Australia–China Bilateral Relations: Mixed Messages

Introduction

In April 2014, former prime minister Tony Abbott visited the People’s Republic of China (PRC) for the first time in his capacity as Australia’s leader. He went with three key messages: to assure China that Australia was ‘open for business’; to affirm his commitment to finalising the China-Australia Free Trade Agreement (ChAFTA) by November 2014; and to offer Australia as a ‘true friend’ of China. In principle, these were excellent messages to send. Turning them into reality, however, is going to require some fundamental changes in Australian attitudes towards China, from the top levels of government to the public in general. Under the new leadership of Prime Minister Turnbull, the time is absolutely right to start driving that change.

Since the PRC and Australia established diplomatic relations in 1972, bilateral trade has grown at a tremendous rate, with China rising rapidly through the ranks to become Australia’s number one trading partner. In recent years, Chinese overseas direct investment (ODI) has also surged, with Australia ranking as the number one destination between 2005 and 2012, attracting US$51.02 billion of accumulated Chinese investment during this period.

Very few Australians have expressed concern over the burgeoning trade relationship with China. However, there is much less consensus when it comes to Chinese investment. While China is a relative newcomer to investing in Australia, growth has been extremely rapid in recent years, bringing to the surface historical, cultural and systemic differences between the two countries. The perception held by the majority of Australians is that there is already too much Chinese investment in Australia, and they are particularly uncomfortable with investment by state-owned enterprises (SOEs) and in the agricultural and real estate sectors. Despite changes to Australia’s foreign investment policy to try and alleviate some of these anxieties, they remain among the general population and in some political circles as well.

These anxieties do not go unnoticed in China. In recent years, Chinese companies seeking to invest in Australia have become increasingly frustrated by Australia’s investment process, which many of them see as unnecessarily complicated and discriminatory against China, and against their SOEs in particular. They are also frustrated by the attitudes of the Australian people. These Chinese perceptions, and their potentially serious consequences, have been well documented by Australian and Chinese schol...
ars alike. John Larum, for example, on the basis of extensive interviews with Chinese investors, investment advisers and officials in Australia and China has argued persuasively that:

To the extent that a sense of discrimination against Chinese OFDI is genuinely felt, there could be a wider impact on the overall bilateral relationship. This includes the willingness by China to cooperate on economics, trade (including the Free Trade Agreement (FTA) negotiations) and strategic issues. It could also impact on China’s willingness to provide capital more broadly. This is not a critical issue at present with a China-fuelled commodity price and investment boom. But China could become less willing to provide capital in the event of a downturn in commodity prices, less resources demand from China and current account pressures — especially if there are underlying tensions in the relationship.¹

Writing in 2011, Larum may have been accurate to say that this was not ‘a critical issue at present’. In 2015, this is no longer the case. It is now widely recognised that the mining boom has come to an end, bringing with it an urgent need for Australia to transform its domestic economy. The Australian government is well aware that this will require substantial flows of foreign capital to fund infrastructure, agriculture, and a structural transformation away from the mining sector. Unlike traditional investors such as the United Kingdom and the US, which have substantially reduced their investments into Australia in recent years, China is in a prime position to provide this capital, even as its own economy shows signs of slowing with troubled times ahead. According to China’s Ministry of Commerce, Chinese global ODI across grew at 16.8 percent in 2013 compared with 2012 and, at the World Economic Forum in September 2013, Premier Li Keqiang indicated that China aims to invest US$500 billion overseas in the next five years.

There is no guarantee that Australia will remain a preferred destination for this capital, as it has been in the past. Indeed, despite the rapid growth of Chinese ODI across the globe in 2013, inflows of Chinese ODI into Australia declined by ten percent from its 2012 level. As a result, the US overtook Australia as the number one destination for Chinese ODI, accounting for seventeen percent of the US$84.5 billion total in 2013, compared with Australia’s eight percent share. This also caused Australia’s ranking for accumulated Chinese ODI to drop to second place, with a total of US$57.3 billion (12 percent of the total) flowing into the country between 2005 and 2013. For those Australians who genuinely believe there is already too much Chinese investment in Australia, this may have been good news. For the rest of us, it is not.

In an increasingly complex international environment, investment and trade are no longer purely economic concerns, but rather touch on politics, security and diplomacy in ways that significantly affect the likelihood of sustaining a cooperative and mutually beneficial relationship in the future. Chinese investment in Australia has become an important signal of the level of depth and mutual trust existing between the two countries, and of their ability to cooperate more generally. Misunderstandings about specific investment cases can easily grow into larger diplomatic problems that undermine the stability of the bilateral relationship. And, vice versa, a strong and stable diplomatic relationship is a pre-condition for attracting future investment.

Australians therefore face an important choice in deciding whether to welcome more Chinese investment. That choice will not only impact on the amount of investment flowing into Australia and on the long-term benefits of the recently signed China-Australia Free Trade Agreement (ChAFTA) to both national economies. It will fundamentally shape the future of the broader Australia-China bilateral relationship as well.

This report is a collaborative effort by the China Institutes of Contemporary International Relations (CICIR) in Beijing and the Australian Centre on China in the World (CIW) in Canberra. As a joint
report between scholars in both China and Australia, it aims to seek common ground while respecting differences, recognising that we are unlikely to agree about everything. By sharing our different perspectives, we hope to reduce misperceptions and their negative consequences, with the ultimate goal of strengthening our bilateral relationship in the challenging global economic environment that lies ahead.

Building on this principle, the key objectives of this report are:

• To reflect on the evolving state of bilateral relations between China and Australia, with a focus on the period since the Coalition government’s election victory in September 2013, and with an emphasis on China’s perspective.
• To demonstrate that Australia is sending ‘mixed messages’ to China, in ways that have a potential to undermine the bilateral relationship in the future.
• To discuss the major points of contention that remain in the relationship, and to suggest ways in which these can be overcome.

Message One: Open for Business?

Given the apparent strength of the bilateral economic relationship, many people may have wondered why Tony Abbott felt compelled to remind China that Australia was open for business in his first trip to Beijing as Australian prime minister. Yet he was making a critical point, both to the Australian public and to China as well.

Australia has benefited enormously from China’s rapid economic growth in the past, ‘riding on the dragon’s tail’ through the biggest mining boom in Australian history. This has involved more than a simple abundance of the resources required for China’s rapid growth and development. Traditionally, Australia has provided a stable and benign environment for Chinese investors. Its political stability, mature legal system, and a lack of serious historical tensions and directly clashing interests with China have helped to dissipate security concerns about investing in Australian resources. And its mature market economy, strong links to international markets, and pluralistic and tolerant culture have all made Australia a rational choice for Chinese enterprises seeking to study advanced technology, gain management experience and improve their international competitiveness. This combination of traits goes along way towards explaining Australia’s ranking as the first choice destination for Chinese investment through to 2012.

