



Asia
Society

Australia

DISRUPTIVE ASIA 2019

China Special Edition

About Asia Society Australia

For over 60 years globally, and over two decades in Australia, Asia Society has been building bridges of understanding between leaders and change-makers of Asia, Australia, and the United States.

Launched in 1997 by then Prime Minister John Howard, Asia Society Australia is the leading national centre for engagement with Asia, with a centre in Melbourne and an office in Sydney. We are a not-for-profit, non-governmental and non-political organisation empowered by leading Australian and regional business, government, education and cultural institutions.

Our mission is to prepare Australian leaders and the community for deeper and sustained engagement with Asia.

Asia Society Australia is a centre of Asia Society – a preeminent global non-profit organisation dedicated to Asia, founded in 1956 by John D. Rockefeller 3rd, with centres in New York, Hong Kong, Houston, Los Angeles, Manila, Melbourne, Mumbai, San Francisco, Seoul, Shanghai, Sydney, Tokyo, Washington DC and Zurich.

Across the fields of arts, business, culture, education and policy, Asia Society provides insight, generates ideas, and promotes collaboration to address present challenges and create a shared future.

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About Disruptive Asia

Disruptive Asia is a thought-leadership project by Asia Society Australia, launched in 2017 to celebrate Asia Society's 20th anniversary in Australia.

It presents – through long-form essays – new perspectives and policy recommendations on how Asia's rise is impacting Australia's foreign policy, economy and society, and how Australia should respond.

Disruptive Asia deliberately looks at both external aspects of Australia's relationship with Asia (foreign policy, business connectivity, international education) and their domestic implications and manifestations (community relations, leadership diversity, education settings and capabilities).

The Asia debate has long ceased to be the exclusive intellectual domain of the foreign policy and business elite. Asia's ascendancy and the resulting geopolitical, geoeconomic, demographic and social shifts affect virtually all facets of Australian life.

Disruptive Asia is a humble attempt to re-start the conversation about the impact of Asia on Australia and our place in the region, and to expand and bring together the community who debate these issues.

As always, we welcome your feedback and contributions.

Philipp Ivanov

*Chief Executive Officer
Asia Society Australia*

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Foreword

Dear Asia Society Australia Members, Supporters and Friends,

In 2019, the *Disruptive Asia* series focuses on the People's Republic of China. We examine the boundaries and parameters of our engagement with China under President Xi Jinping. A China that is a rising global power, more active and assertive in its foreign policy, economic diplomacy and the projection of its power abroad. A China faced with a slowing and changing economy and strategic and economic pressure from the United States and its allies. A China that is more authoritarian and less tolerant of dissent and critical questioning at home and abroad.

Our series explores how Australia can engage with China, focussing on the critical areas of the bilateral relationship – trade and investment, education, law enforcement, technology, philanthropy, developmental assistance, human rights, social cohesion, and the protection and empowerment of our Australian-Chinese community. The series provides a contextual brief and practical, implementable ideas to Australian government, business, education and political leaders, and our community at large.

This year we were pleased to engage Dr Bates Gill, Professor of Asia-Pacific Security Studies at Macquarie University, as a co-convenor and advisor of the China Special Edition, with Greg Earl continuing as Editor in Chief.

Philipp Ivanov

*Chief Executive Officer
Asia Society Australia*

Bounded engagement: charting a new era in Australia-China relations



*There is no viable alternative to continued engagement.
This is certainly true for Australia, but it is also true for China.*

It has to be said, but few wish to: we are transitioning to a new and more difficult era with China. Laden with contradictions even in the best of times, it is clear Australia-China ties will become more challenging in the years ahead. We can expect the parameters of

the possible for Australia-China relations to steadily narrow as each side rethinks the value proposition of the relationship. In short, we should be preparing for a protracted period of “bounded engagement.”

Neither side can afford to close off the relationship. Engagement remains in our best interests. But the setting in which engagement occurs will be less expansive and open-ended than in the past.

The question for Australians is, what should “bounded engagement” look like? In this more constrained atmosphere, what should be the rules of engagement with China to best realise Australian values and interests? Where are opportunities for engagement in this environment and where are the risks?

Asia Society Australia will tackle these questions in this year’s *Disruptive Asia* series. Our expert contributors, drawn from across the country, take up critically important and complex areas of Australia-China interaction - including trade and investment, education, countering crime, technology, philanthropy, developmental assistance, human rights, and more. They propose how Australians can make the most of them even as they narrow in scope and become more precarious, even contentious.

As we enter this next phase with China, three key principles should guide our thinking.

First, there is no viable alternative to continued engagement. This is certainly true for Australia, but it is also true for China. The basic economic data alone tells a powerful story: one-third of Australian exports by value go to China.

Education, tourism and immigration

But it is not just about resources and energy exports. Education and tourism are growing as a proportion of Australian exports to China and with them comes increased people-to-people exchanges as well as increasing Chinese immigration to our shores. Mandarin Chinese is the second-most widely spoken language in Australia.

While not the largest cumulative source of foreign investment in Australia, Chinese investors are among the fastest-growing sources of foreign investment. In recent years, they have been the largest source of approved annual investment (including property), though the United States reclaimed that position in 2017-18. Talk of “decoupling” from the Chinese economy may be possible for some countries, but makes no sense for Australia. Rather, as the pace of Chinese economic growth slows, Australians will need to explore new trade and investment opportunities, both here and in China.

But beyond economic engagement, Australians cannot ignore China’s growing influence as a political and security actor in our region and around the globe. Keeping lines of communication open and clearly signalling Australian concerns, even on highly-sensitive issues, will become more important, not less, in the years ahead. In this sense, “negative engagement” – consistent messaging and push-back when Chinese actions impinge on Australian values and interests – is just as important as “positive engagement.”

We should also recognise that engagement is not a one-way street. While China is obviously the far larger and more powerful player in this partnership, it needs Australia too. Australia will remain a key source of raw materials, agricultural products, and higher education and an alluring destination for investment. Moreover, owing to its close alliance relationship with the US, Australia will remain a country of enormous political, diplomatic, and security interest to China.

Talk of “decoupling” from the Chinese economy may be possible for some countries, but makes no sense for Australia.

In addition, as Beijing seeks to expand its role in and around the Indo-Pacific and promote its socioeconomic model, it will work hard to gain Australia’s respect, if not approbation, which means pursuing a full

spectrum of engagement activities in this country. On the one hand, this can be a problem as Beijing aims to influence Australian debate in ways we find unacceptable. On the other hand, it is an opportunity to engage and contest the Chinese authoritarian political and economic model, a field on which the Chinese leadership seems increasingly willing to fight. We need to be increasingly willing to engage on that battlefield as well.

In all of this, it is well worth remembering that the Australian people retain a relatively good opinion of China. The 2018 Lowy Institute poll showed that a little more than half of Australians (52 per cent) said they trusted China either “a great deal” or “somewhat” to act responsibly in the world, compared with 59 per cent who said so for India, 55 per cent for the US, and 28 per cent for Russia. (Though, consistent with the ongoing shift in perceptions to the present era of bounded engagement, the figure for China is down from 60 per cent in 2011).

Open lines of communication

In short, it is clear that engagement is here to stay and presents the most sensible path forward. But that engagement will be taking place in a more restrained, clear-eyed, and realistic atmosphere.

Importantly, this does not mean less engagement. Indeed, in a period of greater risk and difficulties, Australian governments, businesses, and civil society organisations should seek more open lines of communication and coordination with China (and on China amongst themselves). Indeed, we will need to review and rethink our current institutions and frameworks for engagement with China and better align them for success in this new era of bounded engagement.

Which brings us to a second key principle for this new era: while nearly all areas of Australia-China interaction will become more constrained, not all areas will be constrained to the same degree. Australians should prepare to be flexible and imaginative, but within narrower bounds, in the pursuit of beneficial cooperation with China.

Some forms of cooperation – for example, on countering illegal trafficking in people, drugs, and other contraband – would benefit from expansion, but will fall short of a formal bilateral extradition treaty owing to growing Australian concerns with China’s legal system and its abuse of the rule of law.

Chinese investment in Australia will be welcomed, but will attract even greater scrutiny, especially on national security grounds. The denial of Huawei from participation in building Australia’s 5G network

Chinese investment in Australia will be welcomed, but will attract even greater scrutiny, especially on national security grounds.

is a powerful case in point. But we should look for an uptick in Chinese investment in other Australian infrastructure, including in agribusiness, which might involve joint partnerships between Australian and Chinese investors.

Foreign student bodies at Australian universities will still be dominated by Chinese – typically 35 to 40 per cent of foreign students in Australia are from China – but the higher education sector will be increasingly sensitive to these numbers so to reduce its over-dependence on them, while maintaining high academic standards. That said, expanding research partnerships between Australia and Chinese institutions of higher learning will be seen as a way to take greater advantage of China’s science and technology boom.

Scrutiny of scientific research

At the same time, however, Australian authorities will be exercising greater oversight of Chinese researchers at Australian universities engaged in certain advanced scientific research in order to manage risks associated with dual-use technologies and intellectual property theft. Less sensitive areas of Australian expertise that will attract Chinese interest would be in such areas as alternative energy, agriculture, and aged care.

Looking at another sector, we should also expect an increase in philanthropic giving from mainland Chinese sources, which will be welcomed by many deserving organisations. But Australian recipients of this largesse – such as charities, universities, and cultural institutions – will be far more cautious in conducting due diligence and avoiding potential political and reputational risks that could accompany those gifts.

As these and other examples show, in this era of bounded engagement, Australians will be more realistic, cautious, and innovative in dealing with China, seeking out areas of promise even as certain parameters for cooperation become more narrow.

A third key principle to keep in mind is this: we are not alone. Countries around the world face similar challenges in their relations with China and have done so for many years. In the US, terms such as “limited engagement”, “congagement”, and “constraintment” have long been part of the discourse defining US-China ties. Today the talk in Washington is of “constructive vigilance” and “competitive engagement” vis-à-vis China. Elsewhere around the globe, countries such as Germany and Japan are recalibrating their relationship with Beijing in order to better balance the risks and benefits associated with China’s rise and its impact on their national values and interests.

Australians can learn from those experiences – what works, what does not, and what might we do in partnership with others – as we too work to redefine our ties with China.

From a broad historical perspective, one could argue that variations on the theme of “bounded engagement” have always featured prominently in China’s interactions with the West. The two cultures, while deeply engaged, have long-been constrained in their relationship by underlying currents of admiration, antipathy, animosity, and ambivalence, and that pattern continues today.

Reshaping the geopolitical landscape

What is different today is that – unlike most of the past 250 years – China has ascended, emerged as a great power, and cannot be ignored. Furthermore, Chinese leader Xi Jinping has more than any of his predecessors sought to harness that power to reshape the geopolitical landscape regionally and globally in ways that favour Chinese interests.

As a result, and with growing intensity over the past three decades, Australians have been deeply affected by nearly every aspect of China's rise – for better and for worse – and that is a geopolitical fact of life that is unlikely to change. Even if China's trajectory flattens or is thrown in to reverse in the coming decades, Australia would be heavily and negatively affected.

So that argues strongly in favour of continued engagement. But at the same time, the downside risks of China's growing power and influence to Australian values and interests have become more and more apparent. As a result, we will have to adjust how we engage with China.

Australians have been deeply affected by nearly every aspect of China's rise and that is a geopolitical fact of life that is unlikely to change.

Without sacrificing many of the benefits of engagement, and while exploring promising new areas for cooperation, Australian relations with China will need to be more vigilant, restrained, realistic and sharply attuned to deflecting the challenges China will present to

Australian security, prosperity, and society. Defining the new boundaries of such a relationship will be one of the most important foreign policy tasks of the next decade. It is high time we got started.

Dr Bates Gill is Professor of Asia-Pacific Security Studies at Macquarie University and co-convenor of the Asia Society Disruptive Asia series for 2019.



STUART FULLER

Chinese investment and Australian infrastructure: Broadening the concept, and our minds



A balance between common interests, shared outcomes and values is crucial for the future success of the Australia-China investment partnerships.

Australia is, and is likely to always be, a capital importing nation. Its desire to further develop its national capacity and capability, and improve its standard of living, exceeds its ability to save. Foreign investment is needed to bridge that shortfall. And while sources of foreign investment

change over time, the weight of capital flowing from China cannot be ignored. Nor can the fact that capital flows freely, and in the global competition for capital, we need to maintain and possibly improve our allure to foreign investors.

In his opening essay in this series, Bates Gill suggests that we are entering a period of “bounded engagement” with China. While there is no viable alternative to continued engagement, and it remains in our best interests to do so, the “parameters of the possible ... [will] steadily narrow”; that the areas of narrowing will not be uniform, and will require us to be flexible and imaginative.

These statements resonate strongly in the context of infrastructure investment where Chinese capital has played a prominent role in recent years both in expanding Australia’s infrastructure stock and in the debate about new limits on foreign investment in critical infrastructure.

What we need is a shift in the way that we look at infrastructure and foreign investment in it; a more transparent, clear-eyed approach that looks to the future and which recognises that common interests and shared outcomes do not necessarily require fully shared values, and which enables foreign investment to support Australia to adapt to its future.

Let’s consider four broad forms of infrastructure.

The first is *critical infrastructure*. It is commonly defined as various types of infrastructure that, if destroyed, degraded or rendered unworkable for an extended period, would significantly impact a nation’s societal or economic wellbeing, its ability to conduct national defence or its ability to ensure its national security.

Nothing should stop a government from prescribing rules that relate to any form of public or private investment in its critical infrastructure.

Australia, like a number of other countries, has recently taken some appropriate steps to clarify the scope of critical infrastructure, and has implemented a new process, through the Critical Infrastructure Centre, to monitor and assess foreign investment

in it and to identify and mitigate any national security risks that may arise through foreign investment and supply chain arrangements. While Australia has limited this initial scope to telecommunications, electricity, gas, water and ports, the US and the UK have cast a broader net, reflective of the nature of their economies and their domestic circumstances.

Several countries, including the US, UK, Germany, France, Japan and Australia have recently increased

the level of scrutiny of foreign investment, including in these areas. Additional steps are also being taken in some countries in the areas of technology, data and information, reflecting the fact that these areas are the critical infrastructure of the future.

Nothing should stop a government from prescribing rules that relate to any form of public or private investment in its critical infrastructure, nor should they be prevented from the appropriate and non-discriminatory level of discretion over approvals for foreign investment, whether private, public or government-controlled or influenced, in these sectors.

However, further clarity on what is and is not allowed, and in what form, regardless of its source of origin, and a speedy “no”, are required. The parameters of the possible have already narrowed in these areas, but should not narrow further without good reasons.

The second is *regional infrastructure*. The depth and size of Australia’s economic, trade and other relationships with China creates, in the eyes of some, the risk of over-exposure to China and the reliance or concentration risks that follow. At the same time, a growing amount of commentary (including the most recent Foreign Policy White Paper) calls for a higher level of engagement between Australia and other countries in the region, including the ASEAN countries and, more recently, the South Pacific island nations.

We need to move the discussion in Australia on regional infrastructure beyond the Belt & Road Initiative (BRI), and also beyond the competing infrastructure initiatives that are being pursued by the United States, Japan and even Australia itself. The reality is that the size of required investment across the region requires each of these initiatives; but what is missing is a framework for the assessment of a project and the recognition of the mutual dependencies that exist for this type and amount of infrastructure to be delivered across the region.

There will always be projects in a jurisdiction in which the Australian government, or Australian business, will choose not to participate for any number of reasons. There is also the competition between domestic projects (especially during the current “infrastructure boom” in much of Australia) and regional projects, and the different types or risks, returns and factors that need to be considered in assessing them. However, if Australia is serious

about deeper regional engagement, and importantly about growing the export of its skills to the region, then we should be clear-eyed about our areas of competitive advantage and even more clear-eyed about the need to collaborate with other countries on a long-term basis. And we need to encourage our competitive businesses to focus on new markets, not just the home market.

Australian companies often cannot compete with the scale of construction and engineering companies from China, Japan and the US. But Australia can compete with its skills: project design, engineering and delivery; risk management; legal services; and the mobilisation and efficiency in the use of capital, to name a few. While Australia does not have a monopoly on these skills, it has a track record of their success and the benefit of being a relatively “neutral” source country.

The value that Australia and China can bring to each other does not require a piece of paper to validate it.

However, both industry and government need to coordinate a framework and an approach for an initiative of this type. The framework needs to contemplate the type of projects, and their terms, that would fall within

the initiative; or, in other words, a project that meets international standards and norms in which participation by Australian business should be encouraged. The approach needs to contemplate a “national” approach, through which the Australian brand and expertise in the relevant skills would be projected, and with which the government could provide some support to incentivise Australian business to participate and simplify some of the issues associated with the export of skills.

We should be aspirational: corporate tax benefits in connection to such projects; a simple way for a worker to manage the personal tax associated with moving between jurisdictions; a way of easing the recognition of the relevant skills and the visa and local employment requirements required to provide them. While these issues are raised frequently by industry, and often the subject of positive change in various free trade agreements, perhaps a project-specific approach will provide the right framework to achieve meaningful change. And this does not need the continuing debate as to whether Australia joins the Belt & Road Initiative. The value that Australia and China can bring to each other, and to countries in the region, does not require a piece of paper to validate it.

The third is *productive infrastructure*. This is infrastructure that adds to the productive capacity of Australia, and which moves us to a higher level of activity. But we need to think hard about changing our mind-set and move from a dig-or-produce and export model to a dig-produce-refine-transform and export model; from a buyer-seller relationship to a business-partnership model; where the types of investment should be more accurately delineated; and where different types of investment can be differentiated.

While there are many sectors of relevance for this, let’s just focus on agriculture and agribusiness. This is not about “selling the farm” but rather how do we best develop the farm and Australia’s reputation for quality; how do we secure ownership and employment for future generations; and how do we further transform the products we sell and the markets we sell into?

Some Australian farms are relatively small, owned by individuals, and grow to sell, rather than to process. Some lack the necessary scale or level of investment required to adapt them to the future of climate change, technology-led provenance and changing consumer preferences. Some of them face intergenerational succession issues. Many of them lack financial and physical capital, not intellectual capital.

Ownership of land by foreign investors always raises issues which often outweigh the actual amount of or relative percentage of foreign investment. Perception is reality, and it’s the mood.

But consider mining or energy industries as an example. There is no suggestion that Australian capital or ownership alone is necessary, or even desirable, to develop the underlying resource to its maximum potential. There is flexibility in the thresholds that apply to foreign investment in the sector. There is an established history of foreign co-investment, often starting at the minority level, to provide the required level of scale and capital to develop the resource, often supported by significant production facilities (that are developed with foreign investment) and with significant offtake contracts for what is produced (with foreign purchasers).

This process has allowed confidence in foreign investment to be established, in a way that protects Australia’s national, economic and security interests, and which maximises the economic value to Australia and Australians, all in the context of a nation that needs foreign investment to achieve its potential.

The same concepts, with some adaptation, could apply to the agricultural and agribusiness sectors, with the benefit and support of Chinese or other foreign investment – both through public sources but, more likely, through Chinese-backed private equity or venture capital. Why not have a structure where farms are aggregated into a shared ownership structure, local and foreign? Why not allow a foreign investor to provide the capital required for the farm to not only produce, but also process into a form required by offshore markets, and then sell a higher quality and higher priced output? Why not allow investment in return for an offtake contract for a certain good? Why not take the benefit of developments in technology to allow the provenance of output to be certified and the process of the output to be managed, if that bolsters Australia's current reputation for quality?

There would be some requirements. Full transparency, and the right level of Australian ownership, management, control and sharing of profit, would be critical. The sell-the-farm argument is too well entrenched, so it needs to be reimagined to become save-the-farm, process-and-sell-the-produce and share-the-returns.

The fourth is *social infrastructure* or people. Despite economics, business, technology and the transformation in communications, relationships matter. Whether it is a produce-and-sell or business-partnership relationship, people need to know each other, trust each other and understand each other. Relationships build understanding; understanding leads to respect; and respect is the foundation for trust.

And in a world of increasing change with new and emerging pressures that have little precedent in living memory, the investment in relationships or the social infrastructure between Australia and other countries, is a foundation that needs further development and investment. Building a deep level of cultural intelligence is a sound investment in the infrastructure of the future.

To succeed, there needs to be more people-to-people connections that have a purpose. The New Colombo Plan is a leading way of developing

relationships for the next generation. If you look at the relationship between Australia and Singapore, where there is a high level of connectivity, exchange and understanding, in both countries, you can see a precedent. If you start with the assumption that Singapore did not just allow this to happen, but managed it to an outcome, it is easier to see how Australia and China could do this from students to business to government. This would involve a higher level of investment by both countries in exchanges and; collaboration in mutually advantageous areas so that business partnerships and people,

Building a deep level of cultural intelligence is a sound investment in the infrastructure of the future.

business and government fora would start to build better relationships, better understanding and better trust. Having a simpler immigration, visa and taxation system in both countries that allowed people to be exchanged for

periods of time, within an integrated or collaborating business venture, would be a big step forward in improving integration and understanding. However, the investment required here is not just financial, but also time, energy, focus and attention. These relationships are harder to foster; need constant encouragement and tending; and need a long term and intergenerational view.

Infrastructure is not easy, either in terms of cost or concept. Old concepts of infrastructure, or investment, are being strained by technology and change. Not all types of infrastructure should be open to foreign investment, from China or elsewhere. A balance between common interests, shared outcomes and values will require a deftness and nuance that cannot be framed into a soundbite for a domestic audience. But shifting our focus to areas which are possible, where there is a common interest and a mutually beneficial common outcome, is crucial for the future success of the Australia-China relationship, and the benefits that each of them can continue to bring to the other.

Stuart Fuller is Global Head of KPMG Law and an Asia Society Australia board member.

Economic bondage: Time to apply a ‘small- yard high-fence’ strategy



Economic engagement unquestionably gives Beijing greater weight in Canberra’s decision-making, but China’s ability to convert trade into leverage is actually quite limited.

As trade tensions between the US and China rise, there is an emerging concern that Australia’s own even-deeper economic relationship with China presents an unacceptable security risk.

This raises the question of how the new debate about “bounded engagement” with China should be applied to the economic relationship.

The reality is that China's ability to apply geo-economic leverage against Australia also carries significant costs for Beijing, and so, the debate about how much Australia should "decouple" from China ought to be limited to a narrow range of high-tech exports and critical infrastructure investments. Such a "small-yard, high-fence" strategy would protect selected strategic assets without losing the wider benefits gained from an important economic partner.

Economic engagement should continue. But the federal government could better harness the benefits of Australia's commodity and people mobility-driven trade with China, and deploy public finances and regional diplomacy to help diversify Australia's economic profile and reduce exposure to Chinese demand.

Facts: Australia's economic relationship with China

Economics is the foundation of Australia-China relations. The two countries have traded in every year since at least 1885, according to the Department of Foreign Affairs and Trade (DFAT). Even before Canberra established diplomatic relations with the People's Republic of China in Beijing in December 1972, exports to and imports from Maoist China averaged 1.4 per cent of Australia's annual trade from 1949-50 to 1971-72.

Institutional foundations laid in the 1980s and 1990s helped Australia to capitalise on a China-driven resources boom that began in the early 2000s. China's rapid urbanisation and investment-led growth strategy created enormous demand for Australian primary resources. This dynamic relationship continues to drive economic engagement and is widely credited with helping Australia to avoid a crippling recession during the Global Financial Crisis.

