

# **AUSTRALIA-CHINA RELATIONS, 1989-2005**

*Thesis submitted to Jawaharlal Nehru University*

*for award of the degree of*

**DOCTOR OF PHILOSOPHY**

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**DECLARATION**

I declare that the thesis entitled "Australia-China Relations, 1989-2005" submitted by me for the award of the degree of **Doctor of Philosophy** of Jawaharlal Nehru University is my own work. The thesis has not been submitted for any other degree of this University or any other university.

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**CERTIFICATE**

We recommend that this thesis be placed before the examiners for evaluation.

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# Chapter I

## Introduction

The title of this thesis reflects an extension of the coverage of area studies under the broader discipline of International Relations. That the title has been circumscribed within a certain period, i.e., 1989-2005, attests to the focused and objective nature and purpose of this study. Even as the limited periodisation does impart focus and sharpness in treatment of the subject, by no means does it preclude drawing of inferences on broader contours in the relationship between the two countries over a much longer haul. Moreover, this examination of bilateral relations between two countries as fundamentally different as Australia and China covering a wide array of subjects ranging from economic to security to political ties also serves as an opening template if not as a model of study of bilateral relations between two vastly dissimilar sovereign countries in the post-Cold War, new information-age globalised world order. In addition, this thesis intends to scrutinize not only Australia and China dealing with their past and present dynamics bilaterally but also how they come to terms with their involvement with other regional players and groupings without compromising on the gathering momentum in relationship between the two themselves. This lends the study a more holistic perspective against the wider canvas of intersecting interests and relations among other players, institutions and regional organisations. The objective of this thesis entails seeking answers to two primary questions: One, what has been the nature and substance of Australia's relations with China in the given period? And two, based on trends and patterns in Australia's relations with the US and China, whether and how a country such as Australia can reconcile between its close historical and strategic linkages with the US on one hand and rapidly growing economic and trading ties with China on the other? Relatedly, whether Australian foreign policy would necessarily have to make a structural shift in favour of a closer Australia-China relationship at the expense of the US, or that both Australia-China and Australia-US relationships could sustain independently regardless of the over-all ebb and flow in relations among the three of them?

Exactly sixteen months after Tiananmen incident, in an address to the Chinese Australian community, Prime Labour Prime Minister Bob Hawke had said, "What a tragedy it is not just for China but for China's relationship with Australia that those policies of liberalisation, and that extremely exceptional relationship, were brought to a premature end by the events in Tiananmen Square". However in the same speech, the Prime Minister had also conceded,

“Australia has enduring interests political, strategic and economic interests in our relations with China, derived from our geographical location, our trading environment and from our wide variety of people-to-people links.” (Hawke 1990)

Then in an address as part of the 1997 Australia in Asia series, in reference to Australia’s first White Paper titled *In the National Interest* in 1997, then Liberal foreign minister Alexander Downer had two points to say on China: “First, it is important to take a long term view, and to be aware of history, when dealing with China. Second, as China's economic stature grows, so too will its impact on the security and politics of the region and the world.” (Downer 1997 a)

Earlier in an address to the Foreign Correspondents’ Association, Sydney, Foreign Minister Alexander Downer had cited the same White Paper affirming: “China’s economic growth with attendant confidence and enhanced influence will be the most important strategic development of the next fifteen years. How China manages its economic growth and pursues its international objectives, and how other nations, particularly the United States and Japan, respond to China will be crucial issues over this period.” (Downer 1997 b)

The same White Paper (titled *In the National Interest*) in 1997 had declared on country’s relations with China:

“...mutual respect as a realistic framework for the conduct of the relationship, and offering the best prospects to maximise shared interests, advance Australia’s political and strategic interests, and manage differences in a sensible and practical way. The One-China policy will continue to be a fundamental element of the bilateral relationship...” (McDowall 2009: 19)

Then upon Howard’s visit to China in late March 1997, Downer said that ‘Prime Minister Howard—during his visit—spoke with equal enthusiasm of a new economic “strategic partnership” between Australia and China’ (McDowall 2009: 17).

In keeping with this momentum, the DFAT White Paper of 2003, *Advancing the National Interest: Australia’s Foreign and Trade Policy White Paper*, described Australia’s relationship with China as a ‘strategic economic partnership’. It further added, ‘although much less powerful than Japan on many measures, China’s growing economic, political and strategic weight is the single most important trend in the region.’ (DFAT 2003)

In August 2004 Foreign Minister Downer declared the existence of a ‘strategic relationship’ between Australia and China. In a statement as part of an article in the prestigious Australian Journal of International Affairs, Downer had written, “...As our economic relationship with China has expanded rapidly alongside China’s dynamic growth, our bilateral relationship has reached unprecedented levels of openness and exchange across the full spectrum of

international and bilateral issues. There are very good prospects for this to expand further, with China and Australia agreeing that we should develop relations from a strategic perspective...” (Downer 2005: 9)

To begin with, while Australia is a middle power deeply aligned with big power (s), China arguably is a near super power in its own right well on its way to pose a counterweight to if not actively challenge the post-Cold War pax Americana (Australian Department of Defence 2009; Firth 2005: 70; Jones and Benvenuti 2006: 103; Gyngell and Wesley 2003: 11; Smith: 1999: 206; Ravenhill 1998: 309; Feigenbaum 2001: 34; Swazo: 2004; Hubel, Kaim & Lembcke 2001: 599; Kent 1996: 365). While there is no universally accepted definition of middle power, they usually are reckoned as those with reasonable reserves of material resources as well as diplomatic heft on key global issues, but are not big powers. Conventional wisdom drawing on the concept of balance of power advances that whenever a middle-level power like Australia hitherto dependent militarily on a super power decides to ‘break free’ from its erstwhile superior partner, it is likely to join hands with another comparable power-entity. This assumes more significance if that other comparable entity is China. However, does breaking free suggest breaking ranks altogether? Could it not merely imply an innocuous but hard-headed opening of another channel by a country to secure its foreign policy objectives, thus calling for an intense investigation into the subject? Significantly, it was President Nixon’s Guam doctrine envisaging a diminished military commitment of the US which would have also been factored in by Australia. As for China, notwithstanding recent policy challenges, the Chinese nation has risen phenomenally in all respects— economic production and global trade share, military capabilities, science and technology and above all, diplomatic standing, regionally and globally alike. More particularly, the Chinese economy has registered a consistent growth of nearly 10% for more than a decade (Downer 1997; Naughton 1995: 245; Bijian 2005: 18; Qian and Wu 2000: 4; Cheng 2005: 3950; Layne 2009: 164). Clearly, the astonishing rapidity at which the Chinese nation has risen and continues to rise, albeit slower than earlier, has implications all around. There has been an unprecedented academic and research focus on the yet communist State with capitalist market economic structure with theorists and ideologues across paradigmatic divides, scholars and practitioners endeavouring to unravel the enigma that China is turning out to be. Such an intense and widespread interest has not escaped nation-states too with Australia remaining no exception particularly in view of intensifying bilateral economic

linkages as well as its middle power regional activism given China's regional and global power aspirations from foreign policy standpoint.

Foreign policy is just another instrument in the hands of a state or government to advance the cause of the nation-state in its interaction with other nation-states, quasi-states or non-state institutions. Foreign policy is not the end, but the means to an end. For Australia, a middle power with advanced economy though with a limited population base and military capability, relationship with China could no longer be a matter of contemplation, it had to become a matter of national and diplomatic expediency. It was a country where a string of national surveys and study reports since late 1970s and early 1980s had been advocating a more self-reliant foreign policy posture. A country whose construction of its regional identity had yet not stabilised but oscillated between race and colour on one side and shared geography on the other, an overture towards China was not a routine nation-to-nation affair, it had a much deeper and wider significance (Chalkley and Winchester 1991: 97). A country with the image of a regional power in the Asia-Pacific, it had to devise new ways and formulations to remain so not only because of the Americas' wavering, if not diminished military commitment to the region but also because of newer economic, maritime and non-traditional security challenges. Against such a complex array of transformational and not-so-transformational events and trends, where does Australian foreign policy fit in? How does it calibrate its foreign policy in view of two seemingly countervailing and mutually exclusive forces: the fast emerging compulsions of economics and trade making China a valuable partner on the one hand and security imperatives long underwritten with its close but superior ally the United States on the other?

### **Why Tiananmen as the starting point for discussion?**

Given that 1989 Tiananmen incident sets the opening tone for this thesis, it is necessary to briefly outline why such a starting point has been chosen.

In May 1989, when AGB McNair first asked a cross-section of Australians aged 14 and above to rate countries on a 'feeling thermometer', 33% gave China a 'cool' rating (a thermometer reading of 1 to 4), 41% were neutral (a reading of either 5 or 6) while 22% felt warm (a reading of 7 to 10). By July, just a few weeks after the Beijing massacre, the number who of 'cool' had more than doubled, while the number registering 'neutral' or feeling warm had more than halved. In fact it was only for China did the ratings show any significant movement at all between the two months (Goot 1989: 398; Kent 1996: 371; Woodard 1990:

59). Then in a Morgan Gallup Poll in May and June 1989 when respondents were asked whether there was any threat to Australia from any country, 52% in May and 51% in June had said that there was an external threat to the country. However when asked which countries constituted a threat, while in May only 7% had called China a threat, the June poll had 16% dubbing China as a threat to Australia (Goot 1989: 401).

Almost two decades later, in a report entitled *Within China's Orbit: China Through the Eyes of the Australian Parliament*, Australian Parliamentary Fellow Timothy Kendall writes: "The year 1989 simultaneously embodies the Parliament's fears and hopes for China: it is the year in which the Garnaut Report, *Australia and the Northeast Asian Ascendancy*, laid the foundations for Australia's policy for economic engagement with Northeast Asia and it is the year the Australian Parliament awoke to the reality of engaging with a system that was not going to change in the way some policy makers had wished it to" (Kendall 2007: 73).

Such was the image that China had carried in the minds of the Australians in the immediate aftermath of Tiananmen. The year 1989 known for Tiananmen massacre was while a critical political test for the Chinese political elite internally, for the world outside, it was a rude reminder of the brute and unbridled power that the Chinese state still exercised, notwithstanding the decade-long economic reforms that had been initiated under the visionary stewardship of Deng Xio Ping (Strahan 1996: 301-305; Stavis 1990: 56; Nathan 2001: 2; Liu 1992: 45; Dittmer 1991-92: 534). Australia had been no different from the others in terms of initial reaction. Stephen Fitzgerald, the first Australian envoy to China in the 1989 Morrison Lecture had said that Australia had been conned by China into believing that there was a 'special relationship' between the two countries (Strahan 1996: 304; Chey 2004: 173; Kent 1996: 369). As Ann Kent describes the two incidents—the crackdown in June 1989 and Fitzgerald's Morrison lecture— as heralding a new phase in relations between the two countries (Kent 1996: 369).

## **A Theoretical Critique of Australia-China Relations**

Given that a theory that adequately explains any phenomenon usually outlasts the phenomenon itself, any analysis involving two countries must inevitably be grounded in a theoretical framework. In case of Australia-China relations, any examination involving the two should cast light not only on their bilateral dynamics but would also attempt to create a theoretical framework for relationship between two powers, howsoever rudimentary, to the discipline of International Relations, particularly with regard to bilateral relations between



two unequal and apparently opposite powers. The assumption here is that just as the Australian version of international relations might reflect a veritable middle power perspective, the Chinese conception and theorising of international relations should reflect in a country scrambling to reclaim its long-lost glory in a spirit of exceptionalism.

