populations from these two countries, Australia is in a unique position to capitalise on the opportunities of the Asian Century; we will also be affected by many of its challenges. How we engage with China and India in the next decade will shape our broader relationship with Asia. Our true China (and India) choice is not whether or not to engage; it is whether we seize this opportunity to properly invest in and build relations, or remain perpetually doomed to ‘rediscovering’ Asia.
Leveling the Playing Field: Sport and the Future of Australia and China

**Tom Parker**

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*The success* of the Beijing Olympics and opulence of the opening ceremony prior to the GFC provided an exceptional platform for sport to reinforce China’s growing global identity.

The Olympics provide nations with a benchmark of success on a world stage, a *de facto* foreign policy that provides international bragging rights to domestic audiences.

Australia loves sport. Sporting success provides this new-world nation with a ready-made narrative of rivalries, villains and national heroes that other countries have created through myths, martyrs and conflict. Poor performances in Australian sport demand action, and failure at the Montreal Olympic Games in 1976 (one silver and four bronze medals) was the catalyst for the creation of the Australian Institute of Sport. The idea became a reality after Bob Ellicott, the Minister for Home Affairs and the Environment, visited China in 1979 and saw a national institute for elite athletes in operation.

In China, there is a clear link between modern sports and international politics and the search for national identity. It was sport, after all, which kickstarted the normalisation of Sino-America relations through ping-pong diplomacy in 1971.

The search for modern Chinese identity began in 1895 after the humiliating defeat to Japan, coupled with the malaise of the Qing court leading to the once-proud Middle Kingdom being dubbed the ‘Sick Man of Asia’. Keen to build national strength and character, China emulated the increasing Western obsession with physical education as a means of developing better disciplined, morally alert and obedient citizens.

In 1917, Mao Zedong used sport as a metaphor in one of his earliest essays published in the reformist *New Youth* journal, where he declared that ‘cultivate inner strength... one must build a strong body’. Fifty years later, he used a gentle paddle in the Yangtze River to prove that he was still politically fit for the unfolding Cultural Revolution.

China’s return to the world stage following rapid economic reform was sealed in 2001, when it won the right to host the 2008 Olympics, qualified for the 2002 World Cup (football) and gained accession to the WTO. China’s re-entry onto the world stage has caught the attention of international sporting bodies and government bureaucrats.

The Chinese Olympics-driven system, referred to as a *juguotizhi* (whole-nation regime), reinforces a centralised management and administration that channels the country’s sports resources into elite achievement. Early talent identification, provincial sports schools and universities, and hierarchal training methods coupled with traditional Chinese medical practices have helped restore national pride, but they have also created a sports system that is failing to cope with mass health issues (obesity, ageing) in a modernising China.

China’s economic transformation has also attracted foreign clubs and codes keen to leverage its size, scope, and potential fan base. Australian sport is no stranger to China. Lindsay Gaze, the godfather of modern Australian basketball, took the Australian team to China in 1973. The Melbourne Tigers, during his long reign as coach, regularly visited China, trialled Chinese players, broadcast their games on Chinese cable, and hosted a Chinese co-owner and sponsors, including Haier. Even in retirement, Lindsay remains connected by agreeing to coach Tianjin, Melbourne’s sister city’s basketball team in 2009. Australian coaches are well regarded in China.

In 2008, Queensland swimming guru Ken Wood sold his training programs and was a consultant to the Chinese national team ahead of the Beijing games. He was one of three Australian coaches that helped train sixteen-year-old sensation Ye Shiwen 叶诗文 to a world record and two gold medals at the London 2012 Olympics.
The former Australian men’s and women’s national basketball coaches Brian Goorjian and Tom Maher are currently in China, which helped entice Australian Liz Cambage to play for Zhejiang and, subsequently, Beijing Great Wall.

Australian footballers (soccer) are also well represented in China’s Super League. China is now the third most likely overseas destination for Australian players after the UK and Germany, with fourteen players calling China home in 2013. This has been assisted by Australia’s switch from Oceania to the Asian Football Confederation (AFC) under FIFA in 2006, as Australian players can now be included in Chinese teams as an Asian player, which frees space for other foreign players.

The inclusion in the AFC has prompted the Lowy Institute to suggest that football diplomacy could further enhance our trade and reputation in the region, which was further highlighted in the 2012 White Paper Australia in the Asian Century. In 2015, Australia will host the Asian Cup with a potential broadcast reach of 2.5 billion that could reposition the importance of football against other domestic codes.

In 2010, the AFL used Australian Rules Football as a unique cultural product that was put on show with an exhibition game between the Melbourne Demons and Brisbane Lions as part Australia’s official program at the Shanghai World Expo. At the time, then-prime minister Kevin Rudd suggested that AFL is a ‘sport that reflects Australia’s national values of courage, enterprise, resilience and mateship’. Rugby League is also considering playing a game in southern China for premiership points to support existing and discover new Chinese commercial partners.

Some Australian sports see China as a frontier for flag planting with the V8 Supercars christening the Shanghai F1 circuit in 2005, and Rugby Union’s Bledisloe Cup (Australian Wallabies vs New Zealand All Blacks) playing in Hong Kong in 2008 and 2010.

Australian sporting trophies have also toured China with the Australian Open (tennis) men’s and women’s trophies (affectionately dubbed Norm and Daphne) undertaking an annual pilgrimage since 2011. The Melbourne Cup, despite the obvious restrictions on gambling, has also appeared in China in 2008 and 2012 to support inbound tourism.

Aside from recent Olympic success, China is not necessarily viewed as a sporting nation by Australians. In 1935, the Victorian Chinese community sponsored the ‘Prince of the Breaststroke’ Kwok Chun Hang’s visit to Australia. Through his sporting prowess, he was hailed the ‘best Chinese Ambassador ever to visit Australia’. Earlier, Wally Koochew was the first Chinese-Australian to play high-level representative football in the Victorian Football League (VFL) for Carlton in 1907.

Despite Wally’s success, only Les Fong, a champion rover in the Western Australian Football League in the 1970s and 1980s, has dominated the sport. Recently, Australian diving, badminton, and table tennis teams have improved their world rankings with Chinese coaches and athletes migrating to Australia.

The Australian sporting public have embraced Chinese women’s tennis star Li Na 李娜 as much for her on court ability as for her self-deprecating post-match interviews. Her 2013 Australian Open Final reached sixty-nine million fans in China but her party-sanctioned individualism expressed as danfei 单飞 (fly solo) has earned her a rebuke. In early 2013, the People’s Daily asked ‘when star athletes’ personalities have become insufferable by the standard of social customs and traditions, who is to rein in their unchecked insolence?’

Just as Li Na’s danfei runs counter to the group-orientated nature of the China’s juguo tizhi, Australian sport is predominately a grassroots, community-based activity that differs from the hierarchical, top-down approach to sports in China. Despite this contradiction, can sport become a bridge that broadens the Sino-Australian bilateral relationship?

In 2012, the Australian Sports Commission and CSIRO released The Future of Australian Sport, which focused on China in the ‘New Wealth, New Talent’ section. Fundamentally, it asked what opportunities exist for Australia in terms of sports-related tourism, broadcast, events, services and equipment as China’s economy grows, and the Chinese middle class pursues more leisure activities.

Similar to the success of Australian football joining the Asian Confederation, this report suggests that Australia should petition to move into the Olympic Council of Asia. In 2006, Australia’s application was rejected, but joining this forty-five-member council would also give access to the Asian Games — the world’s second-largest multi-event sporting competition after the Olympics.

The Federation of International Basketball Association has hinted that Australia would benefit from moving away from Oceania into the Asian Confederation, following football’s earlier move.

The regulatory shift away from the Pacific into Asia for a number of sports reflects a broader cultural shift in Australia that helps define our place in the region. However, it is how these agreements and associations are activated that gives real meaning to the role of sport in building links between Australia and China.

Sport in isolation is just a contest but its reach and significance in Australia often outweighs the outcome. The ability to be seen, in a sporting sense, as part of Asia, to build rivalries with Chinese teams in basket-
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Tom Parker

ball, and swimming, to normalise bilateral talent transfer, and see Chinese teams and clubs regularly in Australia will undoubtedly create a foundation for better understanding and mutual respect.

The Abbott Government, in regards to international sports policy, should ensure our next bid to join the Olympic Council of Asia is successful and should maximise opportunities associated with the Asian Cup in 2015.

Aside from the obvious economic imperative, many Australian Government departments are struggling to find a narrative that may highlight the value of engagement with China; sport may well prove to be the game that brings both sides together.
Approaching the Bilateral Relationship with China

Geoff Raby

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OVER THE ALMOST EIGHT YEARS since I went to Beijing as Australia’s ambassador to China, the Chinese economy has doubled in absolute size. It has become the world’s number one trading nation and the second biggest economy on earth.

During that period, it became Australia’s largest export market for goods, the biggest source of fee-paying foreign students, and the second biggest source of foreign tourists by head count and the biggest by how much they spend. While China’s stock of foreign investment in Australia is still small relative to traditional sources of investment from the US and Europe, in recent years it has been among the fastest growing sources of investment. To underscore the magnitude and depth of Australia’s economic integration with China consider this: China accounts for by far the biggest share of Australia’s exports than the next four major markets combined, excluding Japan. They are South Korea, India, the US and New Zealand.

The extent of Australia’s interdependence with China is unprecedented in Australia’s economic history except for that with Britain before Britain joined the European Community in the 1970s. In the case of that earlier relationship, it was based on close historical ties and agricultural products.

Our relationship with China today is based primarily on our trade, so, in the words of Australia’s first Ambassador to China, we tend to view it primarily in transactional terms. With such a huge preponderance of trade and commercial interests involved it is great challenge to Australian governments, policy-makers and the broader community to move beyond the transactional — but we must.

Unarguably, China is the most important country in the world for Australia’s economic interests, and our future prosperity will depend more on China than any other country. Moreover — and somewhat more controversially — no country will ever again replace China as the most important economic relationship for Australia, provided that China does not implode.

Finally — and this is the key consideration and the biggest challenge to our narrowly transactional approach to China — China is the most difficult significant country of interest to Australia with which we have to deal. This is because China’s political system, human rights’ standards, history, culture and values are so far removed from our own. No country with a major global economy has in modern history stood so far apart from the international norms of political and social organisation as China today. This is unlikely to change anytime soon.

So it was with these thoughts in mind that my principal recommendation to the Australia in the Asian Century White Paper was that we need to devote substantially more political and diplomatic resources, as well as effort by the Australian community writ large, to the China relationship than we do to any other major relationship that we have.

In that context, I made five modest proposals where more could be done, but not with the view that this list was exclusive, some of which are elaborated in further detail below:

- recognise the singular importance of China to Australia’s economic and security interests.
- establish an annual high-level strategic and economic dialogue.
- substantially increase Australia’s diplomatic presence in China.
- substantially increase the commitment to cultural diplomacy in China.
- reinstate a bilateral aid program for China’s poorest regions.
A Strategic and Economic Dialogue

When then-prime minister Gillard visited China in April 2013, the first and second proposals were addressed. Following talks with her Chinese counterpart Li Keqiang on 10 April, the Prime Minister announced that an agreement had been reached to establish an annual high-level strategic dialogue between our two nations. We have been told that it will also include, in addition to head of government meetings, talks involving the treasurer and the foreign and trade ministers with their Chinese counterparts.

Increase Australia’s Diplomatic Presence in China

Even before the release of the White Paper, the Australian Government announced that it would finally act on the third proposal: increasing Australia’s diplomatic presence in China. In March 2012, Prime Minister Gillard announced that the government intended to open a consulate-general in Chengdu, Sichuan province. This consulate will be responsible for Sichuan as well as Chongqing, Yunnan and Guizhou provinces. For some reason, it took well over a year since the initial announcement to open. In the meantime, New Zealand, with substantially fewer resources than Australia for diplomacy, announced the imminent opening of their Chengdu consulate.

Although welcome, the decision to open a consulate in Chengdu was tardy. By the time the announcement was made, some fourteen countries had long-established diplomatic presences in Chengdu. Australia gave up early mover advantages by lacking a clear vision at the political level, not only of the importance on increasing our diplomatic footprint in China, especially at a time many others were doing so, but of how economic growth and development in China was rapidly spreading away from the centres of our traditional attention in China on the eastern seaboard.

China is a country containing thirty-four provincial-level administrative zones, fifty-six different ethnicities and even more native dialects. China is not a country that can be understood simply by viewing it from Beijing, Shanghai and Guangzhou. Economic development is moving away from the first-tier cities along the coast towards the inland second- and third-tier cities. At the same time, the focus of the Chinese economy is shifting from heavy investment towards consumption to account for the rising middle class.