Despite the significant benefits that Chinese (and all other foreign) investment has brought to the Australian economy for over a century, public sentiment has always bordered on what might be described as capital xenophobia. The rapid growth of Chinese ODI into Australia since 2008, dominated by SOEs in the mining sector, has taken this xenophobia to new heights. According to the 2014 Lowy Institute Poll, a majority of Australians, at fifty-six percent, consider that the Australian government allows too much Chinese investment into the country. Only four percent of people think there is not enough Chinese investment, while thirty-four percent are satisfied with the status quo. These figures have remained virtually stable since 2010, with the majority view that there is already too much Chinese investment hovering at fifty-six or fifty-seven percent, up from fifty percent in 2009.

Current and potential Chinese investors are aware of the negative public sentiment reflected in the annual Lowy Poll results. They are also highly conscious of changes to Australia’s foreign investment regime, which have coincided with China’s rise as a foreign investor. In 2009 the Labor government introduced separate application conditions for foreign government investment proposals, which were explicitly identified as potential threats to Aus-
tralia’s national interests. With this policy change, all foreign government investors need to satisfy the conditions laid out in Australia’s Foreign Investment Policy, be assessed by the Foreign Investment Review Board (FIRB), and ultimately be approved or rejected by the Treasurer of the day on a case-by-case basis. This policy change coincided with a number of high-profile Chinese investment proposals that were either rejected or substantially modified by then Treasurer Wayne Swan. These included the failed bid by Chinalco to raise its stake in Rio Tinto and China Minmetal’s takeover of Oz Minerals, which was only allowed after Prominent Hill, located in the Woomera Prohibited Area weapons testing range, was excluded from the deal due to ‘national security concerns’. In this context, it is not surprising that Chinese state-owned investors saw this policy change as directly targeting them.

As Opposition leader, Tony Abbott did little to appease the growing perception among Chinese officials and investors that their investments may not be welcome in Australia. In a speech delivered in Beijing in July 2012, while providing the reassuring message that: ‘An incoming Coalition government would welcome Chinese investment on the same basis that we welcome investment from other countries’, Abbott then declared that: ‘It would rarely be in Australia’s national interest to allow a foreign government or its agencies to control an Australian business’. This remark was made in a year in which eighty-seven percent of all Chinese investments into Australia were made by SOEs, and so it essentially amounted to a declaration that Chinese investment would not, in fact, be welcome.

On becoming prime minister, Abbott’s views on China’s SOEs quickly softened. In a speech delivered in Shanghai in April 2014, he said that: ‘We welcome Chinese investment. We want to offer Chinese investment the same kind of access to Australia that our other free trade partners get. We now appreciate that most state-owned enterprises have a highly commercialized culture ...they don’t normally operate in the kind of way that a nationalised industry might have operated back in Australia’. However, this shift may have been too little too late to convince both the Australian public and Chinese investors that his new sentiments were genuine. Australia’s new Prime Minister Malcolm Turnbull will hopefully rise to the challenge of leading a shift in public sentiment on Chinese investment in a more convincing manner, with significant benefits for future investment flows should he succeed.

Being privately owned doesn’t necessarily make things any easier for Chinese companies seeking to invest their capital in Australia. Huawei, a privately-owned Chinese company, has also been treated with suspicion for its potential links to the Chinese government, and the possibility that these links could pose a security threat to Australia.

Soon after becoming prime minister, Tony Abbott announced that he would uphold the former Labor government’s decision to block Huawei out of the National Broadband Network (NBN). This announcement followed comments made one week earlier by then communications minister Malcolm Turnbull and trade minister Andrew Robb, who respectively described the Chinese telecommunications company as a ‘credible business’ with a ‘big future in Australia’. These mixed messages from within the government were problematic in their own right, and the final decision caused deep disappointment among Chinese officials and business leaders, with one Chinese diplomat asking: ‘Why should we allow Australian companies better access to China when Australia stops one of the most respected Chinese companies from doing business here’? They were even more problematic given that the timing of the ban coincided with reports that Australia had been involved in a US-led spy network involving the use of its embassies in Southeast Asia, that is, the kind of espionage that they were suggesting China might be capable of conducting through Huawei in Australia. Again, there are new possibilities for Australia under Turnbull’s leadership, which deserve careful consideration.

The recent rise in Chinese investments in agriculture — albeit from a very low base — also presents challenges for Australian policymakers, who need to...
balance the opposition to foreign ownership of Australian land held by the majority of Australians with the high demand for capital into the sector, and the obvious lack of domestic supply. In February 2015 the Australian government announced changes to the Foreign Investment Policy, involving the reduction of the threshold at which foreign purchases of agricultural land will need to be approved by the FIRB, from AU$252 million to AU$15 million, and the establishment of a registry for foreign-owned farmland. In a joint statement with Agricultural Minister Barnaby Joyce and treasurer Joe Hockey, Abbott stated that: ‘These measures are a significant step in protecting Australia’s national interests and in giving the community great confidence in our foreign investment regime’.

While some (although certainly not all) Australians would have welcomed this policy announcement, would-be Chinese investors — seeing themselves as the direct targets of the changes — were far less impressed. Following the announcement, Hui Li, who brokers agricultural deals for Chinese investors in Australia was inundated with calls from potential investors asking whether they were welcome to this country anymore, what the policy change meant for them, and what exactly was the problem that the new policies were trying to address?

Real estate investment is the latest sector in which the ‘Open for (Chinese) Business’ line has become questionable. The Coalition government will need to navigate its policy line between capital shortages in this sector, particularly at the low end of the market, and majority public opposition to China’s participation therein: in the 2015 Lowy Poll, the only question relating to Chinese investment was directed specifically at the real estate sector, with seventy percent of respondents saying they thought the Australian government allowed too much of it.

With both state-owned and private Chinese firms facing closer scrutiny in Australia in the mining, telecommunications, agricultural and real estate sectors, it is not surprising that, as Chinese investors see it, the Australian government’s efforts to promote an international image of a good investment environment are being undermined. Australia often says that its legal system is mature and its investment environment is transparent with a high level of market discipline. However, the Australian government’s definition of the national interest is unclear, it discriminates on the basis of ownership and it treats applications inconsistently. Moreover, it appears to change its policies under pressure from the media and public opinion, and even pressure from within the government itself. For potential investors, the propensity for the rules to change according to public opinion represents a relatively high risk. All of these factors affect Australia’s international standing as an investment destination. Australia has the capacity to change these perceptions and convince China that it is really ‘open for business’. The question remains as to how and when that change will occur.