Before attempting to posit a theoretical critique of the relationship between the two countries, an overview of how International Relations as a full-fledged subject of academic inquiry came about in the two countries has been given. To be sure, since it had been the West which had mainly shaped and conditioned the events of global political importance, and which had the temporal edge in terms of systematising IR as a rigorously comprehensive discipline, the evolution and growth of the subject in Australia had prodigious strains of Western influence. On the other hand, the emergence of International Relations as a subject of academic research and theorising in China among majority of academia has been a fairly recent phenomenon with occasional attempts having been earlier made at no less than the level of the top leadership of the country, for instance, the 'three worlds' theory by iconic Mao Tse Tung himself. Not unsurprisingly, the Chinese theorising from Mao to present day's theorists has evinced a largely non-western disposition even while being inspired in some ways by western schools.

As far as Australian theorising of International relations as a discipline is concerned, until the onset of the Cold War, arguably not a single Australian had figured among those eminently contributing to the theoretical exposition of the subject. As much as this was because of the very nascent nature of International Relations as an academic subject back then, this was also a function of Australia's incomplete status as a full-fledged sovereign nation in terms of foreign policy.<sup>1</sup> However, it wasn't as if there was a complete absence of any Australian theoretical perspective on international politics and events. Several academic thinkers and practitioners did indeed offer in many different ways theoretical expositions of Australia's place in the then evolving comity of nations. For instance, W Macmahon Ball's *Possible Peace* had been a pioneering analytical work with strains of theoretical approach covering inter-war years flagging the inconsistencies between the demands of the Peace Treaties and the ideals espoused by the League – advocating *interdependence* among nations over *independence* for them, a key theoretical strand of post-war years variedly known as Interdependence Liberalism, Complex Interdependence (Keohane and Nye), Institutionalism

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<sup>1</sup> Australia sent its first diplomats to Washington, Tokyo and Ottawa as late as in 1940

or Liberal/Neoliberal Institutionalism (Devetak 2009: 347). However for a good deal of years since the beginning of the early 20<sup>th</sup> century through the two Wars interspersed with attempts by Big Powers at institutionalising global order through bodies such as League of Nations, the Australian foreign policy outlook, speaking purely theoretically, had broadly wavered between rationalism and realism (Cotton 2009: 627). While realism as part of this theoretical oscillation could find resonance in Australia's dilemmas about keeping its foreign policy priorities independent of or subordinate to the British Empire, or identifying closer with the United States, rationalism had manifested itself not only in the early optimism about the League of Nations but also in the purported security guarantees arising out of the Washington-driven naval treaties in the early 1920s forged by the big powers in the Asia Pacific, a development also relevant to the Australians in the context of their rising commercial inter-dependence with Asia (Ibid: 630). In fact in the early years, the setting up of Australian Institute of International Affairs (AIIA) chiefly under the aegis of the British, and the Institute of Pacific Relations (IPR) sponsored by the US, according to some, had exemplified Anglo-American *realpolitik* playing out on the plains of Australian academia. Separately, as the League was increasingly scrutinised, the ongoing fluidity of political status of British dominions and their relation with the metropole culminating in the Balfour Declaration and the institutionalisation of Commonwealth had been intensively examined in the mould of rationalist tradition by H Duncan Hall who James Cotton credits as the first Australian to have authored an entire IR text (Ibid: 631). With the rise of extremist governments post First World War and the extension of Second World War to the Pacific, Australian scholars had begun to call for protecting Australia's interests in the Pacific either through establishing a regional Pacific-centric order inspired by the rationalist theory or through firming up its own military power and resources undergirded by the ideas of realism. This realist-rationalist dialectic had in many ways also been recognised by Hedley Bull in the 1960s, a leading exponent of the English school who is also identified as a follower of Australian realism in the classical mould. As opposed to the then growing prominence of the behavioural/scientific school in the US, Bull arrived at his theoretical formulation on international relations drawn from disciplines such as philosophy, history and law (Devetak 2009: 350). According to him, it were the rules, norms and moral values in conjunction with an understanding of history whose explanatory and 'interpretive' value was far more powerful than any empirical scientific approach. For him, even as there was anarchy, there was a 'society of states' that existed and states could not practicably 'barricade' themselves from one another. Contemporary to Bull was Coral Bell who similarly theorised international

relations through ‘meditation on history’ while remaining aloof from the ‘metaphysics of history’ and as such presenting herself as a more hardened realist. Her work on conventions serving as an instrument of crisis management put together on the basis of observations and analysis during the Cuban missile crisis is a landmark template for any two or more states in a crisis mode (Hall 2014: 45). Around the same period, some of the other Australian scholars who rose to prominence had included JDB Miller, TB Millar and Arthur Burns.

Significantly, the journey of Australian theorising of IR had kept pace with the march of global politics. The US defeat in the Vietnam War had made Australians question their realist assumptions about continued dependency on the US with the realisation of the need for a more independent foreign policy. As world-wide energy crisis dawned and nation-states began to demonstrably unite for economic benefits (read European Economic Union) and the geographically proximate Asian tigers roared, the subject of Australia’s location in the global political economy had assumed urgency among scholars. Thereafter the 1970s saw the rise of the scientific or the behaviouralist school – chiefly flourishing in the US – which not only sought to expand the theoretical frontiers of inquiry from states to non-states and market, and from security to economics in a more inter-disciplinary mould, but also to construct a more empirically verifiable theory of International Relations. John Burton was one such scholar who upgraded the theory to an inter-disciplinary analysis entailing both ‘high and low politics’ in which state as a fundamental unit of analysis was replaced by a multiplicity of actors and issues intersecting multiple socio-economic and political activities crisscrossing state frontiers (Devetak 2009: 351). Then Arthur L Burns was another Australian behaviouralist who desired for IR to receive insights from game theory and economic theories (Ibid). By 1980s, Australian scholars had also moved from strict theoretical expositions to a more thematic deconstruction engaging with subjects and themes such as arms control and disarmament, problems of ANZUS, public opinion on Alliance issues, among others.

Then writing in early 1990s, Richard Higgott and Jim George underlined the increasing precedence of growing sense of economic vulnerability as opposed to politico-strategic matters. Given that Australia had traditionally conceptualised its national interests in terms of politico-strategic vulnerability and had given precedence to diplomacy and strategy (high politics) over trade and finance (low politics) for a greater part of its history, it can certainly be said to have followed the power politics realist framework (Higgott and George 1990: 425). It was this preoccupation with politico-strategic threat that had permeated the

Australian world view that had seen realism as a theory holding supreme for the longest time. However as the politico-strategic imperative slowly gave way to a sense of greater economic vulnerability, given the country's middle power and limited domestic market reality in an uncertain multipolar world, a somewhat liberal-institutional lens can be applied to Australia's pursuit of foreign policy. The making of critical inputs by economists such as Ross Garnaut and Stuart Harris in the field of International Relations perhaps explains this phenomenon. This is advancement from the earlier separation of economics and politics as watertight compartments while presupposing the state as a single-faceted simplistic entity with the glossing over of economic dynamics vis-a-vis International relations also inherently failing to account for the domestic perspectives and compulsions. As a matter of fact, the evolution of the theory of Australian international relations can be said to keep pace with the progress of its relationship with China. While the earlier realist framework had assumed China as one of the security threats until the 1970s and even thereafter, the latter emphasis on economic vulnerability had clearly coincided with the rising economic salience of China to Australia.

As the end of Cold War put a question mark on the explanatory efficiency of realism and liberalism, the advent of post-positivism was coterminous with Australia itself shedding its long-term image as a big power dependent ally and courting northeast Asia economically – leading up to Gareth Evans' 'good international citizenship'. The 1990s saw a scrutiny of IR in Australia through a welter of post-positivist 'Critical theories'. The post-positivists' emphasis on relationship between knowledge and values was congruent with Bull's accent on norms, rules and moral values. In addition to economic interests gaining precedence and therefore increasingly defining the theoretical framework to understand Australian foreign policy, there is the middle power theory which increasingly gained currency among scholars. Mark Beeson and Richard Higgott have traced the rise, fall and rise-again of middle power theory while highlighting the structural conditions that underpinned middle power-great power relationship dynamics. By framing international politics through the prism of secondary player such as Australia, they have highlighted the country's middle power attributes and potential strengths (Beeson and Higgott 2014: 217). At the same time, citing Australia's inviolable alliance commitments to the big power ally US unlike Canada and New Zealand who refused to be a part of the 'coalition of the willing' against Iraq, they have also brought out the middle power dilemmas as well as limitations. That APEC owed its origin to Australia's middle power activism has not been lost on anyone, but the failure on the organisation's part to move past commercial agendas into a more potent multi-dimensional

regional entity on account of big powers such as the US not according high priority to it illustrates another limitation of middle power diplomacy. Yet, the authors argue that that the structural conditions for effective middle power diplomacy may actually be more suitable now assuming that the era of decline of the US and therefore the absence of a hegemon has truly arrived. In such a scenario, a ‘game of skill’ by middle powers and not simply a ‘game of power determined by size, power and geographic location’ holds the key to shaping international events and foreign policies of governments (Ibid: 220). Regardless, as 9/11 unfolded, Australian scholars identified even more closely with the English school theory of international society (Devetak 2009: 355).

Around the term of the new century, Michael Wesley has attempted to draw out consequences for Australian international relations flowing from the fact that the contextual origins and the growth of IR as a discipline has overwhelmingly been an American-European (British) dominated discourse. In addition to endeavouring to find the degree of correlation between IR as a theory and the practice of Australian diplomacy, most importantly, he has also sought to seek answers as to whether an Australian theoretical perspective on IR exists at all and if not in what form or direction it is likely to evolve in the forthcoming future (Wesley 2001: 454). Placing his argument primarily in the supposedly dichotomous universal vs. particularistic or international vs. national framework, he makes the inference that the theoretical pre-occupations of Anglo-American IR are more relevant to American and British policy concerns than to Australian. By pointing out that it were economist-academics such as Ross Garnaut and Stuart Harris instead of IR-academics who have made tangible contributions to Australian foreign policy, he has highlighted that it is entirely possible for IR theorising to be attentive to national context while still maintaining its relevance to both national concerns and the general corpus of IR theory (Ibid: 461). For instance, while middle power theorising would be more relevant to Australia and other similar middle powers, most critically from the point of view of this thesis, Wesley writes that middle power theorising hasn’t aroused interest among academics in China. Yet, in conclusion, given that Australia faces new challenges in its foreign policy environment, the implied need for critical thinking-driven inputs from the academic community has never been greater and therefore, *not only is an Australian school of IR possible, it is necessary* (Ibid: 466).

Coming to the Chinese theoretical perspective on International relations, there is no doubt that academically speaking the Chinese exploration of international relations theory has been rather behind in schedule as compared to Australia. At the academic level, even as serious

theoretical research began in late 1970s coincident with the country opening itself up to the wider world, it was specifically with the first major IR theory conference in Shanghai in 1987 when a movement for an ‘IR theory with Chinese characteristics’ had really started (Zhang 2012: 5). Earlier than 1970s, the efforts and inspiration from Premier Zhao Enlai – who had encouraged a deeper examination of international relations around the time China was undergoing a political divorce from the Soviet Russia – had been more about policy analysis than any rigorous theoretical undertaking, in order to be able to make a more independent assessment of world events (Wang 2002: 70; Zhang 2012: 4). Despite the momentary backlash against focus on western ideas of International relations in the aftermath of Tiananmen, there has been a perceptible rise in the trend of reading and following of western theories with the balance of power theory and the theory of mutual inter-dependence particularly attracting the Chinese scholars’ attention (Wang 20012: 80).