Of course, the government could expand further in this regard. Consulates should also be established in Shenyang, Liaoning province; Qingdao, Shandong province; Kunming, Yunnan province; and, Wuhan, Hubei province. Understandably, budget pressures will mean that not all of these can be opened and staffed in the near term, but it would be valuable as a sign of the government’s vision for the relationship and where it might go in future if it would set out a forward plan for this, to be implemented as budgetary circumstances permit.

Increase Cultural Diplomacy in China

The other side of the diplomatic coin, one which cannot be underestimated, is the importance of cultural diplomacy. Chinese people place great emphasis on culture and cultural activities, something which the Chinese take great pride in considering their long and rich history. Supporting such activities allows the government to bring together young leaders, entrepreneurs, officials and the wider public to become involved in the bilateral relationship beyond simple business and diplomatic exchanges. These exchanges would not only create a deeper friendship between our two nations (which could obviously lead to economic benefits, although it is not the point) but can also help to show that Australia is serious about negotiating with China as a serious actor on the world stage. Further understanding of each other’s cultures and practices will help foster a new relationship of friendship between our two nations instead of today’s apparent atmosphere of distrust and uncertainty. This can only be beneficial for our bilateral relations over the long term.

In recent years, cultural activity and engagement has increased considerably. An annual Australian Writer’s Week has been instituted, and a joint film co-production agreement signed and several films made under it. In 2010, the Year of Australian Culture in China was highly successful, although neither the Australian prime minister nor an Australian minister with responsibility for the arts deemed it important enough to visit China during that year. By contrast, the Chinese minister for culture was an active supporter, attending a number of opening events. In the Chinese reciprocal year of culture in Australia, the Chinese minister visited to inaugurate their program.

Australian Government support has been limited both by general budget constraints but also by an unwillingness to accord China the focus and attention that our national interests require. Allocation of funds by DFAT to the various bilateral cultural councils still accords them equal status — so funds to a relatively small country of arguably minor importance to Australia are the same as the funds allocated to China. It is a quirk of the bureaucracy that unwillingness to set priorities is the preferred course of action, as no-one is upset by this.

For many years, Australia had a chair of Australian Studies in a number of countries of various importance to our national interests and many of more historical than current interest, but not in China. In 2010, following approaches from the Beijing embassy, DFAT agreed to fund a Chair of Australian Studies at Peking University. The inaugural chair took up his position in 2012 and the Australia–China Council has established a trust to manage this and attract funding for other cultural activities. This is an innovative way to garner resources for promoting cultural relations and supplement the meagre official contributions.
Much of the development of our cultural relations with China, however, is carried out by numerous, mainly unknown and unsung individuals in both countries. Artists across the entire spectrum of disciplines raise funds or use their own savings to engage with their peers and expand their understandings of each other and their artistic horizons. Academics and students do the same and contribute enormously to the relationship as a whole, not only through their academic and scholastic endeavours but also through their networks for professional contacts and friendships.

**Conclusion**

If we are to broaden our relationship with China beyond the merely transactional, official understanding and policy also needs to change. We need first to recognise that our national interest is best served by doing this and second to recognise that China is more complex and hence challenging for us than any other major relationship. We also need to recognise the value that China places on deep and enduring relationships. This requires, on our behalf, persistence and consistency in messages and actions. Enough Australians seem to understand this already, at least intuitively. It is something our political leaders, however, seem not to have appreciated for a very long time.
Climate Change Policy: An Opportunity Not to Miss

Huw Slater

Huw Slater has lived in China since May 2011. He first worked with a Chinese environment think tank in Beijing on the AusAID Youth Ambassadors for Development program. Huw has also worked on major research projects both on climate change adaptation and mitigation policy in China, and his recent research has focused on China’s emerging emissions trading schemes. Huw has a Master of Asia-Pacific Studies from ANU, and takes a strong interest in both climate policy and ethnic minority issues in China. This paper is one of the winning submissions in our New Voices competition.

Climate Policy is an emerging area of co-operation between Australia and China. The federal government should build on this to maximise the benefits both for policy outcomes and relationship building. Current co-operation should be supported and extended. Further collaboration should be explored in relation to governance of emissions trading. The Australian presence in the Chinese policy discussion should be expanded through an increased representation at the Beijing embassy dedicated to climate policy. Finally, the Australian Government should provide a commitment to carbon pricing in the medium to long term, in order that China not go it alone in the region, and that Australia maintains its relevance to the policy discussion in China.

Climate Policy Co-operation is Always Win-Win

Bilateral relations between Australia and China have been subject to an increasingly partisan political debate in Australia during the last two terms of government. Kevin Rudd’s Chinese proficiency seemed to give Labor a clear edge for developing the relationship; however, the Liberal Party has worked hard to characterise the relationship as ‘troubled’. In particular, the issues of Chinese Foreign Direct Investment (FDI) in Australia and human rights concerns in Tibet have been used to suggest that bilateral relations worsened during the Rudd–Gillard governments. Climate change has also been an issue seen to divide the two countries in the past, at least in Australian domestic rhetoric. The lack of action in China, it has often been suggested, makes any genuine effort on the part of Australia largely meaningless. On closer examination there is little evidence to suggest a genuine rift on any of these issues; however, it is on climate change that the hypothesis of a frosty relationship has clearly been debunked.

There is an ingrained attitude that our geopolitical weight is so weak that any effort to deal with collective international problems will be insignificant. This tendency also acts as a convenient fallback for those who resist increased costs for Australian polluters.

China’s interest in carbon pricing — mooted for some time, but given life through the implementation of seven carbon trading pilot schemes around the country in 2013 — has meant that it has had to learn quickly how to implement effectively an economic instrument that took Europe and Australia many years of debate and consideration.

And it is a lesson they’ve learnt with Australia’s help. Once Australia had endured the tortuous process of designing and legislating an Emissions Trading Scheme (ETS) and moved to the implementation phase, the first co-operative meetings were held between staff from Australia’s then-Department of Climate Change and China’s National Development and Reform Commission (NDRC), as well as members of the design teams for the seven Chinese pilot schemes. The co-operation was cemented in July 2013 through funding for joint research on market mechanisms for climate change policy between Australian and Chinese universities.

While considerations of fairness have always shaped China’s international approach to climate change and, in particular, its reluctance to adopt binding obligations, the nature of carbon pricing means that co-operative action is always mutually beneficial. Therefore, this is an area that can be used to deepen the bilateral relationship through ambitious research projects and skill sharing.

China’s Transition

Until about 2001, China’s economic development was both rapid and increasingly energy and carbon efficient. From that point, however, improvements in the carbon intensity and energy intensity of China’s growth stalled and development became browner rather than greener. In response, the later years of the Hu Jintao–Wen Jiabao administration and the first years of the Xi Jinping–Li Keqiang term have seen a marked change in rhetoric about the pre-eminence of GDP as a measure of development. Instead, there is a recognition among senior leaders that sustainable growth requires less polluted cities, more efficient energy use, and less dependence on exports, especially given international economic volatility. The Twelfth Five-Year Plan (2011–2015) seeks to give substance to this change by encouraging industrial upgrading.
and domestic consumption (as opposed to heavy manufacturing and exports). In the previous Five-Year Plan period (2006–2010), the central government attempted to curb the worst environmental effects of heavy industry and coal-fired power through regulation and mandatory closure of inefficient facilities. Under the current plan, however, there is greater emphasis on market mechanisms and creating economic incentives to reduce pollution. This makes carbon pricing an important tool in the shift to sustainable development, and if the government’s strategy is to maintain popular support, the principle of ‘polluter pays’ must be given full force.

The ‘How’ is Just as Important as the ‘Why’

There is an ongoing debate in China regarding whether a national carbon tax would be a better approach to pricing carbon than emissions trading. Rumours that the debate stems from a power play between the Ministry of Finance and the NDRC have been given credence by public comments. Whatever decisions are made over the next few years in relation to carbon pricing at the national level, the way in which it is managed and implemented will be important. Central government departments vying for their preferred carbon pricing tool will be less important than provincial government planners in shaping policy. The pilot ETS process already underway in China provides some lessons in this regard.

One of the most important design features of an ETS is the mechanism for the allocation of free permits to cover enterprises’ liability. In the first two phases of the European Union’s (EU) ETS, a large number of permits were allocated to enterprises based on self-reported historical emissions data. The system has not worked well and has partially contributed to the low price of emissions permits in the ETS. In its third phase, however, the EU developed a system of benchmarks for each industry by which to allocate permits. This approach aims to create greater incentives for improvement by the most polluting installations, and has gained significant interest among many of China’s pilot ETS regions.

Shenzhen, the first scheme to launch, has opted to allocate quotas using an electronic system based on a ‘game theory’ model designed by academic advisors — a decision of the Shenzhen Development and Reform Commission. The approach is unique for carbon pricing internationally, and the rationale is that the system will provide greater independence for cap setting. However, without disclosure of the parameters within which the system operates, it is impossible to assess independently its appropriateness, in terms of either efficiency or fairness. Indeed, while the EU (in its third phase) and Australia have established accessible platforms for examining data relevant to the operation of the ETS, transparency of information is largely lacking in China’s pilot regions. At the time of writing, six weeks after the launch of trading in Shenzhen, a list of the companies covered by the scheme was yet to be released.

Many of the other pilot regions are ready to launch their schemes, but are waiting on final approval from the NDRC. The way in which pilot design has been carried out means that differences in objectives between design teams and decision makers is more accentuated than for schemes in other countries. In many pilot regions, the expertise of local carbon exchange platforms has been utilised to develop design options. These platforms have a clear incentive to see schemes created that will encourage a significant level of trading and, therefore, a limited level of free permit allocation. Local governments, however, may be worried about competitiveness problems if local companies are forced to purchase a significant amount of permits. Some regions, such as Beijing and Shanghai, which feature a large tertiary industry sector, may be less concerned by competitiveness issues; however, provinces like Guangdong and Hubei will have the competitiveness of their local industry utmost in their minds. In fact, this author’s research suggests that sections of government in some regions are actively seeking not just to cripple the permits market, but to mirror the kind of over-allocation that has plagued the European ETS.

Australia also experienced an extraordinary level of lobbying during the ETS design process. The difference in Australia is that what powerful vested interests were saying to government behind closed doors, they were also saying loud and clear in the public domain. The Chinese counterparts of these vested interests, usually large SOEs, do not see any need to engage in public advocacy of their position, but can achieve their objectives far more effectively through private lobbying and maintaining close relationships with decision-makers. Whatever the outcome, for the central government’s objective of transitioning to a sustainable economy, the process is just as important. Transparency of decision making must be given priority.

Australia’s Choice

There is an ingrained attitude in Australian discourse that our geopolitical weight is so weak that any effort to deal with collective international problems will be insignificant. This tendency also acts as a convenient fallback for those who resist increased costs for Australian polluters. The reality, however, is that policy-makers and experts in the region pay close attention to many of our policy measures, particularly in relatively new areas such as carbon pricing. Partly due to the existing strong trade relationship, previous co-operative work and partly because of the limited number of case-studies available, Australia’s approach to carbon pricing is of keen interest in Beijing. This should be capitalised on in order to strengthen relationships with various sections of the Chinese Government, as well as policy experts.

In terms of the Australian political debate, a recognition that carbon pricing is an international reality is approaching, perhaps through the Coalition Government realising that momentum in the world’s two larg-
est economies — the US and China — is towards more co-operation on the issue rather than less. While the repeal of the Australian carbon price is, without question, seen as a backward step in the region, and especially seen as such in China, there is a recognition even within the Liberal Party that it would be temporary. Former coalition leader Malcolm Turnbull has repeatedly described the party’s current policy as ‘short term’.

Although the Abbott Government was successful in repealing the carbon price, it is likely that when it is eventually reintroduced (presumably by 2020), it would feature much in common with the current scheme. In part, this is because whichever party is in government would use the 2008 Garnaut Climate Change Review to then rebuild bureaucratic expertise within government, rather than start from scratch. In addition, linking ETSs is an important part of establishing efficient global effort and lowering cost. The link with the EU, then, would need to be re-established, and further links with markets such as California, and other emerging schemes explored.

Given the reality of carbon pricing occurring in the medium and long term, it makes sense to build on existing Australian expertise and credibility in the short term. With China launching seven pilot emissions trading schemes and exploring a national scheme in 2013, the energy with which Australia pursues collaboration in this area will have a lasting impact.