Trade is the mainstay of bilateral economic relations. According to DFAT, two-way trade in goods and services increased from \$13.8 billion in 1999-00 to \$194.6 billion in 2017-18, when Australian exports were worth \$123.3 billion and Chinese imports were worth \$71.3 billion. That year China accounted for

30.6 per cent of Australian exports, 18.0 per cent of Australian imports, and 24.4 per cent of Australian trade. China is by far Australia's largest trading partner.

Services are a fast-growing element of bilateral trade, as rising incomes in China's increasingly consumption-based economy stimulate demand for overseas experiences.

Approximately 90 per cent of Australian exports to China are goods, more than 70 per cent of which are rocks and metals like iron ore, coal, gold, and copper. Other major merchandise exports include agricultural products that satisfy China's evolving consumer tastes, such as wool, beef, and barley. Australia's main

imports from China are manufacturers like furniture, computers, and telecommunications equipment. China is the single largest destination for a vast range of Australian export categories.

Services are also a fast-growing element of bilateral trade, as rising incomes in China's increasingly consumption-based economy stimulate demand for overseas experiences. In 2017-18, Australia sold \$16.9 billion worth of services to China, driven by \$11.0 billion in education-related travel and \$3.8 billion in personal travel by Chinese to Australia. China is Australia's largest source of international students and tourists, with 255,896 Chinese student enrolments and 1.3 million Chinese short-term visitors in 2018, according to Tourism Research Australia and the Department of Education and Training, respectively.

Investment is a smaller yet still significant dimension of bilateral relations. By year-end 2017, according to the Australian Bureau of Statistics (ABS), Chinese entities had built a \$40.7 billion stock of foreign direct investment (FDI) in Australia, while Australian entities had a \$13.5 billion stock of FDI in China. China accounts for 4.8 per cent of FDI in Australia, the fifth-largest foreign investor behind the US (22.4 per cent), Japan (10.9 per cent), the UK (9.8 per cent), and the Netherlands (6.3 per cent). Only 2.3 per cent of Australian FDI is in China. Regulatory controls in both countries have cooled FDI flows recently following earlier rapid growth.

The Issue: Is Australia too dependent on China?

China is clearly important to Australia's economy. ABS data show that, in 2017-18, exports to China equaled 6.8 per cent of GDP and two-way trade equaled 10.7 per cent of GDP. Unlike in the US, no mainstream voice is calling for a total economic decoupling. Moreover, Australia's trade profile means that Canberra does not share the same depth of concern as Washington about industrial policy, technology transfer, and intellectual property in China. However, some observers question whether commercial relations have gone too far.

Clive Hamilton, the most prominent Australian critic of economic engagement with China, believes that Canberra is "mesmerized by the belief that only China can guarantee our economic prosperity" and is thus "afraid to stand up to Beijing's bullying." This situation is thought to leave Australia vulnerable to manipulation because Beijing

China is not nearly as influential in Australia as bilateral economics might suggest.

"habitually uses overseas trade and investment to pressure and coerce other countries into policy positions sympathetic to their strategic interests." Ultimately, the thinking goes, Australia will

"become a tribute state of the resurgent Middle Kingdom." Hamilton is notably short on specific policy recommendations but more conventional skeptics like Peter Jennings, head of the Australian Strategic Policy Institute, have urged the federal government to "diversify economies ties" to "reduce our economic dependence on an increasingly authoritarian and assertive China."

Beijing has used temporary trade sanctions to exert diplomatic pressure on multiple occasions over the last decade. It has frozen rare-earth exports to Japan, barred imports of Norwegian salmon and Filipino mangoes, and punished South Korean tourism, entertainment, and consumer businesses. Since early 2019, some Australian coal exports have experienced delays at Chinese ports, possibly on environmental grounds or for the benefit of local miners, but possibly as retaliation for Canberra's toughening attitudes toward China.

Australia certainly does not want its decision-making compromised by external pressure, particularly at a time when China is becoming increasingly active in global security, especially in the South China Sea, in global economics, often via the Belt and Road Initiative, and in global technology, both through commercial actors like Huawei and state-backed cyber operations.

Yet, as National Security College head Rory Medcalf has argued, "perceptions of Australia's vulnerability to Chinese economic pressure are exaggerated." Beijing is highly unlikely to switch suppliers of iron ore, Australia's major export, because it would face significant transaction costs, damaging supply interruptions, and a further erosion of global trust in China. More vulnerable, though, are substitutable exports, including tourism and education, that Beijing could target with visa restrictions or financial penalties in China.

Still, economic engagement does not give Beijing anything like veto-power over Australian strategic decision-making. It may be true that China is more willing to absorb economic pain in pursuit of strategic goals than Australia, but trade is a two-way street and China is hardly immune from the consequences of market interference. For example, the rare-earth standoff with Japan prompted Tokyo to find new suppliers, and Beijing's intervention in iron ore price negotiations in 2009-10 prompted producers to move to a spot-price mechanism that cost Chinese buyers an extra US\$290 million per month in 2010-11.

Restrictions on trade and investment raise costs in the Chinese economy and invite domestic backlash, making it harder for Beijing to sustain the healthy growth that it needs to maintain popular legitimacy. Australia's political stability, property-rights protections, and world-class education system also generate demand-side pressure from Chinese businesses, investors, and families for continued access. Generally, geo-economic coercion elicits defensive pushback from target countries and prompts these victims to take stands against Chinese pressure and draw closer to others powers such as the United States.

China is not nearly as influential in Australia as bilateral economics might suggest. Research shows that as commercial ties deepened, Canberra balanced this economic dependency by strengthening both its own military and its security alliance with the United States — by rotating US Marines through Darwin, for instance. Bipartisan consensus exists on the US alliance, human rights, maritime law, Huawei contracts, and the June 2018 legislation to curb “covert, coercive or corrupting” foreign interference in Australian politics. If anything, the media reporting and professional repercussions of recent scandals about Chinese influence show that Beijing is far from turning Australia into a “tribute state.”

Australia must not, of course, be naïve about China (or, for that matter, about any country). Sensitive sectors should be off-limits to trade, investment, and collaboration. These limits should be strictly

Canberra need not get sentimental about this relationship but a hard-nosed China strategy must recognise the benefits.

enforced but should focus narrowly on critical domestic infrastructure and advanced technologies with a direct military application. Otherwise Canberra risks shutting Australian firms out of the global ecosystem of investors, manufacturers,

and customers that drives innovation. Security risks should be weighed against countervailing benefits; sometimes the risk is too great, sometimes it is not. Analysts call this approach a “small-yard, high-fence” strategy.

Critics of Australia’s economic engagement with China tend to portray the relationship as a racket run by a nefarious cabal of conspiring elites, but this depiction misses (perhaps willfully) the enormous breadth of benefits delivered by trade and investment with China. These benefits include stronger employment, lower prices, more exports, greater investment, faster innovation, productivity growth, and higher incomes. The Australia China Business Council found that two-way trade with China was already equivalent to \$16,985 per Australian household back in 2013. Trade and investment are not zero-sum games; they only occur when both sides benefit.

To reappropriate the words of Peter Navarro, the adviser to US President Donald Trump who championed economic decoupling from China, “economic security is national security.” A richer

Australia is a safer Australia that is better prepared for China’s rise. Prosperity moderates political extremism, enables public welfare programs, funds military modernisation and development assistance, and better prepares the country to fight challenges like climate change.

The Future: An economic case for risk diversification

However, Australia’s economy is overly dependent on China — not for national security reasons but because of overexposure to China’s economic fortunes. Demand for Australian resources should continue, and demand for high-end produce and services increase, as China’s economy keeps expanding to become the world’s largest in around 2030, but the pace of growth is slowing and significant risks remain in its financial sector. KPMG predicts that a full-blown US-China trade war would reduce Australian GDP by 0.5% over five years, and the International Monetary Fund estimates that a “disorderly rebalancing” in China could shave 0.4% off Australian GDP. Global trade tensions and a slowing Chinese economy are already hurting Australian growth.

Australia’s economic engagement with China should continue, but Canberra should seek to reduce the country’s reliance on China. Diversification will be difficult, though, as this means shifting the incentives of firms who would more naturally transact with China. But more dedicated export financing could encourage Australian producers to trade and invest in new markets. And economic diplomacy with Japan, India, South Korea, and ASEAN states could increase Australia’s competitiveness by raising standards in trade pacts like the Regional Comprehensive Economic Partnership and the surviving Trans-Pacific Partnership.

Risk diversification would make sense even if China were an ally, and so associated policies ought to be framed in terms of commerce not geopolitics. Australia must not lose sight of the geopolitical benefits of doing business with China. Bilateral interdependencies help motivate Beijing to uphold international security and act multilaterally to address global challenges like climate change, nuclear proliferation, disease pandemics, and organised crime. Decoupling from China would eliminate Australia’s ability to engage with China on these issues and undermine the rules-based order on which Australia’s prosperity depends.

The Solutions: Policy recommendations for economic engagement with China

- Continue Australia's commodity and people mobility-driven economic engagement with China, but develop a political communications strategy that distances commercial relations from diplomatic, military, and strategic decision-making.
- Encourage the Australian business community to explore new opportunities with China but provide incentives for regional diversification through targeted funding increases for Export Finance Australia and through urging higher-standards in trade agreements like RCEP and CPTPP.
- Form an interdepartmental taskforce that pools economic and security expertise to devise strict yet sensible and public rules for foreign investment in critical infrastructure, trade in dual-use technology, and scientific research collaboration. Commit to firm enforcement.
- Minimise downside risk by establishing a fund dedicated to providing temporary financial relief to sectors affected by any coercive economic diplomacy. Boost funding for higher education and research to reduce dependence on overseas income.
- Use the National Foundation for Australia-China Relations to address concerns about undue economic influence by funding: due-diligence capacities for Australian organizations that engage with China; independent Chinese-language media and community organizations; and academic research on how to strengthen trade, investment, and exchanges in a transparent and constructive manner.
- Leverage the alliance and work with other US allies to lobby Washington to seek multilateral solutions to problems with Chinese economic policy.

Economic engagement unquestionably gives Beijing greater weight in Canberra's decision-making, but China's ability to convert trade into leverage is actually quite limited, and Chinese influence competes with countless other influences on national policy, including the US. Australia can afford to continue its commercial relations with China while still countering illicit political interference and upholding rules-based global order.

Whether one likes China or not, the country plays a pivotal role in Australia's economic fortunes. Canberra need not get sentimental about this relationship - national interests explain most international relations - but a hard-nosed China strategy must recognise the benefits that accrue from trade and investment. The 2018 Lowy Institute Poll found that 81 per cent of Australians believe "it is possible for Australia to have a good relationship with China and a good relationship with the United States..." So, such a policy would likely be a vote-winner too.

Neil Thomas is a Research Associate at MacroPolo, Paulson Institute, Chicago



Step-up with Beijing in the Pacific on climate change and development



The Pacific cannot afford to wait for Australia’s domestic politics to align in its favour. It needs consistent and concerted support from its neighbours, including through a strong aid program guided by a comprehensive and properly resourced climate change strategy.

Australia has recognised the need to adjust its approach to development in the Pacific, particularly with respect to its changing relationship with China. The ‘Pacific Step-up’ is becoming a whole of

Government approach to rethink our relationship with our Pacific neighbours. However, rather than trying to directly compete with China, we should embrace a range of approaches to the region.

If we want a healthy relationship with the Pacific, those approaches must centre around us taking significant climate action and an inclusive development approach. If we want a healthy relationship with China, essential for regional stability, we must seek to collaborate on approaches to international development aid that reflect the Sustainable Development Goals, rather than treating the development of our closest neighbours like a geo-political chess board.

Since graduating out of the development aid paradigm nearly a decade ago, Australia and China's relationship has deepened in complexity. Hawkish tactics alone risk shutting down new diplomatic opportunities to find common ground through international cooperation, trade partnerships and cultural exchanges. The recent establishment this year of the new National Foundation for Australia and China Relations is a great example of how to strengthen our relationship and broaden communication channels.

Australia's Pacific step-up has largely been focused on the perceived threat of China's growing influence in the Pacific. The highest profile action being into infrastructure investment via the Australian Infrastructure Financing Facility for the Pacific. Experience in Africa and other parts of Asia would show that this is unlikely to fully succeed. Our foreign policy should certainly speak with an Australian accent, but so too should Australia be open to learning from others.

The political realisation that China has spent a decade growing investments and influence in the Pacific has finally pulled Australia's geo-strategic

By continuing to work closely with New Zealand, Australia can do more as a global champion alongside our Pacific neighbours.

interests back into the political mainstream. It is positive that our Government has responded with the Pacific step-up whole of Government approach that presents a chance to both re-set the special relationship with our Pacific neighbours and redefine that with China.

After nearly two decades of living and working in China, the Pacific and Australia, I agree Australia must consider the serious security implications of China's growing economy and military influence. But it must not fall into the trap that seeks to frame China as a monomaniacal looming threat. There are a few key issues that will determine the success of our Pacific step-up and beyond.

Why a climate step-up in the Pacific is essential to our national interests

One specific issue has lowered our reputation in the eyes of Pacific leaders and communities — our lack of domestic action on climate change. It detracts from Australia's assistance effort in the Pacific over many decades. For all the positive outcomes Australian aid has delivered, our country's continued inaction on climate change (not to mention tasteless jokes about water lapping at the door) undermines not only DFAT's Pacific Strategy, but our political standing with Pacific leaders.

It is not as if those leaders have not been clear. In a May 2019 statement, they said: "All countries, with no caveats, must agree to take decisive and informative action to reduce global emissions, and ensure at scale mitigation and adaptation support for those countries that need it. If we do not, we will lose, we will lose our homes, our ways of life, our wellbeing and our livelihoods. We know this because we are experiencing loss already." It's hard to comprehend why our own political leaders don't see the cause and effect between climate inaction and growing Chinese influence in the Pacific.

By continuing to work closely with New Zealand, Australia can do more as a global champion alongside our Pacific neighbours. While DFAT has a very strong track record of support to Pacific islands and our Foreign Affairs White Paper is very clear on the strategy, it is often contradicted by political rhetoric and our own lack of emission reductions. To be a champion will require direct action.

First, acting quickly at home to reduce our emissions and transition out of exporting thermal coal will show Australia has heard Pacific leaders. Reducing Australia's pollution by 45 per cent on 2005 levels by 2030 and reaching net-zero pollution by 2050 would be a good start, but it is the bare minimum. We must also commit to a just transition to phase out thermal coal exports by 2030.

Second, Australia must accept that Pacific Islanders will always be the owners of what they now call Pacific Ocean States. This means acknowledging they retain enduring sovereign rights over their islands and seascapes, despite the current interpretation of international law of the sea, which questions the ownership of Exclusive Economic Zones (EEZ) once islands are submerged.

Third, we need to rebuild the overall aid program which should have both the Pacific Step-up and a comprehensive climate change strategy at its heart.

It's essential Australia expands programs that are helping Pacific nations build resilience and adapt to climate change impacts. DFAT has been working on a strategic framework for integrating climate change action across Australia's aid program for more than three years but that strategy has languished in the Minister's office for the last six months. The Pacific cannot afford to wait for Australia's domestic politics to align in its favour. It needs consistent and concerted support from its neighbours, including through a strong aid program guided by a comprehensive and properly resourced climate change strategy. A strategy that goes beyond climate-proofing hard infrastructure to address the deeper impacts of the climate emergency on biodiversity, nutrition, health, and the livelihoods and wellbeing of ordinary people.

Providing voluntary migration opportunities and humanitarian visas are good steps but in a worst-case scenario we should now be considering ways of granting Australian permanent residency for the entire populations of nations at greatest risk.

Sustainably managed coastal fisheries can also provide high-value products that are in-demand among Chinese consumers.

As former prime minister Kevin Rudd points out in his February 2019 essay, this would currently include Tuvalu, Nauru and Kiribati — the combined populations of which are less than half of Australia's annual regular migration

intake. However, I disagree with Rudd's suggestion that such arrangements should come at the cost of Pacific nation EEZs. Rather, this safety net should be carefully planned now with our neighbours as an act of solidarity, humanity and mateship.

How Australia must engage on Chinese aid

Australia must accept that increased investment into the Pacific will come not only from China but other Asian economies as well. It is however important not to overstate their influence. Beijing committed only eight per cent of total aid to the region between 2011 and 2018. Australia should not try to compete with these rapidly emerging powers in their strengths. Instead, we must play to our own strengths and seek opportunities for mutually beneficial collaboration.

For decades, we have demonstrated our strength lies in a commitment to proper governance in many sectors; capacity building in areas like health, education, climate, fisheries and gender; our diaspora of Pacific Islanders who call Australia home; and our shared cultural values. These strengths mean we have a role beyond funding to be a champion of the Pacific. There are real regional security issues, like Chinese ports, to be very firm about, but forming technical partnerships with the new Chinese International Development Agency on issues like health, education and climate adaptation infrastructure can also build technical and diplomatic bridges.

Trilateral development cooperation can also play a role. But it must not be predicated only on the interests of and opportunities available to China and Australia. The first test for any trilateral approach must be that it is in-line with the development ambitions and needs of the Pacific and strengthens - not duplicates - efforts already under way.

China and Australia already have some experience working trilaterally with a Pacific Island development partner, having recently concluded a three-year Australia-China-Papua New Guinea Pilot Cooperation on Malaria Control. This brought together Chinese expertise and in-kind contributions, and Australian Official Development Assistance to support PNG's public health institutions to improve malaria diagnosis. With more than 95 per cent of PNG people living in high-risk areas, this is a key development issue and the sort of geo-politically neutral issue to which Australia and China could contribute in a non-competitive fashion.

Working together to help sustainably manage natural resources and infrastructure in the face of a changing climate would be another great way for China and Australia to support the region's sustainable development in a non-competitive way. It would be in line with the White Paper's Ocean policy, plus the recently launched Asian Development Bank *Action Plan for Healthy Oceans*.

DFAT's work in the Pacific on climate change has, up until recently, been largely hidden from a previous Government's ideology that was keen to remove all climate projects from the national budget.

The new \$75 million Australia Pacific Climate Partnership is a great example of Australian capacity for climate action and disaster resilience in the Pacific. This is part of a much bigger commitment in the Foreign Policy White Paper to strengthen the Pacific's response to the climate emergency and could present numerous geopolitically neutral opportunities to collaborate with China in the Pacific.

Just as China has embraced climate action, so too could it be an opportunity for the countries of the Pacific to forge broader cooperation.

Another opportunity for development cooperation is inshore and coastal fisheries: the key source of food and nutrition security which contributes almost as much to Pacific economies as the more commercially lucrative (and often contested) offshore

fisheries. Sustainably managed coastal fisheries can also provide high-value products that are in-demand among Chinese consumers, such as sea cucumber. However, the Secretariat of the Pacific Community has estimated that 75 per cent of the region's coastal fisheries will not even meet local food security needs by 2030. Good governance and technology will play a crucial role in solutions to these challenges.

Just as there are things that Australia may be able to teach China's new aid agency about designing and delivering effective aid projects, we should also be open to learning from China. After all, it is a country which has lifted hundreds of millions of people out of poverty in just a few decades.

Good ideas are never completely new. This is true of listening and learning from each other. The Australia-China Bilateral Climate Change Partnership was established back in 2004 and even advanced under the Abbott Government. There were lessons learnt, but as China's understanding of development aid and climate has become significantly more sophisticated than in the 2000s, this partnership should also be revisited.

Conclusion

The changing geo-politics of our region are a reality we need to embrace. That must come with an acknowledgement that we have been both distracted from our special relationship with the Pacific and have damaged it with our domestic climate inaction.

We need to have a balanced approach between Australia and China in which we listen to the needs of the Pacific. The previous imbalance of our hawkish approach will only increase the tension and threaten the other important trade and development elements of our complex relationship with China. There are real security concerns, but to make them the centrepiece of our Pacific Step-up will neither re-build our damaged relationship with the Pacific nor deliver for our or the Pacific countries' interests in the long term. A domestic climate step up is key to this, or our Pacific step-up will fail.

DFAT has already opened the door to a trilateral approach to the Pacific at a meeting between Australia and China's foreign ministers in November last year. While it is not yet clear what this might look like, any such approach must have the needs and sovereignty of Pacific nations at its heart, with a spirit of *talanoa* and meaningful action guiding it. Perhaps here, climate change adaptation represents a 'sweet spot' between these two needs. Just as China has embraced climate action as an opportunity at home, so too could it be an opportunity for Australia, China and the countries of the Pacific to forge broader cooperation.

This will, of course, require a significant scaling-up of Australia's aid program and a renewed focus, both for China and Australia, on sectors that are aligned with Pacific country priorities and are geopolitically neutral enough to facilitate collective action rather than competition. Australia has a very high standing in the region, but to step back from development aid and climate action will not deliver the type of region we need now nor one our children will inherit.

Dermot O'Gorman is Chief Executive Officer of the World Wide Fund for Nature Australia.



White Paper trails: Why defence cooperation still matters



Australia has often used the defence relationship to send signals to other countries when they do something that displeases us. We should resist the temptation with China.

China has always loomed large in Australia's strategic imagination. It is a major Asian power with vast economic and strategic potential.

It has a long history of cultural and political engagement across the Indo Pacific and it borders the Eurasian landmass as well as the Pacific Ocean.

It has a large and diverse diaspora. There has been a Chinese presence in Australia since the earliest days of settlement. China has shaped Australian social policy and challenged our national identity through its large presence in the world and the energy of its diaspora communities. China has had a profound influence on Australia's strategic policy over decades. Its influence will continue to be enormous in every dimension of our national life.

In the Australian strategic policy assessments, from the 1940s to the 1970s, China was seen as a threat. How this threat was framed was very much a reflection of the moment when assessments were written and the shifting dynamics of the Cold War.

In the 1970s, Australian strategic thinking began to move away from the idea of China as a direct threat to Australia, but it continued to recognise that it would remain a country of substantial political and strategic consequence. In the 1980s and 90s, defence policy shifted to a focus on the direct defence of Australia and a priority for the capacity to undertake military operations in our near region. China was not part of the thinking behind this shift. Since the 2000 Defence White Paper, strategic policy has recognised that the strategic relationship between China and the United States is the single most important element of the regional security architecture. This understanding laid the foundations for the recognition that Australia had to develop a strategic relationship with China that included a defence relationship.

Economic security drives rising military power

Recent decades saw a broad consensus emerge in the defence policy community that China's military development was commensurate with its emerging economic power. China's developing military power was described as a natural outgrowth of its economic development and a reflection of its need to secure its broader strategic interests, particularly as it is a country that is dependent on trade and external resources for its development.

China's economic and military growth has now changed the Indo-Pacific strategic environment irreversibly. It is the major trading partner for most countries in the Indo-Pacific. It has begun to challenge the strategic primacy of the US. It is more assertive militarily, most notably in the South China Sea with its island building to secure its disputed territorial claims.

Defence White Papers from 2009 have responded to this change, but the response has varied, reflecting uncertainty in Australian thinking about the strategic and security consequences of China's growing power. In sequence, the White Papers embody three subtly different strategies to what they considered to be the primary strategic challenge for Australia — the rise of China.

The 2009 White Paper argues for a much stronger ADF and reasserts the alliance with the US as a core element of Australia's defence and security. It also identified the possibility of a direct military threat to Australia from a major Asian power, which some interpreted as China, though the document was not explicit on this.