Over the years, a number of Chinese scholars have sought to theorise key concepts and ideas in International Relations. Chinese academic Men Jing (along with Gustaaf Geeraerts) has enunciated that even as International Relations as a theoretical discipline has not attained the maturity within the Chinese academic community of the type that it has in the West, there are certain definite inferences that can be drawn. One, any examination of international political theory of China has or should have a strong ‘ideological slant’, i.e, any theory must also be able to instruct Chinese foreign policy practice and not remain merely a theory. Two, even when there are differences among scholars as to whether one should account for unique and deeply embedded Chinese cultural and historical traditions in constructing any theory of Chinese International Relations —in effect an IR theory with Chinese characteristics — the majority and mainstream Chinese scholarship thinks in the affirmative (Geeraerts and Jing 2001: 251). As Liang Shoude says, “China is a big power and as a big power China should have its own understanding of IR. For him, “China is a rapidly developing big power; China is a political big power with a comprehensive strong economic capability; China is a socialist big power with Chinese characteristics; China should be independent in the multifaceted world” (Ibid 2001: 267). Some of the other scholars who share this perception include Li Shisheng, He Fang, Xi Runchang, Yu Zheng Liang and Chen Yugang among others.

While there is no Chinese school of international relations as yet, several Chinese scholars have been engaged in this direction. Drawing on the deep reservoir of Chinese politico-cultural traditions, long history and rich heritage, these Chinese scholars have sought to invoke ancient Chinese precepts to explain international relations theoretically. As opposed to

the western theorists who mainly concentrate on conflicts and prevention thereof, many Chinese scholars have invoked the concept of *Tianxia*, literally meaning ‘all-under-heaven’ strongly advocating that harmony-building should be more focused upon with the aim of creating a more harmonious world. According to Zhao Tingyang, a philosopher-scholar at Chinese Academy of Social Sciences and representing the ‘Chinese school of IR’, western IR theories may explain conflicts but Chinese concepts can explain harmony. As such *Tianxia* has been a recurring theme in their works as the theoretical base for the creation of an international human society with the aim of establishing *datong* (great harmony) and order. *Tianxia* espouses that if nation-states conducted themselves in a spirit of family and kinship, the world would be a better place (Do 2015: 24). Unlike Zhao Tingyang who emphasises solely the role of Chinese traditions, history and philosophy in theorising IR, another Chinese scholar belonging to the ‘Chinese school of IR’ Qin Yaqing takes a broader view arguing in favour of borrowing on western ideas and concepts. In a detailed exposition, he not only advances why China has lacked an exclusive IR theory but also the ways in which the country would develop its own IR theory. The three reasons that he cites for the absence of a Chinese school of international relations are: lack of an awareness of ‘international-ness’ flowing from the arrangements in the tributary system; the dominance of the western IR discourse in Chinese context; and lack of a theoretical hard core (Yaqing 2010: 36-9). But at the same time taking a sanguine view, according to him, there are three ways in which a Chinese school of International Relations is likely to come to fruition: One, the *Tianxia* worldview and the tributary system; two, the modernization thoughts bubbling up through the series of Chinese revolutions; and three, reformist thinking and opening up to the world (Ibid: 41-3).

In an important development and to his credit, drawing on Wendt’s theory of social constructivism, the same Yaqing Qin has posited the theory of ‘relationality’ as a counter-equivalent to the western rationality embracing the twin ideas of process (*guanxi*) and relation (*guocheng*) to construct an IR theory. Placing relation and relational networking at the core of process and treating the process of social interactions between states as an analytical unit impinging on international relations, he terms it processual constructivism. According to him, it is this relational networking which gives nation-states identities and shapes their interests and preferences. In the Chinese scheme of things, the symbiotic and complementary relation between process and agents rules out the eventuation of a one way causality between the two with a holistic and circular constitution imbuing their relationship

(Yaqing 2009: 9). Then unlike rationality which is individual-based, in the Chinese context of relationality, it is the 'social' and not individual which is the unit of analysis. Therefore any study explaining causation would entail any change in the relational web as a whole given that there are no separate individual elements present. Yanqing further says that while mainstream constructivism has accounted for norms and shared identity, collective emotion is an under-explored attribute. The emotional aspect is usually not considered by the western schools (Do 2015: 27). However in a relational society, emotion is a powerful factor. Also, identity can't exist independent of social relations. To that extent, according to Chinese theorists, the Australian identity of middle power can't be separate from its social association with the western world particularly keeping in mind the residual social holdovers of the prolonged White Australia policy that the country had formally instituted once.

Another prominent and upcoming school of thought, popularly known as the Tsinghua approach, which is developing in China is led by Prof Yan Xuetong at Tsinghua University. Based on a close examination of teachings of seven masters of the ancient pre-Qin period (before 221 BC), he has attempted to theorise IR by subjecting those thoughts in terms of epistemology to a western framework of analysis. While rejecting Zhao's theory of 'world-family' and harmony as unrealistic and Yanqing's theory as an incomplete construct (Zhang 2012: 6), Yan has also highlighted the implausibility of a single Chinese school of IR. In fact he has criticised the nomenclature 'Chinese school' being tied to a theory which should have a more universal applicability. From the thoughts of ancient Chinese philosophers, Yan has distilled out three key types of political hierarchy and order, namely, humane authority (*wangquan*), hegemony (*baquan*) and tyranny (*qiangquan*) (Yaqing 2012: 77). And even as he acknowledges the virtue of humane authority that should characterise power and the ruling class, it is hegemony he thinks it to be of utmost practical value. In the mould of a realist deriving and possibly legitimising his ideas from ancient Chinese political philosophy, he asserts that China should indeed seek world leadership through hegemony, military fortifications and alliance formations (Ibid: 78). Yet, even a realist such as Yan has employed morality and sense of justice as a moderating force advocating that hegemony and power should be backed by morality and that the latter imparts legitimacy to hard power (Do 2015: 29). In addition, some of the other scholars belonging to the same Tsinghua approach have been working on separate theoretical projects, for instance, Sun Xuefeng has been at work in an attempt to theorise regional order in East Asia while Zhou Fangyin has been researching Chinese tributary system (Ibid: 29-30).



Apart from the above, there are other scholars who are engaged in theoretical research work in other universities and think tanks. These include Wang Jisi (on China's 'grand strategy'), Wang Yizhou (on China's 'creative involvement' arguing in favour of a departure from Deng's keeping a low profile and non-intervention principles), Zhang Ruizhuang (structural realist view of foreign policy) and Tang Shiping (social evolution of world politics) among many others. Then Prof. Wang Yiwei and his student Han Xueqing at Renmin University propound the global need for a 'Chinese dream' in IR theory advocating the possibility of western universalism within the Chinese theoretical framework (Ibid: 25-6).. Incidentally, President Xie Jinping's 'Chinese dream' speech seems to be taking a cue from this theoretical contemplation.

Therefore for the Chinese scholars, western theories have mainly failed to account for the developments in international politics especially that they failed to either explain or predict the end of the Cold War. Moreover, they have also not satisfactorily explained the recent phenomena in post-Cold War world with ascendancy of non-state actors such as terrorism, globalisation and now very recent the rise and advent of ultra-right xenophobic governments elected by anti-immigration electorate. For many years, theories in China were meant for policy action and not merely limited to abstract theorising. However with time, the distinction between pure academic research in terms of knowledge creation and theoretical construction on the one hand and identification of clear policy prescriptions on the other becomes more bold and distinct. At present, there is no such theory as a Chinese theory of International Relations yet. However ironically, the more Chinese tend to elucidate theoretically on International Relations, the more philosophical, egotistically or self-righteously idealistic and abstract they get. Right through their enunciation, the Chinese scholars have not only ceaselessly highlighted and extolled the virtues of pacifism, tolerance, inclusiveness and quest for harmony as being intrinsic to the Chinese familial tradition and heritage but also lay unilateral and exclusivist claim to those attributes positing them as if in opposition to the western concepts and their non-existence in the western ideas and principles. In fact, the Chinese attempt at theorising also seems a way to wrest back the lead which the western thinkers have taken so far in developing the foundations of IR theory and can be said to epitomise the reclaiming of the Middle Kingdom or *Zhongguo*.

So, if theory was to contemplate a relation between Australia and China and provide a critique of their bilateral relationship, how would different schools of theory view the relationship between the two countries? As observed above, while there is no Chinese school

of theory as yet, there is no exclusive Australian school as well with the advancement of constructs such as middle power perspective not really qualifying to be a full-fledged mainstream IR theory as yet. This doesn't suggest that the idea of middle power will not be applied while critiquing the relations between the two. But here separate from the obvious middle power perspective, the relationship between the two countries will primarily be subjected to the key western theoretical persuasions and their variants. Also, even in the absence of a Chinese theory of IR per se, some of the ideas and precepts floated by key Chinese scholars will also be put to test in context of Australia-China equation.

Since realism has been the most dominant school and generally assumed to be far closer to practice than others, it makes sense to first analyse the relationship in the context of this theory and its several strands.

Between Australia and China, surely China is the bigger power and Australia the smaller power. Under realism that the world is anarchic and perpetually conflictual is a truism. Therefore, more specifically from structural realists' standpoint, the rationale or incentives for states to assess relative distribution of power from time to time becomes naturally very pressing. This relative distribution of power doesn't merely denote military/security aspect but also commerce and trade. Especially a world system which is increasingly in a political flux, the already anarchic nature of it makes it even more critical for states such as Australia to seek 'complete' protection for itself knowing fully well that the relative distribution of power is well on its way towards the Chinese end of the spectrum away from the US. Indeed survival is the biggest goal. It becomes all the more relevant given Chinese supposedly increased propensity for exhibiting revisionist behaviour. To build a sustained cooperative relationship with the same China should be theoretically unsustainable in light of Australia's close defence and other related ties with the US with US-China largely treating each other as rivals. But the same realist school underpinned by survival/pragmatism at its core should support the theory that Australia should seek close economic relations with China. After all pursuit of economics and trade is also a means of survival especially if China happens to be the most significant commercial partner by far. Simply put, Australia as a rational actor should engage with China in an economic goal-enhancing behaviour. Also, because the existence of a hegemonic power is a prerequisite for cooperation under realism, China can be taken as that dominant power in the region in light of Australia's geopolitical location. Again, this argument must also be cast narrower into the frame of structural realism in which the structures of world politics – namely, an increasingly multilateralising post Cold War world

order and not the political nature of states themselves – should decide how states stand in relation to one another and how it shapes their behaviour. According to structural realists, there are two choices for states in a situation when one state is increasingly becoming more powerful and is likely to present an upcoming ‘force to reckon with’ something in the mould of power transition theory. Either it can pursue balance of power or take the route of bandwagoning. To give a label to this phenomenon, it is defensive realism that prompts pursuit of balance of power strategy unlike offensive realism which advocates seeking hegemony in perpetuity. Regardless, the balance of power must occur in the context of threat from an adversarial power. So is China adversarial enough for Australia to employ balance of power? In other words, does Australia’s close alignment with the US indicate a balance of power approach and that too keeping China in mind? Is it for survival? And if survival, survival from whom? Quite clearly, China is not quite a physical threat to Australia per se. Similarly, Australia’s close economic and other related cooperative arrangements signify subtle bandwagoning with China. Or could Australia’s close commercial relations with China be interpreted as soft balancing against the US itself? If balance of power theory implies checking of concentration of power in one state, Australia is certainly not doing it to curtail US power. Rather, it seeks security cooperation with the US as explained by the realist strand. But at the same time it is also not checking China’s power given that the commercial value that China draws from its relationship with Australia would eventually translate into power accretion. Therefore, the theory of realism is only partially applicable here. The relative reduction in distribution of power of the US vis-à-vis China in an increasingly uncertain world must be taken adequate note of and self-help must be taken recourse to by Australia. The endeavour to maintain a neutral stance on many issues even going against the US apart from the contours of commercial cooperation is possibly a recognition of this self-help idea.