In summary, climate change policy, and carbon pricing specifically, offers an important opportunity for deepening the bilateral relationship in a way that is co-operative and mutually beneficial. The Australian Government should:

- reaffirm Australia’s commitment to collaborating with China on climate change policy. The funding provided by the previous government for co-operative research between policy experts should receive ongoing support, and opportunities for extending it explored
- broaden Australia–China collaboration on carbon pricing from purely technical to research on governance measures to strengthen transparency. Australia learnt much from the EU ETS in establishing transparent and reliable institutions for emissions trading. The corruption and confusion that plagued the first two phases of the EU ETS have been avoided. Australia could work closely with China to help ensure transparency is maximised as China pursues this complex policy measure
- consider establishing a permanent representative or team at the Australian Embassy in Beijing to work exclusively on maximising collaborative opportunities. The UK and Germany both have a strong presence of climate policy experts working in Beijing. Australia, to date, has relied on ad hoc occasional delegations of experts travelling between the two countries. A more dedicated focus on climate change at the Australian Embassy would boost Australia’s presence in the policy discussion within China.
- ideally, make a public commitment to carbon pricing in the medium to long term. While the Coalition Government has committed to removing the current scheme, a commitment to the principle of carbon pricing would reassure China that it is not going it alone in the region, and maintain Australia’s relevance for Chinese policymaking in this area.

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Understanding China through its Local Politics

Graeme Smith

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RECENTLY, I was fortunate enough to spend time in a place I’ll call ‘Benghai’, celebrating the ninth anniversary of my love-hate relationship with the rural county that has become the core of my academic career. Even before the three-hour bus trip from the provincial capital came to its traditional Jackie Chan–inspired crescendo, a few of the truisms about Benghai were under assault. Previously, Beijing and Hefei [the provincial capital of Anhui] had left me bewildered by their shock assault urbanisation projects and by their waves of identikit apartment blocks, but there was always sleepy Benghai to return to. There would be the odd political scandal, a handful of speculative real estate investments, and endless rounds of optimistic infrastructure projects to support the ‘eco-industrial park’ on the edge of town. But the players, and the game, had a comforting familiarity about them. No more. Benghai was on the move.

Returning to my old office, it was clear something was amiss. Gone was the grizzled caretaker, listlessly following his mop around the ground floor, in between screenings of the high-volume Peking Opera epics, whose distorted sounds would echo through the four-storey building. The office, once the envy of all work units in Benghai, was a kind gift from a European country, a form of apology for pulling out of China early as there was a war to be fought in Afghanistan. In the caretaker’s stead was a bank of impossibly cheerful uniformed women in their early twenties. Their smiles could signify only one thing: real estate.

When a mid-level official complains that his brother who owns a computer shop has to hand out tens of thousands of dollars’ worth of supermarket cards every year to ensure that contracts from the official’s department continue to flow, is there a victim? Moral categorisations make little sense.

Climbing the stairs to my old office, China’s urbanisation drive was there to greet me. The former vista of water buffalos, bamboo, and misted peaks was replaced by a tangle of mud and discarded scaffolding, from which emerged the shells of several apartment blocks, up to fifteen storeys tall. My colleagues, whose building had been sold off by the county government, were soon to be evicted. The office was scheduled for demolition before the end of the year. There was consensus that a ten-year life was ‘about right’ for a building in modern Anhui.

Across the valley, the county government was stealthily going about its relocation, despite sporadic disapproval at the provincial level. This was partly driven by the need to keep the project rolling for the benefit of the ‘shadow state’ of friends and relatives who supplied the materiel for the relentless cycle of construction and destruction, and partly to secure promotion for future party secretaries. Not by raising GDP, which many researchers see as the secret sauce driving economic growth in rural China. Rather, it would fix the feng shui. The old county government had a mountain to the south, and no water at its doorstep — the reverse of the classical formula for geomantic success. How could the county party secretary housed in such an unpropitious structure secure a promotion to the provincial government?

On the back of the fiscal stimulus package of 2009, a man-made lake had emerged and, one by one, government bureaus were emerging from what was once-prime farmland. Already, patterns of status could be discerned. The most impressive edifices belonged to government agencies with the capacity to charge for their services, or levy fines. The Sand Management Office, which made a tidy living by shaking down the drivers of the overloaded trucks that carted river sand to build the provincial capital, Hefei, grain by grain, merited a six-storey building. Just a few kilometres away, the cracked and pitted road to the capital stood as a monument to their failure to do their job. Despite generous hiring procedures, it was thought unlikely they would have enough staff for each office. The humble Records Bureau, which stood in its shadow, had several staff members in each office.
On the other side of the lake, which sprouted neon blooms of an evening, another real estate development was underway, with prices breaking through the RMB4000 per square metre barrier — a recent phenomenon in Benghai. A modest two-bedroom flat in an obscure corner of Anhui would set me back AU$150,000, if I kept the renovations ‘basic’.

Yet there were indications that Benghai was moving up the economic food chain. The developer of this venture, who would also boast a five-star hotel, was a local businessman, making this the first local property development of any scale. The developer had started out as a contractor, building the roads and irrigation ditches that had proliferated during the early years of the New Socialist Countryside campaign. Previously, many of my colleagues had joked that the county government was being run from Zhejiang — such was the number of property developments originating in that province.

The sting in the tail of that joke was the outgoing party secretary. Despite undeniable improvements to the feng shui of the county government headquarters, he had missed out on promotion and seen shunted into what amounted to retirement. At the time of writing, he was under investigation, not for taking payments for positions, or even accepting the appreciation of property developers from the eastern seaboard, but for substantial investments in a Zhejiang market. His former patron in the provincial government had made good in Beijing, and was not returning calls.

Yet as all of these stories unfolded, it was hard not to notice that the informal, private economy of Benghai seemed to be faring well. While I travelled to as many corners of Benghai as my trusty moped (maximum speed forty kilometres per hour) would take me, my inbox was being filled with ruminations from old China hands, foretelling disaster as the economy slowed, with structural issues unaddressed. Both the local state and local businesses in this quintessentially ‘middle China’ county were thriving (grain farmers, many of whom were in debt on the back of low rice prices, were a different matter). Informal solutions were being found to problems that the central state was unable, or unwilling, to address.

Notions of ‘predatory’ and ‘developmental’ states are too simplistic. In practice, the formal local state is both prey to and predator of the informal, or shadow state. When a mid-level official complains that his brother who owns a computer shop has to hand out tens of thousands of dollars’ worth of supermarket cards every year to ensure that contracts from the official’s department continue to flow, is there a victim? Moral categorisations make little sense. Moreover, a large part of the local party apparatus was quietly engaged in enabling local enterprises to get things done, often for their own benefit, either through the revenue from taxes leveled on service industries or from their own indirect involvement in business.

In 2012, a neat summary of the motivations of local officials was published by Stephen Green of Standard Chartered Bank. The article attempted to address the impossible conundrum of how local government in China continues to function despite debt, corruption and chronic underfunding by the central government. Green argued that: ‘The performance assessment system is skewed towards incentivising fixed asset investment — few officials get rewarded for local service sector growth’.

While there is no doubt that the formal assessment system does encourage overinvestment by local governments in easily showcased infrastructure projects — be they expressways, town squares, or airports — my time in Benghai suggests officials are rewarded in different ways for growing the service sector, or more accurately, their service sector. At the county and township level, local service businesses are intimately intertwined with local government. They are staffed and run by the relatives and friends of local officials who (with the exception of the county party secretary and a handful of others) will spend their careers working within the boundaries of their home county. As Green points out, services should be more mobile than manufacturers. But, in practice, the service sector is kept off limits to out-of-towners, and the local government struggles to keep footloose manufacturing businesses by offering cheap land, complementary infrastructure and tax holidays.

How to explain this paradox? Officials in Benghai continue to strive to attract manufacturers, not because they discriminate against service companies, but rather because of the spillover benefits that manufacturers deliver to the service companies that are owned by the friends and relatives of local officials. The formal assessment system does reward officials who hit revenue targets, and service businesses help them to achieve this in two main ways: business tax (which, unlike the VAT and enterprise income tax from manufacturers, is not shared with the central government) and conveyancing fees, which flow into the ‘extra-budgetary’ revenue stream. As scholars such as Tao Ran and Liu Mingxing have argued, the revenue sacrificed by offering cheap (or free) land to manufacturers can be recovered by restricting the supply of commercial and residential land.

The disparity between the two types of land could readily be observed. In contrast to the fifteen-storey residential block rising behind my old office, parts of the Benghai ‘eco-industrial park’ were unintentionally living up to their name. The sprawling scale and untended nature of the manufacturers’ allotments were turning them into biodiversity hotspots, particularly for amphibians. Yet the absence of shuttered factory doors, and the thriving service economy that surrounded it, suggested that China’s odd version of rural capitalism wasn’t quite ready to croak its last.
Australia needs to realise that our relationship with China will be of such singular importance that to content ourselves passively with China as a voracious but distant consumer would not only be remiss economically, but would reinforce the close-minded cultural conceptions that hold Australia back.

This relationship reflects natural complementarities, but recurring issues prevent its diversification and expansion, including: sensationalised Australian media and popular discourse giving the impression Australia does not welcome Chinese business; regulatory barriers such as automatic-triggering of FIRB oversight by Chinese SOEs; and, Chinese inexperience in identifying and managing commercial projects in the Australian market.
As a large economy with a small population, Australia depends on foreign trade and investment for its national prosperity, and it cannot continue to forgo the nation-building opportunity of Chinese FDI. The government should conclude our overdue Free Trade Agreement (FTA) with China by agreeing to raise the FIRB automatic referral threshold for Chinese SOEs (given that Australian law will apply to their operations), increase the notification threshold for Chinese private FDI to $1 billion (on par with the thresholds for US and New Zealand investors), and ease Australia–China business travel restrictions. The FTA would exempt Australian exporters from barriers to the Chinese market. It would also encourage much-needed economic diversification in an increasingly complex and middle-class Chinese economy, moving it towards high-value-added goods and highly skilled professional and technical services — and ensuring the Australian economy is prosperous beyond primary exports.

Positive attitudes towards a China FTA and towards China’s vast potential stocks of FDI will be essential to implementing economic reforms crucial to reviving Australia’s lagging productivity performance and transformation into a regional leader in industry, technology and environment. For while Australia’s resource-powered growth may presently be the envy of the world, the downward structural readjustment of Chinese economic growth means Australia must be proactive in employing Australia–China joint ventures, and Chinese capital and skilled labour, for comprehensive and long-term future national infrastructure projects.

Such projects should include: value-adding refinery facilities for steel, oil, gas and fuel-rods; modernised energy storage and power grid facilities to realise our vast reserves of solar, wind and (thorium-based) nuclear power; and, water infrastructure and logistical networks to realise Australia’s potential as China’s ‘food-bowl’ and to capitalise on access to booming Chinese markets for safe beef, dairy and wine. This should extend to developing an advanced technology sector that encourages innovation in strategic industries such as Information and Computing Technology (ICT) and lifestyle-disease and ageing-population-relevant medical engineering, as well as strengthening financial infrastructure by expanding licensing for direct renminbi conversion beyond Westpac and ANZ to develop Australia into a significant RMB trading centre.

However, despite a China FTA being more economically rational than the strategically motivated Australia–US FTA, concluding this trade deal will require leadership from the government; according to the 2013 Lowy Poll fifty-seven percent of Australians believe Chinese FDI is too high and forty-one percent believe China will become a military threat. Australian journalists, academics, politicians and citizens form a collective space that, due to a general lack of China-literacy and to a propensity to resort to battology as a stopgap for lack of understanding, manifest a desire for the pitching, holding and debating of ‘China issue’ positions, for over-polemicising a complex phenomenon and for obfuscating the development of a full portrayal and nuanced analysis of the Australia–China reality. The government must raise popular awareness of the benefits from a productive relationship with China and promote investment advancing the wider Australian community. The Chinese state is far too preoccupied with domestic stability and ensuring Chinese economic development to undermine a key regional partner such as Australia; having a strong national economy that China relies heavily on for its energy is a significant diplomatic asset for Australia.

**Diplomacy**

The Australia–China diplomatic architecture was recently upgraded to a ‘strategic partnership’. Australia needs to ditch the facile China vs US ‘leading light for Australia’ debate as the framework for discussion of our national future — eighty-seven percent of Australians surveyed by the Lowy Institute believe we can have a positive relationship with both, so why not sensibly but boldly steer our own course forward?

DFAT’s top priority must be to use the inaugural bilateral Strategic & Economic Dialogues with China to assert Australia’s international decision-making independence, project positive bilateral messages to domestic audiences and forge the intergovernmental relationships and ‘pick-up-the-phone’ mentality that would have ameliorated diplomatic crises such as the Stern Hu and Rebiya Kadeer incidents of 2009. The importance of personal relationships to accomplishment in China (amidst fierce international competition for Chinese leaders’ time) means that Australian bureaucratic, corporate, and academic leaders must spend time building a rapport with Chinese counterparts. Politically, this will necessitate the reversal of DFAT funding cuts to establish consulates in oft-overlooked regional metropolises like Shenyang, Wuhan and Qingdao, and the resumption of Australia’s aid presence — important for provincial engagement and bureaucratic connections.