The 2013 White Paper introduced the idea of the Indo-Pacific as an enabling policy framework that sought to position China as part of a larger security community. The central strategic challenge was to develop a regional architecture capable of managing the interests of that community as a whole without necessarily being dominated by any single power. That White Paper also recognised the centrality of the US alliance for Australian security.

The 2016 White Paper suggested that Australia's security interests were not necessarily tied to our geographic position but resided more broadly in how the global system functioned. It emphasised the importance of support for a rules-based global system. Australia's strategic interest was in a China that continued to accommodate to the existing rules-based order.

The 2017 Foreign Policy White Paper introduced a more sombre tone in its assessment of the strategic implications of the rise of China.

What these policy documents do, when read in succession, is chart the increasing complexity of the strategic challenge that China now represents.

Countries develop defence relationships for many reasons. The future might hold a crisis that requires that the countries work together. This is easier if they know each other.

Defence links are built on mutual strategic understanding

A defence relationship can be an important part of the broader pattern of relations between countries, as well as a sign of the maturing of the broader bilateral relationship. What countries will do together in the area of defence can indicate the level

of trust they have in each other's strategic intentions. Defence relationships can enable influence and understanding in both directions. They can be important for confidence building because they enable and strengthen capacity to understand the difference between what a country says it is doing and what it actually does.

Perhaps most importantly, a defence relationship increases understanding on both sides as to how either country might use its military forces in a crisis. It can provide insight into how defence culture is shaped by how a country thinks about its strategic environment, its geography and its history. Most importantly, it can help understand how these influences translate into operational capability and decision making. This knowledge is as important for allies as it is for potential adversaries. To understand a country's strengths and weaknesses and how it might use its military force in a crisis enables more effective response and management of escalation or de-escalation.

No country's interests are completely congruent with the interests of other countries. Countries will therefore always reserve some capacity to act independently. This necessarily establishes the limits of trust and the limits of any defence relationship. The central question governing the future development of the defence relationship between Australia and China is: what are the limits?

Australia and China have developed defence engagement and defence cooperation steadily since the late 1970s. There was a visit in 1978 to China by the senior Defence official Paul Dibb, which led to the exchange of defence attaches a couple of years later. There was a goodwill visit by HMAS Swan in 1981. The Joint Services Staff College visited China

for the first time in 1982.

In 1998, General Chi Haotian, was the first Chinese Defence Minister to visit Australia. This visit saw the establishment of an annual strategic dialogue at senior officials level, which has continued.

The future might hold a crisis that requires that the countries work together. This is easier if they know each other.

In 1999, Defence Minister John Moore visited China and since then every Australian Defence Minister has visited, and there have been regular visits to Australia by Chinese counterparts. Ship visits both ways are now a regular occurrence. China participated in the combined Naval Exercise Kakadu in 2017 for the first time. There has also been limited training between the Australian and

Chinese armies in Australia. In addition, Australian staff colleges have had Chinese students attend and there have been regular study visits to Australia by Chinese military personnel. China is now a regular destination for senior Australian military personnel. One of the more significant engagements in recent years was Australian support for the Chinese deployment into the Indian Ocean to search for the wreckage of Malaysian flight MH370.

How the defence relationship evolves will be a very important indicator of the state of the broader strategic relationship.

Even as engagement has increased, we have seen China expand its presence and capacity for the exercise of coercion, particularly through island building and militarisation in the South China Sea. Australia has also been concerned at China's

expansion of activities in the Pacific, particularly with the possibility that China may seek to establish some form of permanent military presence through access to basing rights in one or more of the Pacific island countries.

The strategic relationship is therefore one of engagement and increasing competition. Capability building by Australia and the further development of other strategic relationships across the Indo-Pacific, such as with Japan and India, represent, in part, a strategic response to China's increasing military presence. Another important element of Australia's response is the continuing affirmation of the centrality of the alliance with the US to Australian security and the development of capabilities that not only provide for the defence of Australia, but also strengthen Australia's capacity to operate with the US.

The defence relationship with China has seen steady but slow growth, with the central element of it still being personal contact and dialogue at the senior levels reinforced by reciprocal visits. The relationship is contextualised by competing and fundamentally incompatible strategic objectives. For China, a strategic goal is to weaken Australia's commitment to the US alliance and for Australia to more visibly accommodate Chinese economic, political, and strategic interests. This would include recognition of China's primacy as the pre-eminent power in the Indo-Pacific.

Australia's strategic goals include retaining the alliance with the US as the central pillar of our security. This means supporting continued US presence and strategic primacy in the Indo-Pacific

and supporting China's participation in the global rules-based order in ways that support our interests.

These strategic goals are not compatible and they are not likely to shift for the foreseeable future. The strategic relationship is therefore likely to be characterised by continuing engagement and limited defence cooperation, but increased competition as China seeks to expand its strategic space and its conception of its legitimate interests. This competition will continue for as long as the Indo-Pacific strategic order remains contested.

How the defence relationship evolves will be a very important indicator of the state of the broader strategic relationship. It is in Australia's national interests that we continue to develop the defence relationship with China, but the reality of that relationship is the inherent asymmetry as a result of size difference and the very different strategic challenges each military has to respond to. China does not have much experience as a modern major power. It is developing strategic capability but has limited experience in using it as an instrument of national power. Few of its military personnel know much of the world beyond China. Just as it is important for us to understand the Chinese military, it is important that they understand the world. How we build the defence relationship in the future must recognise this broad context.

Defining the limits of cooperation

Both Australia and China should understand and be explicit as to where the limits of cooperation lie. This enables cooperation in areas where interests converge, and the effective management of challenges where they do not. For Australia, observance of international conventions such as the United Nations Convention on the Law of the Sea are non-negotiable. Our participation in the alliance relationship with US and in other regional security forums is similarly non-negotiable. China has its own set of non-negotiable interests. These will not change. The challenge will be managing them effectively without destabilising the relationship as a whole and putting at risk areas of cooperation where our interests are mutual.

We should increase the level and frequency of visits and dialogue, personnel exchanges and shared training activities. The value of strategic dialogue, study visits, and other defence activities is the awareness that it brings of the perspectives and culture of participants. It is important that Australia

and China understand each other, their perspectives on the world and how this translates into strategy and operational practice.

The focus of strategic dialogue should be directed at increasing a mutual understanding of differing perspectives on the regional strategic environment, but also on how and where crises might occur. This has the benefit of strengthening the capacity to manage a crisis between our countries, should one occur, or to be able to work together in response to regional problems when they occur.

Not all crises involve potential military conflict. There are many where military capabilities provide the only capacity to respond. Natural disasters are

Australia and China should increase military exercises, particularly in the maritime domain.

one such example, but there are also regional security challenges that engage the interests of all countries — such as terrorism or piracy, or the need for search and rescue. The search for the

missing Malaysian airline is a recent example of very substantial cooperation between Chinese and Australian military forces.

Australia and China should increase military exercises, particularly in the maritime domain. This recognises that the Indo-Pacific strategic environment is primarily a maritime environment and both countries have an over-riding strategic interest in the security of that environment and its sea-lanes. Exercises and the development of protocols for managing potential incidents while building the capacity to work together would strengthen engagement and build capacity.

There will be crises in the bilateral relationship, and these will put cooperation at risk. Australia has often used the defence relationship to send signals to other countries when they do something that displeases us. We should resist the temptation with China. We need to understand China, which does not mean condoning its behaviour. We particularly need to understand its evolving thinking on strategy and the use of military force. The best way of maintaining that understanding is to continue to engage in an active defence relationship.

Brendan Sargeant is honorary professor at the Strategic and Defence Studies Centre at the Australian National University.



GREG AUSTIN

Digital China: Has Australia been spooked?



Australia needs clear heads, objective analysis and confidence-building measures to manage its cyber relations with China.

In May 2019, former prime minister Paul Keating claimed that the current hostility to China from the Australian government arose because “nutters” were in charge of the country’s intelligence agencies. His statement was both inappropriate and incorrect.

But the country at large has clearly been spooked by several things that China is doing. The agencies need to do more in public to help the country navigate these challenges in a calm and considered way.

Digital China has become a major determinant of international order in Asia. Old questions about “peaceful rise” and naval power have been supplanted by urgent and unanswered questions about entanglement in cyberspace, about cyber power, and about latent Chinese potential for sabotage of global telecommunications. Fear and uncertainty about things that might happen in cyberspace have replaced an earlier confidence about an order premised on more tangible, more conventional measures of power and influence. The old order was a place where China was still seen as rising but not yet dominant. The new order is, for some parties at least, about urgently preventing China from becoming dominant in cyber space.

Fears of digital China can be traced to the rise in its international cyber espionage documented most fully (in public at least) by agencies of the US government and private corporations beholden to it. The issue took on new prominence in 2011 when the US National Counter Intelligence Executive reported on commercial cyber espionage against that country, naming China as the leading antagonist.

By 2013, US anxiety reached new heights when the National Security Adviser, Thomas Donilon, issued unprecedented public demands on China to cease and desist. The espionage issue has remained very prominent in global diplomacy, with President Donald Trump declaring China’s continuing theft of intellectual property as one foundation for his declaration of a trade war with that country in 2018.

In Australia, the espionage concerns played out in a decision by the former Labor Prime Minister Julia Gillard in 2012 to block the Chinese company Huawei from bidding for work or a supply relationship in the National Broadband Network.

China’s ruthless application of advanced information technologies to support escalating domestic repression has tainted all forms of information collaboration.

(Huawei systems already occupy a strong market position internationally in 4G networks.) The US and Australia now agree that the Chinese company should be excluded not just because of long

standing concerns about espionage but because of the potential risk of sabotage in a political crisis. By 2018, the concerns over cyber espionage were augmented, at least in the case of the US and Australia, by heightened concerns over sabotage as countries around the world pondered the implications of possible involvement of Huawei in deployment of 5G technologies in national communications systems.

standing concerns about espionage but because of the potential risk of sabotage in a political crisis.

Moreover, the two close allies are collaborating in a global campaign, directed in part at equally close allies (the UK and Canada), to bring their positions into line with the US and Australian one. The division within the Five Eyes intelligence alliance was around the issue of whether it made sense to try to build a globally secure 5G system at the same time as excluding the world’s second biggest national economy and a world leading technology provider from it.

Battle lines drawn

While all parties – China, the US, Australia and allies – pressed on for a continuation of mutually beneficial trade and investment, by 2018 new battle lines were firmly put in place by the American alliance and like-minded countries. Many such countries (22 in all) agreed to a policy of diplomatic retaliation against what they saw as unacceptable and unabated malicious activity in cyber space by China. These countries agreed on a new “axis of cyber evil”: China, Russia, Iran and North Korea. This policy, labelled “persistent engagement” and originating in the US, provided a mechanism for early and joint public attribution by the coalition of major cyber attacks and for public and joint diplomatic protest to the countries concerned over the activity. The policy was augmented by the Cyber Deterrence Initiative, also US-led, which involves retaliatory attacks (in cyber space and in non-cyber fields) by the US and other allies in response to specific cyber attacks from the cyber axis powers.

The shift to a more robust position on cyberspace retaliation by the US, Australia and allies was facilitated by four strategic circumstances. The first was the US policy of rebalance, which saw the Americans refocus on Asia as a major theatre of strategic competition. The second was growing alarm over maritime and military affairs in Asia because of tension along most of China’s ocean frontier, especially its massive island building on features in the South China Sea it had occupied for more than two decades. Third, China’s ruthless application of advanced information technologies to support escalating domestic repression has tainted all forms of information and communications technology (ICT) collaboration with the country. Fourth, there has been the growing sense of lawlessness in cyberspace. Western allies have been painting China, North Korea, Iran and Russia

as major villains. For their part, Russia and China have publicly declared their sense that the West is using cyberspace to undermine their domestic political order. They like to remind the world of the revelations of Edward Snowden about massive cyber espionage by the US. By the end of 2016, despite agreement one year earlier in the United Nations Group of Governmental Experts on possible voluntary norms for security in cyberspace, that consensus had already collapsed. A military arms race in cyberspace became the dominant dynamic and it was overlain with alarm around information warfare in the broader sense, as evidence of Russian cyber interference in the US election mounted.

Misunderstanding China's cyber power

The sharp contours of the escalating conflict have fostered sensationalist rhetoric and crowded out more subtle analyses of the emerging realities. On close examination, China is not holding a strong hand. It wants to win, or at least score highly, in cyber competition but it simply is not holding the right cards. As documented in my 2018 book *Cybersecurity in China*, the country has a weak cyber industrial complex and its universities have proven unable to turn out qualified professionals in the very large numbers needed for a diverse array of advanced cyber skills. The country's cyber security workforce deficit has been estimated by Chinese authorities to reach 1.4 million people by 2020.

A missing link in our knowledge of China's cyber scene is just how much it depends on foreign technology and foreign workers (working offshore) for its capability. We do know that the Chinese government will have to rely for years to come on Microsoft for the front-line security of the majority of its official desktop computers. The US-based company won a contract to supply Windows 10 for Government (Chinese) as part of a joint venture with the China Electronics Technology Corporation (CETC). The Microsoft announcement in 2017 should be essential reading for anyone wanting to understand the deep penetration of US technology and specialists in China's cyber ecosystem.

In spite of its undoubted cyber offensive capability for espionage, China is weak in defence in this domain. My book references many analyses from Chinese sources that bear out this judgement. Moreover, capability for cyber espionage is child's play compared with what is needed for sustained military engagement in cyberspace in a political crisis. The environment will be characterised by

multi-vector, multi-wave, multi-theatre cyber attacks directed at military and civilian targets.

In this field, the US (supported by its allies) stand head and shoulders above China. An easy reference point for this comparison lies in the field of the C4ISTAR systems of the two sides.

C4ISTAR is the acronym for Communications, Computers, Intelligence, Surveillance, Targeting Acquisition and Reconnaissance, which in short is the "brain" of the Americans' war fighting capability — be it for kinetic operations alone or for combined cyber and kinetic operations. But even a minute of reflection on the term should reveal the fact

Chinese leaders fully appreciate the country's weaknesses and vulnerabilities in cyberspace.

that there is almost zero kinetic activity in the military sphere that is not dependent on cyber military survivability of the C4ISTAR systems. A state whose armed forces cannot defend themselves

well in cyberspace (including the systems in outer space supporting such defence) will be at the mercy of the awesome offensive cyber military power of the US and its leading cyber allies. According to a 2019 US Air Force report, the US has ten times as many communications satellites as China and three times as many intelligence, surveillance and remote sensing satellites.

Chinese leaders fully appreciate the country's weaknesses and vulnerabilities in cyberspace (and outer space). But they face several big dilemmas in framing an international policy that can help them compensate for their weaknesses while not surrendering on core policy positions on the domestic front, especially enhanced surveillance and escalating political repression.

Restorative diplomacy

The discussion above paints a confusing picture. On the one hand, China looks increasingly like a belligerent actor believing that it can test the patience of the liberal Western democracies because it has new-found economic and conventional military power. On the other hand, its leaders know that it is profoundly disadvantaged in key areas of capability in cyberspace. In classic political science terms, such a dichotomous reality would seem to suggest either an imbalance of political power among the ruling elites (a leadership split) or an underlying sense of fragility about their hold on government, or a combination of both.

Any strategy for restorative diplomacy with China on cyberspace issues, including a more accommodating position toward companies like Huawei, would have to be framed against that consideration of political fragility within China -while holding the line on deterrence of malicious activity.

Moreover, in practical terms, the emotional and political taint that now affects Australia's relations with digital China, and companies like Huawei, makes restorative diplomacy almost impossible. The antagonism is being fuelled by the cruel reality of the Chinese government's escalating domestic repression using cyber means, and because of exaggerated perceptions of massive gains by China from its theft of intellectual property by cyber espionage. Whether well-founded or not, attitudes in the US toward China's activity in cyberspace are now almost as outraged as they were in response to the Soviet invasion of Czechoslovakia in 1968 or China's massacre of students in Tiananmen Square 1989. And Australia has been swept up in that American cyber outrage in a way that Britain and Canada have not.

At the level of national foreign policy, it would seem almost impossible for Australia to consider more collaborative relations with China in cyberspace affairs unless and until the latter desists from its most egregious malicious activity. Not much will change as long as Australian elites continue to accept uncritically the sensationalist rhetoric and exaggerated claims about the impacts of digital China on the country's national security.

A détente is clearly needed in Australia-China cyberspace relations.

Even corporations and scholars are becoming increasingly locked-in to non-collaborative positions when it comes to digital China. The hostile public mood has been stoked by

Clive Hamilton's 2018 book, *Silent Invasion*, which is premised on that author's false (and ludicrous) claim that "China plans to dominate the world." But the mood has also been set by a government intent on finding any excuse for new national security legislation for electoral gain. The leaders of this government appear to have lost sight of the enduring authoritarian character of China's government and it seems they were never schooled in the decades long history of China's interference in Australia, most of it marginal and unsuccessful.

The latest driver of this anti-China cyber hysteria is the executive order signed by Trump on May 15 this year. The decree calls out sabotage as the main cyber threat in peacetime from foreign states, and declared a cyber national emergency, the third such emergency decreed by a US President in less than four years.

Most importantly, the executive order includes provisions for the US to ban all ICT trade with any country labelled as an adversary by the President. The order places a complete ban on US companies or individuals conducting future business of any kind with foreign ICT corporations from a country the US administration has formally declared to be an adversary. The order also makes it clear that banned products and services will be any that are "supplied by persons owned by, controlled by, or subject to the jurisdiction or direction of foreign adversaries."

At the time the order was signed, it was unambiguously directed at China, even though the country was not named. Within days, several leading corporations globally had begun to curtail links with China, including in discussions about 5G technical standards.

What would have been less visible during those early days is the high degree of agitation against the White House order by leading US tech companies who have staked much of their future growth on China and by leading banks which depend on continued ICT cooperation with China for basic cyber security of inter-bank transfers.

A détente is clearly needed in Australia-China cyberspace relations. But confidence building measures, such as Track 1.5 dialogues, will be useless unless China is prepared to scale back its malicious activity in cyberspace and its cyber-enabled domestic repression. On the Australian side, we need more balanced analysis which can only be achieved by boosting our expertise in China's politics and economy and giving greater respect to the views of global leaders in research in those fields. Conflict is still escalating. We need clear heads and objective analysis.

Greg Austin is Professor of Cyber Security, Strategy and Diplomacy at the Australian Defence Force Academy.

JASON YAT-SEN LI

Trusting Chinese Australians as partners in managing a rising superpower



When does a new migrant stop being Chinese and start being Australian? Is this at the point of becoming an Australian citizen? And if that is not enough, then what is?

On New Year's Day 1960, my father boarded a small charter vessel at Hong Kong Harbour bound for Sydney. Our family's story is a typical migrant's

tale, like the thousands who had come before and after us. When he arrived in Sydney, Dad was welcomed by the largely Hong Kong and South East

Asian, Cantonese and Hokkien-speaking Chinese community. The PRC was only 11 years old and was in the grip of the humanitarian catastrophe of the Great Leap Forward.

Chinese settlers have been arriving in Australia since Mak Sai Ying landed in Sydney aboard the convict ship the *Laurel* in 1818.

Arriving from both mainland China and also importantly other parts of Asia these Chinese migrants shared a Chinese cultural heritage with over 5,000 years of recorded history. Most have nothing to do with the PRC, a political entity less than 70 years old. Indeed, it was only from the 2000s onwards that the CCP began to regard the Chinese diaspora as an ally and asset, rather than with suspicion as Nationalists and Western-influenced bourgeois. Australians with Chinese ancestry now number 1.2 million, part of the global Chinese diaspora of more than 60 million in more than 180 countries.

The geopolitical reality emerges

In 2018, the United States officially classed China as a strategic adversary and threat, rather than a strategic partner and signalled to its allies that they should do likewise. It had dawned finally that China's economic development would not bring greater freedom and that China was becoming more authoritarian. And technology, long hoped to be a democratising force, had in fact become a tool of control. The current US-China trade war is just one symptom of the underlying tectonic strategic rivalry between the superpowers for economic, military, technological, cultural and ideological dominance.

Yet, the PRC is also Australia's most important strategic and economic relationship. The PRC's now massive investments in technology, renewable energy, science and the creation of new markets underpins the critical role it plays in Australia's future prosperity. Australia cannot not have a relationship with China, so we must find a way to make it work.

The projection of Chinese power is increasingly confident, broad-based and extraterritorial. Coinciding with the growing numbers of Chinese in Australia, our security agencies and mainstream media have been investigating what has been described as widespread, systematic and covert activity by the CCP to interfere in Australian politics, democracy and domestic affairs.

The debate about Chinese political interference and influence culminated in the resignation of Labor Senator Sam Dastyari, the cancellation of prominent Chinese businessman Huang Xiangmo's permanent residency visa and the passing, with bipartisan support, of the Foreign Influence Transparency Scheme Act and the Espionage and Foreign Interference Act.

The Chinese Australian diaspora is now facing the gravest threat to its democratic rights since the White Australia Policy and the Immigration Restriction Act of 1901. In contrast to the artless

Australia must ensure that the steps we take to protect our democracy are balanced, non-discriminatory and subject to checks and balances.

racism of Pauline Hanson in the late 1990s when the Australian Chinese community united and mobilised, the community's awkward silence this time points to a more complex menace. In spite of accusations that the new foreign interference and influence laws unfairly and

specifically target the PRC, of the 51 submissions to the parliamentary review of the new national security bills, only one was from a Chinese Australian community organisation. Normally vocal advocates have said nothing, most likely fearing that if they dared defend China, they would be painted and tainted as CCP agents.

Australia must strongly resist any foreign activity that seeks to subvert our democracy and way of life. However, we must also ensure that the steps we take to protect our democracy are balanced, non-discriminatory and subject to checks and balances. At a time when Australian press freedoms are also under attack, how do we ensure our democratic rights are not sacrificed at the altar of national security? And how do we ensure that in our efforts to protect Australian values, we do not act in ways that destroy those very values?

The debate has also become highly polarised, increasingly personal and alarmingly populist, characteristics not conducive to everyone working together to develop solutions to this critically important but highly complex issue. One side calling the other racist and the other side labelling the first "Panda huggers", is not productive.

Where the diaspora and geopolitics collide

Academic and author Clive Hamilton writes: “At the highest levels in China, directives for influence programs are formulated by the Politburo and passed down to the CCP Central Committee. Responsibilities are there divided between the Overseas Chinese Affairs Office and the United Front Work Department... Through this structure the PRC reaches deeply in the Chinese diaspora in Australia, using it for the purpose of influence, control and espionage, including spying on the community itself.”

This statement is objectionable because it accuses the entire Chinese diaspora, from the descendants of the Gold Rush settlers to Kylie Kwong and Lee Lin Chin, of being patsies for the CCP. It risks undermining the foundations of our multicultural society by arousing suspicion against a large segment of the population, simply because of their race and cultural heritage.

However, the CCP does indeed appear to quite openly blur the line between its citizens and members of the Chinese diaspora overseas, claiming the diaspora as part of its greater civilisational whole and seeking its support. Australia, for that matter, also seeks to engage the Australian diaspora living overseas.

How in this context does Australia, and indeed any liberal democracy with a substantial Chinese population, shield itself from unacceptable CCP influence whilst at the same time avoid stoking distrust against its citizens with Chinese heritage? It is a formidable challenge and one made even more complicated by the legitimate aim of the Chinese Australian diaspora to be better politically represented.