Liberalism as a theory at the outset foreshadows a relatively optimistic picture of Australia-China bilateral relations. Unlike realism which upholds states as primary actors, liberalism assigns more weight to the domestic elements, the nature of the government and the state, and most importantly, the relationship between state and the internal and transnational social contexts in which the state operates. Therefore, it is the nature of domestic political and economic systems that shapes individual interest groups’ as well as state’s preferences and behaviour. Unlike realists’ purely state-centric view, liberals believe in linkages and network among global and domestic institutions in what is known as complex interdependence which

raises the role and prominence of domestic-transnational actors and interest groups (industry and trade associations, producer groups, business groups representing products and services carrying commerce and investment in each other's countries, professional groups, labour unions, cultural and scientific organisations) the aggregation of whose interests and preferences are in the end represented by the state in an international setting. Therefore given that liberalism or neo-liberalism envisages national characteristics, or the nature of domestic politics as shaping the actions and behaviour of a country, the same liberal school which otherwise would propose a very sanguine view of international relations would be inclined to take a more sceptical view of China which is certainly not a democracy as against Australia. However by the same liberalism theory, the probability of a more worldly-compliant China and therefore a more favourably-inclined Chinese regime towards Australia would increase precisely because it considers individuals and private groups as constituting primary actors in international politics with those private interests even taking precedence over the usual state objective of survival. Notably, the interests and preferences of the overarching Chinese state represented by the narrow Chinese elite may per se be different than the aggregate representation of interests of countless interest groups within and outside the country. So, several interest groups of China with direct or indirect stakes in Australia and not the Chinese state per se if given an opportunity would push the relationship between the two countries on a more favourable trajectory. Likewise, the interests and preferences of the multiple interest groups of Australia with stakes in a favourable Australia-China relationship should overrule any plans for adversarial dynamics. It must be remembered that although China may not be a democracy (a proposition to be discussed later in more detail), it is certainly liberal and has ardently embraced the free market component of liberalism (sans democracy) over the last four decades now. According to interdependence liberals, a variant of liberalism, the international division of labour from free trade makes the military-security option less favourable and more in favour of commerce. On the other hand, while republican liberals believe that democracies are more likely to follow peaceful ways and seek cooperation with Michael Doyle's theory of democratic peace on surface not envisaging an agreeable view of Australia-China ties, mutual interests-driven increasing interdependence, improved knowledge and communication can certainly facilitate greater state to state relationship. As opposed to realism, all states may not have the same goals of survival and material affluence and unlike realism which accords more value to capabilities of states, for liberals, it is the preferences that matter most. Should Australia alter its preferences in relation to a Chinese goal or should China change its preferences in relation to an Australian goal? If preferences

are prioritised over strategies, the prospects of a cooperative relationship between the two increases manifold. So, increased interdependencies guided by international rules and laws help identify mutual interests without resorting to coercive bargaining. For the liberals, a special Australia-China relationship should reinforce democratic tendencies in China with attendant repercussions on the Taiwan issue too.

Derived from the theory of neo-liberalism is the institutional theory. Neo-liberals differ from liberals in the degree of optimism that the latter holds bringing the former closer to realists in a way. More importantly, it brings them closer to neo-liberal institutionalism, a type of institutional theory. The rise of neo-liberalism in the aftermath of the Second World War holding aloft the ideas of free trade, democracy and the growing relevance of global political and financial institutions eventually not only set the stage for the formulation of the theory of institutionalism but also in time shaped and formed that theory itself. Typically, institutions are set of rules and practices that prescribe roles, constrain activity and shape expectations of actors (Schweller & Priess 1997: 2; Sterling-Folker 2000: 110). More specifically, according to neo-liberal institutionalists, the states are rational and instrumental actors that seek to maximise absolute gains. For Australia, to cultivate China can be interpreted as a means of securing maximum commercial gains out of the partnership. True, neo-liberal institutionalists' biggest fear is non-compliance with rules and institutions from so-called deviant actors. And if China is indeed that 'deviant' actor, its deviancy can only be mitigated by nudging and incorporating it into institutional arrangements which cuts down on transactional costs, increases informational exchange thereby setting up a more predictive pattern of relations between two states. Alternately, institutions can be more effective if their decisions have a binding effect. Even in an extreme case of implacably aggressive behaviour by a party, an institutional arrangement is more likely to defuse a situation by increased prior information sharing, altering the perception of consequences and tempering the impending aggressive behaviour. However neo-liberal institutionalists do recognise that cooperation in military sphere is more difficult to achieve than non-military spheres, a dilemma that Australia does face vis-à-vis its engagement with China. Then Australia's version of middle power and Gareth Evans' idea of good international citizenship prompted by 'enlightened self interest' echoes the idea of 'institutional internationalism', something that would be inextricably linked with the idea of institutional interdependence.

Closely related to institutionalism, the functional view of international relations underpinned by the principle of gradualism focuses on evolving piecemeal non-political cooperative

arrangements, facilitated by technical experts and not by politicians. The spillover effect from the cooperation in non-military sphere would eventually rub off on other areas, a habit which in course of time should render the possibility of war completely. Middle power perspective also reflects the theory of functionalism given their requisite resources and skills in certain specific areas. For instance, Australia-China relations vis-à-vis APEC where the former has been a critical 'skill provider' illustrates the concept of functionalism. The role of Australia as a driving force of the same APEC cements the former's position as a liberal internationalist. However, the neo-functionalists as opposed to functionalists which de-emphasise the role of the sovereign states bring back the centrality of the states with a focus on cooperative decision-making among states.

Constructivism, a thought that has arguably attained the maturity and status of a full-blown theory, systematised by Alexander Wendt, is a social theory of international politics that must also enquire into potential that it holds for Australia-China dynamics. Wendt's social constructivism has been built around the idea that while states remain the core actors, their relationship is mediated by an inter-subjective reality and states' identities and interests are socially constructed as against materially guided. In this proposition, human nature (as emphasised by neo-realists) and the nature of domestic politics (emphasised by neo-liberals) are not so much significant (Wendt 1994: 2). Therefore, because identity is socially constructed, under normal circumstances, China would be placed in a revisionist-non-revisionist power framework. But the meaning from this social construction of identity is not universal. For instance, construction of China's identity through social interaction with Australia would be different from construction of its identity through interaction with the US. While the US may place China in a revisionist-non-revisionist dyad, Australia may place China in a sufficiently open economy-insufficiently open economy dyad. In another example, China's possession of nuclear weapons would be 'subjectively' interpreted differently by Australia as opposed to the US. In a similar vein, construction of Australia's identity through social interaction with China would be different from construction of its identity formed through interaction with the US. While the US might view Australia in terms of a friendly political culture of democracy, it might view China more in terms of a security challenge and a prospective rival power. Furthermore, while constructivism concurs with the realist contention that the distribution of power may impinge upon state's power calculations, it qualifies that argument by adding that it is the inter-subjective understanding of that distribution and expectations through variables such as norms, beliefs and practices that

actually shapes that state's behaviour (Wendt 1992: 397). More accurately, these norms are collective understandings that shape behaviour. For instance, years of commercial exchange between Australia and China regulated by a world body would socialise the latter into the idea that open borders and free trade was a globally acceptable norm and that must be respected. The 'revelation' of that norm would alter China's own identity of formerly being a closed country to an open economy of today. Further, this open economy identity would trigger interests in conformity with the country's ambitious trade policy. Some of the other norms that could be socialised into by another country are sovereignty, human rights and international justice among others. More significantly, by ranking or foregrounding process over structure, Wendt attempts to highlight the fact that it is the process of interaction and learning which guides a state's behaviour and not the structural factors such as anarchy and the distribution of power as such. In this case, the structural factors would constitute receding US power (a major security ally of Australia) in a multi-polar world or in more current context, the increasing prominence of the forces for reverse globalisation. Notably, Wendt concedes the dichotomy that exists between domestic politics and international politics wherein norms and law govern domestic politics while self interest and coercion drive international politics (Wendt 1999: 2). Therefore, the structural definition of the world – for example, uncertain post Cold War world or even US-China rivalry – is less important than the bilateral process of interaction between Australia and China. This process of bilateral interaction with Australia would set the stage for China to socially condition itself to accept norms and rules which are globally more acceptable. Or would enable Australia to socialise into norms and behaviour advocated by the Chinese. But this theory has its limits because the norm of allowing more liberal human rights regime domestically learnt through extensive interaction with Australia has not quite altered China's behaviour and record on that score. In fact, Australia's acquiescence to China's human rights standards by not voting against the latter at international forums demonstrates its socialisation and acceptance of Chinese beliefs, again a constructivist argument at play.

The Constructivist argument comes somewhat close to the middle power theory when it comes to explaining Australia-China relations. Typically middle powers are those that have adequate economic strength and political standing to exercise influence on relevant regional and global issues of the day. Similar to constructivism, they also rely on norms and habits of conference and cooperation that will over a period of time influence a state's behaviour. Their focus on multilateralism and coalition-building does not quite preclude the idea of

bilateral dimensions between Australia and China because after all, multilateralism is constituted by several bilateralisms. In fact, multilateralism allows both partners even higher degree of reflection and consultation from a wider pool of opinions and perspectives while also buttressing each other's version or viewpoint on a subject with greater credibility. It has already been noted how Australia's middle power role was behind the founding of APEC. What has however not been mentioned is that it was through its regular participation at APEC meetings where China developed habits of cooperation on the normative practice of open and borderless trade. Therefore, adopting the assumption that power in international system is more diffuse in post-Cold War era borrowing from the structuralist view, the inherent material, moral and behavioural capacity of the middle powers to exert influence on the behaviour of the rising and the reigning power becomes that much more strengthened. In that sense, Australia's 'independence' to pursue its relations with China, rising or otherwise – regardless of the US – becomes even more promising.

As far as Chinese theories are concerned, their theorising of IR becomes an interesting source of understanding and the prospects that they envisage for Australia-China bilateral relationship. Not discounting their rigour and theoretical value, because several Chinese theorists emphasise more on hard policy inputs than abstract theorising and knowledge formation, this pragmatism can be extended to the province of Australia-China relations. The trading aspect between the two countries only represents this pragmatism. Elsewhere, it has already been mentioned how Wendt's social theory of constructivism has inspired Qin Yaqing's processual constructivism and the theory of relationality. Liberal-institutionally speaking, there is no difference between Chinese emphasis on order and the western ideas (including Australian) of institutionalising global order with both seeking to establish a rule-based global society of nation-states. The Chinese *tianxia* or 'all-under-heaven' has not only been a central theme for many Chinese scholars, it turns out that the theme has an ideological affinity with Australia's construct of good international citizenship. The repeated Chinese invoking of precepts of cosmopolitanism, idealism and harmony is reminiscent of how Australia views itself as a 'good international citizen' prompted by its middle power activist standpoint. True, the ancient but supreme Chinese precept of humane authority (*wangquan*) is diametrically opposed to the Australian political expediency of White Australia which had characterised the polity for many long years. But now the notion that morality can't be separated even from realism's core idea of power politics and military pursuits in Chinese canons is not too far from the Australian discovery of middle power theory whose proposed



activism itself draws inspiration and relevance from self-imposed morality and serves the interests of a collective cause. That several Chinese scholars are engaged in pursuing theoretical research on process-oriented integration in East Asia suggests that China is undertaking a rigorous and positive approach to regional powers, an approach that can well be extended to Australia, not too far from East Asia. Indeed the fact that major theorists emphasise on China's peaceful integration into the world including the Chinese school's Qin Yaqing's proposition of treating Chinese peaceful integration into international society as a theoretical problematic implies that the academic impulse has been broadly positive. And because academia chiefly receives instructions from the state, the intent seems positive all-around. And relationship with Australia which is viewed by China as innocuous but important power for many reasons is only likely to get better. In fact, Zhang Ruizhuang, a structural realist, whose idea of 'a new type of great power relationship' could possibly include Australia in a new paradigm of Chinese foreign relations. At Beida's school of international studies, the projects on grand strategy and 'creative involvement' may well advance a watertight and innovative formulation of embracing Australia into a long term Chinese global strategy even weaning the former away from the US (Do 2015: 30, 32). However, the fact that scholars at the same time are also advocating the abandonment of Deng's low profile policy may not quite augur well at first glance for Australia-China ties. But if Australia gets 'suitably incorporated' by China in the latter's upcoming grand strategy formulation and its implementation, the chances only get brighter. In fact, a more active Chinese role in international politics sits well with Australia's middle power role. Then the Chinese exercising of soft power as a more active tool of foreign policy should also erode any chances of resistance that the Australians may have towards a more intensified relations between the two. That China is working within rather outside of the western order makes it even easier for Australia to embrace the rising superpower.