Australia must also cultivate soft power projection to revitalise perceptions of Australia as simply a mine-top farm and American cultural colony. DFAT, relevant education ministries, and the Australia–China Council should promote unique Australian culture through programs such as Imagine Australia and Australian Writers’ Week, and support the Foundation for Australian Studies in China in creating a robust community of Australia-engaged Chinese academics, researchers and policy-makers. Tourism Australia should improve the image of Australia with Chinese tourists — 670,000 of whom spent $4.5 billion in Australia in 2012 — by adjusting Euro–American sun-surf-sand/wild-flora-and-fauna advertising to showing the comfortable urban shopping experiences most Chinese tourists desire, by relaxing visa processes and by formulating a China strategy with hospitality businesses regarding Chinese staff, signage, menus and group travel.
Official engagement with China means the government cannot ignore bilateral tensions with core Australian values, particularly human rights and rule of law. Recent concerns about the rights of Australians in the Chinese legal system and the political connections of state-backed Chinese businesses have unsettled many Australians. Arguably more significantly, frequent conflation of the Chinese nation as a whole with specific state-sponsored acts of repression within the media and popular discourse feeds into a historical wellspring of moral superiority and outright xenophobia, holding back bilateral relations. If we want to promote Australian values and encourage China to conduct rule-based global affairs, we should strongly encourage Australia–China engagement at the people-to-people as well as the institution-to-institution level. For instance, the Australia–China Human Rights Dialogue (ACHRD) is largely ineffectual (though nevertheless deserving of our continued attention because of the principles it represents), but it would be more fruitful to also share our values through daily-life interactions between Australians and Chinese. Additionally, Australia should evince its sincerity by addressing the issues China raises at the ACHRD, such as mandatory detention and indigenous discrimination.

**Education and Society**

The most nation-defining goal of the previous government’s *Australia in the Asian Century* White Paper was its recommendation that Australian schoolchildren be offered continuous education in one of four priority Asian languages, including Chinese. Whilst Australia should not neglect other Asian languages, we must recognise the singular role Chinese will play in Australia’s future. Many commentators dismissed this ambition as unrealisable, which without political funding commitments is true. But the limits of our language are the limits of our thinking, and cultural competence is incomplete without language. As such, language acquisition must be a national priority. Language learning takes time and the earlier we start the better. The proportion of schools teaching Kindergarten to Year 12 Chinese (or subjects in Chinese) must be increased from five percent to fifty percent within twenty years, supported by interest generated through the ‘Asia and Australia’s Engagement with Asia’ national curriculum priority, an about-turn in federal education funding, Chinese teaching visas, university admissions bonuses, China scholarships and student initiatives promoting China awareness. In addition to primary and secondary education, the government must support Australian university students and young professionals studying and interning in China through programs such as the Labor Party’s AsiaBound scheme and the Coalition’s New Colombo Plan.

But presence alone does not guarantee engagement, and should not be confused with it. Currently, few Australians in China go beyond cultural-linguistic comfort zones to participate genuinely in and understand Chinese society. The government must support grassroots organisations providing people-to-people platforms such as Australia–China chambers of commerce, ACYA and ACYD. The government and Australian universities also need to work with Chinese education providers to remove structural barriers (nationality-regulated dormitories and bureaucratic exclusion) to Australian international students being involved in Chinese university life. Investing in ‘China-literacy’ will enable a generation of Australians to begin an authentic discourse with the symphony of academic, commercial, cultural and ultimately human voices of 1.3 billion Chinese people. Short-term surplus seeking is economically irrelevant without a human vision for Australia’s future.

However, the international student experience in Australia is just as important, with Austrade estimating there are 87,588 Chinese students enrolled at Australian universities, contributing $4 billion to the Australian economy and comprising sixty nine percent of our services exports to China. But as increasing numbers of Chinese with international qualifications saturate the Chinese job market, to compete with the UK and US the government must collaborate with universities to formulate a strategy that addresses common difficulties by ensuring Chinese students gain fluency in English, strong connections with the local Australian community and professional employment opportunities. The Knight Review allowed international university students to work during and after their studies, but visa reforms must be extended to vocational institutions to mobilise Chinese demand for hospitality, tourism and business courses. Education should have a key role in increasing the knowledge, understanding and goodwill towards Australia of future Chinese political, economic and social leaders. Ultimately, the transformation of our relationship with China from agnostic to enthusiastic will be driven by people-to-people relationships.

**The Leadership of Ideas**

This paper could be attacked as idealistic, but this is exactly how our thinking should be. Vision should come before policy, not vice versa. In the words of Stephen FitzGerald, what Australia needs in its approach to China is a ‘stretch of the imagination’ — and it is difficult for society to move forward without government inhabiting the ‘leadership of ideas’. Australia should use the necessity of responding as a nation to the rise of China as an opportunity for introspection about the values underpinning the nation. The new Australian Government has the opportunity to consolidate and consistently reinforce a China-cognisant vision for Australia into a mainstay of the national political consciousness.
Human Rights and Politics
Susan Trevaskes

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The issue of social instability informs how the party-state manages discontent and social unrest and how it responds to individual and collective quests for justice.

Rights Discourse

Three main concepts dominate official Chinese approaches to human rights in the international and domestic arenas:

- ‘Non-interference’: a concept that informs China’s usual response to international criticism. A diplomatic ‘mind your own business’, this principle calls for the international community to respect the domestic jurisdiction of each country, especially in relation to sensitive matters like human rights. China’s official human rights policy emphasises strict dependence upon local conditions that vary across the nation and across time according to economic development, and sociocultural and historical circumstances.

- ‘Mutuality of rights and duties’: Article 33 of China’s 1982 constitution sets out the principle of mutuality of rights and duties, which implies that rights are inseparable from the duties prescribed by the constitution and other laws. In 2004, Article 33 was revised to include the statement that ‘the state respects and protects human rights’, although it is not specific about whose and which human rights it intends to protect, or what ‘respects and protects’ means in practice. The flexible interpretation of this statement accommodates ideological shifts in party-state policy as well as subjective understandings.

- Citizens’ economic and social rights take precedence over their political and civil rights. In Deng Xiaoping’s time (1980s and early 1990s), and in line with the socialist tradition of past years, the official discourse emphasised economic and social rights at the expense of civil and political rights. Economic and social rights were to be developed in lockstep with increasing national economic development and wealth. China’s first White Paper on human rights in 1991 stressed that the right to subsistence was the nation’s primary human rights’ goal, while the state gradually withdrew from what had been its responsibilities as ‘provider’ of social services to enable the market to play a greater role.
Subsistence was indeed still a critical problem for many Chinese in the 1980s and early 1990s. The government’s most impressive feat over the last two decades has been to lift out of poverty hundreds of millions of people from rural areas across the nation — an accomplishment of truly historic proportions. But the social and economic fallout of this feat has also threatened many people’s social and economic rights. Uneven distribution of wealth, unequal access to justice and forms of corruption that are entrenched throughout the political system have sparked widespread discontent in the last decade. Many feel that their health, property and wages are no longer adequately protected by the legal system or government. They are aggrieved when the government and courts protect the economic interests of big and small business over the rights and interests of the Chinese people. They want the state to take action to deliver justice and protect their rights as citizens. This situation has resulted in the party-state’s decade-long stability obsession.

**Rights and Social Discontent**

Since the early 2000s, an increasing number of protesters have taken to the streets rather than seeking redress through the courts or local governments. They see that the economic and social rights provided by the law are not respected in practice, and their ability to access formal avenues of justice is limited. It is estimated that well over 100,000 and possibly up to 180,000 mass protests are now staged each year, with rallies or sit-ins ranging widely from ten to 10,000 and sometimes over 50,000 protesters.

A major source of the social discontent fuelling protest is land grabs. Typically, local officials sell land rights to developers for low prices and a substantial kickback, then sometimes hire thugs to remove residents who receive a mere fraction of what their property is worth. The Chinese Academy of Social Sciences in Beijing estimates that land was seized from fifty million farmers in 2010, with the figure increasing by roughly three million annually.

Environmental and labour disputes also push aggrieved citizens onto the streets. Thousands of people in communities whose wellbeing is harmed by industrial pollutants in soils and rivers have protested en masse, largely over corrupt government behaviour or in relation to weak oversight mechanisms at the local level that allow corporate malfeasance. Labour disputes over unpaid wages also feed social discontent and public protest.

In China, weak oversight and control at the local level have encouraged government and judicial corruption as well as corporate abuses. The people’s lack of access to reliable avenues for redressing injustice has exacerbated problems that have emerged as a result of the rate and extent of social and economic change. But rather than tackling the root causes of such problems through political reform, the party-state has chosen to focus on controlling the social and political fallout created by market reform. It has politicised the consequent sharp rise in social unrest and protests, casting them as forms of “social instability”.

**Stability Maintenance**

In a move to reduce the number of protests, the party leadership launched what they call Stability Maintenance (weiven 维稳 in Chinese, short for weijiu shehui wending 维护社会稳定) operations in the early 2000s. First, they concentrated their efforts on policing operations, containing and breaking up protests using civil and military personnel as well as hired private security agents. By the mid-2000s, the authorities also began to reshape dispute resolution mechanisms, extending Stability Maintenance well beyond its policing origins into the entire justice system.

In recent years, the human rights knock-on effect of this stability obsession has seen the party-state readjust policing and justice practices. But just as this rhetoric and practice of Stability Maintenance has shaped human rights issues, so too have the practices of the people shaped the politico-legal landscape. Protests and petitioning by millions of citizens across the country over the last decade have significantly affected not only the direction of politics, but also the legal mechanisms used to maintain order and control.

This expansion of weiven also justified increasing the budget for Stability Maintenance operations that was then used to resource the expansion of police, para-police, CCTV technology and Internet surveillance. By 2011, RMB624 billion was budgeted for Stability Maintenance — a figure exceeding the official national defence budget. With the Stability Maintenance agenda enshrined as the Number One political priority for the party-state, courts and governments at the local level extended their political duties to cover the stability imperative. They did so by changing the way that they addressed land, labour and environmental disputes. Courts and local governments were given a new role in preventing unrest using approaches such as favouring out-of-court government or judicial mediation over litigation. Mediation was seen as an effective tool for controlling complaints at the local level and preventing them from escalating into organised protests. Unlike in a court trial where there is scope for appeal, once a complainant agrees with the terms of a mediation agreement, it is difficult for them to seek further redress or appeal to the court or to petition successfully provincial or central authorities in Beijing. In this way, any potential source of instability could be contained locally.

**The Rule of Law in Xi Jinping’s China**

The post-2012 party leadership under Xi Jinping is reluctant to embrace any form of political liberalism. Yet it recognises that the excesses of Stability Maintenance that encroached on the legal system and state-
sanctioned rights had gravely impaired public trust in the law. After November 2012, the newly installed leaders began realigning the politico-legal agenda by retreating from the hard stance on Stability Maintenance and emphasising a return to building a form of ‘rule of law’.

This emphasis is on building a socialist, not a Western-liberal, rule of law. Consistent with Xi Jinping’s rejection of the ‘deviant path’ of Westernisation, a Party document internally circulated in May 2013 entitled ‘Concerning the Situation in the Ideological Sphere’ forbids universities and media offices from discussing ‘seven unmentionable topics’: universal values, press freedom, civil society, citizen’s rights, historical aberrations of the Party, the ‘privileged capitalist class’ and judicial independence. This ‘situation in the ideological sphere’ is set to induce and enforce antipathy towards liberal political practices. So while the Xi leadership is off to an early start in strengthening the legal system after the stifling agenda of Stability Maintenance, the freedoms and other entitlements recognised as human rights in the West are unlikely to gain significant ground in the near future. Contention and politics will continue to run strongly through the issues of human rights and justice in China’s newly re-forming ‘ideological sphere’.

**Conclusion**

In whatever political direction Xi Jinping takes the nation in the years to come, it is clear that human rights will remain a sensitive though crucial issue for Australia–China relations. Mutual differences in perceptions and ideas about the scope and meaning of human rights are born of each country’s political values, ideology, social systems and history. Acknowledging this is consistent with China’s official human rights policy emphasising variation according to local conditions. It is also consistent with a view that human rights are fluid, usually volatile, and shaped by ideas about ‘national vision’ strictly intertwined with politics.
The Australia–China Business Relationship: Past, Present and Future

Frank Tudor

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AUSTRALIA HAS been a huge economic beneficiary of China’s re-emergence and development. Our large per-capita resource endowment, open world-class mining capability, proximity, and long-standing diplomatic relationship with the PRC has brought enviable growth on the back of Chinese urbanisation and resource demand.

The question asked by many is whether this growth, and our dependence on resource sales to drive this growth, will be a curse or blessing in the long run.

While it would be a gross exaggeration to suggest that ‘rocks’ sell themselves, it would not be untrue to suggest that the competition for the Chinese consumer market, which is set to become the world’s largest by 2015, will be intense without any one country enjoying the benefit of natural advantages such as an endowment of natural resources. For example, the US can boast twelve meetings between presidents Hu and Obama over the last four years of Hu’s regime and is aggressively pursuing what it perceives to be a US$250-billion-a-year opportunity to service the Chinese middle class.