**Message Two: Concluding the FTA?**

The negotiations for ChAFTA commenced in 2005. Soon after winning the federal election, Abbott declared that completing an FTA with Australia’s biggest trading partner would be a major foreign policy priority, pledging to conclude the deal by the time of President Xi Jinping’s visit to Australia in November 2014. This was an ambitious time table given the obvious negotiating challenges throughout the thwarted nine-year process. This pledge paid off, however, with Xi and Abbott witnessing the signature of a ‘declaration of intent to conclude an FTA’ following Xi’s address to the Australian Parliament.

In both Australia and China, this news was initially presented as a major economic breakthrough and was, in general, received with much positivity in both countries. Zhao Jianglin, Director of the Chinese Academy of Social Sciences’ Department
of Asia-Pacific Economies, saw the deal as evidence that developing and developed countries could reach a high-quality agreement, and one that would provide a strong role model for further trade liberalisation across the globe. China’s Vice Minister of Commerce, Wang Shouwen stated that the ChAFTA would provide extremely good conditions for Chinese SOEs to be able to break into the Australian market, while Associate Dean of the Chongyang Monetary Research Institute, Wang Wen, saw it as providing Chinese consumers with lower prices for high-quality Australian goods and services, and also giving Chinese companies (especially private companies) further investment opportunities. Wang Wen went beyond the economic benefits to stress the political value of the deal, pointing out that the US pivot and deepening of military ties with its Asian allies was not obstructing the development of greater trust and mutual reliance between China and US allies in the region.

For Australia, once ChAFTA is signed and fully implemented more than ninety percent of exports to China will be tariff free, bringing substantial gains to exporters in a range of sectors, from wine, dairy, wool and beef to professional services including healthcare, tourism, aged care services, architecture, urban planning and transport. Meanwhile, Australian consumers will also enjoy Chinese imports of clothing, shoes, cars, electronics and other goods at lower prices. Countless newspaper articles reported the government’s estimated AU$18 billion benefits over the next decade (1.1 percent of GDP), and celebrated the huge potential for export and employment growth over that time and beyond.

Very few people question that ChAFTA will bring net benefits to both countries, even if there will be losers in certain sectors in each and the full costs and benefits will not be known for decades to come. But there are still troubling aspects of the deal, from both the Chinese and Australian perspectives.

Chinese investment remained a contentious sticking point throughout the negotiations. Despite Abbott’s indication in April 2014 that the zero threshold for SOEs would be reviewed, this was maintained in the final deal. Meanwhile, the threshold on private investments will be increased from AU$252 million to AU$1.094 billion, in line with Australia’s treatment of private investments from its other free trade agreements with Japan, South Korea and the US. While Chinese commentators commended this concession for its private investors, the retention of current screening processes for SOEs, regardless of their size, and the dominance of SOEs in China’s investment portfolio in Australia, means that the concession to private investment is a drop in a bucket.

From Australia’s viewpoint, there are at least two controversial components to the deal. The first involves measures to reduce the barriers to labour mobility between the two countries, and in particular the use of Chinese labour to work on Chinese-funded projects in Australia valued over AU$150 million. While the coalition government has insisted that this will only be allowed if local workers cannot be found to fill the jobs, the Australian Council of Trade Unions (ACTU) launched a ‘Stop the China free trade agreement’ campaign on its websites and urged Australian MPs to vote down the relevant legislation. A final deal between Labor and the Coalition government addressing Labor’s concerns about foreign labour laws saw ChAFTA being passed through the House of Representatives on 21 October 2015, but certainly not without a struggle.

Equally contentious is the inclusion in ChAFTA of an ‘Investor State Dispute Settlement’ (ISDS) mechanism, which allows Chinese companies to sue the Australian government if a change in Australian law is deemed to have hurt their investments. The Department of Foreign Affairs and Trade reports this as a mechanism to promote investor confidence while providing ‘safeguards to protect the government’s ability to regulate in the public interest and pursue legitimate public welfare objectives such as public health, safety and the environment’. In contrast, some academics, Labor and Green senators have warned that this could result in unintended consequences that are in conflict with Australia’s national interest, although given that the full details of the text remain secret, it is impossible to know what those consequences will be at this stage.

Both these points of contention were presumably concessions from the Australian side of the negotiations, and perhaps ones that had to be made once the option to reduce the SOE investment threshold was taken off the table. Refusing to budge on the SOE threshold may also have cost Australian producers of rice, wheat, cotton and sugar, who were locked out of the final agreement and were touted as the big losers as a result. Was this really the best deal that could have been struck, or would offering a better deal to SOEs have produced more winners, in both countries?
Message Three: True Friends?

Economic interactions are a necessary component of a strong and stable bilateral relationship. They are not, however, sufficient. And they are certainly not sufficient for the true friendship that Australia claims to be offering to China.

Kevin Rudd, former Australian prime minister and leader of the Labor Party, visited China in 2008 for the first time since his own election victory in November 2007. In his famous speech delivered in Mandarin at Peking University, Rudd talked about Australia’s desire to be China’s ‘zhengyou’, which, as he defined it, is ‘a partner who sees beyond immediate benefit to the broader and firm basis for continuing, profound and sincere friendship’. He went on to say that: ‘A strong relationship, and a true friendship are built on the ability to engage in a direct, frank and ongoing dialogue about our fundamental interests and future vision’. Put more simply, a ‘zhengyou’ is a true friend who dares to disagree. Rudd chose this occasion to raise the issue of human rights in China, which was not well received by the Chinese government, the first of many diplomatic incidents that plagued the Rudd government’s bilateral relationship with China throughout much of his tenure.

Indeed, from China’s perspective, Australia began pursuing unfriendly interactions with China in 2009. This was the year in which then Treasurer Wayne Swan introduced the new clause into the FIRB application process for state-owned enterprises, at the height of tensions over the Chinalco bid for Rio Tinto, which ultimately failed (to the great disappointment of Chinese officials and Chinalco executives). Visible public anxieties in Australia over Chinese investment coincided with active criticism of China’s development assistance in the South Pacific island nations, condemnations of then prime minister and defence minister’s excessive closeness to China, and the 2009 Defence White Paper, which explicitly identified a ‘China threat’. In 2009, the US also announced its pivot towards Asia, putting pressure on Australia to choose sides. Australia and the US share similarities of culture, attitudes and political systems, a military alliance and close intelligence sharing arrangements. Facing China’s rise and America’s pivot, it was perhaps only natural that Australia chose to side with America. Nevertheless, this move, on top of the other bilateral tensions in the same year, signalled to China that Australia’s attitude towards China was shifting, and not in the direction they had hoped for from a ‘zhengyou’.