We must sharpen our language so that the diversity of the Chinese Australian diaspora is properly reflected.

There are hardly any Chinese Australians in parliament. Work by the Australian Human Rights Commission has shown that the proportion of members of Federal Parliament with a non-European heritage is just

4.1 per cent. This compares with non-Europeans in the broader community of about 21 per cent and Australians with Chinese heritage of about 5 per cent. The Chinese Australian community has long regarded its political engagement through

fundraising and donations. This has led to the community being described as a cash-cow for political parties, called upon at key times to provide funds but mostly otherwise ignored. The great irony of the Chinese political influence debate is that Chinese Australians actually have none.

Even the aspiration of Chinese Australians to political representation has been labelled a subversive strategy of the CCP. Clive Hamilton argues that the CCP “has been actively encouraging trusted members of Chinese communities in countries like Australia to become directly involved in running for political office, a policy known as *huaren canzheng*”. It must be noted that *huaren canzheng* 华人参政 is not a particular term of art or political phraseology, but simply and literally means “people of Chinese heritage participating in politics” in plain Mandarin Chinese. If this is to be opposed, one would be supporting the opposite proposition, that is *huaren bu canzheng*, which means “people of Chinese heritage do not participate in politics”: in other words, a disenfranchised, disengaged group of second-class citizens.

Time to rely on trust and belonging

It is clear that recent geopolitics have raised deeply challenging questions that go to the heart of who we are and who we can trust. For example, could we trust a former PRC national, who has become an Australian citizen but still has family in the PRC, to be a member of the Australian Parliament? Would we vote for them? Would political parties dare even preselect them as candidates?

If a Chinese Australian rose to the most senior levels of the public service, could we trust them with the most confidential of our nation’s secrets? Or an Australian company’s valuable IP? Or an Australian university’s ground-breaking research?

And if we cannot give this trust, what does that mean for our multicultural, liberal democracy that a citizen’s career in fields deemed sensitive are curtailed simply because of their background? When does a new migrant stop being Chinese and start being Australian? Is this at the point of becoming an Australian citizen? And if that is not enough, then what is?

A path forward

Finding solutions to issues of this complexity will require the sustained commitment and leadership of successive governments and leadership from all parts of Australian society. Here are some things we can do.

We must sharpen our language so that the diversity of the Chinese Australian diaspora is properly reflected. When we mean the PRC or the CCP, let's say just that rather than to use the broad term "Chinese". Moreover, when a Chinese Australian has Taiwanese or Hong Kong heritage or an association with the Falun Gong, let's also be explicit about that as this nuance will bring a particular colour and context to their views about the PRC.

Let's then tell more of the stories of the diaspora and its contribution to Australia: men, women, families and communities who are active in every aspect of Australian life because of their commitment to Australia, not the PRC.

We should aspire to Australian leadership that broadly reflects the make-up of the community. If indeed it is the objective of the CCP to nurture ties of affinity and culture with Chinese Australians through a "charm offensive", surely the prudent response for Australia is to fully embrace Chinese Australians and welcome their greater participation in Australian society.

Australian parliaments, the boards of our major companies and organisations, as well as other leadership bodies across government, business, the arts and the community should establish aspirational diversity targets which, although not mandatory quotas, establish a clear goal to work towards. These goals will drive the policies and initiatives that bring about change.

The Australia Chinese community itself should put aside historical divisions and unite to create a national peak community body that can effectively represent and advocate for its interests. The primary purpose of this body might be to improve the civic understanding and engagement of Chinese Australians and to support and nurture future leaders across sectors.

Further, government departments and agencies might consider adopting a specific framework for identifying and promoting outstanding talent amongst professionals with sensitive backgrounds.

For example, if an Australian citizen with a PRC background is judged to be an outstanding asset but has parents in the PRC, and that is considered a vulnerability, the framework's aim should be to provide a clear career and leadership pathway, and to support the professional to deal with the sensitivities openly and constructively.

Australia must adopt a balanced and sophisticated view of the PRC, one that takes into account both the positive and negative and does not buy-in the false binary choice between China and the US. Recent mainstream commentary and media has focused almost exclusively on "bad China": an authoritarian state that crushes dissent, oppresses its own

If we begin distrusting our own citizens, that will do more damage to Australian democracy than the CCP ever could.

minorities, suppresses free speech and human rights and seeks to refashion the international order to its liking. As David Brophy of the University of Sydney observes, China is being judged in the current political climate by what it is, not by what it does.

But there is also "good China". This is the China that brought critical dynamism to a faltering global economy during the financial crisis, provides global leadership on climate change and renewable energy, defends free trade, promotes arts and culture, contributes to peace-keeping, disaster-relief and anti-piracy operations, and in short, provides a range of international public goods and leadership to the global commons.

It is crucial that Australia sees the Chinese Australia diaspora not as a threat but rather as an asset and partner. Rather than shutting out the Chinese Australian community, Australia's security agencies should more deeply engage with the community as part of our efforts to oppose and counter foreign interference and guide our relationship with the PRC, in a similar way to how the Australian Muslim community is engaged in the fight against extremism.

Most fundamentally, we must continue to trust Chinese Australians. Because if we begin distrusting our own citizens, that will do more damage to Australian democracy than the CCP ever could.

Giving trust is also about being confident in our own Australian values and the strength and resilience of our democratic institutions. In the imperative to resist covert influence operations from any foreign power, let's not give into populism, panic and suspicious overreach. These are from the playbook of authoritarian regimes, not confident liberal democracies.

As a consequence of this trust and confidence, let's empower Chinese Australians to participate more fully in Australian politics and leadership so that they may have a true sense of belonging to our nation and community. This is the most powerful defence against any appeal by the CCP to a Chinese Australian's sense of cultural heritage: to have them feel they are trusted, empowered and valued by Australia and their fellow Australians.

Jason Yat-sen Li is Chairman of Vantage Asia Holdings and an advisory board member of China Matters.



JULIA BERGIN

Drawing a red line at an extradition treaty



Australia needs to remove economic and diplomatic motivations from crime and justice negotiations with China.

The extradition bill that has sparked months of ongoing protest in Hong Kong should serve as a wake-up call for Australia and other western states who have signed extradition agreements with the People's Republic of China (PRC).

Beijing's 'One Country Two Systems' encroachment has put on show its limitless 'legal' drive, its abusive 'legal' system, its overwhelming control over the 'negotiating' party, and most pressing its blatant disregard for agreements.

In the context of Australia's new reality of bounded engagement, this makes it imperative to confidently draw lines of non-engagement with China in the area of criminal exchange. For more than ten years, law enforcement cooperation has existed alongside political, diplomatic, and economic engagement as a priority for the bilateral relationship. But the partnership long predates this, with the AFP's first liaison office in China set-up back in the late 1990s. Australia is said to have one of the strongest police-to-police relationships with China of any Western democracy.

According to a recent ASPI report, cooperation has largely centred around counter-narcotics, due to China's role as a major drug production and transit hub of Australian methamphetamines. Established in 2015, Taskforce Blaze remains the only joint

China's preferred tactic to bridge the connection between 'what we say' and 'what we do' is to make subjects simply vanish.

partnership Chinese authorities have with any foreign agency. Due to its success it has now entered phase four of operations. Former Australian Federal Police Commissioner Andrew Colvin expressed confidence that the taskforce is a "role model

for law enforcement and mutual legal assistance, proving that even with different social and judicial systems Australia and China can work together effectively."

Despite a slightly static uptake over 2018's diplomatic freeze, Australia has also committed to an annual High Level Security Dialogue, entered into an MOU on anti-corruption law enforcement cooperation, and renewed the existing Joint Agency Arrangement on Economic Crime Cooperation. Two formal bilateral treaties are also in force and the third Treaty on Extradition still awaits ratification.

Australia is in a bind on cooperation

Australia is not new to extradition, nor is it new to cooperating with countries that exercise coercive legal practice. It has active extradition arrangements with many countries: Australia has extradited to, but not from 13 nations; Australia has extradited from 18 nations, but not to; and there are 10 nations where extradition has operated in both directions. Australia has brought home marginally more people at 117 than it has sent away at 103.

An extradition treaty is designed to function at four levels: legal, political, diplomatic, and economic.

In cases of one-way extradition, the balance is maintained by enhanced economic and diplomatic exchange for the non-extraditing nation. Despite the legal underpinnings of the treaty, the Australian government has defined the standards under which it conducts extradition "as a matter of policy... outside the legal sphere."

Australia is obliged to uphold fundamental rule of law principles and human rights standards in its policies and actions domestically and abroad under seven key international human rights treaties.

It can legally clear itself of any wrongdoing by seeking diplomatic assurances from the receiving state that an extradited person will be treated according to its conditions, but historically these have not prevented ill-treatment from taking place.

China is very eager to garner global support for its anti-corruption campaign Operation Fox Hunt. This aims to repatriate corrupt officials who have fled overseas – most of whom were former state officials – and recover proceeds of crime.

Of the 100 fugitives the PRC is hunting, the majority are said to be in the US, UK, Canada, Australia, and New Zealand. Not one of these states has an extradition treaty with China. Initially, ten people were believed to be in Australia. Six now remain.

While this agenda supports the argument that assurances would be honoured, the PRC's long record of breaching international obligations cannot be ignored. A person extradited to China with an undertaking against capital punishment may be executed or sentenced to death at a later date on a different charge.

Given China deals in power transactions, Australia's publicly subdued stance raises serious concerns about its ability to uphold integrity when negotiating criminal matters.

In China, the use of the death penalty is classified as state secret. Chinese state control over the media makes it almost impossible to follow the outcome of any person on trial. One state newspaper reported that none of the at least 67 high-ranking corrupt officials caught in the anti-corruption

drive had been sentenced to death. One man was sentenced to death for intentional homicide and bribery, and several others received death sentences for economic crimes with a two-year reprieve.

Although China remains the world's leading executioner, its preferred tactic to bridge the

connection between ‘what we say’ and ‘what we do’ is to make subjects – both legally and illegally detained – simply vanish. Once a person inside China is conveniently ‘lost’ to the authorities they are at the mercy of extra-legal procedures.

Unlike Australia, which has an independent judiciary, the government is responsible for law enforcement in China. It maintains control over who is to be arrested, what is to be reported, which cases are to be heard by a judge, how the prosecution will proceed, and the limits of action by the defence.

President Xi Jinping’s commitment to implement rule of law, and counter crime at a global level, has facilitated the introduction of widespread legislation that makes it easier for the government to better hunt corrupt fugitives overseas and arbitrarily detain people at home.

The CCP has an intricate system of formal and informal incentive structures that influence criminal proceedings at each level of government. China’s 98-99 per cent conviction rate is telling.

The pressures of political competition not only compel law enforcement agencies to take a hard line, but more dangerously it incentivises them to cheat and fabricate cases for the sake of quick quota turn-arounds. Legal advice goes “if he has not confessed... fix it”.

The Chinese judiciary will not exclude evidence obtained through torture unless the defendant can prove it took place. Given lawyers face abuse, imprisonment, and loss of legal licence for raising allegations of torture in their client’s defence, combined with the fact that the police act as perpetrator and witness and can therefore refute any statements made claiming ill-treatment, cases are rarely put forward.

Criminal cooperation has become transactional diplomacy

Another difficulty is the inability to monitor the treatment of people once they enter the Chinese justice system. Western governments have a demonstrated tendency to opt for non-intervention in these cases for fear of diplomatic and economic displacement. So much so that law enforcement cooperation has become transactional.

Allegations earlier this year that the Australian Consulate helped Crown Casino secure a succession of Chinese “high-rollers” from a cohort of organized criminals and CCP figures evidenced Australia’s

politicised, money-minded crime and justice exchange.

Australia is locking itself into a foreign policy that trades fugitives to keep its economy – and diplomatic relationship – on track. It has already subordinated its position on human rights to economic interests.

It is time that Australia practices what it preaches – and what it is bound to by international law.

Although the Australian Government has become increasingly more vocal on China’s human rights and procedural abuses, it has moved slowly. And this has largely been in response to pressure from human rights groups

and the public. It is not to say that Australia has been diplomatically inactive in this space, but rather that publicly they have regularly refrained from exerting pressure.

Given China deals in power transactions, Australia’s publicly subdued stance raises serious concerns about its ability to uphold integrity when negotiating criminal matters.

The Australian Government has a duty to protect Australia from becoming a sanctuary for criminals. But these attempts to preserve the integrity of the law are undermined by cooperating so freely with a country with no rule of law.

There are instances where it is impossible and impractical not to deal with Chinese law enforcement. Short of drugs, all areas flagged for cooperation – fraud and corruption, counterterrorism, and cyber espionage – fit into China’s broad definition of state security.

Given Xi’s anti-corruption drive serves primarily as a mechanism to reel in political loose ends, Australia cannot participate in the return of economic fugitives. A high proportion of these cases have been found to be fabricated.

Engagement in counterterrorism awards a gold stamp of approval to China’s repressive regime in Xinjiang that is premised on curbing “the three evil forces of separatism, extremism and terrorism”.

Cyber cooperation is equally problematic given the alleged Chinese state involvement in high profile cases such as the hacking of the Bureau of Meteorology, the Australian National University and possibly the Australian Parliament. These frameworks are not for Australia to be endorsing through joint participation.

Deportation vs extradition

So far the PRC has recovered more than 50 of its 100 most wanted. The China Daily reported the return of 1,300 economic fugitives in 2017 alone, 347 of whom were corrupt officials. Only eight were extradited.

In the absence of formal treaties these have either been through kidnapping and forced repatriation, 'persuasion' (convincing the fugitives to 'voluntarily' return to the PRC by using their family or friends as leverage), or through cooperation with foreign governments to have them formally 'deported' directly or indirectly back to the PRC.

Deportation is the more formal means of 'disguised extradition'. Australia has a very active history of deporting Chinese people back to the PRC. Just recently a Chinese citizen and 13-year permanent Australian resident was set to be deported to China on account of an illegitimate red notice – which has since been removed – issued by the CCP in 2014. Despite the four-year uptake on the case, the Australian Department of Home Affairs claimed he "posed an unacceptable risk to the Australian community" on the basis of a character test.

Unlike extradition, where the decision to extradite rests on the legal case of the PRC, the decision to deport is based on an investigation under Australian law. This makes Australia's attempt to deport even more problematic as it failed to recognise false charges.

The Department was adamant that were the alleged suspect to be returned to China, he would be guaranteed a fair trial. Given the hit rate of conviction and hordes of cases indicating otherwise, this is unacceptably ill-informed.

Australia's current deportation laws have a real 'grey area' around where Australia's responsibility to people deported starts and ends (unlike extradition where there is an obligation, albeit limited capacity, to continue to oversee criminal investigations once the person has left Australia), but ultimately the outcome of any person of interest returned to China is signed, sealed, but most importantly delivered by Australia's decision to deport. Another legal loophole for return of persons is Australia's border force. In 2017-18 alone, Australia rejected 90 per cent of all Chinese citizens' onshore claims for asylum. Sending people back to China with no apparent concern over the outcomes suggests Australia does not fully understand the nature of China's political legal system.

Judicial principles should not be for sale

It is time that Australia practices what it preaches — and what it is bound to by international law. Collectively, Western nations need to stop taking Beijing's shilling and start conducting reciprocity in exchange. For Australia this means using its voice and articulating its values. The PRC's abuse of international standards has not dissuaded nations from engagement; it has simply encouraged them to engage covertly. Australia is no exception.

Secondly, Australia needs to remove economic and diplomatic motivations from crime and justice negotiations with China. It creates greater economic dependence, warps the legal outcomes, and drastically reduces Australia's negotiating capacity in the greater China space. The commercial interests of Australia do not justify the slightest leniency towards law enforcement cooperation with the PRC. An extradition treaty is not the mechanism to demonstrate goodwill, placate taut political relations or bolster economic engagement.

Thirdly, Australia needs to clarify how deportation is used to return people to China. If Australia developed a system that enabled the preliminary oversight of deportation and the cross-jurisdictional responsibility of extradition, it would be in a far better position. Yet the problem is that neither of these alter PRC conduct. Given China's ungraded criminal justice system, border management needs to feature in Australia's crime cooperation policy.

Finally, Australia needs to cease advocating for ratification of an extradition treaty. It cannot possibly pursue the agreement while simultaneously maintaining its obligations under international law. Although extradition presents some opportunity for increased cooperation, it opens the door to far greater illegitimacy and procedural abuse.

Whether or not there is a formal agreement in place, China will manage the return of its most wanted. Formality has had little bearing on the illegitimate, extrajudicial and extraterritorial procedures and outcomes of China's legal system both domestically and abroad.

Australia needs to be much more selective and principled in crime and justice cooperation with China. While there is scope for limited engagement, it is critical Australia start to implement some hard red lines. It is not for Australia to gift China a veneer of legitimacy to operate outside of the law.

Julia Bergin is a researcher for The Little Red Podcast.

Speak truth to China without shouting



As a middle power, we have to be realistic how much we can stand out in the region. We have to calibrate whether it is in our national interest to be the regional tall poppy.

The Chinese warships in Sydney Harbour in early June highlighted some of the complex issues that Australia faces in dealing with China.

The context, the reaction and the images spoke to key elements of Australia's exquisite dilemma. There was the backdrop of the intense naval contest between the United States and China in the South China Sea that could have involved

those very warships in Sydney. There was the unhappiness of Australia's China hawks over the visit that exemplified the difficulties Canberra faces in balancing its number one "friend" with its number one "customer." And there were the pictures – of Chinese sailors loading up with Australian baby formula – that hinted at the tensions between the commercial opportunities and the social challenges posed by the Chinese.

Despite these dilemmas, the good news is China will not implode. It will continue to be a major driver of Australian economic growth and a source of large financial flows; but also a geopolitical challenge.

No debt crisis is looming

Yes, China has a debt problem. But the problem should be seen in context – relative to other economies – before rushing to conclusions of an imminent financial implosion.

China had, as at 2017, total debt equivalent 250 per cent of GDP. But that's much the same figure for the US. China's private sector non-financial debt was around 180 per cent of GDP. Stripping out household debt of around 45 per cent of GDP, corporate debt was 135 per cent of GDP. That is high. By contrast, US non-financial corporate debt was around 70 per cent of GDP. But note that a lot

Despite the publicity surrounding a few success stories, we have made few inroads into China's consumer market.

of Chinese corporate debt is quasi-government, sitting on the balance sheets of State-Owned Enterprises (SOEs). Because the Chinese government debt to GDP ratio is low to begin with – at 45 per cent of GDP at end 2017, compared

to more than 100 per cent for the US government – reclassifying those SOE debts will give you a less frightening picture from a debt default perspective. In looking at Chinese debt, it is useful to consider the State's balance sheet.

China has been running current account surpluses since the mid-1990s, which means it is not dependent on external funding for its economic activity. Chinese savers fund the Chinese economy. So, economic life continues even if it faces a foreign capital strike.

It has accumulated approximately US\$3.1 trillion in foreign currency reserves as a result of these surpluses. That is around 22 per cent of its GDP, compared to the international average of around 15 per cent. This gives it a liquidity buffer; lowers crisis risk; and provides substantial resources for crisis mitigation. Still, those reserves are only 11-12 per cent of M2 money and can be quickly depleted in a capital flight. So, it has capital controls to mitigate that risk.

China borrows largely in its own currency. Its external debt is only around 14 per cent of GDP. The debt experience of peripheral European Union countries versus the US and Japan is the difference

between debt denominated in foreign currencies versus debt in your sovereign currency. It is also the difference between controlling your own currency (e.g. US and Japan) versus having no control over your currency (e.g. Portugal, Italy, Greece, Spain).

And China's high savings rate (47 per cent in 2017) and low bank loan to deposit ratio (0.7) limit the risks of domestic funding stress.

At 13.5 per cent, the People's Bank of China's Reserve Requirement Ratio level is still high by international standards. It has more policy ammunition on this front than the United States, where the equivalent ratio is 10 per cent.

China also has more fiscal policy ammunition than the US, with an official estimated budget deficit of 2.8 per cent of GDP for 2019, compared to 4.7 per cent for the US. However, Morgan Stanley analysts estimate there are another 150 basis points in China's budget deficit to GDP ratio, after adding off budget items. But that would still leave China's "augmented budget deficit" to GDP ratio to 4.3 per cent — lower than the US\$ estimate.

Slowing the inevitable

China's slowing growth will have knock-on effects on the Australian economy. But the far bigger disruptive forces are the business opportunities created every year despite that slowing, and China's likely use of those opportunities to achieve its geopolitical objectives.

Even with 25 per cent tariffs on all its exports to the US – assuming a resultant loss of 160-170 basis points of nominal GDP growth – China will still exceed the US economically, in US dollar terms, by the early 2030s. Those tariffs will slow that inevitability, but by only a few years.

That growth will likely be overwhelmingly driven by consumption, rather than by investments and net exports as in the past.

Assuming a moderate shift in the household consumption expenditure share of GDP from 40 per cent to 45 per cent by 2030, the consumer market would have grown from US\$5.3 trillion to more than US\$12 trillion. It would have grown consumption by five times the size of the Australian economy in 2018.

While China's economy is changing, around 60 per cent of Australia's exports to China remain iron ore and coal. Despite the publicity surrounding a few success stories, we have made few inroads into China's consumer market.

The regular media reports of Australian consumers fuming over *daigou* buyers cleaning out supermarket shelves of baby formula begs the question of why there are such surrogate buyers all over Sydney and Melbourne suburbs to begin with? The younger generation of Chinese consumers are digitising their spending habits rapidly, making it easier to reach them online. Yet there are these ubiquitous *daigou* stores. What has the Australian distribution chain missed?

Even as we puzzle over how to penetrate the Chinese consumer market, the nature of that market is rapidly changing. Chinese consumers are becoming older, wealthier and more sophisticated. Meanwhile the younger Chinese consumer – the Little Emperors of China’s past one-child policy – are coming of age and becoming very much more demanding.

With their money and business skills, wealthy migrants should boost our business engagement with China.

And we will see this in services as well. China Outbound Tourism Research estimates 180 million outward trips from China this year, rising to 400 million by 2030.

But Chinese tourists will increasingly demand the literal road less travelled. They will seek premium experiences in new locations, further from home – that is, also further than Australia. And they will want those experiences in more comfort and with more convenience.

Cultural challenges to managing in Asia

Beyond infrastructure and quality facilities, Australia needs people with language skills and cultural familiarity to drive its business engagement. And that’s for everything from selling tourism to consumer products.

Yet, there were only 4,000 students in the whole country doing Chinese at Year 12 in 2015. Stripping out those with Chinese ancestry, there were less than 400.

Yes, but don’t we have all these Asian migrants in our midst who can drive our regional business engagement? Not quite; not at senior levels of management.

Asian-Australians make up approximately 12 per cent of the population. But as former Labor government minister Gareth Evans recently pointed out, Asian-Australians are grossly under-represented

in leadership positions. He drew on the work of the Australian Human Rights Commission’s 2018 “Leading for Change” report, which found that Asian-Australians accounted for only 1.6 per cent of “chief executive officers or equivalents.” Looking one level down the management chart, the report found Asian-Australians made up only 3.3 per cent of non-chief executive, “C-Suite” senior managers.

Beyond management, there is the boardroom. A quick survey of ASX 100 companies indicates that Asians made up only around 5 per cent of the boards.