When Ian Johnston conducted a detailed analysis of China whether the latter was a revisionist power, it was almost a decade and half ago. The world has changed dramatically in these years, more so in recent three-four years. In his celebrated thesis *Is China a status-quo power?*, he had then questioned the assumptions that underlay the statements and attitudes emanating from the West positioning China on two extreme either-or poles of revisionism and status-quoism. He had focused on two fundamental questions: whether there was anything well-defined called an international community and whether there were common norms and values inhering in that community? (Johnston 2003: 8) In a detailed exposition

including a brief mention of the inadequacies of prevailing theories on status-quo vs. revisionism debate, he had employed two different sets of indicators (five in all) to test first, the nature and character of China's participation in international institutions and second, China's attitude and behaviour towards distribution of material power that it reckoned disadvantageous—in order to objectively assess as far as possible how close China measured up to be a status-quoist or a revisionist power. Based on an incisive examination of five indicators: participation rates; degree of compliance with five major normative regimes (sovereignty, free trade, non-proliferation and arms control, national self-determination and human rights); propensity to change the 'rules of the game'; revisionist preferences and the distribution of power; and revisionist behaviour and the distribution of power—he had then found it hard to conclude that China was an absolute revisionist state particularly when juxtaposed against the attitudes and behaviours of other status-quoist states, more specifically the US. As he put it succinctly, “the scope of China's revisionist claims is not obvious, and that the current empirical evidence about these claims is, at best, ambiguous.” At the same time however, he had issued a caveat in the form of two major factors that could increase the level of revisionism in the Chinese leadership's preferences: domestic social unrest, and an emergence of intractable security dilemma with particular reference to Taiwan vis-à-vis US (Johnston 2003: 49, 50). But neither of these factors has really eventuated and thereby precipitated a change in Chinese behaviour. Yet, the summary rejection of the Hague's Permanent Court of Arbitration verdict on South China Sea besides aggressive construction of artificial islands and related defence facilities apparently signals an increasingly revisionist stance. But this does not make China any more revisionist or violative of international institutions than Trump administration's repudiation of the Paris climate deal, the Iran nuclear agreement or the recent efforts to unilaterally strike a more protectionist trading stance. In South China Sea, unlike the US, Australia has not formally conducted Freedom of Navigation Operations (FONOPS) in the region and therefore not challenged Chinese sovereignty upfront.

Therefore, the above theoretical expositions have sought to explain how Australia and China are placed bilaterally. While each of the theories has partly portrayed a favourable prospect, in parts, each theory has had its limitations. Therefore to construct any one single theory that could explain completely the Australia-China dynamics and that could be generalised as a theory of relationship between two unequal and different powers is extremely difficult and complex to achieve. Yet, if one has to choose any one that is most appropriate to the bilateral

study between Australia and China, it would be neoclassical realism, a variant of none other than realism. As Hedley Bull, the doyen of IR theory in Australia had admitted over four decades ago, “the works of the “realists” still represent an important understanding of international relations.” (Bull 1972: 39) Does this mean that not much has changed in these years? Not really. The neoclassical realist Randall Schweller has critiqued the traditional bipolar vision of balancing-bandwagoning while dispelling many assumptions inherent in the balance of power theory. While critiquing Stephen Walt’s balance-of-threat theory with over-emphasis on balancing behaviour as against bandwagoning, he has expanded the meaning and scope of bandwagoning to account for the opportunistic aspect of reward as well as the alliance choices of states, both facing and responding to threats (Schweller 1994: 75). Emphasising the variations in conditions, motives as well as natural propensity of a state as a pre-determinant to whether a state should bandwagon or balance, he has advanced his own balance of interests theory essentially implying that while balancing is driven by the desire to avoid losses, bandwagoning by the opportunity for gain – based on which it could be loosely said that Australia might balance for security and bandwagon for economy and trade (Ibid: 74). Relatedly, adopting Stephen Walt’s theory that states respond not only to distribution of power but to imbalance of threat, it could be deduced that in a face-off between US and China, if China is not a direct threat to Australia, the middle power doesn’t necessarily have to cast its lot with the US thereby providing enough latitude for Australia-China to advance their own bilateral equation.

## **Review of Literature**

A thorough review of existing literature becomes an intrinsic pre-requisite to an examination of relations between two countries. Organised thematically, the review of literature revolves around four major themes: Historical ties, Issues of convergence and divergence, Relations with specific reference to Asian context, and The most significant ally.

### **Historical ties**

Even before a full-fledged diplomatic relations was established between Australia and China in December 1972, there is a long-drawn common thread that connects both the countries. One major work on the subject is *Australia’s China: Changing Perceptions From the 1930s to the 1990s* by **Lachlan Strahan**. This is an extremely interesting and almost anecdotal work aimed at capturing the socio-cultural, civilizational, political and economic practices in

China through the eyes of an assortment of Australian observers including among others, journalists, government servants, anthropologists, historians, communists, soldiers, travellers, expatriates, adventurers, missionaries, and businessmen. Spanning the decades between the 1930s until the early 1990s, the work covers manifold attributes marked by primitive and civilizational inertia, secret societies and their quaint practices, occult and witchcraft, fiendish cruelty, corruption, diseases, gender and sexual orientation, and 'exotica' melding together to make what can be arguably called Chinese way of life. In addition to dealing with the exclusive and 'splendidly isolationist' style of living of the foreigners on Treaty ports, the book demonstrates the role of Australian communism and its many institutions as the binding variable that brought the two countries together, albeit sporadically, and for short periods. For the period post-1972, the book carries an over-all general survey of the radically transforming relationship trends between Australia and China impelled mainly by economic imperatives. Another work which throws light on Australia-China ties in history is **James Jupp's** article *From White Australia to Part of Asia: Recent Shifts in Australian Immigration Policy Towards the Region* This is a useful account of Australian immigration policy through history quite notably highlighting the Chinese being at the receiving end of White Australia policy in the early years of the federation. But post-1950s much before the White Australia policy was officially lifted, the same article also highlights how it were the Chinese students who constituted significant intake of the Asian students coming into the Australian education system. By 1991, China-born had formed the largest segment of foreign-born population in Australia. In *Australian attitudes to China and the Chinese*, **Arthur Huck** has used a series of public poll results to show how Australian people's attitude to China and the Chinese people have changed over the years over a period spanning from as early as 1948 to 1983. Then in an article titled **Sino-Australian diplomatic relations 1972-2002**, **Gough Whitlam**, the Labour Prime Minister who effected a fundamental recast of Australia-China relations in the 1970s himself covers the historical dynamics of relationship with China in the fairly long introductory part of the article, a period he describes as to Australia having been 'in fear of China'. The former prime minister has recounted how the Liberal Party had wavered on recognition of the newly-established People's Republic of China, a proposition not helped by the outbreak of the Korean War, and how the Labour Party presciently led by Mr Whitlam himself had argued in favour of recognizing the new regime. This conflicting position has been portrayed against other prevailing subjects of international importance: the Vietnam War and the status of the offshore islands (Taiwan) as well as shifting winds of leadership in other major countries such as the US.

In **Sojourning and settling: Locating Chinese-Australian History**, Keir Reeves and Benjamin Mountford have related how the gold rushes of the mid 19<sup>th</sup> century of New South Wales and Victoria had the Chinese people drawn towards Australia. While the ‘pull’ of the gold mineral had been the apparent driving force behind this mobility, the article also locates the ‘push factors’ within China –flowing from the colonial intervention through the two Opium Wars and the resultant instability in their native place particularly the Pearl River Delta region – which had led to this outward movement. In a matter of five years, the number of Chinese people in Victoria had leaped from 2,400 Chinese in 1854 to 42,000 in 1859 which according to latest figures constitutes more than 20% of the state’s population.

In **Australia and China, 1949: The Failure to Recognise the PRC**, the author **E M Andrews** has depicted how in the run-up to the upcoming accession to power of the Communist government of China (and subsequently), there had been a bipartisan failure by the two political parties within Australia in terms of taking a decision in favour of according recognition marked a watershed in the two countries’ bilateral relations setting the stage for the next conservative government’s long portrayal of a fear-inspiring China. He starts by first narrating through a series of roller-coaster events in the early months of 1949 how within the Chiefly Labour government and the bureaucracy there had been differences at various levels not to mention the differences between Prime Minister Chiefly and his foreign minister H V Evatt – not only on recognition of the imminent Communist government but also on the support to the British war efforts outside mainland areas such as Hong Kong. By the time the PRC was actually established in October 1949, the earlier dithering had consolidated in favour of an express non-recognition helped in no less measure by the influence of the US, mercurial pronouncements of the foreign minister H V Evatt and most notably the upcoming federal elections. During the election campaign, the Liberal Party had mounted a vicious anti-communism offensive raising the bogey of communists having pervaded the ranks of the Labour Party with the result that anti-communist constituencies within the latter itself had received a renewed impetus which the leadership couldn’t ignore. As the new Liberal conservative Menzies government came to power, the author also shows how the foundations for a staunch pro-US foreign policy were laid when Australia had directly linked recognition of China to an US approval of the same. The security pact with US, namely, the ANZUS, too had been an unsaid motive for Australia not to recognise the PRC. For the Labour Party, the question of recognition eventually caused a split in the Party with the Democratic Labour Party being even more vehemently opposed to PRC. Yet, in light of the Korean War,

Australia did walk a diplomatic tightrope by not accepting American suggestion of sanctions against China while conceding to a limited sanction on 'strategic goods'. As the US-led ANZUS and SEATO remained resistant to PRC recognition as also the continued American pressure, Chinese on their part through their actions in Taiwan, Malayan emergency, role in Konfrontasi, and talks of a Jakarta-Peking axis gave further ammunition to the Liberal government's stance of denial of recognition to PRC. In the aftermath of Russia's receding as a threat, the author also refers to the 'dishonesty of Liberal language' illustrated in the Liberal Party's raising of China-threat as an antithetical premise as a force for unifying sundry political elements. In fact, the dubbing of Russia as a threat by Malcolm Fraser even after the end of Vietnam War had exemplified the Liberals' visceral hostility towards communism.