The Coalition government’s relationship with China similarly got off to a troubling start. In October 2013, at the US-Japan-Australia Trilateral Strategic Dialogue, Australia signed a communiqué that ‘opposed any coercive or unilateral actions that could change the status quo in the East China Sea’. However, as pointed out by Australia’s former and first Ambassador to China, Stephen Fitzgerald: ‘The problem is, it’s the very status quo itself which is in dispute between Japan and China, and by some interpretations the Chinese case is by no means weaker than Japan’s. Whatever the rights, Australia needlessly and recklessly took sides in a complex dispute in which we have no part, and Beijing of course reacted’. Abbott rubbed further salt into the wound with his declaration at the time to Japanese Prime
Minister Shinzo Abe that ‘As far as I’m concerned, Japan is Australia’s best friend in Asia and we want to keep it a very strong friendship’.

Diplomatic relations deteriorated further in November 2013, when Foreign Minister Julie Bishop strongly criticised China for its creation of an air defence identification zone (ADIZ) covering disputed territory in the East China Sea. This preceded her first visit to Beijing as Foreign Minister in December, where Bishop was publicly rebuked by her counterpart Wang Yi, who said that Australia’s position had ‘jeopardised bilateral mutual trust and affected the sound growth of bilateral relations’. Bishop responded that she hoped China would respect Australia’s right to ‘speak out on actions that affect a region of critical security importance to Australia’.

Stephen Fitzgerald wrote about these issues in a January 2014 article titled ‘Australia’s baffling dealings with China’. He made the point that:

Whatever you think of China’s politics, you can’t just take sides against China or meddle in the tense and volatile issue of China-Japan relations without there being some consequence for our bilateral relations. But the government doesn’t seem to care. From what you can divine from the little it says publicly, it thinks the Chinese will back down under Australia’s glare, and ‘get over it’.

The photograph of Bishop with Chinese Foreign Minister Wang Yi on her December 2013 visit, which was printed online and in newspapers across the globe, made it clear that Mr Wang was not going to get over it in a hurry.

The diplomatic row between Bishop and Wang did not bode well for Tony Abbott’s trip to China in April 2014, and it was clear that some careful diplomacy would be required. Abbott led the largest Australian delegation ever to visit China, including state premiers and some 600 business people in what he described as ‘one of the largest promotions of Australia ever to be held in China’. In numerous meetings held with China’s top political and business leaders, Abbott praised Deng Xiaoping and Premier Li Keqiang, and stressed that Australia was not only interested in doing deals with China, but also in being its friend stating that: ‘And China should be richer still, thanks to Premier Li’s reforms. To be rich is indeed glorious — but to be a true friend is sublime’.

The trip was reported as a great diplomatic success in the Australian media, and could have provided an excellent kick-start to setting diplomatic, trade and investment relations on the right track. However, subsequent commentary by Foreign Minister Julie Bishop soon brought new tensions to the fore.

In a speech delivered at The Australian’s Australia in China’s Century conference in Melbourne in May 2014, Bishop first warned that Australia should not be fooled into thinking it could only benefit from China’s peaceful rise. Instead, she presented two scenarios for the future: a negative one in which China became engaged in conflict with the US or its regional neighbours, and was increasingly challenged by debt, corruption, inequality and an ageing population; and a positive one in which China became a ‘leading global citizen, fully integrated into the world economy, following a global rules based system and focused on using its power peacefully’. While on balance, Bishop anticipated that most of the worst-case scenario would be avoided and that China will rise peacefully, she also used this opportunity to stress that: ‘While we must always give primacy to Australia’s best interests — that doesn’t mean we are a neutral country. … Those who fear Australia being dragged into future conflicts should consider whether the neutrality they advocate really serves to protect and promote Australian interests. … And whether it takes adequate account of the tremendous strategic asset presented by our alliance
Passion, Persistence and Proactivity

At the Australia in China’s Century conference, Warwick Smith, former Liberal Party politician, and current Chair of the Australia–China Council and Chair of the Advisory Board of the Australian Centre on China in the World, gave a keynote address on the Australia–China bilateral relationship that was very different in tone and content to Bishop’s. He stressed that Australians ‘need to use our nation’s economic, education and cultural assets to advance our diverse interests with China and the broader region, we need a sophisticated toolbox. We need a range of podiums through which we can speak, learn and work with China, and build that mutual understanding that we so often refer to in official statements’. In closing, he called for Australians to focus on ‘three Ps’ in order to strengthen our relationship with China: ‘Passion, Persistence and Proactivity’. What a wonderful headline this would have made in *The Australian*, rather than the ones they opted for.

with the US’. To Chinese ears, at least, these did not sound at all like the words of a true friend.

This speech was reported in two articles in *The Australian* on consecutive days, the first with the headline ‘Chinese century not assured, says Bishop’ and the second with the headline ‘A peaceful rise no guarantee: Bishop’. While it was certainly possible to extract these headlines from the content of Bishop’s speech, a far more positive spin would have been possible.

With headlines like these, it is perhaps not surprising that, according to the Lowy Institute Poll for 2014, forty-eight percent of respondents thought that China is likely to become a military threat to Australia in the next twenty years, a seven percentage point increase on 2012. This finding was curiously coupled with a ‘warming of feelings’ towards China, up by six degrees to sixty (compared with seventy-one degrees for the US), and with the highest number of respondents, at thirty-one percent, identifying China as ‘Australia’s best friend in Asia’ (compared with twenty-eight percent for Japan, which Lowy emphasised as a statistically equivalent result). Just what kind of best friend would also be a military threat is hard to fathom.

Bilateral relations deteriorated further in July 2014, following Bishop’s interview by Fairfax media, which was reported in *The Sydney Morning Herald* and *The Age* under the headline ‘Australia will stand up to China to defend peace, liberal values and the rule of law: Julie Bishop’. In the interview, Bishop pledged to defend Australia’s national interests and values and to ‘manage for the worst’ when dealing with China, building on messages she had delivered earlier in May. While she also stressed the importance of developing strong relations with China, and of engaging in frank dialogue to avoid misunderstandings, it was the implicit message of the headline — that China violates peace, freedom and the rule of law — that was heard in China. The Global Times, a daily Chinese newspaper, published an editorial stating that ‘China’s Ministry of Foreign Affairs doesn’t even have the tool to deal with this kind of ‘complete fool’ of a foreign minister’. It went on to say that: ‘Many Chinese people who read about this could not believe these words came from the Australian Foreign Minister. China is Australia’s largest trading partner and has not offended Australia in any way. … Bishop’s verbal provocation made her look more like one of the often pointless “angry youths” found in the Chinese cyber sphere than a diplomat’.