While addressing gender diversity in our boardrooms, we should also improve cultural diversity, if for nothing else but our own commercial interests. If the argument is there aren’t suitable Asian-Australians who want to sit on the boards, companies can look regionally as Treasury Wines, Orica and Westpac have.

We can also do a lot more to engage broadly with Asian foreign investors, who can offer deep insights into China and the rest of Asia. They are within our midst and are often willing to share, if we bother to engage.

People are the underappreciated Chinese export

With rapidly growing wealth and intensifying pressures from urbanisation, more skilled and monied Chinese will seek migration to Australia. According to data from the *Global Wealth Migration Review*, Australia is the top destination in the world for high net worth migrants, with China the biggest source country of departures.

That should be welcomed. Population and productivity are the two biggest drivers of economic growth. And with their money and business skills, these wealthy migrants should boost our business engagement with China, and generate jobs for Australia, provided the money that flows in is channelled into productive businesses, which utilise their commercial expertise and networks.

But this can also be socially disruptive. It might also contribute to income/wealth inequality and other imbalances. So, within a racially non-discriminatory framework, this phenomenon will require regular balancing against other categories of migration – family reunions, skilled migration, and humanitarian intakes – to achieve what reflects an Australian vision of an equitable and diverse society.

China's geopolitical power will grow with its economic power. China is not the only country in history to use its economic clout to further its broader international interests. It has used its economic power against those who have crossed it and will very likely continue to do so.

The most prominent recent example is South Korea, after its deployment of the Terminal High Altitude Area Defence (THAAD) anti-missile defence system. Beijing constricted the tourist funnel and rallied a boycott against the food, beverage and retail conglomerate supermarket chain Lotte.

Of course, Australia has to stand up for its broader interests, notwithstanding possible economic blowback. Countries do not trade out of charity but out of mutual comparative advantage. But equally, they don't form strategic alliances out of charity either, but out of hard-headed consideration of security interests.

We can state our positions, defend our interests, and support international conventions, without theatrics.

China's demand for steel and energy will continue to grow, albeit at more modest levels, as a result of continued urbanisation and higher incomes. Just as importantly, there will be greater demand for our iron ore and coal

from emerging Asia ex-China, particularly India. That should maintain a reasonably healthy balance between demand and supply over the next decade.

So, China – as irritated as it might be with Australia from time to time on geopolitical matters – will have to continue buying iron ore and coal from Australia for a long time to come.

But our economic connection with China also includes tourism and education. And China can turn the taps on and off more easily in those areas, causing disruption and pain, short of total disengagement, which is unlikely to happen.

Thirty one per cent of all international students in 2018 were from China, followed by India at only 13 per cent. Chinese students contributed \$11 billion to our export income in 2017-2018. And the growth from that income from China has been accelerating.

Similarly, the Chinese are our biggest source of tourism dollars by a wide margin. They spent \$10.4 billion in Australia in 2017 compared with visitors from the US at \$3.8 billion.

These sort of figures underline how we need to diversify more urgently to moderate our vulnerability.

But there is something else we can do to reduce volatility in our business relationship with China.

Between the two extremes of loudly criticising China and capitulating to Beijing's expansionism in the South China Sea and other actions, there are middle paths which may make more mundane the day-to-day business of doing business with China. Dull is good.

None of the above is to suggest a geopolitical inevitability about China being Number One. Being the world's largest economy, from sheer population size, is not the same as being the dominant world power. But such binary calculations are not useful from a business perspective anyway. We shouldn't confuse "greatness" with "business."

Australia should also pay attention to the regional dynamics. The attitudes towards China are still fluid, but lately less combative.

As a middle power, we have to be realistic how much we can stand out in the region. We have to calibrate whether it is in our national interest to be the regional tall poppy.

Without sacrificing our sovereign rights, we should be able to speak truth to power, without shouting it. We can state our positions, defend our interests, and support international conventions, without theatrics.

And what is the worst that could happen if we did not loudly echo every anti-China sentiment out from the US?

To repeat, nations do not trade out of charity. But neither do they form alliances out of charity.

Say Boon Lim is an Australian-based consultant, advisor and non-executive director to companies in Asia.

Australia and the BRI: Cooperate, compete or challenge



Nowhere is calibrating an effective Australian response to China's Belt and Road Initiative more important than in the Pacific.

The fraught debate around Australia's response to China's Belt and Road Initiative (BRI) was again on show in the lead up to the recent federal election.

Former Australian ambassador to China, Geoff Raby, counselled that the incoming government should

more actively embrace the BRI. This was because "Australia has not yet had a credible policy position on BRI" and greater enthusiasm would also help to reset the tense broader bilateral relationship.

In contrast, John Lee, of the Hudson Institute and an advisor to former foreign minister Julie Bishop, warned that a new Australian government should reject any invitation from Beijing to reset the relationship, including by taking a more enthusiastic approach to the BRI. He argued that this was appropriate given the “significant differences” that exist between the two countries.

Both perspectives suggest that the official Australian response to date has largely been to stand apart from the BRI. But the reality is more complicated.

Canberra could point to a long and consistent position that emphasises a positive willingness to engage on the initiative.

Caution rules on the long road to the BRI

In May 2017, then Trade, Investment and Tourism Minister, Steven Ciobo, prior to attending the first Belt and Road Forum in Beijing, said: “Australia supports the aims of initiatives such as the Belt and Road that improve infrastructure development and increased opportunities in the Asia-Pacific region.”

In September 2017, at the bilateral Strategic Economic Dialogue, Australia signed a memorandum of understanding (MOU) with China on cooperation in investment and infrastructure in third countries. Department of Foreign Affairs and Trade secretary Frances Adamson remarked in November 2017 that this “can include Belt and Road projects.” She said the Australian side had also proposed a Trade Infrastructure Working Group to “exchange information about opportunities for collaboration on Belt and Road projects.”

The following month, then Prime Minister Malcolm Turnbull remarked: “We look forward to working with China on the Belt and Road Initiative projects... Global infrastructure investment is a good example of where countries should work together.”

And in November 2018, newly-minted Prime Minister Scott Morrison told Caixin magazine that: “Australia welcomes the contribution the Belt and Road Initiative can make in meeting the infrastructure needs of the region, and we’re keen to strengthen engagement with China in regional trade and infrastructure developments that align within the international standards of governance and transparency.”

Adamson, Australia’s official representative at the second Belt and Road Forum in April 2019, confirmed this stance in a speech at the Australian

embassy in Beijing prior to attending the Forum: “Australia’s participation [in the Belt and Road Forum] reflects our preparedness to engage in the Belt and Road Initiative (BRI).”

Yet this positivity has come with limits, and some apparent contradictions.

Australia has resisted signing a more general MOU with China around the BRI, with Prime Minister Turnbull explaining in October 2017 a preference

The Australian government is opting for an increasingly competitive approach.

to focus on “specific projects and investments rather than engaging in generalities.” In contrast, in a February 2018 visit to Washington Turnbull announced the signing

of an MOU with the US to “support infrastructure investment” in the Indo-Pacific region but with no specifics, no projects, no investments.

This indicates that generalities may not be the real problem. In a November 2017 speech, Adamson spoke candidly of a deeper concern: “The Australian Government is mindful that major economic initiatives can have profound geopolitical effects. This is all the more reason for the Australian Government to think constructively yet clearly about the principles, rules and institutions that underpin an initiative such as Belt and Road given its scale, ambition and complexity.”

And after speaking of Australia’s “preparedness to engage” in April 2019, Adamson followed up with: “Australia wants to strengthen engagement with China on projects that align with international standards of governance, transparency and debt sustainability.” This mirrored Scott Morrison’s comments in November 2018.

Plainly, these are standards that any Australian government should champion — with respect to the BRI or otherwise. The question is how best to do this, while at the same time creating an environment supportive of Australian businesses participating in BRI projects, as many of them are in favour of doing.

Perth-USAsia Centre research director, Jeff Wilson, argues that a straightforward approach would be for Australia to actively engage on the BRI by using the Asia Infrastructure Investment Bank as a standards guarantor.

Another option would be to sign a general MOU with China on BRI cooperation that includes a clear statement of the standards on which Australia’s engagement would proceed.

Instead, the Australian government is opting for an increasingly competitive approach. In June 2018 Bishop said, “What we can do is offer alternative options for countries beyond BRI.” She went on to describe the BRI as “China’s vehicle, so China will also be determining what it believes is in its strategic interests as China looks for greater political and strategic influence in the region.”

Nowhere is calibrating an effective Australian response more important than in the Pacific.

The Pacific is the frontline for Australia

Australia’s Step-up in the Pacific was one of the highest priorities of the 2017 Foreign Policy White Paper. As outlined in DFAT’s ‘Stepping Up Australia’s Pacific Engagement,’ released in November 2018, the Australian Government pitches the Step-up as a response to the long-term challenges facing the Pacific, including tackling climate change and natural disasters, sustaining economic and employment growth, promoting gender equality, preventing disease epidemics and reducing crime.

The importance of this Step-up was solidified in Morrison’s decision to make his first overseas trip in his new term as prime minister to the Solomon Islands in June this year.

By far the dominant feature of the Step-up in financial terms is the establishment of a \$2 billion Australian Infrastructure Financing Facility for the

The region suffers from an infrastructure gap and the benefits that competition brings in the form of lower prices and higher quality assets is welcome.

Pacific (AIFFP). In April Australia’s Export Finance and Insurance Corporation was given a name change and granted more resources and power to support investment in the region, including through a Trilateral Infrastructure Partnership between Australia, the US and

Japan. In June it was reported that an initial project for this partnership would likely be a \$1 billion LNG project in Papua New Guinea.

One motivation underpinning this infrastructure focus has been the wide-spread allegations that Beijing is using “debt trap diplomacy.” In June 2018 Bishop asserted: “We want to ensure that they [Pacific islands] retain their sovereignty... that they are not trapped into unsustainable debt outcomes.

The trap can then be a debt-for-equity swap and they have lost their sovereignty.”

In March 2019, and less than an hour after being welcomed to Canberra by the Governor-General, the new US ambassador to Australia, Arthur Culvahouse, also warned of China’s “payday loan” diplomacy in the Pacific.

This is an example of a claim where facts matter in formulating an effective policy response. And the claims just don’t stack up. From Africa to Latin America, and most importantly in the Pacific, academic research published in the last year has shown that unsustainable levels of debt are the exception rather than the rule, and that China is rarely to blame. In November 2018, the Australian National University’s Matthew Doran and Rohan Fox concluded: “Our analysis of debt in the Pacific strongly suggests that the ‘debt-trap diplomacy’ argument is without foundation.”

This is not to say that the BRI is problem free. The Asia Society Policy Institute’s report *Navigating the Belt and Road Initiative* released in June 2019 details the array of problems facing BRI projects across South-East Asia. These range from agreements being pushed through too quickly and without proper assessments of the environmental and social impacts, to financing and debt problems, a lack of local stakeholder engagement, limited local labour employment opportunities, and a lack of transparency and corruption.

As the report makes clear, most of these problems can be traced to problems of weak governance, poor oversight, corruption and the lack of technical and financial capacity in BRI project host countries, rather than directly back to Beijing. Among the numerous sensible policy recommendations that emerge, the report concludes that developed countries should do more to build capacity in these countries, enabling them to “safeguard their communities, environment, economy and other national interests throughout the lifecycle of their BRI projects.”

Working cooperatively in this way with both China and the host countries would seem a logical step and a valuable contribution that Australia could make to promoting positive outcomes on as many BRI projects as possible.

Competing with the BRI also has a place.

The region suffers from a recognised infrastructure gap and the pure economic benefits that competition brings in the form of lower prices and higher quality assets would be welcome.

A growing number of Pacific countries have signed formal BRI agreements with Beijing – including Cook Islands, Fiji, Papua New Guinea, Niue, Samoa, Tonga, Vanuatu – while the number recognising Taiwan over the People’s Republic is dwindling. The Solomon Islands is one of the latter, and is being actively courted by Beijing to join the BRI. If maintaining the status quo in the region with regard to Taiwan and the People’s Republic is what matters most, then Australia’s decision to compete on infrastructure in the Solomons may be warranted — on strategic, if not economic grounds.

There could also be specific projects where an outright challenge – and not just competition – is called for. The decision by the Australian government to inaugurate the \$144 million Coral Sea Cable, which will link Sydney to Honiara and Port Moresby, followed warnings by ASIO of the security risks that would be incurred were Chinese firm Huawei to provide it instead. The project had initially been backed by the Asian Development Bank with a British-American company emerging as the favoured contractor, when allegations surfaced in mid-2017 that Huawei had promised then Solomons Prime Minister Manasseh Sogavare \$6.5 million in political donations to secure the deal.

Both Huawei and Sogavare denied the allegations, and the Australian public is not privy to the details of ASIO’s warnings. So, all we can do is choose to trust that the Australian government’s judgement on this case was sound.

Infrastructure competition may be hard to sustain

Yet there are also reasons to be circumspect about the desirability of Australia launching headfirst into an infrastructure competition with China.

China had already spent an estimated \$400 billion on BRI projects by mid-2018. Australia’s \$2 billion for the Pacific might struggle in comparison. And if China wants to Step-up its own Pacific engagement, it will almost certainly do so by drawing on its own comparative advantages, and large infrastructure projects fit that bill. Of course, Australia does not have to compete alone and leveraging partnerships with countries such as Japan may well help: in South-

East Asia Japan has pending infrastructure projects worth more than China does.

Still, projects across the region, whoever finances them, are likely to be plagued by problems that have plagued the Pacific’s development in decades past.

And then there is the most pressing current and future issue for the region: climate change. In the 2018 Boe Declaration, Pacific leaders jointly reaffirmed that “climate change remains the single greatest threat to the livelihoods, security and wellbeing of the peoples of the Pacific and our commitment to progress the implementation of the Paris Agreement.”

The Australian Government’s Step-up recognises this threat in its ‘expanded security concept,’ which now includes human, cyber and environmental security.

Expanding educational opportunities for our neighbours builds on one of our own comparative advantages.

But beyond this single mention in its four-page summary of the Step-up, environmental security doesn’t reappear. The accompanying fact sheet provides some solace, with \$300 million tagged for ‘climate and disaster resilience.’ Set against the

\$2 billion for infrastructure, however, it is valid to wonder whether we’ve got that distribution right.

The Step-up rightly celebrates the 9,300 students from the Pacific who in the last decade have studied in Australia and the region under the Australia Awards. China (including through the BRI) is playing an increasingly prominent role in the global market for education: with more foreign students flowing in, while outward flows of Chinese students are also slowing. Expanding educational opportunities for our neighbours builds on one of our own comparative advantages, and is a competition with China that we are far more likely to win.

The expansion of the Pacific Labour Scheme to increase the flow of workers from all Pacific island countries is another welcome step.

These alternatives may bring us far more influence than Australian-financed infrastructure projects in the Pacific, while making the region more resilient and self-sufficient as well.

Jane Golley is Director of the Australian Centre on China in the World. James Laurenceson is Acting Director of the Australia-China Relations Institute.

MICHAEL CLARKE

Australia and Xinjiang: How to deal with the new ‘Unfreedom’



An effective response to the Xinjiang Unfreedom requires clarity of global messaging, coalition-building and cooperation between governments, corporations and universities.

A video uploaded to YouTube on in September showing hundreds of Uyghur men shackled and blindfolded has reignited international concern

regarding human rights abuses in the Xinjiang Uyghur Autonomous Region (XUAR) in China's far north-west.

Foreign Minister Marise Payne described it as “deeply disturbing” and said: “We have consistently called for China to cease the arbitrary detention of Uyghurs and other Muslim groups” and “have raised these concerns... both bilaterally and in relevant international meetings”.

The tepidity of such a response appears especially glaring in light of what is known about events in Xinjiang.

Researchers estimate that up to 1.5 million of the region’s Turkic Muslim population is detained in what the Chinese government now defines as “vocational training internment centres” (VTICs).

The existence of such facilities is cause enough for grave concerns for the human rights of those detained, bringing to mind the grim precedents of Nazi Germany’s concentration camps or the Soviet *gulag*. And this is for good reason.

The fragments of information that we have about what occurs within the re-education system and the

The key elements of the idea of “transformation through re-education” have been markedly intensified in Xinjiang.

ideology that underpins it is consistent with just such an understanding. Yet the re-education centres themselves are but the most glaring manifestation of the fact that Xinjiang is now a domain of ‘unfreedom’

characterised by the technologically-enabled penetration, control and exploitation of Uyghur (and other Turkic Muslim) society.

The ultimate purpose of this architecture of unfreedom appears to be an inherently colonial one: the dissolution of Uyghur identity and its reconstitution as a ‘domesticated’ vestige of its former self.

As such it arguably constitutes a form of cultural genocide-in-process.

Only by recognising and naming what is occurring in Xinjiang for what it is can we hope to develop a targeted and coherent response.

The architecture of Unfreedom

Evidence for the existence of China’s re-education centres in Xinjiang has been gathered by many researchers since 2016.

Adrian Zenz, for instance, used the Chinese government’s own procurement contracts for

construction of these facilities and public security budget expenditures to track the development of the re-education system, while analysts at the Australian Strategic Policy Institute used Google Earth satellite imaging to locate and map 28 (out of an estimated 180) large, prison-like facilities. One of the largest detention centres, Dabancheng near the regional capital Ürümqi, is estimated to have a capacity to hold up to 130,000 people.

The hardened security features of many of these facilities – including CCTV surveillance, heavily armed security personnel, watchtowers and razor wire – belie Chinese government assertions that many “trainees” undergoing “vocational training” in them are in fact there voluntarily.

It is now also apparent that VTICs are in fact only one of at least eight different types of facility that fall under the umbrella term “re-education institutions” in Chinese documents. These institutions encompass a range of functions from those focussed on educating “trainees” in Mandarin and Chinese law through to more coercive and punitive “de-extremification.”

Those who resist or do not make satisfactory progress risk solitary confinement, food deprivation, being forced to stand against a wall for extended periods, being shackled to a wall or bolted by wrists and ankles into a rigid ‘tiger chair’, and possibly waterboarding and electric shocks.

All of these facilities are underpinned by the logic of “transformation through re-education” — a concept whose lineage blends elements of traditional Chinese statecraft, state socialism of the Leninist-Stalinist and Maoist variants with the CCP’s more recent racialised politics of exclusion.

In the first instance, as James Leibold notes, both traditional Chinese statecraft and the major variants of state socialism have long held a “paternalistic approach that pathologises deviant thought and behaviour, and then tries to forcefully transform them”.

Once the CCP achieved power, it instituted a system of extra-judicial “remolding through labor” and “re-education through labor” camps where the goal was to “transform” the prisoner and achieve their “reform and rehabilitation”. By the late 1990s the CCP drew on these precedents to develop the concept of “transformation through re-education” in response to a series of new political and social challenges such as the rise of Falun Gong spiritual movement and drug addiction.

The key elements of this discourse of “transformation through re-education” have been markedly intensified in Xinjiang.

Of particular note is how the language of pathology has now thoroughly permeated “transformation through re-education” in Xinjiang. From government officials describing Uyghur “extremism and terrorism” as a “tumour” to be excised from society to equating religious observance to an “illness”.

There is now clear evidence beyond the re-education centres themselves that CCP policy is consistent with the two key elements of cultural genocide as described by Raphael Lemkin, who coined the term genocide: the “destruction of the national pattern of the oppressed group” and “the imposition of the national pattern of the oppressor”.

Not only has the CCP extra-judicially detained up to 1.5 million of the region’s Turkic Muslim population to “transform” them, but it has in parallel also prohibited the use of Uyghur language, script, and signage, imposed new legal restrictions on religious practice, razed mosques and other religious sites and shrines, encouraged inter-ethnic marriage via monetary inducements, and instituted the concerted persecution of the Uyghur intelligentsia.

In this manner the CCP is seeking to destroy what Lemkin termed the “shrines of the soul” of the Uyghur nation (i.e. its language, traditions, monuments, archives, libraries, and places of worship) so that it may impose its conception of Chinese culture and civilisation. As such it is a quintessentially colonial project.

Beijing has been able to parlay its influence in multilateral contexts to defend and justify its policies in the territory.

Chinese officials, however, much like officials of other states that have used concentration camps, have also used the language of “prevention” and “uplift” to justify the removal and exclusion of Uyghurs (and other Turkic Muslim

minorities) into the various forms of re-education centres constructed throughout the region.

A key element in the Party’s “preventative” toolkit here is the attempted “proletarianisation” of Uyghurs into a “docile yet productive lumpen class” through linking the re-education system to what can only be described forms of forced labour. Here, detainees are either compelled to work as low-skilled labour in factories directly connected to re-education centres or, upon their “release”, in closely proximate

industrial parks where Chinese companies have been incentivised to relocate to.

Individuals, as Adrian Zenz has described, may find themselves caught in this process via three major tracks: (i) detainees are placed in factories in or adjacent to camps or to newly built factories in adjacent industrial parks; (ii) some industrial park factories host a mix of workers from detainee and ex-detainee populations as well as rural surplus labourers; and (iii) others (especially women with children) are assigned to factories with attached day-care facilities. All of these tracks are coercive, result in family separations and place Turkic Muslims in Chinese-speaking environments.

The final element of this domain of unfreedom concerns the surveillance apparatus implemented in the region since 2014 which has combined long-standing practices of collective, face-to-face supervision with technological innovation. In an example of the former the “Becoming Family” campaign has seen thousands of Han Chinese CCP cadres go to live with and “visit” their Uyghur “relatives” to monitor and note behaviour, inculcate Chinese cultural norms and promulgate CCP ideology. Meanwhile technological innovation such as the use of facial recognition and iris scanners at checkpoints, train stations and petrol stations, collection of biometric data for passports, and mandatory apps to cleanse smartphones of subversive material has become a fact of everyday life. The data collected is then aggregated by an app used by security personnel, the Integrated Joint Operations Platform (IJOP), to report “on activities or circumstances deemed suspicious”.

Taken as a whole, the system of re-education and pervasive surveillance fixes Uyghurs and others in place, makes them “transparent” and “known” to the gaze of the state and hence eminently controllable.

The international response to Unfreedom

So far the international response to what is occurring in Xinjiang has amounted to little more than a combination of well-intentioned hand-wringing, rhetorical posturing, supine acquiescence and complicity.

The response of the Australian government and political class sits squarely in the former category, with numerous statements by government and non-government MPs as well as senior officials over the past two years recognising and expressing “concern” for the gross human rights violations.

The Trump administration's response, in turn, has been until very recently high on 'principled' rhetoric but low on policy substance.

The US legislative branch has been active, with the US Senate passing the Uyghur Human Rights Policy Act (UHRPA) on September 11, 2019. The act called on the executive to explore "the applicability of existing authorities" to impose targeted sanctions on CCP officials and other entities responsible for the re-education camps. The passing of UHRPA has informed the US Commerce Department's placing of 28 Chinese companies and government bodies involved in Xinjiang on the "Entity List" which bars them from purchasing products from US companies without federal government approval.

This unilateral US action has now squarely incorporated the Xinjiang issue into the broader rhetorical narrative of an emergent "new Cold War" between Washington and Beijing.

As such the "re-education" camps have simply become yet another rhetorical cudgel with which to beat Beijing and one that the Trump administration appears willing to drop in pursuit of a broader deal with Beijing.

The Muslim world, in turn, has in some cases been circumspect and in others positively supine in its acquiescence. This has been due to a combination of historical, geopolitical and economic factors such as Xinjiang's relative isolation from the rest of the Muslim world for much of the 20th century and China's successful positioning of itself as a voice of the developing world.