So, for Australia to be successful, the marketing of intellectual property, management expertise and other services — all of which are also offered or able to be developed by other competing countries — requires risk-driven innovation, co-operation across government and industry and a long-term focus.

Do we have the co-operation and long-term focus on both sides to implement such a strategy?

In the case of China, the country has pursued a successful growth strategy overseen by a single-party state that has adapted to stay in power for a long period of time and focused on publishing a very explicit and comprehensive growth strategy in the form of successive five-year plans.

In the case of Australia, our democratic system relies on a bipartisan growth strategy being adopted and followed by rival political parties. Reliance on a strong, technocratic public service that provides institutional memory and continuity across successive transitions in government is fundamental. The Australian growth strategy naturally tends to be more fragmented and portfolio-driven.

Previous government initiatives to position Australia in the Asian Century are laudable but are all subject to some uncertainty. It is hoped that many of the worthwhile initiatives in the derivative country strategy for China can be patiently progressed with a consistent focus over time despite our multiparty democracy.

Whilst the Chinese are sophisticated observers of the Australian political scene — and can differentiate between messages delivered for popular domestic consumption and those delivered to set foreign trade policy — the current political debate is confusing, inconsistent and potentially damaging. Both sides of politics advocate the finalisation of Free Trade Agreement (FTA) but talk about further constraining investment through Foreign Direct Investment (FDI) threshold adjustments or channelling FDI through joint ventures. The common concept of reciprocity suggests that ‘what they want is linked to what we want’ and, as such, should the restrictions mentioned above be implemented, they will come at a price Australia can ill-afford to pay in a world of increasing competition.

Needless to say, there are many things that would improve the relationship, and only help better or level playing fields for Australian firms. But for this essay, I’ve narrowed it down to what I think are the eight most important things for the administration to implement:
Eight Chinese Takeaways

1: Free Trade Agreement
Research done by the ACBC estimates that $150 billion in value over a twenty-year period can be delivered to both sides through an FTA.

Australia already has a very open trading environment (average applied tariffs in 2008 were a low 3.2 percent with nearly fifty-two percent of tariff lines being duty free), and China has been pursuing trade liberalisation post-WTO entry as part of a wider economic reform (average applied tariffs in 2008 were about 11.6 percent with only nine percent of tariff lines being duty free). Hence, given the disparity in tariff levels and bilateral trade as a proportion of each country’s GDP, Australia has much to gain.

Two-way investment is similarly unbalanced in China’s favour. In the last few years Australia has been China’s largest FDI destination outside Hong Kong, while China receives only three percent of Australia’s FDI. This perhaps says something about the difficulty that Australian service companies experience in entering and navigating the Chinese market through the central, provincial and local levels of laws, policy and regulation. The regulatory and jurisdictional uncertainty arises from the fact that laws and regulations are drafted so as to allow considerable discretion in implementation at the local level. It also says something about Australia’s preference for investing in countries with similar cultures as evidenced by the fact that over sixty-five percent of our FDI is directed towards the US, the UK, Canada and NZ. These countries can hardly be accused of stellar growth in recent years.

In respect to services, Australia has done much domestically to deliver services: last year to some 500,000 Chinese tourists and some 130,000 students enrolled in tertiary institutions. And the growth in China’s banking presence in Australia over the last five years — with the number of Chinese banks operating in Australia increasing from two to nine — has been a welcome development.

But the perception of reciprocity and balance in the bilateral trade and investment relationship is paramount. Hence, while China has done much to reform its financial sector, equal treatment for foreign and domestic financial service providers within China in respect to licensing, corporate form, regulation and permitted service offerings across the country would be welcome as part of a negotiated FTA.

Either way, the delivery of an FTA would be a critical enabler for firms on both sides. And the symbolism of friendly nations compromising and navigating sensitivities to deliver an FTA would, in itself, be as powerful a message as the economic outcome.

2: Community Engagement
The Australia–China resource partnership has moved from trade in resources to direct investment in projects. This is natural as the relationships initially built through trade provide the confidence and trust required, and it is welcome given that Australia’s investment requirements have exceeded its domestic savings capacity throughout most of its history. China’s investment has progressively moved upstream into Australian projects, but has neither significantly moved into supporting infrastructure (such as ports, rail, energy and other utilities) nor moved into the domain of economic and social infrastructure required to support the regional towns/cities associated with natural resource development in Australia.

Herein lies a ‘win-win’ opportunity because China has expressed an interest in infrastructure development in Australia, and because there is an enormous infrastructure deficit across Australian resource projects and regional communities. I would also venture to say that China is almost uniquely placed to provide the capacity to deliver major infrastructure projects and price the relevant supply chain risks associated with their development.

As regional communities have traditionally struggled to attract funding and services, the opportunity for long-term Chinese investors to engage effectively with local communities would engender enormous goodwill and build considerable support at a grassroots level. The Pilbara Cities initiative supported by the Barnett Government in Western Australia, and managed by the former minister for regional development, Brendon Grylls, is an excellent example.

3: Infrastructure Investment
Economic growth depends on trade which, in turn, is dependent on export corridors encompassing roads, rail, ports and airports. Australia is, however, experiencing clogged ports, congested roads and other bottlenecks. Infrastructure Australia, in a report to the Council of Australian Governments, identified more than $80 billion of nationally significant infrastructure priority projects.

The question as to how these will be funded needs to be addressed. Innovative funding solutions must be found using all relevant experience and with potential recourse to FDI.

The lack of long-term strategic planning, co-ordination, integration and co-operation between levels of government remains a serious constraint on Australia’s infrastructure. Australia has an extremely fragmented regulatory and planning framework and there are many vested interests at national and local levels, each having different and often conflicting interests.
There is clearly huge scope for infrastructure ventures in both countries. Indeed, Australia has signed at least two Memoranda of Understanding (MoU) at state and federal levels with China to facilitate investment in infrastructure. But little progress has been made advancing deals under such MoUs despite Australia’s pressing infrastructure needs.

Similarly, while Australia’s resource base provides obvious opportunities for China to co-invest — securing much-needed finance and market security — there are many mirror opportunities for Australia to invest in China, encompassing big-ticket items in energy, housing, transport and aviation.

There are barriers to this outward investment inherent in China’s complex regulatory terrain and significant regional differences. These barriers can be overcome or removed through increased engagement. Accordingly, Australia should:

- harmonise infrastructure planning and regulation through improved co-operation and collaboration between all levels of government, business and the community
- develop long-term infrastructure visions and plans that accommodate projected economic growth and population increases
- encourage private sector and FDI funding for infrastructure and, where infrastructure delivery models include the private sector and FDI, have the appropriate allocation of risk to deliver the best project outcome
- establish independent planning infrastructure advisory groups to provide advice on infrastructure priorities and provide infrastructure planning and funding advice at the state level
- secure reciprocal access for companies in major infrastructure projects as part of any bilateral infrastructure memorandum of understanding or FTA
- establish a formal government to government infrastructure working group with representation from the business community
- strengthen policy and legislative mechanisms to support a greater role for Chinese capital in major infrastructure projects.

4: Innovation and Manufacturing

China spent about one trillion yuan (AU$160 billion) in research and development (R&D) in 2012, accounting for a little less than two percent of its gross domestic product. About seventy-four percent of that investment was made by businesses. And China’s investment in R&D has increased twenty percent each year for the past six years.

Clearly, Australia has much to gain as China transforms its own manufacturing base from one geared to servicing traditional export markets and their appetites for consumer goods to one based on higher value, low-carbon and high-technology industries (as outlined in China’s last five-year plan).

While concerns over intellectual property rights (IPR) have long stood in the way of further collaboration, as China develops patents through investment by domestic companies they will, in turn, put pressure on the system to reduce the level of IPR infringement to be consistent with international standards and the needs of an innovative economy. This will provide greater opportunities to Australian companies seeking to develop strategic partnerships with Chinese companies and academic institutions.

I believe Australia needs a manufacturing base that supports a healthy ‘industrial commons’ through university capacity/capability, engineering knowledge, R&D and application. Manufacturing is the practical bedrock of innovation that drives productivity, wages and a higher standard of living. It is also important to note that manufacturing’s share of world trade has remained relatively constant at seventy-five percent over a long period of time.

In this context, government policy should not be about picking winners but about laying the foundation to nurture capability and maintain a healthy ‘industrial commons’. In addition, government support should be afforded to those companies willing to export to emerging markets or form strategic partnerships with parties able to invest in new skills and research targeting Asian markets.

Australia should:

- create nationwide momentum towards an advanced manufacturing initiative by setting up an Australian equivalent to the US President’s Council of Advisors in Science and Technology led by the CEO of General Electric
- consider the introduction of government subsidies and incentives to high-tech and low-carbon manufacturers prepared to enter local joint ventures with Chinese companies
- increase the Export Market Development Grant for manufacturers in high-tech and low-carbon industries
- provide additional funding via Australian Research Council Linkage Grants to universities that develop partnerships with Chinese counterparts in high-tech and low-carbon industries
- develop a comprehensive fully funded export and investment promotion strategy utilising shared networks of Enterprise Connect and peak business bodies such as the ACBC and AusChams.
5: Special Development Zones

As China opened its doors to the outside world it used the idea of ‘special economic zones’ to attract foreign capital, resources, know-how and export distribution channels so as to fast track development in a controlled way.

In a similar vein, former prime minister Kevin Rudd announced a sweeping plan for northern Australia, including a special economic zone with company tax cuts. Mr Rudd called for a ‘strong’ northern Australia and said that imagination was needed to grasp the economic potential of the area.

I would note that various state governments have sponsored the development of regional areas through uniform tariff policies for power and water, and directly funded economic and social infrastructure in targeted areas for regional development.

The concept of combining these initiatives in a comprehensive plan to promote the development of all of northern Australia above a certain latitude makes a great deal of sense. A big-thinking co-ordinated whole-of-government approach that links state and federal initiatives to position this area as one that is truly a ‘regional development zone’ open to foreign investment also makes sense given the proximity of this region to Asia, the prevalence of resources that are of great interest to Asian buyers and the huge capital requirements needed to develop and connect infrastructure in an inhospitable environment over long distances.

6: Broad-Based Dialogue

Given the negative perceptions that may exist on both sides, there is an ongoing requirement for open dialogue between Australian and Chinese businesses, governments and communities.

The Australia–China Economic and Trade Cooperation Forum (now in its fourth year) and the Business Council of Australia CEO Roundtable are great examples of business dialogues which help reduce misconceptions and promote commercial endeavours. As these mature, it is hoped that conversations will become more frank and that they will be supported by feeder events (smaller working forums tailored to specific issues or sectors), which can be used to explore different points of view and future directions.

The US and China provide a model for co-operative dialogue that Australia could learn from, and the commitment to regular meetings between the Chinese premier and the Australian prime minister in April 2013 is a welcome development that provides a platform for strategic and economic dialogue that should not be lost. Adding a business dimension to the Joint Ministerial Economic Committee hosted by the Chinese Minister of Commerce and the Australian Trade Minister would be seen as a welcome development.

The various not-for-profit peak bodies (for example, the Australia China Business Council and AusChams) that represent business, universities and individuals alike provide a valuable service in raising awareness, brokering relationships, highlighting impediments and advocating for change but often struggle to fund initiatives. More financial support along the lines of the grants recently awarded by Austrade and the Australia–China Council are critical to their ongoing success and Australia’s translation of the Asian Century into real business opportunities.

7: Education and Tourism

Two service sectors that are already exporting to China, and which are well positioned to do so in the future, are education and tourism.

To provide context, education (in total) is worth about $15 billion per annum in direct export revenue to Australia and tourism is worth about $25 billion (in total).

Education also provides intangible benefits such as the exchange of ideas and helps foster cultural relationships between the two countries — most likely with future leaders. Hence, the long-run intangible benefit of education dwarfs the immediate direct and indirect benefits of servicing Chinese students.

Chinese visitors also play a key role in the Australian tourism export market. Tourism is an area that is labour intensive and has the potential to deliver jobs and incomes in various sectors of the economy such as retail, entertainment, accommodation, food, and transport. Australia attracted some 500,000 Chinese tourists in 2012 and is set to attract one million per annum by 2020. This is a significant increase, but not in the context of the 100 million Chinese who currently travel abroad each year.

In servicing the Chinese tourist, it is paramount that their experience is a pleasant one that meets their expectations. To fail will ensure that word of mouth sullies Australia’s reputation and imposes a damaging, hard-to-rectify long-run opportunity cost. The experience for Asian tourists outside some capital cities and obvious tourist destinations is unlikely to be satisfactory.

Australia has much to do in building infrastructure, orienting service delivery to customers’ expectations, and preparing itself for the Chinese tourism boom. The Welcoming Chinese Visitors program is a positive initiative between industry and government — focused as it is on service delivery, cultural awareness and operator preparedness.
Education and tourism are the mainstays of the cultural dimension of the bilateral relationship — suffice it to say that the business and political dimensions will struggle without a broad and deep-based cultural connection.