As the tension over this misunderstanding rose, Bishop went as far as personally writing to China’s authoritative media agency, Xinhua news, to clarify that she had not used the term ‘stand up’ to China and to stress that Australia was committed to ‘managing differences constructively when they arise’.

When Chinese Foreign Minister Wang Yi arrived in Australia in September 2014, the friendship theme was again present, with Wang stating that ‘China may...
not be Australia’s closest friend at the moment, but we can surely become your most sincere friend’. Despite the (not so subtle) dig at Tony Abbott’s earlier comments regarding Japan, it seemed that Bishop’s diplomacy had paid off. The diplomatic relationship was once again on the mend.

In November 2014, President Xi Jinping attended the G20 summit in Brisbane, as part of his official state visit to Australia. The Abbott government described the G20 meeting as the most important meeting held in Australia, underpinned by a focus on the liberalisation and facilitation of international trade, and attaching great importance to infrastructure and interconnectivity. The stage was set for a highly successful visit.

Despite a few obvious tensions — most obviously over the Obama-Xi climate change agreement and Australia’s decision (at the time) not to join the Asian Infrastructure Investment Bank (AIIB) — Xi Jinping’s state visit to Australia was deemed by most to have been a great success. If the speeches that the two national leaders delivered in the House of Representatives on 17 November were anything to go by, there certainly was much to celebrate. In his welcoming address to President Xi, Abbott began by acknowledging all those Australian leaders, beginning with Gough Whitlam, who had ‘put ideology aside to see Australians and Chinese as people with common interests and shared aspirations for a better life’, and that Australia and China have become a model of ‘how two peoples and two countries can complement each other. We are testament to the saying that a wise man seeks harmony, not conformity’. He then went beyond the usual accolades about the strength of the bilateral trading relationship to stress the significance of Chinese investment in Australia, stating that: ‘We trade with people when we need them but we invest with people when we trust them. A rela-

Climate Change

On the eve of the G20 summit in November 2014, US President Barack Obama and President Xi announced that they would simultaneously commit to reducing their nations’ carbon dioxide emissions. Xi reaffirmed China’s ambition to reach peak emissions in 2030 and to increase the share of renewable energy to more than twenty percent of its total energy consumption by that time. He also announced a global south-south climate change cooperation fund to help other developing countries meet their emissions reduction targets at G20 summit. US President Barack Obama announced that by 2025 its emissions would be no more than twenty-eight percent greater than those of 2005.

This joint statement by the world’s two largest emitters was seen by many as the most important development in the global climate change agenda in years, bringing renewed hope to the global climate change negotiation process ahead of the Paris summit planned for December 2015. But it also put the spotlight on Tony Abbott, who had insisted on leaving climate change ‘off the G20 Table’ so that they could focus on ‘purely economic issues’, and whose own climate change policies fall well short of those being pursued by both China and the US.

Under the new leadership of Malcolm Turnbull, whose personal views on climate change are well known to be at odds with many of the climate change sceptics in the Coalition government, there is great potential for China and Australia to carve out new modes of cooperation in pursuing low-carbon, green growth, to which China is already deeply committed.
tionship might begin with commerce but it rarely ends there once trust has been established, as I believe it has between Australia and China.

President Xi’s address was equally complimentary to Australia, and something of a diplomatic masterpiece given the tensions of a few days earlier. Making no mention of climate change, or any criticism of Australian public opinion and political attitudes towards its alliances with the US and Japan, Xi instead stressed China’s intent as the ‘big guy on the block’ to pursue peaceful development, drawing on a ‘community of common destiny’ to promote win-win strategies of opening up and expanding mutually beneficial cooperation with all other countries. After announcing the elevation of the bilateral relationship to a comprehensive strategic partnership and the substantial completion of FTA negotiations, Xi acknowledged the two countries’ differences (in history, culture, social system and level of development) before calling on both sides to ‘talk to each other candidly, seek common ground despite our differences and meet each other half way’.

Despite all this positivity, the results of the Lowy Institute Poll for 2015 continue to reflect the mixed attitudes that Australians have towards China. While thirty-nine percent of respondents continued to fear that China poses a military threat — a drop in nine percentage points from 2014 — sixty-six per cent of them said that ‘Australia should do more to resist China’s military aggression in our region, even if this affects our economic relationship’. This is a strong call, given that seventy-six percent of those polled recognise China as ‘the most important economy to Australia’ in 2013.

From China’s perspective, there was some good news in the polls, most obviously the decline in the proportion of Australians who think that ‘Australia should join with other countries to limit China’s influence’. Those who agreed with this statement are now in the minority, at forty-eight percent, for the first time since 2008. Yet this was only a small improvement, and combined with some of the presumptions embodied in the Poll’s questions relating to China — in particular, that China’s activities in the region are ‘aggressive’ (a word that would rarely if ever be used to describe the military activities of Australia’s allies) — there is little in the Poll’s results overall to encourage Chinese people to start thinking that any kind of true friendship is in sight.

Ongoing Tensions

SOE Investment

According to a report written by KPMG and the University of Sydney’s China Studies Centre in 2014, between 2007 and 2013, SOEs accounted for around ninety percent of Chinese ODI into Australia. While the share of private investment is on the rise, SOEs still made up eighty-four percent of the total in 2013. The two largest investments were made by (state-owned) China State Grid and (state-owned) CNOOC, and accounted for sixty-three percent of total Chinese investment in Australia. Excluding these two large deals, Australia’s ranking as a destination for Chinese investment would plummet.

Globally, the share of SOEs in China’s ODI portfolio is on the decline, by roughly one third between 2003 and 2010. This partly reflects the policy shift away from obtaining raw materials towards expanding market share in a broader range of industrial sectors, which, if successful, will continue to reduce the SOE share over time. It also reflects ongoing efforts to restructure and reform SOEs within China. Regardless of the pace of SOE reforms in China and the diversification of its global investment strategy, however, SOEs will continue to dominate China’s ODI portfolio in the foreseeable future. The key question then is whether or not Australia should be more welcoming of SOE investment.

From China’s perspective, the answer to this question is obvious. They see an essential role for SOEs in China’s ODI portfolio, because compared with private companies, SOEs have much greater resources, broader business networks and practical experience, and they are more able to obtain finance and policy support from the Chinese government. They also struggle to understand why Australians think that SOEs will somehow hurt Australian interests, by acting on behalf of the Chinese state or government to achieve non-commercial objectives. As they see it, SOE executives are distinct from state or government actors because, as the initiators of investment projects, they are company managers, not government overseers, and these managers are judged by the performance of their investments. Chinese SOEs, like all other domestic and foreign companies, abide by Australian laws and regulations. Furthermore, Chinese SOEs are very mindful of their position, and are extremely conscious of being ambassadors for China, much more so than private Chinese firms. As such, they actively try to avoid any behaviour that
The AIIB

On 24 October 2014, just prior to Xi’s trip to Australia, representatives from twenty-one Asian countries signed the AIIB's founding charter (that number has since risen to twenty-four). China’s hopes that Australia would join AIIB as a founding member were thwarted, however, following the decision of the Abbott government just days before the agreement was signed.