Beijing has been able to leverage these factors in defence of its policies not only with relatively weak states dependent on Chinese support, such as Pakistan, but also with states with established records of at least rhetorical support for oppressed Muslim populations.

Saudi Crown Prince Muhammad bin Salman said in Beijing in February, "China has the right to take anti-terrorism and de-extremism measures to safeguard national security."

Turkey, which has in the past expressed sympathy for the plight of the Uyghur people, has become more circumspect as China has emerged as the country's third-biggest trading partner and second-largest source of imports and source of investment under the BRI.

Most significantly, Beijing has been able to parlay its influence with such states in multilateral contexts to defend and justify its policies in Xinjiang.

The Organisation of Islamic Cooperation (OIC) has acquiesced to Beijing's policies in Xinjiang by stating in March this year that it "commended" the "efforts of the People's Republic of China in providing care to its Muslim citizens".

However, Beijing has arguably been most effective in the human rights arena where its efforts in the UN Human Rights Council have developed a loose coalition of states that seek to push-back against what they perceive to be a western-led human rights agenda.

We should not however limit our criticism solely to governments.

The corporate world and the higher education sectors, particularly in advanced liberal democracies, must be called to account for their complicity by both commission and omission in enabling and profiting from the domain of unfreedom in Xinjiang.

There are 53 American Fortune 500 companies doing business either directly or indirectly in Xinjiang. These include Coca-Cola, Amazon, Nike, KFC, Heinz, Campbell's Soups and Hilton.

But it is lesser known science and technology companies for which there is the clearest evidence of complicity. For example, on February 21, 2019, Thermo Fisher Scientific Inc. released a statement that it would no longer be supplying genetic sequencing technology to entities in Xinjiang after Human Rights Watch drew attention to the central role of DNA testing and biometric data collection in the Xinjiang surveillance apparatus.

The international community must recognise and name what is occurring in Xinjiang for what it is: cultural genocide.

More disturbingly a range of American entities from university endowments, foundations and retirement funds have invested millions of dollars in two Chinese facial recognition companies, SenseTime (based in Hong Kong)

and Megvii (based in Beijing) that are known to supply some of the technology that animates the surveillance state.

A range of universities in the United States (MIT, Yale, Carnegie Mellon) and Australia (University of Technology Sydney and Curtin University) have engaged in research collaboration with a variety of Chinese entities that are involved in supplying and perfecting the surveillance apparatus.

In Australia, both UTS and Curtin University have partnered with Chinese entities or accepted Chinese funding linked to research on key elements of the surveillance. In 2017 UTS joined a \$10 million partnership with China Electronics Technology Group Corporation (CETC) – a state-owned military contractor – in developing the IJOP app used by public security personnel in Xinjiang.

A Curtin University researcher, Associate Professor Liu Wan-Quan, reportedly undertook “Chinese government-funded research on the faces of Uyghurs, looking for ways to improve the identification of their facial features in facial scanning”.

Sixty eight European companies, including Volkswagon, Siemens, Unilever, and Adidas, are also involved either directly or indirectly in Xinjiang. Siemens has partnered in Xinjiang with CETC to work on automation and digitisation.

Corporate complicity is not limited to the technology sector. As noted in the lists of US and European companies cited above, clothing and apparel companies – including Australian companies – also run clear risks of complicity in the domain of unfreedom in Xinjiang.

How to respond to Unfreedom in the 21st century

As demonstrated by the complexity of connections between the actions in Xinjiang and global geopolitics and supply chains, responding to it effectively will be difficult. However here are some practical and significant steps.

First, the international community must recognise and name what is occurring in Xinjiang for what it is: cultural genocide. Recognition of this fundamental point would provide governments, international institutions, universities and corporations with clarity regarding the levels of risk associated with engaging either directly in Xinjiang or with Chinese entities known to be engaged in the attempted erasure of the Uyghur people.

Calling the CCP's policies what they are should also contribute to a broader understanding that the outrages in Xinjiang are but one of many examples of the detention, repression, exploitation and state-sanctioned violence against particular populations from the Rohingya to Manus Island and Nauru.

Second, the Australian government must recognise that in order to achieve meaningful international action on Xinjiang a broad coalition of states is required. This cannot simply be a US or even Western-led effort because, as we have already seen, it is too easy for Beijing to rebut and deflect such efforts and criticism as evidence of Western double-standards.

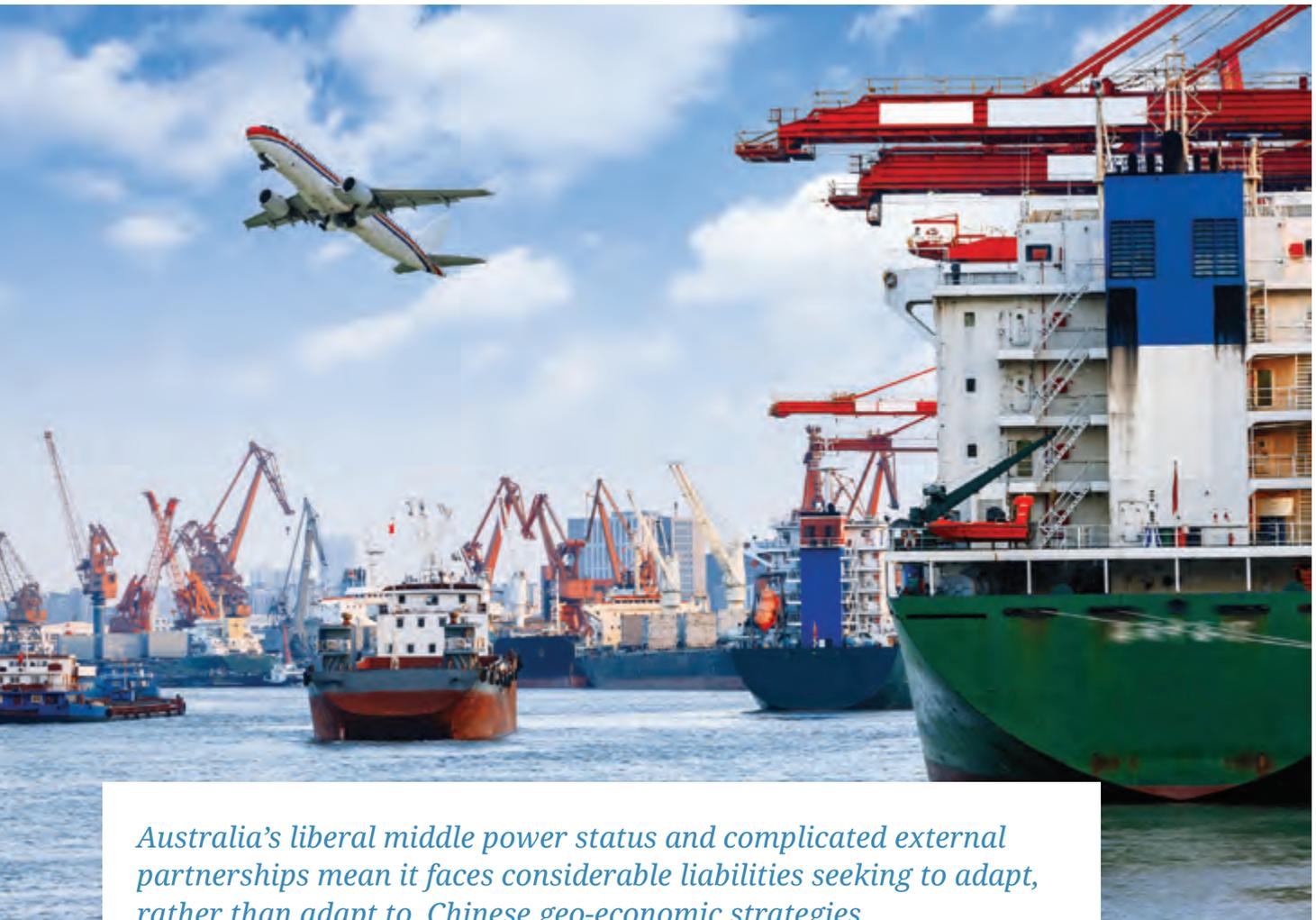
Rather, Canberra should focus diplomatic energy on the development of a broad-based coalition of states from the developed and developing worlds. Australia can draw on the precedent of its leading role in the sanctions against apartheid-era South Africa. While there are clear distinctions in terms of the relative strength and interconnectedness of the target state, there is also a major similarity: the centrality of a racialised politics of exclusion that lay at the heart of apartheid and that now lies at the heart of unfreedom in Xinjiang.

Third, the Australian government must pursue policy options that are within its immediate power to achieve. These include: (i) continued representations to Beijing on individual cases of detained Uyghur-Australians; (ii) commit to the protection of the Uyghur-Australian population, for instance via establishing a coordinated reporting mechanism for incidents of Chinese government harassment or coercion; and (iii) follow through on last year's foreign interference legislation to enable the potential prosecution of acts of intimidation by Chinese actors.

Finally, what all of this underlines is that what is happening in Xinjiang is not simply of concern for governments, corporations and universities but for citizens around the globe. It falls upon citizens, especially those in free societies, to pressure our governments, elected representatives, universities, and corporations for greater due diligence and oversight lest they become complicit – either by omission or commission – in the cultural genocide of the Uyghur people.

Dr Michael Clarke is Associate Professor at the National Security College, Crawford School of Public Policy, ANU.

Adaption challenge: Australia and the new geo-economics



Australia's liberal middle power status and complicated external partnerships mean it faces considerable liabilities seeking to adapt, rather than adapt to, Chinese geo-economic strategies.

Australia's 2017 Foreign Policy White Paper warned of how Indo-Pacific trade, investment and infrastructure development were increasingly being used to build regional strategic influence, as well as commercial advantage. It said these types of geo-economic interactions risked departing from

previous commercial relations and intensifying rather than diluting strategic rivalries. Such concerns are in keeping with Australia's historically stated preferences for economic relations that put the concerns of the market and, on the aid front, recipient countries above all others.

Yet they are also at odds with Canberra's apparent willingness to contribute to rising geo-economic contestation through the likes of the Pacific step-up and the trilateral infrastructure partnership with Washington and Tokyo.

Though never officially stated as such, these new Australian geo-economic actions reflect a growing desire to directly compete with China over regional development finance and economic interconnectivity. What explains the apparent willingness by Canberra to act against its best instincts in this manner? And might alternative courses of action better guard against the overpoliticisation of Indo-Pacific economic relations?

The simple answer to the first key question, and a pointer to the second, is that Australia's existing geo-economic platform – which has largely revolved around regional institution-building and influencing – has faced diminishing returns. This follows the more unilateral, major power-driven economic statecraft of the Indo-Pacific of recent years. Canberra's greatest successes in this space have included the key roles it played in creating the Asia Pacific Economic Cooperation (APEC) group and the Cairns trade group in the 1980s and the Group

Heightened political tensions with China could stem from many new Australian geo-economic actions.

of 20 (G20) and East Asia Summit (EAS) in more recent years. Such efforts have helped advance the country's considerable, and considerably beneficial, commitments to open and liberal regional

engagement. They have also magnified Australia's middle power diplomatic capacity and helped manage dependencies on larger and sometimes conflict-prone international partners.

The primary catalyst for the changing nature of Indo-Pacific geo-economic engagement has been China, which at the same time is a major international partner of Australia and a source of increasingly muscular regional economic statecraft. Its assertive actions have transformed the debate around liberal institution building and even tended to make some institutional imperatives impotent at best and liabilities at worst. This is best reflected in Australia's evolving engagement with Chinese foreign investment, both at home and abroad, in the first two decades of the 21st century.

The domestic side of the investment relationship reflected a natural alignment of Australian expertise with China's pursuit of mineral and energy security under its Going Out policy of the early 2000s. There was, however, a near immediate need for Canberra to adapt to the frequent strategic motivations behind this. This was reflected in the Foreign Investment Review Board requiring state-owned enterprises to demonstrate strictly commercial behaviour and operational independence from their home governments. It followed controversies such as what appeared to be a Beijing-backed A\$15.5 billion 'dawn raid' on Rio Tinto's shares by Chinalco in 2008, to frustrate a rival takeover bid by BHP Billiton.

The 2013 launch of China's Belt and Road Initiative (BRI) again tested Australia's defences. An even more strategically delineated Chinese investment platform – coupled with China's less heavily industrialised economic evolution – appears to have reduced the rationale for its direct investment in Australia, whose flows dropped from A\$10 billion to below \$1 billion from 2014 to 2017. Compounding matters has been Canberra's – and the Australian public's – growing concern around the national security implications of even that level of Chinese investment which remains.

This growing level of wariness was evident in Canberra's dramatic, legislation-altering response to the Northern Territory's 2016 lease of the Port of Darwin to China's Landbridge — a private entity, but with identified links to the Chinese Communist Party and the People's Liberation Army. It could also be seen in the May 2018 exclusion of China's Huawei and ZTE from providing Australia's 5G infrastructure.

China's interactions with other Indo-Pacific countries have produced a similar dichotomy of results from Canberra's perspective. They have on the one hand extended economic opportunity in a more expedited fashion than might have otherwise occurred. They have on the other attracted frequent reports of debt, corruption, environmental mismanagement and other undesirable outcomes. The fact that many signs point to the BRI's strategic capacity extending not only to expansion of Chinese economic and diplomatic but – owing largely to the potential dual use of newly acquired ports – military clout further explains Canberra's even fuller-throated push back against China's geo-economics on a regional level.

Geo-economic risks

Owing to its liberal middle power status and complicated external partnerships, Australia nonetheless faces considerable liabilities in seeking to adapt, rather than adapt to, Chinese geo-economic strategies. The attendant risks extend to the replication of some of the failings of Beijing's efforts to realisation of the Foreign Policy White Paper's warnings around the compounding of strategic rivalries. Canberra has sought to at least overcome the first of these concerns through new capacity. This includes increased funding and responsibilities for the Export Finance and Insurance Corporation (now known as Export Finance Australia) and creation of a new A\$2 billion Australian Infrastructure Financing Facility for the Pacific.

It also appears from, albeit officially unconfirmed, media reports of the first project of the trilateral infrastructure partnership that an exceeding degree of time and care will be paid to negotiating with partnering governments. There are, nonetheless, warning signs suggested by the purported subject of this first allocation, which is a US\$1 billion loan to a liquefied natural gas (LNG) project in Papua New Guinea. This is a country with a rich experience of the resource curse, which indeed extends to outcomes from the already partly Canberra-funded PNG LNG development. This US\$19 billion project received the largest ever loan from Export Finance

The potential for more assertive and China-focused Australian actions to attract blowback is already more than a hypothetical concern.

Australia, at A\$500 million, in 2009. According to 2018 reporting by the NGO Jubilee Australia, it also fell well short of a promised doubling of PNG's GDP. Contributing factors were said to be governmental mismanagement and tax avoidance by the project

operators. Both also contributed to exacerbating PNG's social problems, including sparking landowner violence over the non-payment of promised royalties.

Heightened political tensions with China could, meanwhile, stem from any number of new Australian geo-economic actions. This includes the financing of subsea internet cables to PNG and the Solomon Islands, which appear explicitly designed to deny opportunities for Chinese interests. It is also not encouraging in light of alignment of Australian efforts with those of the US and Japan, that there is a previously noted connection between the formation of the BRI itself and state actions which Beijing has

previously viewed as designed to contain it. The BRI was, after all, at least partly developed in response to encouragement by Chinese strategists for Beijing to 'march west', seeking new sources of power and influence. This invocation had in turn acknowledged what was already a strong presence of the US and its allies in East Asia and potentially set to become greater under the pivot to Asia of the Barrack Obama administration.

The potential of more assertive and China-focused Australian actions to attract blowback is already more than a hypothetical concern. Though difficult to definitively prove, it appears realised in the wielding of another of China's formidable geo-economic tools: trade-based coercion. This, motivated by activities such as the Huawei ban and the first steps of the Pacific step-up, was suspected to be at play in Chinese authorities' blocking of Australian coal shipments at the port of Dalian in early 2019 and the late 2018 WTO dispute China launched in response to purported Australian barley dumping.

Institutional incentives

The fact that Australian policymakers appear to have reached the limits of adaptation to Chinese geo-economics yet face considerable risks in adapting them, lends great importance to the second question raised above, around the potential for alternative courses of action.

One avenue that is certainly worth investigating is some form of revitalising of the national institution-building prowess. This could occur in tandem with, or as an alternative to, Canberra's new geo-economic initiatives, but with a shared intention of managing risks. Despite the growing challenges facing this process in recent years, Australian policymakers have shown at least some capacity to forge ahead. This includes Canberra's stewardship, alongside Tokyo, of the process of reviving the Trans-Pacific Partnership (TPP) trade deal following US withdrawal.

Australia has, moreover, used its institution-building approach to manage past ties with China and Beijing's desires for greater economic integration. This includes participation in the negotiations for the Regional Comprehensive Economic Partnership proposed trade deal. The intention is to unite the six ASEAN Plus One FTAs under a single set of coherent rules. Progress nonetheless remains subject to the political whims of more major governments, principally India and China, even as Canberra has

made a concerted diplomatic effort to conclude the agreement.

More promising, and more instructive in the context of Australia's increasingly infrastructure-focused geo-economic concerns, was the manner in which Canberra leveraged its membership of Beijing's Asian Infrastructure Investment Bank (AIIB) for strategic gain. This membership, obtained over the objections of Washington, led to improvements to the bank's governance which ultimately satisfied Australia's liberal preferences. Canberra's policymakers worked with their counterparts in other advanced economies to help

Australia has used its institution-building approach to manage past ties with Beijing's desires for greater economic integration.

draft the AIIB's Articles of Agreement, resulting in new commitments such as best practice principles for development finance, a commercial orientation to loan activities and the removal of individual member veto over project funding decisions.

Looking to the future, increased harmonisation of Canberra's regional initiatives with the frameworks of multilateral development banks would provide some degree of quality assurance. There are also opportunities, some of which have already been pursued, for greater alignment of efforts with non-Chinese connectivity efforts, such as the Master Plan on ASEAN Connectivity 2025 and Japan's Partnership for Quality Infrastructure. Given the explicit motivations of Canberra's geo-economic step-up and risks outlined above, the larger prize would be to build on its AIIB legacy to have more direct engagement with China on mitigating some of the ill-effects of the BRI and the potential political tensions arising from rivalry in this space.

Australian officials could again work alongside Chinese and other AIIB-participating officials to channel more prospective Indo-Pacific infrastructure spending through its Canberra-facilitated and amenable governance framework. They could seek more direct improvements to the design of the BRI itself, with targets including the introduction of new safeguards around debt sustainability, project transparency and partnering country participation. These have been the recommendations of a number of prominent reviews of the BRI in the past two years. Encouragingly, the authors of one of these, from the Asia Society Policy Institute, reported that many of their ideas were well-received by

Chinese officials consulted during the course of its preparation.

The March 2019 Multilateral Cooperation Center for Development Finance may provide new opportunities for Australian engagement in such processes. This brings together Chinese and non-Chinese financial institutions, ostensibly seeking to 'foster high-quality infrastructure and connectivity investments for developing countries' across the BRI and non-BRI networks alike. A number of existing multilateral institutions, including the World Bank and United Nations, are also intimately engaged with the BRI and provide further space for guiding desired progress. Doing so would entail avoiding a US temptation to view such developments as solely the product of Chinese co-option of international cooperation for unilateral benefit. It would instead acknowledge that Beijing's opportunity to do so also results from US neglect of its traditional leadership role in such institutions, particularly under the presidency of Donald Trump. Such neglect is a mistake that Australia, as a successful past proponent of, albeit middle power, institutional diplomacy should not repeat.

As well as its own past victories, Australia could take inspiration from the more expansive geo-economic efforts of Japan currently in train. Like Canberra, Tokyo has considerable concerns around the strategic rationale of the BRI. It also already rivals, and sometimes surpasses, Chinese development spending in some parts of Asia. Despite its seeming transactional victories, Japan has simultaneously pushed for improved institutionalisation and interconnectivity in this space. This includes brokering a set of G20 'principles for quality infrastructure investment' at the G20 meeting it hosted this year. Tokyo has also worked with European Union counterparts to align their respective development and interconnectivity efforts. Perhaps most importantly of all, these have also not come at the expense of some degree of willingness on Japan's part to explore future cooperation with Beijing on infrastructure projects. Taken in its entirety, the approach appears well-suited to realising Canberra's desires for the dilution of strategic rivalries as well as protection of domestic economic preferences and advancement of regional development and connectivity.

James Bowen is a Research Fellow at the Perth USAsia Centre and a Visiting Fellow at the Mercator Institute for China Studies in Berlin.

Why universities should invest more to support Chinese students



Providing adequate services to support Chinese students would benefit not only them but all students at Australian universities, raising the quality of education and fostering cross-cultural engagement.

Australian universities have been pushed to self-commercialise and become increasingly reliant on international student fees as a result of the long-term decline in government funding for higher education coupled with rising domestic student numbers. Students from the People's Republic of

China (PRC) now make up the largest proportion of international students by a wide margin. In 2018, with more than 152,000 enrolments, they accounted for more than 38 per cent of international university enrolments, and their numbers continue to grow robustly year on year.

In this situation, Australian universities have expressed concerns about over-reliance on the Chinese market, especially in light of the prospect of slowing growth over the coming decade as China invests heavily in improving the quality of its own higher education system. But although Australian universities are eager to diversify their export markets, the reality is that, despite strong growth in enrolments from alternative source countries including India and Nepal, it appears unlikely that these countries will be able to match China's demand for Australian degrees anytime in the near future.

In addition to university managers' understandable anxieties about the paradox of a national public higher education system that is financially dependent on a single overseas market, others have raised concerns about the situation's impacts on academic integrity, citing a proportionally small number of cases in which entry requirements and assessment standards have been compromised at some universities. Public anxieties over the political actions of Chinese students at Australian universities are also running high; in recent months, especially in relation to a handful of pro-Chinese Communist Party zealots challenging the right of students supporting democracy in Hong Kong to express their views on campus.

Obviously, these are important issues that must be taken seriously and investigated fully. In particular, there has been no comprehensive research done on Chinese students' political engagements while in Australia. Media accounts of Chinese influence in Australian universities are generally based on a

Opportunities to break into the social world of English-speaking peers are often elusive for Chinese students.

small handful of examples, while it appears that the overwhelming majority of Chinese students do not become involved in either Chinese or Australian politics while they are here. In-depth, holistic, methodologically rigorous

empirical research in this area is desirable as part of a broader strategy to help us understand the experiences of Chinese students in Australia, and to determine what steps could be taken to improve both their experience and that of other students who study with them.

An issue that has received less attention, though, is how the rapid, thorough-going internationalisation of Australian higher education may impact education

quality in other, less obvious but more pervasive ways that affect all students.

Course concentration compromises education quality

Like most people contemplating study abroad, before they leave home, Chinese students look forward to the opportunities for cross-cultural exchange and friendship that they think studying in Australia will bring. The future students I have met in China pre-departure have all expressed excitement about the opportunities they foresee to get to know Australian peers, learn about a contemporary western culture, and experience local social life in Australia.