**Garry Woodard in Relations Between Australia And The People's Republic of China: An Individual's Perspective** has cited three major studies including a first-hand account of Stephen Fitzgerald –adviser to Prime Minister Gough Whitlam on his China visit and the first Australian Ambassador –covering the early years and mainly uptill the first decade since establishment of diplomatic ties between the two countries. The author citing Stephen Fitzgerald says that by the time diplomatic ties were established, China had come to perceive Australia as part of 'Second World' and of modest importance. Though there were differences that did exist on issues such as China's nuclear tests, role of Russia and Japan, Whitlam the Prime Minister was noted by the Chinese for the respect that he commanded in parts of Southeast Asia as well as for breaking the ice with North Korea, albeit unsuccessful in the end. In sum, Whitlam's tenure had been largely successful except for the Prime Minister's turning down the suggestion for active baiting of Soviet Russia. Very significantly, the author has mentioned 'genuine friendship' between the leadership of two countries. When Fraser acceded to prime ministership, there was a broad continuity in foreign policy with the author particularly underlining how Soviet Union had become a common rallying point for the two countries with even greater convergence having followed after the consolidation of power in Deng's hands. Also, even though there was similarity of view on Vietnam, it had not carried over to next Hawke Labour government. Moreover, the new Chinese Premier Huo Guofeng had closely interacted with Fraser with the latter extracting a promise from the former on renunciation of support to communist parties in Southeast Asia, a development of utmost importance from regional security and confidence building point of view. From 1980s onwards even as prolific trade volumes and closer cultural interaction sustained the momentum, there emerged differences on regional issues such as Cambodia with the Chinese

even experiencing first-hand influence of Australian public opinion on its foreign policy. Furthermore, the author has mentioned the cropping up of meeting points between the two countries on subjects such as South Pacific as well as membership of commercial institutions such as GATT.

### **Issues of convergence and divergence**

As regards the multiple points of convergences (and even divergences) which have shaped the evolution of a relationship between the two countries, Nicholas Thomas' edited volume *Re-orienting Australia-China Relations: 1972 to the Present* has perhaps been the most comprehensive work on their bilateral relation. Consistent with the title of the volume, this is an edited work portraying the transformational shift underpinning the bilateral relations between Australia and China in the years since they had established diplomatic ties in 1972. Embracing a broad gamut of themes spanning political and strategic, trade and business, and social and cultural, this book brings out the sharpening convergence of economic and thereby other interests between the two countries, as well as the corresponding imbalance in relations vis-a-vis other countries. While emphasizing the unequal nature of relationship between the two from the start, the book has on several occasions highlighted the divergences too which became a part and parcel of an evolving relationship between two countries. The book also proposes the US and Taiwan as prominent intervening factors coupled with how American Nuclear Missile Defense (NMD) and terrorism would further impact their relations. On trade and business, the book dwells upon how Australia had assisted China through the WTO negotiations finally culminating into China acceding to the organisation; and how the nature of bilateral business and investment has grown from a predominantly equity joint venture types to Wholly Foreign Owned Enterprises, and from manufacturing to services sector—negotiating the cultural dimension underlying the interaction. On aid, the book focuses on the shifting rationale and practice from generalised poverty reduction and alleviation to poverty reduction in selected areas and good governance. On human rights, the book discusses how the impact value of the issue per se has progressively attenuated from immediate post-Tiananmen sanctions to active monitoring and exchange of delegations to passive monitoring and dialogue, and how Australia's own imperfections on human rights came to colour its relations with China. The book also elaborates on how culture and education as part of wider public diplomacy has fared between the two and how Chinese quest for western technology and the concomitant ping-pong diplomacy to obtain political goals has played out and how this dynamic has been further consolidated by closer immigration and exchange between two

countries. In addition, the book also deals with relations at sub-national levels between the two countries.

Then in his work titled **Australia-China** as part of an edited volume named *Australia as an Asia-Pacific Regional Power: Friendship in Flux* edited by **Brendon Taylor, Michael Wesley** while providing a fairly detailed overview of the ties between the two countries has also sought to amplify the divergent aspects that have formed an inextricable component of the over-all Australia-China narrative. Mr Wesley doesn't only unveil the bilateral divergences per se but also brings out the apparently divergent approaches to China within the Australian political spectrum which had clearly been divided even on the very recognition of the newly-anointed People's Republic of China. However, the country-to-country divergence was further accentuated when Australia had found itself ranged against China in a host of battle-like situations including the Korean War, the Indonesia-Malaysia *Konfrontasi* and the Vietnam War. Even as the ascension to power of Whitlam government had set the stage for a long-term and enduring bilateral relationship based on newly converging interests chiefly impelled by economy and trade, the brief 'freezing' of ties was catalysed by the Tiananmen incident in 1989. However, in no time, the clouds of divergence were swept away by a more complex relationship of cautious engagement driven by greater convergence and yet characterised by an enduring foreign policy dilemma for Australia which often takes recourse to loose usage of the phrase *strategic relationship*, an approach which in Mr Wesley's opinion is loosely conceived rendering the relationship ambiguous and open-ended from Australian vantage point.

**Ann Kent** in **Australia-China Relations, 1966-1996: A Critical Overview** has temporally demarcated the relationship into three major phases bringing out phases of convergence interspersed with periods of divergence. The first phase spanned the Cold War period of 1966 to 1972 in which Ms Kent defines China as Australia's "enemy" driven by fear with the linkage between the two having been mainly commercial. On China's part however, it didn't allow the Australian perceptions to interfere with the ongoing commercial exchange between the two countries and hence was comfortable with the separation of politics and trade. In this phase, Ms Kent further refers to China's view of Australia as located in the intermediate zone between the socialist and imperialist camps under the US influence but scrambling for greater foreign policy autonomy, an impulse that had found an outlet with the Gough Whitlam government formulating a more Asia-centric foreign policy against the earlier Euro-centric predisposition. The establishment of diplomatic ties with China had not only been



precipitated by a changing global attitude towards China and imperatives of trade but was also shaped by a domestic debate led by foreign policy practitioners including Stephen FitzGerald and Gregory Clark.<sup>2</sup> With the second phase playing itself out during the Later Cold War period in which China was reckoned as a partial ally instrumental in offsetting Soviet expansionism, the third phase was the post-1989 period when China had emerged as a powerful regional and global player. The second phase has been described by Ms Kent as to witnessing a more routine sort of ties between the two featuring a trade agreement, a development assistance programme, expansion of credit and other agreements in agriculture, health, social sciences, humanities and culture – all encouraged by the Chinese open door economic policy. The institution of exchange of high level officials of the two countries had further added to this momentum until the Tiananmen incident had made its intervention in 1989. Even as Tiananmen can be said to have been the defining moment of divergence between Australia and China, certain strands of divergence had arisen before the third phase evident in the inadequate access to dialogue at elite levels, differences on Indo-China, differences on NPT and on “certain human rights matters”. The third phase covering the period 1989-1996 has been sub-titled as Pragmatism and Uncertainty by the author. In this part, the author has focused on how the dynamics had shifted from one of ‘special relationship’ to one driven primarily by commerce. Although the immediate response to Tiananmen had been ‘diplomatically stringent’, the commercial expediency on account of not only China’s economic rise but also fast unfolding events globally such as the collapse of socialist-communist governments in Eastern Europe and the Soviet Union had necessitated a rethink. Soon, not only Australian harsh diplomatic response was toned down, Australia also assisted in China becoming a part of newly regional multilateral processes such as APEC and ASEAN Regional Forum (ARF) security dialogue, the GATT and the WTO. Particularly, on human rights, it had diluted its stance from sanctions to active monitoring to passive monitoring. However, the third phase also saw one major point of divergence on security with first China-Philippines face-off in South China Sea and then China-Taiwan stand-off on the eve of Presidential elections in Taiwan when the newly formed Howard government had expressed support to the US against China.

In view of Tiananmen incident being a major point of political divergence between the two countries, **Murray Goot in Reverberations of Beijing: Australian public opinion before**

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<sup>2</sup> While Stephen FitzGerald was the first Australian ambassador to China, Gregory Clark authored the landmark work *In Fear of China*

**and after the June 4 massacre** has attempted to extrapolate and explain from figures arrived at through major public opinion campaigns in the months between May and July 1989. According to the author, the overwhelming conclusion had been that the wider Australian public opinion of Australia's relations with China had changed dramatically for the worse in the immediate aftermath of the Tiananmen incident. Interestingly, even though there was a reduced support for exports, imports, aid, business partnerships as well as for Chinese immigrant intake over-all, the support for Chinese students' immigration into Australia had increased underlining the human aspect of Australian public opinion in light of the Chinese students themselves being at the receiving end of the Chinese government. Delving deeper into these poll results, the author also concludes that the diminishing public support had been more in case of imports, aid and immigration than exports and business relations.

As regards regional organisations driving convergence, in an edited volume titled **APEC and Liberalisation of the Chinese Economy** by Peter Drysdale, Zhang Yunling and Ligang Song, in their chapter named **Australia's APEC Agenda: Implications for Australia and China**, Christopher Findlay and Chen Chunlai have analysed Australia's commitments under APEC's Individual Action Plans (IAPs) on tariffs and investment – particularly under Early Voluntary Sectoral Liberalisation (EVSL)– and how they came to impact Australia's commercial relations with China. The author holds that even as the structure of Australian tariff protection was highly biased against China, there would be substantial gain if they stuck to their commitments, especially in light of Australia 'pausing' its tariff reduction obligations between 2000 and 2005. Particularly focusing on food and wool sectors, the author has highlighted how Australia can support the Chinese visa-a-vis the former not only through direct trade but also through economic and technical cooperation and how trade facilitation could give an impetus to wool commerce between the two countries. The questions on wool were also linked to Australia resisting liberalising tariffs on Textiles, Clothing and Footwear (TCF) sector.

In the same edited volume, Andrew Elek in the chapter titled **Australia and China: Shared Objectives in APEC and the International Economic System** has laid out the conceptual outline as to how the principle of open regionalism underpinning APEC could pave the way for shared stakes in a liberalised international commercial environment and thereby common objectives for the two countries. In this article, the author has attempted to draw a roadmap in terms of how the four core objectives of economic and technical cooperation, namely, policy development, technical cooperation, infrastructural building and financial cooperation, could

form the basis of close cooperation between the two countries within the overarching framework of APEC. The author suggesting Australia supporting China's WTO candidature is prescient with the benefit of hindsight.

### **Relations with specific reference to Asian Context**

Even as China is a quintessential Asian country, Australia has been a torn nation perpetually wrestling with its White identity being situated closer to Asian neighbourhood. While initially Australia was closely aligned to the West in terms of its demographic identity as well as its security policies, the change began to be evident from the early 1970s onwards with the Guam doctrine. Australia's recognition of its Asian identity was driven by geographic compulsions and began to assert a greater influence on its foreign policy following the shift to recognise multiculturalism as a plank of its domestic politics. In such a backdrop, how has the Asian context impacted Australia's worldview and hence the evolution of its bilateral relations with China? How do the much-debated Asian values – particularly in terms of human rights – impact the bilateral relations between the two?