8: Agricultural Trade and Investment

Agriculture unquestionably occupies a very special place in both the Australian and Chinese psyches. Australia was said to have developed on the sheep’s back. In the case of China, it was the emergence of rural-based town and village enterprises in the 1970s–1980s that liberated the Chinese entrepreneurial spirit and drove early growth in the economy. In recent times, rural China has not fared as well in the development process, and the rural communities of Australia have struggled to attract investment and retain services. This is important context to bear in mind as both sides consider further co-operation in agriculture.

With the push towards modernising Chinese agriculture, there is huge potential for trade and technology exchanges with the Australian agricultural industry. Australian agriculture is run according to the highest world standards of health, and uses innovative farm management practices closely supported by university-based R&D across the country.

Greater Chinese FDI in Australian agricultural enterprises would breathe life back into rural communities and co-operatively engage with local stakeholders. Proposals that demonstrate long-term commitment to local, often remote, communities, and which provide access to new markets and foster links to universities and R&D must surely be welcomed. Again, the positive perception that is created in rural Australia through carefully prosecuted deals, by good corporate citizens, that bring the community along cannot be overestimated.

A good case study is the announcement by the West Australian Government on 29 May 2013 of a finalised deal with Kimberley Agricultural Investments to invest $700 million in 13,400 hectares of irrigated farmland and associated infrastructure.

Chinese investment can play an important role in developing Australian agriculture, providing capital, markets, technology and a long-term vision which can be used to facilitate a strategic partnership at the grassroots level with local communities. Large-scale investment from China will most likely be linked to market access, economies of scale, and increased productivity. While China is already investing in Australian agriculture, it is facing strong public concern and the issue has become emotive. Anything, therefore, that makes consideration of these investments more objective will be welcome: including a foreign property register, the viability of small holdings without consolidation, and a realistic view of the alternative scenarios and opportunity costs without access to capital and FDI.

Conclusion

These eight ‘takeaways’ — and the many other ideas that have been outlined by myself and others in various government submissions — show that any Australian Government has a wide array of options that it can implement quickly to improve relations between Australia and China. And an improvement in relations will benefit not just business, but all Australians. I’d urge the government not to think of these Chinese takeaways as fast food, but rather as a leisurely banquet — one we can all enjoy for years to come.
Getting It: Predicting the Chinese Future

David Walker

David Walker is the inaugural BHP Billiton Chair of Australian Studies at Peking University, Beijing. He has written extensively on Australian representations of Asia, including Anxious Nation: Australia and the Rise of Asia, 1850 to 1939 (1999), first published in Chinese in 2008. He co-edited with Agnieszka Sobocinska Australia’s Asia: From Yellow Peril to Asian Century (2012).

In a recent SBS Interview Ken Henry, former Treasury secretary and special advisor on the Australia in the Asian Century White Paper, commented upon Australia’s preparedness for the Asian Century. He made the point that when it came to the dramatic economic impact flowing from China’s rise many people in Australia still did not ‘get it.’ The phrase carries more than a hint of exasperation and impatience at how slowly the penny drops. The expression also repeats in colloquial terms the call for Asia-literacy or, as some prefer, Asia competence. When questioned about what it was that Australians did not ‘get,’ Henry cited the rapid rise and considerable size of China’s middle class — over sixty million already and set to rise dramatically over the next fifteen years. There are more nuanced messages in the White Paper, but perhaps Henry has been surprised at how difficult it is to get the story out.

Henry went on to explain that these numbers translated into buying power and markets. On the face of it, this would seem an unremarkable discovery and not far removed from the familiar historical understanding that one day China’s millions would create vast new markets from which clever people could profit. The new version of this old story provides a shift in focus from the Chinese masses to the Chinese middle class who, we are now told, are rather like us only more so. We learn that the über middle-class Chinese, while sharing many characteristics we may recognise, are particularly focused on ‘brand’ and quality. They are ‘high-end’ consumers.

Henry clearly travelled widely in Australia and internationally while preparing the government White Paper. He has spoken to many people, including many within the business community. If he is right in concluding that significant segments of the Australian population don’t ‘get it’, that prompts a question that neither Ken Henry nor the White Paper has shown much interest in asking: what prior understandings and misconceptions do Australians have that almost guarantee that they/we get Asia wrong? I will return to this question in a moment.

In Ken Henry’s formulation, ‘Asia’ and ‘China’ figure as tests for the nation — a form of national IQ test. He poses the following question: ‘There is something we all need to know about China. Hands up those who know what it is?’ I suspect that part of the purpose of using such a formulation is to rephrase and update what is a longstanding trope common among those who do believe they ‘get Asia’, that the Australian population is uniquely muddle-headed and more than a bit dim about the region they inhabit. In the absence of comparative data it is hard to know if there is any truth in this allegation. Even if it could be shown that Australians were no worse informed than others, those running the Asia-literacy IQ test would insist that, given their geopolitical location, Australians need to know appreciably more about Asia than other nations. They may well be right.

At the (considerable) risk of sounding like a former US Defense Secretary, there is also the vexing question of what it might mean to ‘know’ China. How can we be sure that we know what we claim to know? Ken Henry knows that the Chinese middle class is already three times the size of Australia’s population and will grow dramatically. As I sit in my fourth-floor apartment in Beijing, it seems a little reductionist to bring knowing China down to a question of what we in Australia can sell to wealthy Chinese. As a nation and a people, is it morally defensible and politically wise in the twenty-first century to focus so much on the new rich and ignore the millions of Chinese who are not yet ready or able to buy our high-end brands? In making this point, we need to bear in mind that the Henry strategy may well be to find the Asian Century sound bite that cuts through where more complex messages have failed to penetrate.

Even so, the linear projection of a growing middle class as the most important thing to know about China may close our minds to other things we need to know or be receptive to. If history has any lesson...
for the present, it is that the clarifying certitudes of the past date very quickly to become the distortions we now feel impelled to correct. Of course, the rise of the Chinese consumer might be thought of as a safe bet. The American advertising man and journalist Carl Crow set the scene for this discovery in his witty and elegant account of doing business in China in the 1930s, *400 Million Customers*, published in 1937.

There are no doubt a number of things we need to know about China, but among them is the question we should ask ourselves: how as a nation should we determine what we need to know? If we are convinced that the Chinese middle class is the key to both Australia’s and China’s future, how should we understand the cultural pressures and multiple consumer behaviours that make them want these high-end brands? What kinds of culturally determined affirmation are they seeking? In 2028, when there are so many more millions exhibiting this behaviour, how, and in what ways will their cultural position and tastes have changed? While it is helpful to know the size and buying power of the Chinese middle class, it is even more important to understand the cultural logic of their purchasing practices. To do this we will have to get closer to them as people, not just consumers.

A larger question sits behind the rise of the Chinese middle class. As the wealth and power of all those millions grow, so too will formative intellectual trends and cultural influences shift to China. There may not be an exact one-to-one relationship between economic power and cultural capital, but there is certainly a powerful connection between them. In the future, the Chinese middle class will increasingly determine what constitutes best value. As the cultural authority of the Chinese increases, ours will decline. Our voices still carry the authority of the historically significant but relatively short-lived European dominance of the last two centuries. The West has formed a very high opinion of itself racially, culturally and politically. It alone claimed to understand how best to govern others trapped within what were commonly dismissed as irretrievably bankrupt or defeated cultures. With the rise of China, Western prestige and self-regard will decline at every level, triggering myriad questions about how best to manage what might become a quite precipitate decline in cultural authority. It may be that relatively unimportant nations such as Australia handle this rather better than the US which has more cultural capital to lose and more sensitivity about its threatened global ranking.

Assuming we may be facing some decline in prestige, there are implications for how Australia markets its expertise, not least in research, higher education and in high-skilled industries where we seem to be faring well, such as architecture. The Beijing skyline, when it can be seen, makes a powerful statement about the symbolic importance of big, innovative architectural statements in the capital of the world’s newest and largest rising power. As cultural prestige shifts from West to East, a key question for Australian architects practising in China is: why is our work valued? The answer will be considerably more complex than any identity as a high-end brand; it must relate to capacity and expertise in particular building types, but also to how our expertise will respond to and be shaped by changing Chinese sensibilities and cultural expectations. Firms, that work in China, must continue to develop their understanding of this society based on something more than the growing numbers of middle-class Chinese. They will need to form sophisticated understandings of developing trends in contemporary Chinese architecture, and how this relates to the complex forces determining how China wants to present itself to the world. That said, there is not now and will never be one China. In turn, whether the Chinese are interested in our expertise will depend a great deal on how we value and invest in research and innovation. Our record of being a ‘clever country’ is not overwhelmingly strong. Why the Chinese should value something in us that we ourselves don’t value is far more mysterious than the fabled mysterious Orient.

Against a ‘getting it’ paradigm for knowing China, I would suggest something more modest and less didactic (while also conceding the point that this might prove difficult to sell). We should encourage a range of ways of knowing China and a range of possible Chinese futures. What might happen to our projections (and specific projects) in the face of any of the following developments taken singly or in combination: political turbulence in China, a sharp end to the economic boom, regional conflict, a dramatic increase in nationalist sentiment, catastrophic climate change, epidemic disease and crippling shortages of food, energy or water? And what responsibilities might we incur as a wealthy nation seeking to benefit from China’s rise for poor and dispossessed Chinese? If there were to be large numbers of such people reaching our shores in boats, should we greet them quite as enthusiastically as those wealthy Chinese wolfing down another Penfolds Grange Hermitage?

Returning to my earlier question: if we have a problem about Australians not ‘getting Asia’, shouldn’t we direct more attention to the process of how we form our views about other societies? If Australians have trouble comprehending the high-end Chinese consumer snapping up expensive brands and labels, it may have something to do with those historically formed ‘truths’ about China and the East passed down from a previous era. For at least a century, Australians were presented with a poorly differentiated representation of the Chinese as poor, frugal, diseased, drug-addicted and predominantly male beasts of burden who threatened the Australian standard of
living. This was the often-repeated central ‘truth’ about China from another not-so-remote era. The first step to knowing Asia better is to know how Asia has been represented in Australia over the last century or so and what that past now means to us. Perhaps we should spend less time gazing anxiously into the unknowable future and more time examining the more knowable past. That might teach us something about the problematic nature of ‘knowing’ and something about ourselves as well.

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PLA Transformation and Australia–Chinese Military Relations
You Ji

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The Chinese Military is undergoing a rapid transformation. This transformation is simultaneously unfolding in three areas:

- changing civil–military relations embodied in new post-Deng patterns of interaction between the Party and the PLA
- an organisational overhaul in terms of the army’s personnel composition and structure
- force modernisation driven by doctrinal innovation, capability enhancement and war game plans.

These changes have deepened and accelerated since Xi Jinping become China’s commander-in-chief in November 2012 — Xi has ordered the PLA to concentrate all its efforts on raising combat readiness in order to win the next war.

What is unique about the transformation of the PLA in military terms is that it is not merely a process of normal modernisation of hardware and software as a result of technological innovation at home and abroad. It is war-driven, catering for particular external security threats, specific adversaries and anticipated combat modes. Its practical objective in the short to medium term is to turn absolute US military superiority vis-à-vis China to one that is relative, which by the reckoning of Beijing’s strategists would make Washington baulk at confronting the PLA directly in any US regional intervention (such as a US intervention to buttress Asian states in challenging China’s territorial claims).

An important research question for PLA watchers to answer is how much transformation has led to power shifts in the Asia-Pacific region, and how long PLA transformation will take before US superiority in East Asia is eroded to the point at which Washington’s resolve in protecting its allies is compromised.

To this end, PLA transformation has been capability-based, reflecting an accelerated generational upgrade of the order of battle. The PLA is pursuing this goal in multiple ways, but crucial to its realisation is possession of mutually assured destruction (MAD) capabilities at both the strategic and tactical level.

Strategic-level MAD is guaranteed by possessing a nuclear arsenal that is minimal but reliable for use in a second strike. Tactical-level MAD is informed by the PLA’s ‘Star Wars’ designs to hit the enemy’s soft underbelly through knocking down a portion of its military satellites. Any armed action in outer space would generate a MAD outcome. This tactical MAD capability is essential for the PLA to deny the enemy’s one-way battle transparency, without which it is almost impossible for the US military to pre-emptively strike China’s key homeland military assets. A pre-emptive military strike on China is a top scenario both envisaged by the Pentagon’s AirSea Battle (ASB) guidance and meeting PLA criteria for launching its tactical space operations. Thus, minimal but reliable tactical aerospace power is of strategic importance for PLA transformation and constitutes the foundation of its anti-access/area-denial (2A/AD) operations, as it provides the requisite technology for China’s long-range precision missile attacks on America’s forward-deployed bases and weapons systems. This program constitutes an indispensable form of the kind of asymmetric warfare capabilities to be used against a more powerful adversary.