However, after arriving and commencing their studies, many are disappointed. In some Masters-level courses in fields including Business, Economics, Finance, Accounting and related areas, students from the PRC reportedly account for over eighty percent of enrolments. Indeed, because of the imperative for universities to generate their own income, some courses are designed from the outset with the goal of attracting large numbers of international fee-paying students. The future that the Chinese students looked forward to of sharing a classroom with local peers is replaced in reality by the experience of learning alongside co-nationals, communicating with classmates in Mandarin, and finding oneself structurally isolated from non-Chinese students. A sense of disappointment sinks in as many find themselves trapped in a 'Chinese bubble': studying, socialising, and often sharing accommodation with other students from the PRC.

This situation is not only personally disappointing for the students, it also compromises the quality of the Australian education they receive. A significant component of the learning that takes place at university happens through students' interactions with co-learners. Students learn from each other in both large-group activities – for example listening to and engaging with each other's discussions with classmates, tutors and lecturers – and in the small-group assessment tasks that are now a standard part of many university curricula. Any student's learning is enriched by the opportunity to engage with a wide diversity of peer input. This nurtures the learner's ability to develop a sophisticated approach to problem solving, seeing issues from a variety of perspectives. Correspondingly, when the classroom lacks cultural diversity, learning is impoverished.

English skill should be supported by social interaction

A few Chinese students report that studying in Australia not only doesn't improve their English language capacity, but that it actually declines while they are here. Perceived problems with international students' English proficiency are usually framed through questions about testing systems and university entry requirements. When some students' English ability appears inadequate for their level of study, the next step is usually to raise questions about International English Language Testing System (IELTS) thresholds and grading protocols.

But this overlooks a crucial factor that is well recognised in studies of second language learning: the social basis of language acquisition. No matter what difficulties some students may have with English fluency at the time they begin their studies, their best route to improving it is undoubtedly to mingle with English-speaking peers, socialise in English, and immerse themselves in the language as a routine part of daily life.

And yet, as outlined above, opportunities to break into the social world of English-speaking peers are often elusive for Chinese students. The most extroverted and socially skilled among them do manage to develop cross-cultural friendships, but the majority find it difficult. This is not only because of Chinese students' concentration in

Local students are often not pre-equipped with the skills required to make effective cross-cultural engagements with international classmates.

certain courses, but also due to the difficulties they face in befriending locals in those courses that do enrol a more even mix of international and domestic students. Experience teaches us that simply putting international and local students together in the same classroom does

not automatically lead to friendships being formed. While the Chinese students are keen to make connections with their Australian classmates, local students often appear diffident or uninterested — or perhaps simply lack the necessary cross-cultural skills. A common sight in the mixed classroom is a split social scene: Chinese international students working and socialising with each other, and locals with locals. In private conversations, each group

complains about the other, the Chinese students often feeling snubbed and excluded by the locals, and some locals resentful of the Chinese students' presence.

In this far-from-ideal situation, active intervention from educators is clearly required. But teaching staff are generally not trained in managing the internationalised classroom, whether in terms of facilitating productive discussion that engages and respects divergent political opinions, or in terms of enabling students to build friendship bridges across cultural difference. Instead, a typical response by educators is to go with the flow of most students' tendency to cluster in co-national groups. The problem of these groups' mutual alienation from each other could be addressed through the investment of resources in systematic, high-quality training of teaching staff to enable us to structurally facilitate productive cross-cultural interactions. This would not only nurture cross-group socialising outside the classroom to support international students' continuing development of high-level English skills, but it would also enrich the learning experience of all students by fostering cross-cultural understanding and a cosmopolitan outlook.

Local students need cross-cultural engagement lessons too

The absence of cross-cultural friendships is detrimental not only to Chinese students, but also to their local peers. Many domestic students voice hypothetical support for cultural diversity and a cosmopolitan attitude — and yet, as noted above, when faced with actual classmates from overseas, seem unwilling or unable to make meaningful connections.

In some cases, this may result more from a lack of concrete skills than from conscious antipathy toward international peers. Across Australian universities, international students comprised on average 28 per cent of all enrolments in the first half of 2018. The proportion of international students enrolled in most Australian secondary schools is far lower. Many domestic students' first experience of an internationalised classroom thus happens at university. Therefore, local students are often not pre-equipped with the skills required to make effective cross-cultural engagements with international classmates.

It would therefore be valuable for universities to work pro-actively to develop in domestic students both a deeper appreciation of how cross-cultural connections can enrich their own education and life experience, and practical skills in interacting and making friends across the lines of culture and nationality.

Education outcomes are affected by a lack of broader support

For any student, education takes place not in a vacuum but in the context of wider social experience. Educational outcomes may be affected by a number of stresses experienced outside of study, for example in relation to problems in work, housing, finances, family, sexuality, physical and mental health, and so on. All of these issues are commonly faced by young people and impact frequently and significantly on domestic students. International students, separated from the safety nets of family support and cultural familiarity, are even more vulnerable.

While recently-arrived permanent migrants have available to them a range of settlement and transition services provided through the Department of Social Services, international students are largely excluded from these. Instead, in the Australian system it is universities that are responsible for protecting international students' welfare and providing for their pastoral care, under the ESOS legislative framework.

However, Chinese international students face many problems that universities are ill-equipped to deal with. These include:

- Routine wage theft in casual work and disputes with employers
- Exploitation in rental agreements and disputes with landlords
- Difficulty understanding the Australian police and legal systems and what to do if one is the victim of a crime
- Difficulty understanding the Australian health system and navigating insurance claims through Overseas Student Health Cover providers
- Inadequate access to culturally and linguistically appropriate mental health support services
- Inadequate access to culturally and linguistically appropriate sexual health support services

While most universities provide some of the requisite information to commencing international students, it is generally provided all at once around the time of students' arrival, and usually only in English. At that time and in that format, it can be difficult for students to take it in. When a crisis strikes, they often find themselves unprepared and scrambling to locate the necessary information and services.

In times of crisis, resources provided in one's first language are far more effective and likely to be engaged than those in a foreign language — a fact that is recognized in governmental provision of multilingual support for permanent migrants. However, with a few notable exceptions, neither governments nor universities generally provide

There is much to be gained from a greater investment in providing systematic, appropriately targeted support for Chinese international students.

multilingual information to international students. In this context, Chinese students often turn to Chinese-language information available online within the local Chinese community. This information may or may not be accurate or up-to-date. It is often

provided by commercial migration and settlement agencies. In times of acute stress, students may also turn to evangelical Christian churches, which, unlike universities, often target Chinese-language settlement support information and services directly to the international student community.

It is questionable whether universities' effective outsourcing of settlement and welfare services for Chinese international students to commercial agencies and churches is the best way of meeting their needs. Since the provision of pastoral care for international students legally rests with universities, arguably, a greater proportion of the income derived from their fees should be re-invested in the provision of more effective and consistent social and settlement services to replace the current uneven patchwork of information and service provision. This would benefit both social and educational outcomes.

There is much to be gained from a greater investment by universities in providing systematic, appropriately targeted support for Chinese international students' educational and welfare needs while they are in Australia. During the years of their study, these students are part of

Australian urban and university communities, and universities have both a legal and an ethical responsibility to provide adequate services to support their education and life here. Doing so would benefit not only Chinese students themselves but all students at Australian universities, raising the quality of the education they receive by fostering cross-cultural engagement and cosmopolitan outlook. Improving the quality of Chinese students' time in Australia also has the potential to generate national soft power by leaving those students who return to China after graduation with a more positive impression of the country.

As things stand, the marketing of Australian education to China represents a missed opportunity to advance human-to-human level connections and understanding between young people in the two countries.

Associate Professor Fran Martin is a Reader in Cultural Studies and ARC Future Fellow in the School of Culture and Communication at The University of Melbourne.



JOHN FITZGERALD

How philanthropy can provide a new path for engagement



Australian and Chinese philanthropy can potentially tackle some of the big challenges in Australia-China relations.

China has entered a bold new era known within China as 'Xi Jinping's New Era.' Australia's relations with the country have entered a new phase as well,

potentially a more complex and fraught period in the relationship than any that has come before.

Charting new rules of engagement for constructive relations between Australia and China over the coming decade is a pressing task.²

In devising new rules of engagement Australians need to be:

- *clear-headed* about Australian values and interests and the need to affirm them unambiguously when necessary
- *clear-eyed* about the risks as well as the opportunities of their China engagements
- *clear-minded* about the specific purposes of each aspect of the bilateral relationship — a relationship which can no longer be regarded as end in itself

Philanthropy can play an important role in helping to achieve clarity on complex and often sensitive issues because private donors are independent of government, tend to have a bolder risk appetite, and are able to support and convene problem-solving teams, representing different sectors and perspectives, to explore ways forward in building constructive bilateral relations.

Despite regulatory constraints in both countries, philanthropy can be a helpful partner to government, to business and to the community in helping to shape future relations between Australia and China in ways that are fit for purpose and suited to the times in which we live.

Xi's New Era makes a clear break with the three decades of Reform and Opening (1979-2009) that preceded it. Key differences include the Communist Party's return to Marxist-Leninist ideological orthodoxy, reassertion of authoritarian party rule over every aspect of community life, consolidation of state enterprises at the expense of private business,

The terms and conditions governing international donations and operations have yet to be fully tested.

wholesale reorganisation and upgrading of the country's military, security and surveillance systems, and growing assertiveness in projecting national power and influence abroad. China's domestic and international policies

for the New Era are planned and executed under the authority of a single party leader in command in perpetuity, Party General-Secretary Xi.

The changes under Xi have triggered a new phase in Australia's relations with China. Australians warmly welcomed opportunities for expanded trade, investment, learning, friendship and immigration over the preceding reform era (1979-2009). At that time, Australian governments promoted open engagement without close regard to the different values and strategic interests that separated the two countries.

The assumptions underlying that relatively easy-going approach are no longer tenable as the downside risks that China's growing power and influence present to Australian values and interests have become more apparent.³ Public sentiment has shifted accordingly. Lowy Institute polling indicates that many Australians no longer trust China to act responsibly in the world.⁴ So Australians need to make a successful adjustment in the ways they engage with China.

Philanthropy and international relations

This is where international philanthropy comes in. Philanthropy has played a prominent role in international relations for well over a century. Early in the 20th century, American charities and foundations including the Rockefeller and Carnegie Foundations built some of China's most advanced hospitals, provided scholarships for future leaders of China to study abroad, and worked with returned students in founding teaching facilities in the physical, medical, and social sciences many of which continue to lead the country in their respective fields in China a century later.⁵

Following the re-establishment of diplomatic relations between Washington and Beijing, in 1979, newer foundations including the Ford and Gates Foundations and Rockefeller Brothers Fund have made significant contributions towards bilateral cooperation on matters of mutual concern. In each case, the value of private philanthropy to US-China relations has gone well beyond the quantum of financial contributions to include solving real-world problems, building expertise in institutions, fostering goodwill at the people-to-people level, and enabling frank and transparent communications between ex-government and non-government experts and professionals in Track II dialogues on emergent and sensitive issues.

Australian philanthropic trusts and foundations have made few comparable contributions to causes in China over the seven decades that have elapsed since the founding of the People's Republic. This is not for want of resources. The value of charitable donations in Australia is currently around \$10 billion annually, of which around \$1.5 billion is contributed by philanthropic trusts and foundations.⁶ A relatively small proportion of contributions from trusts and foundations is expended overseas, almost none of it destined for China.⁷

Philanthropy in China, although larger in scale than Australia, has limited international reach as well. Private donors and foundations in China contribute around \$32 billion annually to a wide range of charitable causes, with philanthropic trusts and foundations contributing around \$13 billion of the total.⁸ As in Australia, only a small

Practical and effective models of discovery, learning, cooperation and convening are readily available for emulation.

proportion of donations have historically been directed overseas. This appears to be changing. One third of respondents to a recent survey of major foundations in China reported making at least one donation overseas during the survey period

and the value of overseas donations in 2015, totalling \$135 million, exceeded the value for the previous seven years combined.⁹

The regulatory and political environments in Australia and China partly account for the relatively low rates of philanthropic donations overseas to date. American foundations are as a matter of course permitted to contribute to foreign organisations, for charitable purposes, on condition that the grant recipient is certified as equivalent to an eligible domestic public charity or that the grant remains subject to the foundation's control.¹⁰ By contrast, only a limited number of foundations and charitable organisations in Australia and China are permitted to donate outside their respective national borders.

In the case of Australia, a foundation's ability to donate overseas depends on its legal structure. For example, foundations known as private ancillary funds (PAF) – referring to a foundation structure that provides donors with a tax deduction for contributions towards the fund itself – can only make grants within Australia to deductible gift

recipients (DGR), which is to say entities registered as charities with the Australian Charities and Not-for-profits Commission and endorsed as DGRs by the Australian Taxation Office. In order to expend funds overseas, a PAF must make a grant to a DGR in Australia and those funds may then be used for projects overseas.¹¹

Not all DGRs can operate overseas, however, although the law in relation to DGR operations outside Australia has been liberalised in recent years.¹² DGRs permitted to operate overseas include aid organisations approved under the Australian Government's Overseas Aid Gift Deduction Scheme, as well as organisations known as public benefit institutions.¹³ Other types of foundations, such as income tax exempt charitable trusts – a foundation structure that does not provide donors with a tax deduction for contributions into it and hence is often a less attractive option to donors – can distribute up to 49 per cent of their funds overseas provided these are used to further their charitable purposes.

These constraints do not apply to the same degree to overseas donations by private corporations, which may deduct donations for taxation purposes as business expenses rather than charitable expenses.

In the case of China, a limited number of foundations are permitted to make significant contributions overseas to work alongside government in delivery of officially-approved foreign aid programs, often associated with the government's strategic Belt and Road Initiative.¹⁴ Within China, formally registered charitable trusts and foundations are confined to supporting organisations registered with the Ministry of Civil Affairs as eligible not-for-profit organisations. Eligibility is tightly policed to ensure alignment with Communist Party and government objectives. Under the 2016 Charity Law, charitable donations are further restricted to five defined fields of charitable work in China, including poverty alleviation, health work, disaster relief, environmental protection, and the promotion of education, science, culture and sport. An additional catch-all category refers to 'other public benefit activities complying with this law.'¹⁵

In so far as the legal and regulatory framework applying to charities and foundations remains under development in China, the terms and conditions governing international donations and operations have yet to be fully tested.

Positioning philanthropy to play a constructive role

With China's philanthropists, trusts and foundations set to emerge as significant global players, how can their Australian counterparts engage with them in a mutually beneficial, sustainable, and transparent manner?

Any answer to this question should begin by acknowledging the important role played by Chinese-Australians in sustaining bilateral charitable initiatives over the long term. America may have had a head start over Australia in its philanthropic engagements with China but Chinese-Australian contributions to charitable causes in China are far from negligible. Chinese-Australian religious charities played a small but significant role in building schools and medical clinics in the heyday of the old Republic.¹⁶ Over the first half of the 20th century Chinese-Australian community organisations and business firms made substantial donations to charitable causes in China year in and year out.¹⁷ Today, Chinese-Australian communities continue to account for the greater part of Australian philanthropic and charitable engagements with the People's Republic.¹⁸ Greater engagement by mainstream Australian trusts and foundations could usefully begin by working in association with dependable Chinese-Australian philanthropists and communities.

Constructive approaches to philanthropy engagement also need to acknowledge the important role of government in promoting and sustaining a variety of public-diplomacy programs relating to Greater China through the Australia-China Council, the Foundation for Australian Studies in China and, in future, through the Commonwealth-funded National Foundation for Australia-China Relations (NFACR). The distinct and complementary roles that private philanthropy can play is likely to be shaped by the strengths as well as the omissions of government public diplomacy programs.

Private philanthropy is well positioned to deal with difficult issues impeding constructive bilateral engagement despite the historical limitations and regulatory constraints applying to the philanthropy sectors in China and Australia. As the 'ultimate risk capital,' philanthropy has a healthy risk appetite. It is largely independent of government, has scope for innovation, and exercises considerable convening power. For these reasons, business leader and philanthropist Bill Gates has argued, philanthropy

should not confine itself to the "easy problems" which can be left to business and governments to manage. "Philanthropy should be taking much bigger risks than business," Gates advises philanthropy peers.¹⁹

Australian and Chinese philanthropy can potentially tackle some of the big challenges in Australia-China relations. In view of the regulatory and political constraints noted above, opportunities for direct funding from Australia to China or from China to Australia are likely to be limited. At the Australian end this limitation could in time be overcome by expanding the scope for Australian charitable donations overseas to include charities and foundations working to find new ways forward in relations with China. At the China end there appears to be little prospect of further regulatory reform in the foreseeable future.

Operating within current constraints, a number of innovative solutions are available to assist philanthropy in realising its potential for promoting constructive bilateral engagement. Viable solutions are likely to involve partnerships between philanthropy institutions based in Australia and China, on a domestic self-funding basis, and to be founded on principles of mutual benefit, reciprocity, transparency, and medium-to-long term commitments rather than short-term transactions.

Philanthropy can help build trust between people by exploring innovative and workable solutions for common problems.

One mechanism consistent with current regulatory requirements could see Australian philanthropy partnering with China's philanthropy sector in co-funding joint activities

with each side funding its own participation consistent with national laws and local regulations. On this model, philanthropy partners could explore a variety of options, including:

Discovery and learning: To advance mutual understanding of charity and philanthropy practices in each jurisdiction, participating partners could host personnel exchanges and placements, familiarisation tours, training programs, and targeted meetings on specific issues such as regulatory environments, grant-making best practice, charity data production and transparency, and thematic areas of grant making relating to environmental, education and health issues, social disadvantage, and other challenges.

Cooperation: To explore options for cooperation in philanthropy activities, peak councils and engaged philanthropies could convene joint meetings in Australia and China to explore prospects for cooperation at the national, state/provincial, and city levels, in addition to cooperation among donors working in similar thematic areas (health, education, social disadvantage etc.) and cooperation among donors seeking to co-operate in third-countries, among other initiatives.

Convening: To promote dialogue on issues of mutual concern, trusts and foundations in Australia and China could fund local participation in occasional semi-formal (Track II) meetings on thematic issues not directly related to philanthropy, including trade and investment, countering crime, education and culture, technology and security, developmental assistance, and rule of law, among other possible issues.

Practical and effective models of discovery, learning, cooperation and convening are readily available for emulation. The East-West Philanthropy Forum, based in Honolulu, has pioneered international efforts to catalyse a global leadership network assisting philanthropy to address urgent environmental and social challenges through bilateral and multilateral philanthropy cooperation.²⁰

At the bilateral level, Philanthropy Australia has taken the lead in Australia in hosting private philanthropy delegations from China, including representatives of that country's primary data and information sharing platform, the China Foundation Center, and introducing leading philanthropy institutions and training centres in China to their Australian counterparts, resulting in further collaborations.²¹ Going beyond philanthropy, trusts and foundations could constructively support annual/biennial youth, women's, professional and other dialogues among interested parties from both sides.

Philanthropy can help build trust between people by exploring innovative and workable solutions for common problems, at arms-length from government, while bearing and mitigating some of the risks involved. Parties that have a stake in building productive relations between Australia and China and that see a place for philanthropy in the relationship could form a steering group to explore options, give shape to proposals, and work toward implementing the following recommendations.

A path ahead for cooperation

1. The sector should explore options for philanthropists and foundations to support joint efforts towards discovery and learning, cooperation, convening, and other initiatives, possibly on the model of the East West Center, but suited to Australian conditions and dedicated to the Australia-China relationship
2. Engaged philanthropists should support a private not-for-profit entity dedicated to China-Australia relations, at arms-length from government, which is capable of accepting and distributing private, corporate and public funds to support activities complementing but distinct from government initiatives funded through the NFACR. The entity would complement the NFACR in three ways: by undertaking a wider range of initiatives, by supporting activities not considered eligible or appropriate for direct government funding, and by attracting additional private and corporate funds in support of activities
3. Government should grant DGR status to the dedicated not-for-profit entity referred to in Recommendation 2 to enable it to facilitate the flow of private and corporate funds to support Australia-China relations, by way of a 'specific listing' in Division 30 of the *Income Tax Assessment Act 1997 (Cth)*
4. Government should consider making an initial grant to cover the five-year operating costs of the entity referred to in Recommendation 2
5. Parties with a stake in building productive relations between Australia and China should form a steering group to explore options and implement appropriate recommendations in support of wider and deeper philanthropic engagement.

John Fitzgerald is Emeritus Professor in the Centre for Social Impact at Swinburne University of Technology.

- 1 The full term is 'Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.'
- 2 The first publication in the present series offers constructive answers to this question. See Bates Gill, *Bounded Engagement: Charting a new era in Australia-China relations* (Sydney: The Asia Society, 2019) <https://asiasociety.org/australia/bounded-engagement-charting-new-era-australia-china-relations>
- 3 Gill, 'Bounded Engagement.'
- 4 Kelsey Munro, 'Australian attitudes to China shift: 2019 Lowy Poll,' *The Interpreter*, 27 June 2019 <https://www.lowyinstitute.org/the-interpreter/australian-attitudes-china-shift-2019-lowy-poll>
- 5 Mary Brown Bullock, *The Oil Prince's Legacy: Rockefeller Philanthropy in China* (Washington, DC: Woodrow Wilson Center Press, 2011).
- 6 See N. Cortis, A. Powell, I. Ramia, and A. Marjolin, *Australia's grant-making charities in 2016: an analysis of structured philanthropy and other grant-makers*, Centre for Social Impact and Social Policy Research Centre, UNSW Australia, 2018 <https://www.acnc.gov.au/file/486961/download?token=AE4h3PXc> Table 11.3.
- 7 See Cortis et al, *Australia's grant-making charities in 2016*, Table 3.6
- 8 In 2017 charitable donations in China totalled Y152.6bn of which trusts and foundations contributed Y63.7bn. See Song Zonghe 宋宗合, '2017-2018 niandu Zhongguo cishan juanzeng baogao,' [2017-2018 年度中国慈善捐赠报告 China annual donations report 2017-2018]. In Yang Tuan 杨团, ed., *Zhongguo cishan fazhan baogao 2019* [中国慈善发展报告 2019, Annual report on China philanthropy development 2019] (Beijing: Social Sciences Academic Press, 2019), pp. 30-49.
- 9 Guosheng Deng, 'Trends in overseas philanthropy by Chinese foundations,' *Voluntas*, April 2017.
- 10 For a general guide to international grant making in the U.S. see Grantcraft, *International Grant Making* (2004) <https://grantcraft.org/wp-content/uploads/sites/2/2018/12/global.pdf>
- 11 Krystian Seibert, 'Government Right to Dump "In Australia" Legislation,' *Pro Bono Australia News*, 19 December 2017, <https://probonoaustralia.com.au/news/2017/12/government-right-dump-australia-legislation/>
- 12 On recent changes making international philanthropy easier in Australia, see Seibert, 'Government Right to Dump "In Australia" Legislation.'
- 13 ACNC/Centre for Social Impact, *Australian Charities Involved Overseas 2014* https://acfid.asn.au/sites/site.acfid/files/resource_document/Australian-Charities-Involved-Overseas-2014-Final.pdf; also Australian Tax Office advice at <https://www.ato.gov.au/Non-profit/Getting-started/In-detail/Types-of-DGRs/Overseas-aid-funds/> Accessed 4 August 2019.
- 14 Deng, 'Trends in overseas philanthropy by Chinese foundations.' On the role of aid in the BRI see Greg Earl, 'Economic Diplomacy: Development Aid in the Belt and Road Era.' *The Interpreter*, Lowy Institute, 28 February 2019 <https://www.lowyinstitute.org/the-interpreter/economic-diplomacy-development-aid-belt-road-era>
- 15 Charity Law of the People's Republic of China (2016). An unofficial translation and commentary by China Development Brief is available at http://www.icnl.org/research/library/files/China/1_ChinaCharity2016.pdf
- 16 Denise A Austin, 'Women and Guangdong Native-Place Charity in Chinese-Australian Pentecostalism: A Miracle of Grace.' In John Fitzgerald and Hong-Min Yip, *Diaspora Charity in the Cantonese Pacific 1850-1949* (Hong Kong: Hong Kong University Press, 2020).
- 17 See Tony Liao Hongyue, '*Shang and Shan*: Charitable Networks of the "Four Great Department Stores" and their Associated Chinese-Australian Families, 1900-1949.' Unpublished PhD dissertation, Swinburne University of Technology, 2018.
- 18 Wesa Chau and John Fitzgerald, *Asian Australian Diaspora Philanthropy* (Melbourne: Lord Mayor's Charitable Fund and Centre for Social Impact Swinburne University, 2018) https://www.lmcf.org.au/getmedia/54892541-d9b2-40f6-81cf-ba85ea702eb9/LMCF_Diaspora_Report_ONLINE.pdf.aspx
- 19 Cited in Bruce DeBoskey, 'Philanthropy is the ultimate risk capital,' Planned Giving Design Centre, 31 July 2019 <https://www.pgdc.com/pgdc/philanthropy-ultimate-risk-capital>. On 'bold' risk-taking philanthropic ventures in an Asian context see for example Pritha Venkatachalam, et al, 'When bold philanthropy drives social change,' *Forbes India* 17 September 2018 <http://www.forbesindia.com/blog/giving/when-bold-philanthropy-drives-social-change/>
- 20 See <https://www.ewpforum.org/>
- 21 See <https://www.philanthropy.org.au/>

Living with China



Community, coherence and competency are the key to maintaining healthy engagement.