From China’s perspective, the AIIB seeks to address the massive need for infrastructure investment across Asia, with a capital shortage of an estimated US$8 trillion between 2010 and 2020. While the bank’s start-up capital of just US$50 billion is clearly not enough to fill this gap, it provides a much-needed boost, provided by a country seeking to be a ‘responsible big power’ in a win-win way. Aware that others would be quick to make comparisons with the World Bank and the Asian Development Bank, China stressed from the beginning that the AIIB would be an open and inclusive organisation, that it would supplement rather than compete with the work of other multilateral organisations, and that it would draw on best practices from these and other multilateral development organisations with regard to environmental management, procurement standards and transparency.

The question of whether or not Australia should join the AIIB as a founding member was hotly debated by the Australian cabinet in the week leading up to the G20 summit — with then treasurer Joe Hockey reportedly in favour of negotiating from inside the Bank, while Julie Bishop called not to join on ‘security grounds’, reflecting the position that high-level US officials were vigorously lobbying Australia to take.

The decision not to join the AIIB at the time of President Xi’s state visit was not only deeply offensive to China, but was also heavily criticised by economists in Australia and elsewhere. As James Laurenceson, Professor of the Australia-China Relations Institute at the University of Technology Sydney wrote soon after, the news that Australia had decided not to join on ‘security grounds’, reflecting the position that high-level US officials were vigorously lobbying Australia to take.

The major reason initially cited for not joining was concern over the new bank’s governance and transparency. As Abbott put it: ‘We would like to join, but it’s got to be a multilateral institution with the kind of governance arrangement that, for argument’s sake, the World Bank has’. Leaving aside the obvious point that the World Bank’s governance arrangements are far from perfect, many commentators, including former ambassador to China Geoff Raby, argued that if transparency and good governance were really a cause for concern, then the best way to tackle these would be from inside the new bank, not outside it. Concerns that China’s controlling share in the bank would result in a unilateral, rather than multilateral institution, met with similarly logical responses.

After many months of internal debate within the Australian government, in late March 2015, Abbott announced that Australia would in fact sign up to the AIIB. This decision followed those made by Britain, France, Germany and a string of other European countries, despite America’s ongoing opposition to the new bank. However, Abbott also stressed that he still has ‘governance concerns’ about the Bank.

From China’s perspective, it was unsurprising that the AIIB was initially challenged, and opposed in some countries, especially in the complex geostrategic context. Despite its initial reservations, Australia’s final decision to join the Bank was taken as a signal of confidence in both the Bank and in China, and played a positive role in encouraging other developed countries to follow suit and join the Bank. Given Australia’s stable and developed financial system, countries in the region including China hope that Australia will be able to build on its traditional advantages and contribute to making the AIIB a tolerant, healthy platform for cooperation.

The Bank’s commitment to regional infrastructure construction will also support Australian exports and investment in natural resources, as well as exports of financial, legal and other services. This suggests enormous potential benefits stemming from Australia’s decision to join, with the AIIB providing a new mechanism for bilateral and multilateral cooperation in the future.
might violate Australian law, as well as any media reporting that might harm their company's and/or China’s image.

In August 2014, KPMG and the University of Sydney released a report on ‘Demystifying SOE investment in Australia’, prepared for the Business Council of Australia (BCA). They conducted extensive analysis of twenty-three Chinese SOE investors in a range of industry sectors including agribusiness, banking, energy, mining and real estate. This showed that the economic motivations for these SOEs were generally the same as other foreign investors — profit seeking, market seeking, securing resource supply and access to new technologies, knowledge and brands, and observed trends towards the ‘westernising’ of senior management — employing CEOs with stronger English language skills and local experience and knowledge — and greater efforts to develop local community support and trust. The report found no evidence of any illegal behavior involving fraud, tax evasion, environmental pollution and work safety breaches, and indeed no negative public media reports about non-compliance with Australian laws and regulations.

These findings confirm the views of Western Australian Premier Colin Barnett, who was in the Australian delegation to visit China in April 2014, and who has described those operating in the state as ‘very responsible corporate citizens’ who do not behave any differently from private Chinese investors.

More generally, even the greatest critics of SOEs find it difficult to produce evidence that Chinese SOEs perform in ways that are detrimental to their host country’s national interest once they have been allowed in, citing instead the potential for them to do so. A further criticism is that China’s SOEs have an unfair advantage because they are provided with cheap credit channelled to them via a state-controlled banking system. While this is true, it isn’t necessarily a bad thing from Australia’s perspective: SOE investments may in fact be more secure and stable than those made by private firms, precisely because of this advantage.

Despite all of the above logic, there is still a tendency to conflate Chinese SOEs with ‘China Inc’ or with the Chinese Communist Party itself. As just one example, following the Coalition government’s announcement that it was considering easing investment restrictions on Chinese SOEs, The Australian newspaper printed a front-page article titled ‘Abbott reviews veto for state-owned companies’, which objectively outlined the government’s new stance. However, a second article with the title ‘China dangerous, says US chief’ was inserted within this first one, in reference to Commander of the US Pacific Fleet Admiral Harry Harris’s speech in which he criticised China’s military growth for being aggressive and dangerous. The placement of these two articles on the front page of Australia’s only national newspaper sent a clear, negative message to the Australian people about whether or not they should trust Chinese SOEs. They should not.

This message, in turn, presents a serious challenge for China. Despite mounting evidence that its SOEs are behaving much like other global corporations, the reality is that people in other countries find it difficult to trust enterprises that are linked to a one-party state in complex, and for most people, unknown ways. SOE reforms — including those to improve corporate governance structures and strengthen the supervision of state-owned assets, as outlined in the Resolution of the Third Plenum — have the potential to mitigate these concerns. Yet the Plenum also makes it clear that reforms are intended to strengthen the ‘vitality, control and influence’ of China’s state-owned economy. China will need to convince the rest of the world, including Australia, that this will result in win-win outcomes from Chinese state-owned investment overseas in the future.