**Keith D Suter** in **Australia and the Third World** has shown how Australia's foreign policy vis-a-vis the third world, particularly Asia, has shaped up post-1945. Simultaneous with its close alignment with the US and the West, the article has advanced how Australia had sought to keep things on an even keel by also reaching out to the 'other world'. The opening up of diplomatic relationship with China was a part of that evolving foreign policy. That the conservative Liberal Prime Minister commissioned the *Harries Report* to examine Australia's relations with the third world countries was itself an unprecedented step. Moreover, the Liberal Prime Minister Mr Fraser not just defied tradition by first going to Asia instead of Europe or the US on his assuming prime ministership of the country, his continued adverse position against South African apartheid had been a revelation of sorts. Then Australia's stance along the North-South binary expressing sympathies and supporting the latter, its trail-blazing introduction of trade preferences to developing countries, its active participation in the Commonwealth, its attending of the New Delhi Conference on Indonesia as the only non-Afro Asian country, its leadership and initiative on Colombo Plan and its active role at the first UNCTAD meet were some of the other major milestones illustrating its Asian affinity. Then **Neville Meaney** in **The end of 'White Australia' and Australia's changing perceptions of Asia, 1945-1990** has discussed the nature and the flow of Australian political opinion on race-based 'White Australia' anti-immigration policy and thereby Asia policy since the pre-federation period. Starting with an invocation of Charles Henry Pearson's

*National Life and Character: A Forecast*, in which the latter had advocated ‘race patriotism’ as a rationale and unifying force for Australia’s self-preservation, an idea which had inspired a generation of Australian political thinkers, the author has simultaneously cited the success of a renowned Chinese-origin man in Sydney towards the last quarter of the 20<sup>th</sup> century as ‘the only man living who has got the true original Gaelic accent’. In an attempt to unveil and understand what exactly it was which had prompted the policymakers into effecting such an unthinkable policy turnaround from White Australia to multiculturalism in view of no apparent and concerted resistance nor any organised advocacy from within, he has traced the evolving political discourse as well as policy and legislative changes vis-a-vis the ‘White Australia’ policy through history since the time of pre-federation to federation and the Immigration Restriction Act of 1901, Australia’s participation in the two World Wars, the 1958 revision of 1901 Act, Harold Holt government’s path-breaking measures in 1966, John Gorton’s 1971 declaration of multi-racialism as an Australian ideal in a first for the country, Whitlam and Fraser’s governments’ embracing of multiculturalism as an abiding feature of country’s political and civic culture leading up to 1989 Hawke government’s National Agenda for a Multicultural Australia: Sharing Our Future. Alongside, he has also cited several reports commissioned by the government such as the 1976 Dibb’s report on defence, the Garnaut report on trade and investment, Ingleson’s report on Asian language and culture in higher education and the Fitzgerald report on immigration, all setting the stage for Australia’s close cultivation of Asia. However, the political-strategic subtext has been that as the Western powers sought to withdraw themselves from the Asian theatre apart from the pressing commercial and economic imperatives, Australians have had no choice but to plump for a more enlightened and liberal immigration policy. Even so, this liberal policy has operated within the framework of Australia’s British heritage, but notably, a heritage more of institutions and principles and less of culture and race.

Focusing particularly on Australian Prime Minister Robert Menzies, **David Martin Jones and Andrea Benvenuti** in **Menzies’ Asia Policy and the Anachronistic fallacy** have vigorously contended a number of scholars’ reading that the Liberal conservative government’s foreign policy during the long tenure from 1949 to 1965 had been overwhelmingly skewed towards Europe and the US as opposed to being purposefully oblivious of Asia. Questioning the assumptions underlying such an assessment of Menzies’ prime ministership, they have argued that not only Asia had not been a uniform monolith, Asia itself had been deeply polarised politically as some of the newly de-colonised and leading powers such as India, China and even Indonesia had jockeyed among themselves for

regional influence. In addition to citing the inherent duality of the non-aligned movement as well as the limited impact the movement had, they also recalled SEATO as a line of division within Asia by virtue of some Asian countries themselves being members of that organisation. Strikingly, that Australia had to make military contribution at the request of Asian countries such as Thailand, Malaysia and Singapore counters the popular thesis of Menzies naturally maintaining an anti-Asia or an Asia-distant foreign policy. The spearheading of the Colombo Plan as also the setting up of eleven new high commissions in the continent further debunks the anachronism afflicting the scholarship on Menzies' Asia policy.

In **Kai Dreisbach's Regional Cooperation or Clash of Cultures? The United States, Southeast Asia and the 'Pacific Century' 1985-1997**, the author has discussed the validity or the discrediting of the Asian values against the ebb and flow of the economic growth and prosperity of the Southeast Asian countries. While the first half of the article mainly covers the geopolitical developments characterised by the emergence of Southeast Asian countries as economic and commercial success stories until the 1997 financial crisis explaining why and how the US had earlier sought to construct a regional narrative that would be inclusive of itself such as APEC or the 'Pacific Century' as against the ASEAN, the second half has thrown light on the Asian values as a putative factor responsible for the earlier success and thereafter failure in view of the financial crisis. The debate on the Asian values is essentially ranged between the Asian political leaderships mainly led by Singapore and Malaysia extolling the high values of collectivism and family, consensus, hierarchy and deference to authority, premium on economic and developmental rights over political rights among others as opposed to the universality of the western concept of human rights and the unassailable nature of democratic governance. It was in this backdrop of the crisis-hit Southeast Asian economies when US had shifted attention to Northeast Asia in particular China whose share of trade with the former had been on an upswing in contrast to the downswing of the ASEAN economies. This raging debate on Asian values though had originated primarily from Southeast Asian countries, the concept has strong applicability in case of China too.

**C Y Hoon in Revisiting the 'Asian Values' Argument Used by Asian Political Leaders and Its Validity** has examined the Asian values and the manner in which they have been exploited by the Asian political leaderships to add and reinforce legitimacy to their authoritarian rule. Proceeding with the arguments of a number of scholars, he has highlighted the core 'cultural relativism' argument of the ideologues of Asian values who he accuses

them of presenting an 'us' vs. 'them' bipolar framework, akin to Samuel Huntington's 'clash of civilization' thesis. From the specific Chinese point of view, he has invoked the Chinese government's 1991 White Paper which had adopted the development-human rights trade off theory while ranking the former over the latter in terms of priorities, and which had placed the question of human rights within the sovereign purview of the state and hence inviolable in the name of universality.

**Purnendra Jain in Australia's Attitude Toward Asian Values and Regional Community Building** has given a more updated version of Australia's Asian worldview spanning the Hawke and Keating governments' policies as well as the conservative-Liberal Howard dispensation particularly in light of their participation in regional bodies and institutions. Against the backdrop of the unfolding political and economic changes particularly in Southeast Asia and East Asia as well as the newly-emerging regional groupings, he has upheld the orthodox belief that while Hawke and Keating administrations pursued a more Asia-inclined foreign policy, Howard government had somewhat fallen short on that. The distinction made between cultural engagement and practical engagement by Howard's Foreign Minister Alexander Downer was a testimony to that 'disinclination'. Moreover, even as Howard was to engage with Asia, this engagement was to be on Australia's own terms and not on the Asian ideas of its values and its 'Asian way' of institutionalisation process while promoting community-building.

### **The most significant ally**

No doubt, the US inexorably casts the largest shadow on any aspect of Australia-China relationship. In his chapter titled **Australia-United States** as part of Brendon Taylor's edited volume *Australia as an Asia-Pacific Regional Power: Friendship in Flux*, **Paul Dibb**, former Director, Australian Defence Intelligence Organisation and Professor Emeritus at Australian National University has provided for an overview of Australian security relations with the US since the post-Second World War until the early 2000s. From tracing the relationship since the post-War ANZUS to the questioning of alliance-dependence assumptions in context of US withdrawal after Vietnam to the raising of sovereignty issues in relation to bases agreements with the US with reworked arrangements subsequently to the Howard government's unqualified tilt post-September 11, the author has given a broad history of the close security relations the two countries have maintained over five decades. While describing the endurance of a close security and intelligence cooperation regime between the

two countries consistent with Australia's policy of securing 'a great and powerful friend' even in the face of a long-standing domestic debate between 'defence of Australia' vs. imperative for an expeditionary force structure, the author has sought to highlight that in the post-Cold War period, the road to an expeditionary force structure as advocated by a section of the defence establishment and the political class was paved with pitfalls and risks as far as Australia's capability for self-defence went. More importantly, of the five issues that he identified which could potentially put Australia-US relationship under immense strain in the coming years, two are China-centric: differences between Canberra and Washington over the (re)emergence of China; and a conflict between the United States and China over Taiwan. The other three include the relative decline of Australia's regional strategic weight; the persistence of a revolutionary mindset in Washington that is intent on using America's superior military power to reshape the world; and the rise of anti-American sentiment in Australia. In light of new developments reordering the post-Cold era the most prominent of which is the rise of China as the overriding force and potential challenge to the US, there has been a considerable divergence in strategic perceptions between Australia and the US. Even as Australia seeks to view China's rise mainly beneficial commercially and economically, US has a different and not so benign viewpoint on China's rise. Regardless, the author suggests that the need for Australia is to secure a peaceful rise of China while simultaneously underlining the undiminished strategic need for US military presence in Asia.

William T Tow and Leisa Hay in **Australia, the United States and 'a China going strong': managing conflict avoidance** in an article written at the beginning of the new century have examined the conflicts and dilemmas afflicting Australia-US bilateral relationship vis-a-vis China chiefly through the prism of three issues: future of Taiwan, National Missile Defence (NMD), and interplay between Sino-American power balancing and emerging security multilateralism. As Taiwan became the political-military flashpoint around that time especially when Richard Armitage ominously painted an either-or situation for Australia over Taiwan, it had become a test case for how Australia could respond even-handedly. Despite the initial overt support for US, in a damage containment exercise, it did strive to put in place closer defence and security CBMs with China not least reaffirming support for a One-China policy. On NMD, the authors reveal that Australia had supported limited research on missile defence not extending to their deployment or maintenance despite the country's collaboration on a series of limited experiments such as Project Dundee (Down Under Early Warning Experiments), Airborne Early Warning and Control Aircraft (AWACS) radar technology

transfer and provision for Space-based infra red missile defence system (SBIRS) at Pine Gap critical to the operation of TMD. As such, even as Australia had managed to ward off concerted pressure by US military to cooperate even more closely on TMD without offending the Americans while concurrently extracting a softened response from China which had officially until then not linked Australia's proximity to the missile defence question even though the Chinese commentators did issue periodic warnings not to fall for TMD. Instead, China prodded Australia to assume a more active role on multilateral security as an alternative to ANZUS. Furthermore, Even as China expressed its non-negotiable nationalistic stance on Taiwan to Australia, it also mounted a diplomatic counter-offensive by way of its New Security Policy premised on a world moving towards multipolarity with a sharpened focus on multilateral dialogues as against NATO's expansive designs. China had also played up US' brushing aside of global security regimes through the Senate rejection of the CTBT in 1999 as well its NMD plans before the Australians who had themselves showed disappointment at the Senate stance on CTBT. Therefore in the opinion of the authors, Australia may not be as readily convinced by the US merely on the basis of inducements such as state-of-the-art defence technology, a stand China wouldn't complain of. In essence, the authors' contention is that just as it would be false to assume that close Australia-US ties imply a China-containment tactic, equally, it would be false to think that China would not resort to force against Australia if the latter openly stages support for US.