The big guy in the crowd

On November 17, 2014, the Chinese Communist Party General Secretary Xi Jinping addressed both chambers of the Australian Parliament. As he outlined how China will achieve its dream of prosperity and security, there was one message that struck me. It warrants being quoted in full here. He said:

Many people applaud China's achievements and have great confidence in China, while some others have

concerns about China — and there are also people who find fault with everything China does. I think these diverse views are to be expected. After all, China is a large country of over 1.3 billion people. It is like the big guy in the crowd. Others naturally wonder how the big guy will move and act, and they may be concerned that the big guy may push them around, stand in their way or even take up their place.

The rest of the speech was more rigid and formal. But the message of China as the big guy in the crowd – assertive because of his size, not always well liked, sometimes ungainly as he grew too big too fast, perhaps even unsure what to do with his new-found strength – lingered throughout the rest of his address.

It is a useful metaphor for the kind of China Australia is dealing with today. It is a China that is more global, more powerful and willing to project its power,

Australia is in a process of ongoing negotiations with China on what the rules of engagement are.

more authoritarian and sensitive to criticism, but also just as hard-working, entrepreneurial and dynamic as it has been for centuries. Perhaps, what I mistakenly took for awkwardness and hesitation in 2014 was

just a gentler message to Australia and the rest of the world about getting accustomed to China's burgeoning power. In 2019, we are much clearer how China intends to use it.

To many of us in an ill-defined West, this China is different from what we were prepared to envision.

To many of my Chinese friends and colleagues, China today is where it was always headed.

In this year's edition of *"Disruptive Asia"* we attempted to frame the boundaries of Australia's engagement with this "new" China.

It is clear from our authors that these boundaries will constantly shift, and Australia's China policy will continue to be fluid, as we hedge against the challenges of China's strategic trajectory and political influence, while fostering the mutual benefits of engagement with China in economic, educational, cultural and human-mobility domains. As one of our senior diplomats succinctly put it — Australia (and perhaps one can add many other countries in the region and beyond) is in a process of ongoing negotiations with China on what the rules of engagement are.

Therefore, we should not expect from our political leaders an all-encompassing, comprehensive statement of Australia's long-term China policy and a neat narrative to explain it.

But what we – as a nation – can do is to prepare ourselves for living with a global and powerful China in a region that is more strategically contested, and more economically competitive and interconnected.

Such preparation will involve a coordinated and long-term domestic and international policy-development effort by governments, business, educational institutions and community to safeguard Australian interests as China continues to grow in power and influence, while preserving – and if possible expanding – the very real benefits which are gained through engagement with China.

At the heart of it, in my view, should lie the three elements: community, coherence and competency.

Community

There are two communities Australian leaders need to engage better in relation to China.

First, a diverse community of nations that constitute Asia. Too often in Australia, China is regarded as Asia. By doing so we dismiss deep cultural, historical, economic and political differences between our Asian neighbours. Too often that helps to reinforce a view that Asia accepts China's leadership and dominant economic and cultural influence. The last five years showed it has not. Nor does it reject it either. Each of our Asian neighbours is dealing with the big guy in the crowd, each hedges against it and engages with it simultaneously. Australia needs to strengthen its relations with Japan, Korea,

The debate about China's influence in Australia over the past two years has shown the strength of our media, government and civil society.

India, Indonesia and other countries of ASEAN to grow and diversify our economy, but also to craft and test rules and collaborative efforts to keep the region peaceful and prosperous, with the rising China and powerful United States, in competition with each other. The government is

already on a path to strengthening our key Asian partnerships, with the India Economic Strategy, the Quadrilateral Security Dialogue, the Indonesia-Australia Comprehensive Economic Partnership Agreement, and the Pacific step-up, amongst other initiatives. But making these initiatives deliver tangible economic and foreign policy outcomes, and work in tandem with each other will be the next challenge.

Second, an equally diverse community of Australians of Chinese heritage is one of our most powerful assets in understanding and engaging with China. We should ensure that this community is at the forefront of the bilateral

relationship, and deeply involved in shaping our understanding of the country. To do it effectively, Australia needs to address the issue of under-representation of Australians of non-Anglo-Celtic or European background in the leadership of our political, business, education and government institutions, including the recently announced National Foundation for Australia-China relations. The Foundation can and should lead by example, through the appointment of Australian-Chinese to its board and executive team, and ensuring its grant-making and outreach activities are inclusive and encourage participation and contribution by this important community.

China – as any other major power – will legitimately seek to influence Australia’s public and elite opinion, including through the Chinese diasporic communities in Australia. An inclusive, culturally diverse leadership of our institutions, representative of the make-up of our society can respond to this influence in a mature and reasonable manner, while being able to counter any unwelcome or coercive elements of it.

Coherence

China’s obsession with national unity is not coincidental or new. It is a result of an aggregated historical experience that proved time and again that its national strength lies in unity, and weakness in division. As a young, robust, multicultural democracy and federation, Australia cannot mobilise public opinion or coordinate its national position quite so effectively as the People’s Republic of China. Some see it as a weakness. But they underestimate the resilience of our democratic system and its inherent ability to adapt. The debate about China’s influence in Australia over the past two years has shown the strength of our media, government and civil society. It occasionally produced ugly, racially-driven or simply misinformed views that undermined the quality of the debate, but it was vigorous, timely and much-needed, as Australians develop a more mature and nuanced understanding of China’s rise.

However, we cannot ignore the divisions our current debate on China has produced — amongst our communities (including the Australian-Chinese diaspora), business and national security circles, Commonwealth and State governments, media, within and between political parties, think-tanks and universities, and between those ‘in the know’ and those with only public information to rely on. These divisions are to be expected in an open society,

but they are also a major gift to those who want to influence and further divide us.

While we cannot bridge all of these differences, we will need to learn to communicate and coordinate better on China. First and foremost, this task will fall on the Commonwealth Government, but equally on our civil society, business and educational institutions to convene forums, commission research, and work with our communities and encourage a healthy, respectful and well-informed exchange of facts and views. Australia’s China debate and its reverberations at home and abroad is a powerful reminder to those who influence policy and public opinion – whether formally as politicians and government advisors or as journalists

We can’t deal with China effectively, if we don’t know it well.

and commentators – that words are bullets not just in diplomacy, and that we should take utmost care not to conflate, offend, generalise or misinform.

A coherence and clarity in communicating to China will also be increasingly critical. It is a dangerous myth that Chinese interlocutors do not appreciate a direct and frank exchange of views. The Chinese system puts a high premium on consistency of official and diplomatic language. Such consistency is near impossible to achieve in a democracy. But there are ways, for example, for our political parties in government to share some vital security assessments with the opposition, to enable better coordination on diplomatic messaging amongst ministers (without sacrificing our Parliamentary openness), to increase the engagement between Commonwealth and State officials and politicians on China. Democracies are inherently open and adaptive systems and offer surprisingly powerful tools to build a united front of our own, without restricting diversity of opinions and freedom to express them.

Competency

We cannot deal with China effectively if we do not know the country well. The Asia literacy debate in Australia has ebbed and flowed for decades with limited results. But over those decades, as China has become more powerful and influential – in our region and around the globe – we have not taken our own capabilities to understand and effectively engage with China as a matter of national interest. It is high time we did.

It is positive that in the past two years, the China debate has widened and deepened in Australia, with diverse views from a greater variety of voices. Many have limited expertise on China or experience living, visiting or working in the country, but bring valuable expertise in security, business, ethics and politics. But to go beyond the debate into policy-setting and programs, we need deep China expertise. We also need our future generation to be China-literate to make well-informed decisions in our national interest, and we need to start investing in these capabilities now.

The new Foundation can convene a taskforce on China literacy policy and commission research on the policy options and programs to lift the level of China competency at all levels of our education system, business, parliaments, public service

We should be confident that we can maintain a healthy relationship with China even though our interests and values may not always align.

and security agencies, universities, cultural and community organisations. The Government can be a catalyst, but it will be up to our universities, think-tanks, non-profits and businesses to work independently and together to co-invest in our research and education on China,

build and grow the centres of expertise on Chinese politics, defence, economy and society, and share this expertise with our community at large. There are already significant private and public-funding investments in this area, such as the Judith Neilson Institute for Journalism and Ideas, the National Foundation for Australia-China Relations, and our own new national Centre in Melbourne.

The Australian-Chinese community is a part of the answer to the China literacy dilemma. By engaging this community in the China relationship architecture and the leadership of our institutions, we unlock vital cultural intelligence, highly complementary to any formal education programs.

Our China competencies are also built through professional and leadership exchanges. The initiatives such as the Australia-China High Level Dialogue, coupled with the existing and emerging business, academic and youth networks are ripe for some fresh thinking and support. In the climate of strained diplomacy, interactions between our businesspeople, journalists, academics and artists take on a new significance, as it allows for official and semi-official communications between our nations'

leaders and networks to occur. These exchanges are vital for our understanding where China is headed and what its elites are thinking. Contrary to concerns of a Chinese 'invasion', professional linkages with China – bounded by careful consideration of national interests and values – benefit Australia as much as they benefit China.

Confidently curious

Sitting alongside the three Cs above are confidence and curiosity. Australia remains one of the world's most successful economies, democracies and multicultural societies endowed with its own resource-rich continent and talented people. It is fortunate to be prosperous and have few enemies. We should be confident that we can maintain a healthy relationship with China even though our interests and values may not always align. Projecting such confidence to our community will be the job of our political and civil society leaders. They should be doing more of it, while explaining both the worrisome and positive dynamics of ties with China.

We must also remain curious about China. It is a remarkable and complex country, offering a rich tapestry of opportunities and contradictions. It is this curiosity – be it by our prime ministers or city councillors, vice-chancellors or students, CEOs or small business owners – that led us to engagement with China in the first place. It's this curiosity that will help us prepare for the future with the big guy in the crowd.

Philipp Ivanov is Chief Executive Officer of Asia Society Australia



Contributors

Greg Austin

Greg Austin is a Professor in UNSW Canberra Cyber. He concurrently serves as a Professorial Fellow with the EastWest Institute (EWI), with offices in New York, Palo Alto, Brussels and Moscow. He is an internationally recognised research scholar specialising in aspects of cyber space affairs. He leads the UNSW Research Group on Cyber War and Peace. He set up Australia's first Masters degree in Cyber Security, Strategy and Diplomacy; and he teaches four subjects in this degree. He is a member of the Cyber Security Advisory Council for the New South Wales government. He has published two books on cyber policy on China and five other books on Asian security affairs (four are on China).

Julia Bergin

Julia Bergin is a researcher and writer for award-winning podcast on China, The Little Red Podcast. She is also working on a research collaboration with the International Federation of Journalists investigating the global outlook and local impact of China's approaches to media workers and organisations. Julia recently concluded her position as Communications and Content Officer for Asia Society Australia where she collaboratively built and launched the podcast series "Festival of Democracy" covering the elections in India and Indonesia. She has written extensively, publishing articles with The Guardian Long Reads, The Japan Times, Australian Outlook and The Australian. She also has her own business, Disjunctures, under which she writes and practices as a professional artist and photographer. Julia graduated from the University of Melbourne in 2018 with a Bachelor of Arts, majoring in Politics/ International Relations and Criminology.

James Bowen

James Bowen is a Research Fellow at the Perth USAsia Centre and Visiting Academic Research Fellow at the Mercator Institute for China Studies in Berlin. His ongoing research is concerned with geo-economic interactions in the Indo-Pacific region, with a heavy focus on energy and climate-related matters. James has undertaken research on behalf of institutions including the Australian Strategic Policy Institute, Future Directions International and Tokyo's Centre for Rule-making Strategies. His analysis has been published by the South China Morning Post, ChinaFile, World Politics Review, the Diplomat, the National Interest and many others. He has provided expert commentary to Agence France-Presse, ABC Radio National and other media. James previously worked at the International Peace Institute in New York City, where he edited the Global Observatory publication and researched countering violent extremism issues. He has consulted for political risk firms and served as a speechwriter on energy and resources issues for the Australian and Western Australian governments. James holds a Masters in International Relations from Griffith University.

Michael Clarke

Dr Michael Clarke is Associate Professor at the National Security College, Crawford School of Public Policy, ANU. He is editor of *Terrorism and Counter-Terrorism in China: Domestic and Foreign Policy Dimensions* (Hurst/Oxford University Press 2018) and author of *Xinjiang and China's Rise in Central Asia: A History* (Routledge 2011).

John Fitzgerald

John Fitzgerald is Emeritus Professor in the Centre for Social Impact at Swinburne University of Technology in Melbourne, and immediate Past President of the Australian Academy of the Humanities based in Canberra. From 2008 to 2013 he was China Representative of the Ford Foundation in Beijing, overseeing the foundation's China operations. His books include *Big White Lie: Chinese Australians in White Australia* (UNSW 2007; awarded the Ernest Scott Prize of the Australian Historical Association in 2008), and *Awakening China* (Stanford 1997; awarded the Joseph Levenson Prize of the US Association for Asian Studies).

Stuart Fuller

Stuart Fuller is Global Head of Legal Services for KPMG and is also its Asia Pacific Regional Leader for Legal Services. In those roles, he leads a team of more than 2,400 legal professionals across 78 jurisdictions in KPMG's global legal network. Prior to joining KPMG in March 2018, Stuart was the inaugural Global Managing Partner of King & Wood Mallesons, based in Hong Kong. Stuart has close connections to financial institutions, non-bank lenders, investment banks, regulators, government departments and government itself. His experience as a leader of global legal organisations also allows him to bring insights into business and industry trends, with a focus on cross-border investment and trade policy and the global capital markets, and his perspectives on the opportunities and challenges for business and people in both the developed, developing and emerging markets, and across their cultures.

Bates Gill

Dr Bates Gill is Professor of Asia-Pacific Security Studies at Macquarie University, an Associate Fellow with the Royal Institute of International Affairs (Chatham House, London), and co-editor of the Asia Society Australia *Disruptive Asia* series for 2019. He has a 30-year career as a scholar, policy advisor and author, focusing on Asia-Pacific politics, foreign policy and security, with a particular focus on China and US-China relations. He has held leadership, research and academic positions with some of the world's leading institutions and universities, including the Brookings Institution, the Center for Strategic and International Studies, the Stockholm International Peace Research Institute, Johns Hopkins University, the University of Sydney, and the Australian National University. He has published eight books and over 150 other publications, including most recently *China Matters: Getting it Right for Australia* (with Linda Jakobson). His current research projects include a focus on the modernisation of Chinese strategic forces (nuclear, cyber, space) and how US allies are balancing relations between a rising China and an uncertain America.

Jane Golley

Associate Professor Jane Golley is an economist and Director of the Australian Centre on China in the World at the Australian National University. Her research over several decades has covered a wide range of Chinese transition and development issues, including industrial agglomeration and regional policy; demographic change and economic growth; rural-urban and gender inequalities in education and income; Socialism with Chinese characteristics; and the Belt and Road Initiative. Jane is actively engaged in public policy and media debate regarding the Australia-China relationship. She is a co-editor of the *China Story Yearbook* series, including *Power*, published in 2019.

Philipp Ivanov

Philipp Ivanov is Chief Executive Officer of Asia Society Australia. He is a China specialist with extensive experience in policy, education and research. Previously, he served as a policy officer and manager of the Australia-China Council at the Australian Government's Department of Foreign Affairs and Trade where he was one of the principal authors of the Australia in the Asian Century White Paper - China Country Strategy. He was also Acting Director and Deputy Director of the Research Institute for Asia and the Pacific at the University of Sydney, advised the University of Sydney on their China strategy and managed La Trobe University's partnerships in the Gulf States, Vietnam and Thailand. Philipp spent over six years in China working in education and development and also studied in Jilin and Liaoning Normal universities. He has a Bachelor (Honours) degree in Chinese language and history from the Far Eastern National University in Russia. He holds a Master of Educational Leadership and Management from RMIT University in Australia. He grew up in Vladivostok on Russia's Pacific coast and is a fluent Chinese and Russian speaker.

James Laurenceson

Professor James Laurenceson is an economist and Acting Director of the Australia-China Relations Institute (ACRI) at the University of Technology Sydney (UTS). His academic research has focused on macroeconomic aspects of China's economy, including financial reform, business cycle fluctuations and productivity growth, as well as issues related to the Australia-China economic relationship. These contributions have been published in leading scholarly journals including *China Economic Review* and *China Economic Journal*. From 2012-2014 he was President of the Chinese Economics Society of Australia. He also provides frequent analysis of contemporary developments in these areas and in the broader Australia-China bilateral relationship, including in the pages of the *Australian Financial Review* and online in specialist blogs such as *Australian Outlook*. In 2018, he was the author of a major report into the facts and evidence underpinning claims appearing in Australian media about China and Australia-China relations titled "Do the claims stack up? Australia talks China".

Say Boon Lim

Say Boon Lim is an Australian-based consultant, advisor and non-executive director to companies in Asia. He has previously been the Finance Editor of the *Herald-Sun*, Melbourne; Chief Investment Strategist (Group Wealth Management) for Standard Chartered Bank; and Chief Investment Officer for DBS Bank.

Fran Martin

Associate Professor Fran Martin is a Senior Lecturer in Cultural Studies at the University of Melbourne and an Australian Research Council Future Fellow. She is currently completing a five-year ethnographic study of Chinese university students' social and subjective experiences of studying in Australia with a focus on the gendered aspects of their educational ventures. Prior to her current work on international student mobility, her best-known research focused on transnational Chinese youth and media cultures. She has published widely on television, film, literature, Internet culture and other forms of cultural production in the contemporary transnational Chinese cultural sphere, with a specialisation in representations and cultures of gender and sexuality. Her next book, under contract to Duke University Press, is entitled *Dreams of Flight: Mobility and Gendered Subjectivity Among China's Student Transmigrants*.

Dermot O’Gorman

Dermot O’Gorman is the Chief Executive Officer of the World Wide Fund for Nature, Australia (WWF-Australia). He has been a leader in sustainable development for over two decades across Australia, the Pacific, Asia, and Europe, and as WWF-Australia’s CEO leads efforts to save the world’s ecosystems and address climate change by linking science, field, and policy programs and working with markets and businesses to lighten their impact on the planet. Dermot is a Director of the Australian Council for International Development, Co-founder and Chairman of OpenSC, a member of the Queensland Climate Advisory Committee and has previously led the WWF Asia Pacific CEOs Growth Group as Chairman, led WWF’s Global Conservation Committee, was a member of the China Green entrepreneurs club, was on the 2014 Australian C20 Committee, and a founder of the Australian (Business) Climate Roundtable. He has an MBA from IMD, Switzerland, a Master of Science from London School of Economics, and degrees from University of London and Southern Cross University. Prior to joining WWF-Australia, he was CEO in the WWF offices of China and the Pacific.

Brendan Sargeant

Brendan Sargeant is Honorary Professor at the Strategic and Defence Studies Centre, Coral Bell School of Asia Pacific Studies at the Australian National University. From September 2013 to October 2017, he was the Associate Secretary of Defence. Prior to that appointment he was the Deputy Secretary, Strategy. He was principle author of the 2013 Defence White Paper. As Associate Secretary, he was responsible for oversight of the implementation of the First Principles Review, a major reform of Defence organisation and enterprise governance, planning, performance and risk management.

Neil Thomas

Neil Thomas is a Research Associate at MacroPolo, the in-house think tank of the Paulson Institute in Chicago, where he works on Chinese politics, US-China relations, and international political economy. His research for MacroPolo has been featured by publishers such as The Economist, The Wall Street Journal, The Los Angeles Times, Axios China, The Browser, Sky News, and the Sinocism China Newsletter. Neil previously worked for the Australian National University, both as a Morrison Scholar at the Australian Centre on China in the World and as a Research Project Officer at the Crawford School of Public Policy. He also spent time at the Carnegie-Tsinghua Center, Danwei Media, and The Texas Tribune, and has written for publications including The Washington Post, Foreign Policy, The Hill, Los Angeles Review of Books (China Channel), East Asia Forum Quarterly, and the International Journal of Public Policy. Neil holds a Masters of Public Policy from the John F. Kennedy School of Government at Harvard University, where he was an IGA Student Fellow at the Belfer Center for Science and International Affairs, and a Bachelor of Arts in economics and political science from the University of Western Australia, where he was a UWA Fogarty Scholar.

Jason Yat-sen Li

Jason Yat-sen Li is Chairman of investment group Vantage Asia and Managing Director of corporate advisory firm YSA. YSA specialises in complex cross-border, China-related mergers & acquisitions and capital raising mandates. Jason is a Fellow of the University of Sydney Senate (non-executive Director), the Sydney Committee for the Australian Chamber Orchestra, a Young Global Leader of the World Economic Forum and a member of the World Economic Forum’s Global Agenda Council on China. He was previously a non-executive director of the George Institute for Global Health, Vice Chair of the Australia-China Chamber of Commerce, a Director of the Sydney Institute, and a Governing Member of the Smith Family. Jason completed an Arts-Law degree at the University of Sydney and a Masters of Law at New York University, where he was Australia’s Hauser Global Scholar. He was formerly Head of China Strategy for Insurance Australia Group and Head of Sales & Marketing for IAG’s China operations.

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Greg Earl and Philipp Ivanov
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Melbourne Centre

Level 2, 77 Southbank Boulevard, Southbank VIC 3006
Telephone: +61 3 9690 0629

Sydney Office

Level 17, 115 Pitt St, Sydney NSW 2000
Telephone: +61 2 8199 9402

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