More generally, China’s military transformation is ambitious but with clearly designed roadmaps to guide policy formulation and force modernisation. The PLA is changing:

- from being a military of quantity to becoming a military of quality
- its posture from being defensively offensive (homeland defence) to one that is capable of being offensively defensive (sustained operations involving long-range power projection)
- its force structure from being army-centric to one that suits joint operations with the special services, especially the PLA Air Force and the PLA Navy, playing a primary role in war preparations.
command structures from being multiple-layered and vertically distributed to a command structure that is horizontally arranged with fewer layers of command, control and communication
- force development from focusing on mechanisation to focusing on paralleling mechanisation and informatisation
- weapons R&D and equipment priorities from high-tech hardware modernisation to those that combine both platform upgrades and IT-software advancement for future network-centric warfare.

The list of changes can be much longer. Suffice it to say that the PLA is clearly changing and taking on a new look.

An important research question for PLA watchers to answer is how much transformation has led to power shifts in the Asia-Pacific region, and how long PLA transformation will take before US superiority in East Asia is eroded to the point at which Washington’s resolve in protecting its allies is compromised. This has far-reaching impacts on Sino–Australian relations in general and the Australian Defence Force (ADF) in particular.

For instance, a deepening power shift would, one day, bring an end to unipolarity both globally and in the region. Traditionally, Australians draw great comfort in unipolarity and absolute US military superiority. When these comforts gradually give way to something different, it will result in tangible levels of uncertainty among Australians, leaders and people alike. This fact underlined the 2009 Defence White Paper — one that unprecedently named China as the source of Australian security concerns, much to the annoyance of the Chinese authorities. In a way, China’s rise is partially responsible for the fact that Canberra no longer has a long-term China policy. For a considerable time, the policy of ‘having one’s cake and eating it too’ (that is, taking advantage of Chinese economic benefits and the US security blanket) worked well for Canberra. Now, with the US ‘rebalancing’ to Asia and the Pacific and Chinese countermeasures, Australia’s conflicts of interests seem to be more structural. This substantially reduces Australia’s capacity to manoeuvre between its two most important partners. Its China policy has thus become ad hoc, short term and bound up with its relations with Washington.

This is reflected in Canberra’s presentation of its bilateral military ties with Beijing. On closer examination it is evident that there is hardly any substantial military dimension in the bilateral ties, despite mutual visits by military personnel at various levels and occasional naval port calls, including the participation of a PLA Navy flotilla in Australia’s naval day celebrations. Lack of meaningful defence co-operation is fine, as there are no signs of direct security threats that each poses to the other, thanks in no small part to the vast area of ocean separating them. In reality, the PLA has neither the intention nor the capability to mount hostile activities in Australia’s approaches, and neither does the ADF vis-à-vis China. Furthermore, neither military has the desire to lift the bar of defence contacts beyond what can be permitted by their respective domestic politics or in light of the third-party factor for some time to come. This is especially true in the case of Canberra, which may have prescribed Australia–China military ties only as a necessary supplement to a broader bilateral relationship that is beneficial to the Australian economy.

However, the military dimension of Australia–China relations is potentially large when the third party — the US — is factored in. This factoring in can have two elements. First, Sino–US conflict has a military aspect that may embroil Australia in an armed confrontation, such as in the Taiwan Strait, if Washington requires Canberra to invoke the ANZUS Treaty. Secondly, Australia may, passively or actively, join in a US-led collective effort against China due to the changing security environment in the Asia-Pacific region, such as in an escalation of armed skirmishes as a result of the sovereignty disputes in the South or East China Seas. Australia may not be able to refuse a US request to intervene in a wider security context. Therefore, a worst-case scenario involving tripartite relations entails the question of war or peace. This seems to have increasingly triggered ‘security anxiety’ in Australians.

Chinese officers never consider the ADF as a potential military threat — something defined by intention and capabilities. However, they are suspicious about why Australia needs twelve advanced conventional submarines and seven area air-defence destroyers, all recommended by the ADF’s White Papers of 2009 and 2012. Each post–Cold War Australia Defence White Paper clearly stipulates that the ADF’s defence purpose and posture are for homeland security. Yet twelve advanced conventional submarines and seven area air-defence destroyers are hardly in line with such policy pronouncements.

PLA strategists see such weapons systems as embodying a hidden agenda — one with the PLA as its target. Twelve powerful submarines and seven advanced destroyers could help Australia participate in expeditionary objectives related to US global-force deployment and war efforts more so than for homeland defence (such as intercepting refugee boats). For instance, twelve large submarines are very useful in chasing Chinese conventional submarines in relatively shallow waters in the Western Pacific, while US nuclear submarines may not be as optimal in combat situations. They are also useful for anti-submarine warfare against Chinese strategic submarines sneaking into the South Pacific to launch intercontinental missiles against the US mainland (when the PLA Navy’s fourth-generation nuclear-powered ballistic missile submarines are operational). The ANZUS Treaty would create some potent intention requirements and the above-mentioned force ca-
pabilities may realise ADF intentions. The third-party factor may pit two navies against each other for reasons not of their own bilateral making.

The prospect of this has increased with the US rebalancing to Asia, something which operationalises the military aspect of a hedging strategy in relation to China's rise. Enhanced forward-basing arrangements are a crucial dimension of this. Since 2009, the concept of Air-Sea Battle has increasingly underpinned thinking in the Pentagon. AirSea Battle is an offensive endeavour with pre-emptive measures to sustain it. Such a strategy will not be efficacious without the support of US allies on the frontline. For instance, a sea blockade is a significant measure against China's soft underbelly — the sea lines of communication (SLoCs) that support its extremely large seaborne trade. Senior US strategists have told me that Australia has a key role in the division of labour for any blockade against China's SLoCs, although to Canberra, the bulk of goods intercepted by any such action would most likely be Australian goods and resources being shipped to Chinese markets.

Against this backdrop, the concept of the Indo-Pacific has emerged to guide Australia's strategic thinking, and to match US rebalancing in the region. To Beijing, this concept also helps explain the US marine deployment in Darwin.

A changed international environment reshapes Australia–China relations and renders Australia's China policy dynamic and short-term based. This tendency is furthered by uncertain Sino–US military interactions, which have seriously conditioned the ADF’s options. The good news is that Beijing and Washington do not have direct cause for military confrontation and therefore they can manage their conflicts in relation to regional territorial disputes involving US allies. Under these circumstances, Australia–China military ties may not, for the foreseeable future, enter negative territory.
A Stretch of the Imagination

Stephen Fitzgerald

Government ministers and spokespeople might try to listen to critiques of China policy, to think about the ideas they are trying to get across, to engage with them, and not to meet them with a dismissive response. If that seems too much of a stretch of the imagination, it’s nothing compared to the stretch they’ll require if we get it wrong with China.

is often a similar observation, about a certain amount of busy-busy activity at the top with lots happening on the ground but insufficient political depth. It’s an Australian problem, and a media problem and not just one of the political class, although the two are sometimes hard to distinguish. We haven’t been investing seriously in spreading and deepening our engagement with political elites and influential institutions in these countries. But China is special because of the huge importance it has assumed in our bilateral relations, in our region and in global equations of influence and power.

Before Whitlam went to China in 1971, Australia’s China policy had become in many respects a function of US China policy. Australia’s China policy today is again becoming a function of US policy, in that Australia has made itself a military accessory to Washington’s re-invigorated alliance system in the Pacific, which is about buttressing Washington’s position vis-à-vis Beijing, providing support for its rivalry and contest with Beijing in Asia and the Pacific, and being collateral for a policy for containment of China. The government denies it’s directed against China, but the way it’s discussed in the US belies the denial. And on the matter of signing up to this US policy, between government and opposition there’s a weird unspoken complicity of competitive bipartisanship.

That’s where we’ve come back to, after forty years.

Let me make one thing clear. The point I am making is not about choice between China and America, which is how it has often been characterised, trivialised and deflected by the government to suggest that its critics only think in such absurdities. The point is about the nature of our relations. With China, and with the US.

And the problem is, the object of the policy of containment is now a country with which we have an overwhelmingly important relationship, second only to that which we have with the US, and an array of intersecting and common interests, not to mention that it’s our major trading partner and recent economic lifeline — a country with which it is in our national interests to have extremely good political relations and an effective voice.

In 1987, Jack Hibberd’s A Stretch of the Imagination was the first Australian play to be produced in the PRC. It must have been a bit of a stretch, in 1987. I think it takes a bit of a stretch for Australia today to have a real view of political China and the kind of close political relationship we need but do not have.

Sometimes over the last forty years I have thought we were getting it right with China. This is not one of those times. Government policy on China seems at odds with important Australian realities, more so now than at any time since before that 1971 Whitlam visit to Beijing.

I’m not ignoring the great many things going on between Australia and China which are uncomplicated and unconfused, the popular, the academic, the cultural and creative, the business, the many areas of day-to-day public service interaction where there is a productive working relationship and a positive energy. In these many ways the relationship between our two peoples is rich and rewarding, how we wanted it to be when we set out.

It’s the thinking about it in that deeper, broader, longer term sense that’s the concern, as is the absence of a stretch in the imagination. You can go to China a dozen times a year, but if there’s no strategic view, and no depth of political understanding or depth in the political relationship, it doesn’t mean you’re getting it right. This is in one sense not special to our relations with China. When I talk to others about our relations with Indonesia, for example, or India, or Japan, or Korea, there

Stephen Fitzgerald was China advisor to Gough Whitlam and Australia’s first ambassador to the People’s Republic (1973-1976). In 1980, he established the first private consultancy for Australians dealing with China, which he continues to run. Since the late 1960s, he has worked for policy reform in Australia’s relations with Asia, and for Asia literacy for Australians. He founded and until 2005 chaired the University of New South Wales’ Asia-Australia Institute, dedicated to making Australia part of the Asian region through think tank activities and ideas-generation by regional leaders meeting in informal discussion. He has published monographs, reports and articles on the above topics.
We’re in hazardous territory when government itself doesn’t lead with ideas, has no narrative of its own, and outsources the thinking to someone else. If there’s no strong sense of the ideas and the issues on the part of the political leadership, and no intellectual investment in the conceptual part, chances are there won’t be the imagination or conviction to carry someone else’s ideas through. We have seen this happen. How many strategies, for example, relating to Asia in various forms? How many government declarations of support? But how many times a failure to grasp what this idea is really about, or even what it takes just to secure foreign language learning in schools and universities? And how often a withering away of the state funding, as the government’s own Asian Studies Council withered away in 1990 when the government declined to renew its mandate?

Ken Henry, in an opening shot in his role as Executive Chair of the ANU Institute of Public Policy, had the following to say about this kind of decision-making:

“I can’t remember a time in the last 25 years when the quality of public policy debate has been as bad as it is right now. I think it is quite serious. There is an insufficient understanding of the issues that Australia confronts. There is a role for deeper analysis, there’s a role for deeper thinking and there’s a role for a much higher quality of public debate and all of this needs to happen before governments make and announce decisions.

Disjunction between Economic and Political Relations

There is another issue, which is both fallout from the lack of debate and reinforcement for the government not seeing a need for a broad strategic view: Australians have become comfortable with the idea that the relationship with China is essentially commercial — that China policy is skewed to focus overwhelmingly on the economic and what we can get out of it.

This social change did not arise from anything to do with China, but I think it helps to explain not why government took an increasingly economic-focused view of the relationship, but why Australians by and large thought it unexceptional. A ‘what’s in it for me’ attitude to domestic political parties was comfortable with a ‘what’s in it for us’ attitude to a foreign relationship, and not too much taxing stuff about China-literacy or learning to live with China. It’s excellent that we have a strong and mutually beneficial economic relationship. But as the ANZ’s Mike Smith said: ‘we need to challenge ourselves by asking is a focus on our economic relationship with China — our central connection — all there is? Are we happy enough simply being solid reliable buyers and sellers, and even investors?’ And he’s a banker.

Linda Jakobson has captured this dilemma in her Lowy Institute Brief, Australia–China Ties: In Search of Political Trust. We need political trust. For the purpose of understanding, caucusing and where possible influencing and co-operating, but not, as she emphasises, for political endorsement. She points out that Germany, which most Australians, if they thought about it, would regard as geographically remote from China and not at all affected by it in the way we are, has a quite intensive dialogue with China of this kind. And here’s what an official Chinese release on the latest round of Sino–German talks chose to highlight: a relationship of frequent visits at high level, an effective dialogue mechanism, substantial co-operation, mutual trust.

For Australia to have got this far and not to have that political trust has been, to say the least, neglectful.

Imagining China

And here I think is the single biggest dilemma Australia faces in relations with China. We have to have that stretch of the imagination; we have to be able to imagine a different kind of relationship and a different concept of China to establish that political trust.