Chinese Purchases of Australian Land

Foreign ownership of Australian land has always been the subject of intense political debate in Australia. Yet according to the most recent Australian Bureau of Statistics data, only eleven percent of farmland is foreign owned (a level that has barely changed in three decades), with China accounting for just one tenth of this — that is, less than one percent of all Australian farmland. This places China well behind Canada, the UK and the US.

The recent rise in Chinese purchases of agricultural land, albeit from a very low base and only amounting to a handful of deals in recent years, presents a real challenge for Australian policymakers, who need to balance the opposition to foreign ownership of Australian land held by the majority of Australians with the high demand for capital into the sector and the obvious lack of domestic supply. The policy announcement that the FIRB threshold will be reduced to AU$15 million from 1 March 2015
was the most recent response to this challenge. Was it the best one?

According to Mick Keogh, Executive Director of the Australian Farm Institute, it is urban Australians (seventy percent of them) who are uncomfortable with foreigners buying Australian farmland, and who presumably dominate the advocates of the policy change, saying that it is needed to safeguard Australia’s food security. This ‘resource nationalism’, as some Chinese analysts describe it, rests on the belief that foreign investors might somehow ‘steal’, or deny Australian access to, the agricultural products produced on their farms. This at odds with the fact that ninety-nine percent of agribusiness is Australian owned. It also places very little trust in the international and national regulatory frameworks in place to prevent this from happening — not to mention, in Chinese investors themselves.

Meanwhile, many rural Australians are trying to find ways to solve their capital shortages, and believe that the new policy will deter investment that they desperately need. As Simon Talbot, CEO of the National Farmer’s Federation put it on the ABC’s 7.30 Report on 19 February 2015: ‘For us to reach our potential, we should be feeding 150 million people, and that is the true productive capability of Australian agriculture. But to get there, it’s around $1.2 to $1.5 trillion investment required, and that’s why we desperately need foreign investment’. Another farmer speaking on the program, Gary McGill, linked the policy change specifically to the recent rise in Chinese investment and worries that ‘there’s an element of racism attached to that’. He added that the changes are window dressing that will only increase the amount of red tape, and concludes that it is a pure political initiative, which is ‘disgraceful and intimidating’.

As the National Farmers’ Federation has pointed out, if Australian institutional and other investors could see the productive potential of Australian agriculture and fill this capital gap, farmers wouldn’t need to look abroad. But for now, they do. And China has that capital. A better policy response might have been a public awareness campaign that emphasized these points while urging people to consider whether the alternative (slower agricultural growth and lower farmers’ incomes) was really any better. If only the politics were as obvious and simple as the economics.

Australians are also unhappy with foreign purchases of urban land. Chinese investment in the Australian property market is certainly on the rise, ranking as third top destination after the US and the UK. These investments are heavily concentrated in Sydney, although recent data indicates a diversification to Melbourne and Brisbane. Some argue that this will ease housing shortages and put downward pressure on prices, as long as large Chinese investments translate reasonably quickly into expanded supply. Others observe that in many cases Chinese investors are paying extremely high prices for land that they are in no hurry to develop (‘land banking’), which has the opposite effect.

In any case, both the costs and benefits of rising foreign investment tend to be overblown. Despite the large spike in 2013–14, foreign investment still only accounts for some twelve percent of all property sales in Australia and only one tenth of that comes from China. The major constraint to expanding Australia’s housing supply, according to the Australian Housing and Urban Research Institute, is the lack of domestic finance. So until domestic investors are forthcoming, foreign capital really is the only option for housing sector development and growth. What is needed is clear-headed analysis of the costs and benefits of that foreign capital, and clear policy rules to minimise those costs and maximise those benefits.

The news reports on Treasurer Joe Hockey’s ‘$40m fight with China’s 15th richest man’ in The Australian in March 2015 were instead indicative of the ad hoc and poorly promoted rules currently in place. According to Hockey, the AU$39 million Sydney mansion owned by Chinese billionaire business-
man Hui Ka Yan was ‘illegally purchased’ without FIRB approval, while Christie’s International Real Estate agent Ken Jacobs who helped broker the deal was told by a leading Australian accounting firm that FIRB approval was not required. This was the first time since 2006 that FIRB has been used to enforce the sale of a foreign-owned residential property, and coincided with media reports that Abbott was preparing to announce policy changes for foreign investment in residential real estate — an announcement that has since been made.

The question of whether Chinese (and other foreign) billionaires should be allowed to own forty million dollar mansions in Australia is definitely worthy of public debate — and simple economic logic cannot deliver the answer in this case. But the broader point that rules regarding all foreign investments in real estate (as in other sectors of the economy) need to be clear, consistent and non-discriminatory should not be questioned by anyone.

FIRB and the national interest test

The Foreign Investment Review Board, or FIRB as it is commonly known, is tasked with providing advice to the Treasurer about whether certain investment proposals — i.e., all those made by foreign state-controlled entities, and those made by private investors above certain thresholds, contingent on whether Australia holds FTA agreements with the source country — satisfy Australia’s national interest.

Changes to FIRB polices coinciding with the recent rise in Chinese investment have been closely observed by potential and actual Chinese investors, and have been the cause of much tension in the bilateral relationship. Among the common complaints are that the national interest test is vaguely defined, the screening of SOEs is overly restrictive compared with other countries, and the time lapse between application and approval or rejection adds substantial transaction costs to prospective investment deals.

Other imperfections in the current system have been pointed out by Allan Fels, former head of the Australian Competition and Consumer Commission (ACCC) and his co-author Rebecca Mendelsohn from The Australian National University. They question whether Australia’s foreign investment regime, and FIRB in particular, represents good policy. While finding some praise for the current system, they also see it as convoluted and complex, with a lack of independence from government, poorly defined national interest and failing to satisfy a number of key criteria for good governance, including transparency, accountability and independence. Fels calls for FIRB to be restructured as an independent and transparent agency like the ACCC, in order to give foreign investors more confidence in the institution and also to devote more time to educating the Australian public about its policy role and objectives. This seems like a good starting point for talking about possible FIRB reform.

In August 2014, the BCA moved beyond this starting point in their discussion paper on managing the risks and maximising the benefits of foreign investment by SOEs. The BCA report presents seven options for reforming FIRB, all of which reflect the trade-offs between encouraging foreign investors and satisfying community concerns to varying degrees. These range from a domestic regulation model (which removes the FIRB screening regime altogether and strengthens domestic laws to ensure that all foreign firms behave in accordance with those laws) to a private enterprise model (which treats SOE investors like private foreign investors), to various accreditation models (which give SOEs that meet certain standards the same treatment as private companies), down to the existing model.

From a purely economic perspective, and given the strength of Australia’s domestic regulatory framework, it is hard to move beyond the first of these options, the domestic regulation model. From a purely political perspective, as voiced by both then Treasurer Joe Hockey and Shadow Treasurer Penny
Wong at the launch of the BCA paper in August 2014, it seems to be virtually impossible to move away from the last option — maintaining the status quo — even though there appears to be bi-partisan agreement that failing to do anything might seriously threaten Australia’s ability to attract much-needed capital into the country in the years ahead. Strong leadership will be essential for putting FIRB reform firmly on the policy agenda, and for communicating to the public why such reforms are necessary. If successful, the implications for attracting future flows of Chinese investment could be enormous.

Concluding Thoughts

During the last decade, both bilateral trade and investment between Australia and China have grown at tremendous rates, underpinned largely by China’s strong demand for Australia’s natural resources, but with many other complementarities as well. There is no guarantee that the future economic relationship will be as bright.

A worst-case scenario could include the following:

- The current ChAFTA may fail to deliver substantial benefits to both countries, because of incomplete coverage, slow implementation and the possibility that as tariff barriers are removed, non-tariff barriers become more prominent.
- China’s demand for Australian resources continues to decline, bringing significant terms of trade losses for Australia. Australia’s agricultural and services sectors lack competitiveness in the Chinese market, and fail to pick up the slack of declining resources demand.
- Serious quality problems are discovered in imported Australian products (such as meat or dairy) causing China to ban certain imports for a long time. Chinese investment in Australia consequently declines.
- Serious quality problems are discovered in imported Chinese products, resulting in Australians boycotting these products.
- Australia stands firm on SOE investment, and misses out on the opportunity to attract much-needed Chinese capital into the country. Chinese state-owned investors take their money elsewhere.
- Australia falls behind (or completely out of the loop) on global climate change mitigation efforts and forgoes the potential to cooperate with China on low-carbon growth.
- China’s economic reforms falter, and mounting domestic economic problems cause substantially slower economic growth, with both countries suffering the consequences.
- Mounting disagreements over security issues in areas like the South China Sea and East China Sea lead to a break down in trust and growing discord, with negative impact on the bilateral economic relationship.

On the other hand, a best-case scenario could include:

- A smooth and rapid implementation of ChAFTA according to the clauses agreed within the timetable for accession. Chinese-Australian bilateral trade and investment contributes positively to sustained economic growth in both countries.
- China’s demand for Australian resources declines as expected, but Australia’s agricultural and services sectors fill the gap as Chinese demand for high-quality products in these sectors continue to rise. The bilateral trade relationship facilitates economic restructuring in both countries.
- The Australian people’s attitude towards Chinese investment becomes more accepting, and the foreign investment review process becomes fairer and more transparent. A more relaxed foreign investment environment attracts more Chinese
investors, and provides Australia with funds to help support its economic transformation, as well as making Chinese enterprises more internationally competitive.

- Australia’s entry into the AIIB and a positive commitment to China’s proposed ‘Belt and Road’ initiative facilitates complementarities between Australia’s abundance of natural resources and China’s abundance of capital. This helps drive Asia-Pacific integration and breathe new life into Australia’s resources sector.

- China’s economic reforms deliver sustained rates of strong (albeit slower) growth, and rebalancing the domestic economy raises Chinese household incomes and their consequent demand for Australian (and Chinese) products.

- Both countries deliberately seek to avoid unnecessary misunderstandings, and make great efforts to manage their differences. Through pragmatic cooperation on security issues, bilateral ‘strategic trust’ continually increases, bilateral trading links and people-to-people exchanges strengthen, and the overall bilateral relationship strengthens as a consequence.

**Recommendations**

There is huge potential for a stronger bilateral relationship as we head deeper into ‘China’s century’. But Australians shouldn’t take this for granted. China is growing wary of the mixed messages it receives from the Australian government, the Australian media, and the Australian people. What is required on the Australian side seems rather obvious, in principle:

- Consistent messages from the Australian government and Opposition leaders about the benefits of Chinese investment, and Australia’s commitment to remaining ‘open for business’.

- A coherent, long-term, strategic, China policy that demonstrates the ‘stretch of the imagination’ called for by Stephen Fitzgerald.

- Stronger lines of communication and cooperation on matters regarding regional and global security, respecting differences where they arise but also doing everything possible to avoid unnecessary misunderstandings.

- Australian media outlets recognising the power they have to shape public sentiment, and to play an active role in re-shaping public sentiment in the direction required for a healthy, rounded bilateral relationship in the future.

- The Australian public to think extremely carefully about what they mean by ‘too much Chinese investment’. Does this mean they would like it to cease altogether? Have they thought about where else this capital might come from, or the state of the Australian economy in its absence?

There is also much that China can do, including the following:

- The Chinese government could improve its foreign communications, by clarifying the indispensable position of SOEs in China’s economic development process, while emphasising the comprehensive deepening of reforms across the entire economy, and in particular the decision to give a decisive role to the market. All of these will promote greater knowledge and understanding of their SOEs worldwide.

- They should also actively encourage private firms to ‘Go Out’, and give them free rein to engage in foreign trade and investment, alongside their state-owned counterparts. This will have positive impacts in both the domestic and global economies.

- Domestically, China should remain committed to advancing market reforms, promoting structural transformation and constructing a legal system.

- Internationally, it should maintain its commitment to expanding the trend of regional economic integration with the other regional countries, aligning with global economic institutions and, where called for, improving upon them.

- With regard to regional and global security, China should strengthen communication and coop-
eration with Australia to alleviate strategic anxieties so as to development a better environment for the development of bilateral relations.

- Chinese business people operating in Australia should strictly comply with Australian rules and regulations, strengthen their societal responsibilities where required, and actively integrate into local society.
- Chinese media should rationally and objectively regard Australia’s domestic and foreign policies, and lead public opinion in developing a positive view of the Australia-China bilateral relationship.

As Xi Jinping concluded in his parliamentary address in November 2014, ‘true friendship exists only when there is an abiding commitment to pursue common goals’. There are many common goals we can work towards. Both countries have demonstrated the capacity to achieve these goals through economic collaboration, most obviously in our bilateral trade relationship. Now it is time to confront the long-term bifurcation between the two countries’ strong trade relationship and our inconsistent positions on matters of Chinese investment in Australia and regional and global security. Only then is there any chance that we can actually become true friends.

Notes


About the Authors

The Australian Centre on China in the World is a research institution established to enhance the existing capabilities of The Australian National University (ANU). It aims to be an integrated, world-leading institution for Chinese Studies and the understanding of China, or what has been called ‘Greater China’ or the ‘Chinese Commonwealth’ (the People’s Republic of China, the Hong Kong and Macau Special Administrative Regions, as well as Taiwan and the Chinese diaspora), on a global scale.

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