We have to think about China, not as another US — that would be ridiculous — but in somewhat the same conceptual and functional way as we think about the US, or other parts of the world where we have more longstanding relationships than we have with China — the UK for example, or Europe. We have important economic relationships with all of those, but the way we think about them and feel we can relate to them is multidimensional and not just economic, and in our policy we respond to several dimensions, and in our relations we work at knowing them in these several dimensions, and knowing their politics as well as their political and other elites.

That’s how we have to think about China, and invest in the relationship in the way we have over many decades engaged both casually and in structured exchanges in the US. We have to be able to imagine a relationship comparable to that which we have with the US in the sense that we should aim to have in China a comparable breadth of access and clarity of voice in the centres of political power and influence.

We must also begin now, as a high priority, to target the next generation of Chinese leaders, particularly those who will rise to power at the time of the next leadership transition in 2022, with a well thought out and targeted program involving Australians and Chinese in extended study tours, dialogues, secondments, internships and specially funded elite programs in our universities to attract the cream of Chinese students into graduate studies together with the best and brightest of Australians.
You don’t have to like the Chinese system. You don’t have to kowtow to the Chinese, just as you don’t have to kowtow to the Americans. You don’t even have to like Chinese people if that’s your bent. Some people don’t like the British or Americans. But imagining China in this way, and engaging through many channels and at many levels will help us in getting towards the access and clarity of voice we need. That’s what a mature relationship would look like.

**Dealing with China**

Dealing with official China can be difficult, and official China doesn’t always make it easy. The lack of transparency, the blurring of Party and government, which makes it difficult to know exactly where decision-making lies; the hierarchy issue, which often pressures the foreigner to accept a lower than equivalent level of access, even the fact that from the highest down to the lowest levels in the Chinese government you never see a Chinese politician or official in their working office; and, of course, the special *guanxi* among Chinese, into which a non-Chinese foreigner finds it difficult to find a way. And for China, Australia is a long way behind the US and quite a number of other major foreign policy priorities. According to the former ambassador to Beijing, Geoff Raby, in recent years Australia has had difficulty competing for access. But it’s not out of the question for Australia to expect a relationship of the kind I have outlined.

Another complexity comes from Chinese exceptionalism. Chinese exceptionalism, while it can be expressed in nationalistic outbursts, is somewhat different from the Chinese nationalism we see towards Japan in particular. It stems from a moral certitude that is global in perspective. It’s not like American exceptionalism; it doesn’t have God or the Enlightenment dream or saving the world for democracy. Not everyone in America shares the exceptionalist idea, of course. And if you’ve spent a lot of time in China you will know many Chinese who reject Chinese exceptionalist thinking. This thinking rests on an interpretation and mythologising of Chinese history, projected into an idealised virtuous China of the present. It’s also infused with the idea of one hundred years of humiliation at the hands of foreigners. It’s not that that didn’t happen. It certainly did. But it is played upon as though China alone in all the world suffered so.

What Chinese and American exceptionalism do have in common is that they each assume a virtuous or righteous position for themselves exclusively in relation to other countries and social systems — a kind of ‘divine right’ in the lay sense in which that term is often used, which is theirs to exercise but not for others. And both varieties are short on self-examination and self-criticism. Exceptionalism doesn’t drive everything in China’s foreign policy, but it does influence foreign relations from time to time.

**Australia, the United States and China**

The decision to ‘pivot’ Australia into the re-invigorated US military alliance strategy in the Pacific was a decision about China, not just about America. It was developed in secret. It was not announced by the Australian government, but by the US President in the Australian parliament. The government has not offered the public any strategic assessment of the benefits, effectiveness and risks of this decision, and has deflected questioning with arguments that slide away from the questions raised. It’s a decision about China because, even on the blandest interpretation, what is going on militarily with America in Asia and the Pacific is of great significance, and is of the greatest possible interest to China, and we are involved in it.

The then-prime minister didn’t think to go to Beijing before the Obama visit and talk to her counterpart. Not to seek approval but to inform, discuss, listen and, if possible, reassure. Nor for that matter did she go to Indonesia, India, Japan, Korea or other Asian countries of importance to Australia, which speaks much for what we think about our priorities as between relations with the US and relations with the region. For Australia to declare, as it did, that the new arrangement with the US was not directed at China, when discussion and analysis in Washington and around the world clearly indicates that it is, and when you can’t see who else apart from North Korea such significant re-invigoration of the alliance could be against, it can hardly inspire trust in the Australian Government in Beijing.

There is now serious contest and rivalry across the Pacific between America and China. This is not good for Australia. It’s not our contest, the American national interest in this contest is not our national interest, and taking the US side is not necessary to our relations with the US. This is not to argue that we shouldn’t have a close relationship with the US, or that we should side with China, or ditch a client relationship with the US only to have one with China. We need a close relationship with both and a client relationship with neither.

We see here the problem I spoke about at the beginning. There is no sense of a firm Australian strategic hold on this issue from a specifically Australian national interest point of view. The decision to commit to the US military strategy has the appearance of a passive conceding of the Australian interest — an acquiescence in an American view of security in the Pacific.

It is not the national interest, and some of our assumptions underlying this approach to the US alliance do not reflect our national reality, geographically or demographically. Our region is long since not a white European domain. And we are not demographically an Anglo white country. I think Keating was right. We have to find our security in Asia, not from it. As another former chief of the army, John Sanderson, has said, Australia’s future lies in building a proper strategic relationship with its...
Asian neighbours: ‘This is where we live. And if there is anything about this relationship with the Americans that impairs our ability to build on that relationship then we should have a much deeper strategic debate’.

What, then, about the next stage in relations with China? This is not about soothsaying, or declaring we’ll do more of this and that of what we’re doing already and calling it a strategy. It’s about thinking.

**Australian Identity and Values**

First, to develop a strategic view of China we have to revive that national conversation on Australian identity and values. To have a strategy that deals with a country we do not fully understand, which is undergoing great change domestically and effecting great change externally, we have to have a strong sense of what is important to us and what is non-negotiable. The 1990s debate about Asian values was derided by many in Western countries, but it was important because it revealed a lot about what people in Asian countries were thinking, and it was good for us because it came at a time when we were discussing our own values in the context of becoming closely engaged with Asia. Reviving this conversation is going to be difficult in one respect, because in the course of the politicians’ long-running argument about asylum seekers the major political parties have lost their moral compass and authority, and while they talk about values, this is often empty and tainted by unfortunate compromise.

If Australia is a lucky country, one of the luckiest things is that it inherited the ideas of the European Enlightenment and developed its political and social system around them. And it’s the values of the Enlightenment we need to affirm, not the values of entitlement.

I think it is because we have not been having that conversation that we seem to equivocate on whether or not China can be regarded as a partner, in a broad sense, and whether or not we can or even want to take on the challenging task of developing political trust with a great power that is supposedly our friend, but that is non-democratic.

We also have to discuss whether, if we feel challenged by getting politically close to this country, this is only because it is non-democratic, or is it because of something else? Are we colour blind in this relationship, for example, or white Anglo? Not everyone in the Australian political class seems to have the same view on this.

So let’s not sideline discussion about values in our relations with China. My view is that we can have a close partnership and not just an economic one, and a close relationship of political trust. But you have to be tough, and have courage in your values to deal with China, just as you ought to be tough, and have courage in independent views, to deal with the US.

**A China Strategy**

Second, Australia has to have a China strategy, but it has to think about China itself before it can have a China strategy. And here we have to tackle that fundamental task of any credible strategy that we keep dancing around but never doing: looking in-depth at the subject itself, before we come to any perspectives on it from our point of view. Remember the vacuity of the 2009 Defence White Paper on this score. We have to have a government-initiated in-depth assessment of China, in its political, social, economic, educational, scientific, environmental, civil society, military and many other dimensions, with long-range scenarios for its evolution. Not a once-over lightly, but a project of possibly up to a year in duration, with strong intellectual leadership, engaging both government and non-government China experts and using government and open sources, and it has to be an Australian assessment not an American one. It appears the *Australia in the Asian Century* White Paper, on which so much was supposed to rest, did not think to commission such an assessment.

You can’t have credible hedging without alternative long-range scenarios, and you can’t have credible long-range scenarios without undertaking this kind of assessment.

Any realistic strategy necessarily has to be grounded also in an understanding of thinking on the other side, something we have not been good at. And any realistic strategy must also address weaknesses, vulnerabilities, and risks on the Chinese side and on ours — the possible downside of the China relationship, to balance the kind of self-referencing upside represented in the *Australia in the Asian Century* White Paper.

**A China Debate**

Third, we have to have a debate that engages government, and not just have a contest of ideas outside government from which government is detached. And we have to have a strategic narrative from government, one that can be debated before pre-emptive decisions are made, and not just have government pull a few things out of a White Paper and say that’s what we’re going to do.

In this debate, it is essential also that we have a new engagement by China scholars. This is not a matter only for Sinologists who specialise in international affairs or defence or strategic studies. The public debates from the 1960s to the 1990s were richly informed by academics from a variety of disciplines. What’s needed now is more than just wrinkling Sinologists out of universities and into what Henry calls the real-world debate. We need our centres of Chinese Studies to be training more Sinologists who think strategically, who think about Australia–China relations, who also think about China’s relations with the world, so that in future institutions like the Office of National Assessments or the Lowy Institute no longer lack a ready supply of China specialists with the mix of qualities and qualifications they require.
These three things should be in step, not sequential. But they will take time, and there are several measures that Australia needs to take now:

- One, is for the government not only to rely on high-level political dialogue, but to buttress it with a much greater intensity of personal contact, and to begin now to secure its long-term utility with greater breadth and depth of political engagement with the next generation of leaders.
- Two, is for Australia to return to a policy of greater independence, and to distance itself from US military strategies directed against China, and from any policies of either China or the US that promote rivalry, contest and military brinkmanship, instead using diplomatic means to urge them to find a stable long-term peaceful accommodation, ultimately and preferably within a multilateral regional context.
- Three, the government should make an unequivocal declaration that it will not be party to any strategy, policy or arrangement aimed at containment of China, and will remove Australia from any that is.
- Four, Australia should also use whatever diplomatic means it has, where appropriate in company with regional neighbours, to counsel, and where necessary and possible pressure China against military confrontation with the US and military brinkmanship in disputed territorial waters.

And finally, government ministers and spokespeople might try to listen to critiques of China policy, to think about the ideas they are trying to get across, to engage with them, and not to meet them with a dismissive response. If that seems too much of a stretch of the imagination, it's nothing compared to the stretch they'll require if we get it wrong with China. Which is definitely a possibility.

[NOTE: This is an edited version of a lecture originally presented at the Australian Centre on China in the World on 10 November 2012 to mark the fortieth anniversary of the establishment of diplomatic relations between Australia and China as Australia and China at Forty: Stretch of the Imagination. The full text is available online at www.thechinastory.org/2012/11/australia-and-china-at-forty-stretch-of-the-imagination/]
## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACHRD</td>
<td>Australia–China Human Rights Dialogue</td>
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<tr>
<td>ACYA</td>
<td>Australia–China Youth Association</td>
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<tr>
<td>ACYD</td>
<td>Australia–China Youth Dialogue</td>
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<td>ADF</td>
<td>Australian Defence Force</td>
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<td>AFL</td>
<td>Australian Football League</td>
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<td>ANSTO</td>
<td>Australian Nuclear Science and Technology Organisation</td>
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<td>ANU</td>
<td>The Australian National University</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
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<td>CICIR</td>
<td>China Institutes of Contemporary International Relations</td>
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<td>CoC</td>
<td>Code of Conduct</td>
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<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<td>ETS</td>
<td>Emissions Trading Scheme</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIFA</td>
<td>Fédération Internationale de Football Association</td>
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<td>FIRB</td>
<td>Foreign Investment Review Board</td>
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<td>G20</td>
<td>Group of Twenty (nineteen countries plus the European Union)</td>
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<tr>
<td>FTA</td>
<td>free trade agreement</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>JRC</td>
<td>Joint Research Centre</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>NDRC</td>
<td>China’s National Development and Reform Commission</td>
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<tr>
<td>NTD</td>
<td>New Taiwan Dollar</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>PLA</td>
<td>People’s Liberation Army</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>RMB</td>
<td>Renminbi, or yuan</td>
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<tr>
<td>SINAP</td>
<td>Shanghai Institute of Applied Physics</td>
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<tr>
<td>SLoC</td>
<td>sealines of communication</td>
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<tr>
<td>SOE</td>
<td>State-owned Enterprise</td>
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<td>UK</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UWA</td>
<td>University of Western Australia</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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The Australia-China relationship touches on virtually every aspect of our national life. Australia and China trade in goods as well as in culture, politics and people, ideas and education, community and personalities.

This volume is a polyphonic collection of expert ideas and suggestions that we hope will be part of the ongoing Australia-China discussion.