In yet another article titled **Sino-American relations and the 'Australian factor': inflated expectations or discriminate engagement?**, William Tow has reviewed Chinese and American strategic expectations from Australian standpoint through the see-saw events featuring their relationship mainly through the post-Clinton and the Bush presidency often contingent on the shifting balance between pro and anti-China factions in the US. He has concluded that the chances of Australia escaping a strategic entrapment between the US and China are quite improbable and hence the need for more pragmatic calculations for Australia. Reminding that Australia had its share of disappointment with the US when the latter had through history dithered on a series of regional crises faced by the former, the author urges the Australian policymakers to 'face up to the reality'. More specifically, he mentions that even though occasionally, Bush administration did signal its concurrence with Australia's 'own interests', there were neo-con elements branding Australia as a soft ally for it's not really standing up to China. Ironically, it was during the extra-ordinarily 'US-inclined' Howard regime when Australia had resisted a slew of US-driven measures most emblematic



and perhaps most controversial of which was the foreign minister Downer's non-committal statement on Taiwan with respect to ANZUS. Yet, according to the author, the US valued Australia's partnership enough for it to acquiesce to the latter's joining the East Asia Summit (EAS) and even acceding to the Treaty of Amity and Cooperation (TAC). On Taiwan, even as both Australia and the US maintain an implicit support for Taiwanese security, they also periodically prevail on Taiwanese political leadership to desist from making any pro-independence pronouncements and to steer clear of any controversial remarks which could unnecessarily arouse Chinese indignation. Notably, when sections of the Chinese establishment demanded a revision of terms of ANZUS in order to exclude a Taiwan contingency, it was promptly rejected by Australia. More importantly, the author posits that in the event of Australia appearing to succumb to Chinese pressures, the middle power would not only lose the security shield afforded by the US but also its power to influence regional trade and security order. The author has also drawn in countries such as Japan in this strategic mix when he cites a joint statement between the US and Japan in 2005 proclaiming that Taiwan was a 'common concern' – a first time in history. This becomes more critical in light of the fact that Northeast Asia constitutes a significant commercial interest for Australia. The article ends on a prescriptive note given that the author has suggested possible measures including publishing of White Papers by each of the three countries enunciating their national policies vis-à-vis the other two, expansion of trilateral dialogue between Australia, US and Japan to include China and even at Summit levels apart from reviving regional arms control regimes.

Mostly covering the period towards the end of the first decade of the new century, **Carlyle A. Thayer** in **China's Rise and the Passing of U.S. Primacy: Australia Debates Its Future** has drawn attention to the raging domestic debates within Australia on China's rise and their fallout on Australia-China-US dynamics. To start with, the author has referred to the debate underway between Office of National Assessments and the Defence Intelligence Organisation on the one hand and the Department of Defence on the other in which the former had reckoned China's military modernisation defensive unlike the latter which interpreted it as a challenge for Australia. In another debate triggered by the writings of Hugh White, former deputy secretary for strategy and intelligence, the author cites Mr White questioning the traditional assumptions underlying Australian foreign policy and offering alternative formulations. Using state as unit of analysis, Mr White has posited economic resources as the ultimate source of power and as such privileging economic power over balance of power. In

that sense, prophesying the inevitability of China surpassing the US as the leading power, he advises the US to share power with China instead of competing with it or even withdrawing from Asia. This formulation the author cites was strenuously contested by several experts most of whom had favoured continuance of US' alliances systems in Asia in effect opposing White's formula of power-sharing. The critics of White have while not disputed his China's inevitable rise proposition, they have stoutly defended US' alliances systems in Asia. In conclusion, the author himself points out that though White had attended to the aspect of China's military rise, he had failed to account for how the US would for itself respond in the coming future through innovations in science and technology as also the absence of the role of multilateral institutions. The author has further ticked off Mr White's failure to define what 'primacy' was.

**Robert Ayson in *Choosing Ahead of Time? Australia, New Zealand and the US-China Contest in Asia*** has explored Australia and New Zealand's foreign policy conundrum vis-à-vis the growing US-China contestation in Asia. Even as the author has addressed simultaneously both the trans-Tasmanian neighbours' foreign policy dilemmas underlying their individual relations with both US and China in the Asian theatre, he has at various stages clarified in no uncertain terms that those dilemmas would confront Australia far more intensely and in far greater measure than New Zealand by virtue of the former's comparably favourable strategic geography as well as military strength. In fact, there is an inherent asymmetry between Australia and New Zealand's strategic significance to Asia-Pacific region as a whole as well as to US power balance strategy. As US rebalances and firms up its military alliance with Australia coupled with the latter's own repositioning in north and west, the author affirms that Australia has increasingly reduced its strategic leeway when it comes to a US-China dyad. Citing expert reports that have expressed misgivings on the capacity of Australia to absorb the expansion and restructuring of forces with an eye also on hosting of US forces unless a substantial escalation of expenditures is done, the author has flagged the new norm of increasing cuts in defence expenditure for Australia having been afoot ironically at a time when US' expectations of a higher defence commitment from the former are only getting stronger. By comparing Australian strategic expert Hugh White's pitching for a shared power arrangement between US and China in Asia to the 1970s' Hedley Bull's theory propounding the same, the author attempts to give a perspective to Australia-China-US relational dynamics. The fact that the inevitability of China catching up with the US and even surpassing the latter in terms of power distribution hasn't diminished US' attraction for the

other players is notable in that regard. Yet, according to the author, even as Australia and New Zealand have both striven to keep their security partnerships with the US and their economic relations with China separate, he has expressed doubts as to how long that was sustainable in view of China's sharpened ability to translate its economic growth into bolstering its military. But at the same time, the author advances that a complete and absolute sharing of power between US and China may not be as beneficial for the relatively smaller powers such as Australia and New Zealand as they could lapse into strategic irrelevance with the assertion that a degree of competition between two great powers was good for the smaller powers thereby underlining the need for both the countries to adopt a long-term policy perspective instead of a short-term framework.

## **Rationale and Scope**

Drawing on the survey of literature on the subject matter of study, it becomes important now to lay down the rationale behind the selection of this topic and the scope it entails in the backdrop of larger contours of regional and global dynamics of inter-state relations.

No two countries can be as different in their history, culture, social order, political system and economic functioning as Australia and China (Mackerras 2004: 15). While one belonged to the East, the other by majority perception belonged to the West. With geo-economics as a policy imperative increasingly becoming at par if not prevailing over geopolitics, the erstwhile and historical East-West nomenclature for nation-states has inevitably given way to the North-South fault line. The fundamental rationale behind the selection of the topic is to examine closely as to how two nations which have been since the advent of human civilization living in two different rather 'opposite worlds' would react to both the exogenous forces of world politics outside, and indigenous forces of domestic situation inside—forces so strong that they could possibly end up being on the same side in many if not all respects.

The study will also cover the domestic dimension of foreign policy of the two countries something the policy makers cannot do without. In fact, the study would make an attempt to examine if the policy making elite of the two countries can in the larger national interests embark on a foreign policy divorced from domestic public opinion and reality. Here, what larger national interests are in themselves would merit a deeper analysis. This examination of close relationship between a multi-party democracy and a single-party oligarchy will serve as a test case for relations between other countries that could be as politically divergent from

one another. The study of Australia-China relations and the conclusions arising therein could also be used as an index for the purpose of measuring US' continuing relevance in both regional and global contexts. Equally, it would also help to demonstrate and measure China's propensity to accept or override standardised norms of international behaviour. Hence the study is both vertical in scope in terms of Australia and China as well as horizontal in terms of other actors and issues impinging on the international community. The thesis aims to be different from other related works in two ways: Firstly, no other work has done such an in-depth, data-intensive sector-wise study of economic relations spanning trade and investment between the two countries. And secondly in extension of the first, there is no work that has covered economic, security and political (educational, human rights and environment) aspects of their bilateral relationship altogether in a single volume in such a detailed and comprehensive manner.

## **Objectives**

- To understand the comparative roles of economics and security in the context of Australia's ties with China
- To lay bare the contradictions underlying the Australia-China ties vis-a-vis the US and the manner in which Australia resolves them
- To understand the psyche behind the ruling elite in terms of domestic compulsions in both the countries while formulation and execution of foreign policies
- To map the distance China and Australia have covered since Tiananmen incident
- To study the impact of the ties between the two on the wider Asia-Pacific region

## **Hypotheses**

- While Australia is a middle level power and will remain so in the foreseeable future, China is an emerging superpower that is only likely to get more powerful
- At the foreign policymaking level, there is a reasonable degree of convergence in the Australian establishment, whereas in China there is near unanimity on foreign policy matters
- Both Australia and China will not always deal with each other from a relative position of strength
- Australia's engagement with China is also an endeavour towards seeking a larger regional identity for itself

- In the short to middle term, while trading and economic strength would determine the degree of influence a country would wield, in the long term, headstart in defence technology and science would be the key

## **Methodology**

A mixture of causal, historical and descriptive method would be employed. Since the topic covers the twin issues of economics and security, both qualitative and quantitative methods of research would be included. While the qualitative method would provide for the descriptive and the analytical component of the work, the quantitative side would serve as an empirical tool to substantiate the findings. In this regard, certain very basic statistical tools would be taken recourse to in order to clarify the trading and economic dimensions of the subject-matter. The study would be based on both primary as well as secondary sources. The primary sources would comprise various official documents and records of not only the respective governments (including White papers, Annual Reports, Yearbooks, Policy papers, updates, official statements published in electronic, print and web media, de-classified reports and proceedings, texts of treaties and agreements concerning the two countries, press releases) and their affiliates (such as Australia China Council, Australian Parliamentary Library, Australian Bureau of Agricultural and Resource Economics and Sciences, Productivity Commission, Reserve Bank of Australia, Australian Chamber of Commerce and Industry, Economic Analytical Unit and Market Information and Research Section of DFAT, Xinhua, China Military Online sponsored by PLA, etc.); but also reports and documents of other governments and agencies such as the US Congressional Research Service, the UN, the World Bank, the WTO, the FAO, the UNCTAD, etc. Secondary sources would include books, articles in journals (both print and online) and relevant Research papers, Working papers, Discussion papers and Position Papers advanced by different interest groups. And above all, personal and professional opinions on the subject by foreign policy experts, diplomats, academics, institutions and think tanks would also be made use of.

## **Structure of the thesis**

### CHAPTER 1

#### **Introduction**

It has laid out the broad outline of the relationship between Australia and China since Tiananmen. It introduces the subject by briefly touching upon inherent themes directly impacting the dynamics of relations between the two, namely, their relationship in history, role of Tiananmen, Australia's growing Asian initiatives, China's revisionist scope, the US factor, and how theory explains the relationship. By also including the review of literature, rationale and scope, research methods and chapterisation, this chapter sets the tone for further specific research and findings through succeeding chapters.

### CHAPTER II

#### **Australia-China Security Relations, 1989-2005**

This chapter would start by first tracing the evolution of security doctrines and imperatives as understood by the security establishments of the two countries, and then move on to their specific perception of threats emanating from specific countries and would discuss how Australia-China bilateral security dimensions fit in the context of threat from respective individual countries. From the Australian security standpoint, Indonesia, East Timor, PNG, Solomon Islands, Fiji and Vanuatu would be dealt with. On Chinese account, their dynamics of threats vis-a-vis external players, namely, the US, Japan, India and North Korea would be covered along with internal variables such as, Taiwan, Tibet, and Xinjiang. Then, the chapter would include how issues such as terrorism, maritime security, and connection between economics and security play on the bilateral security equation between the two, and in the larger regional and global backdrop. Furthermore, the security-building role of institutions such as APEC, ASEAN/ARF and Pacific Islands Forum (PIF) and their contribution to Australia-China security ties would also be examined.

### CHAPTER III

#### **Australia-China Economic Relations, 1989-2005**

Economic dimensions being apparently the overriding consideration driving their growing closeness, the chapter would investigate the world of abundant optimism permeating any

economic cooperation between the two. Part by part, using extensive trading and investment data, the chapter would inquire into and analyse their bilateral relationship at five major levels—Agriculture, Mining, Manufacturing, Services and Investment. And in each of these (except investment), the role of respective domestic sectors of the two economies would also be included.

## CHAPTER IV

### **Australia-China Political Relations, 1989-2005**

The nature of political leadership and the kind of legitimacy backing it, lies at the core of foreign policy decision-making of any country. This chapter seeks to examine three major political subjects informing the Australia-China relations discourse that carry an international dimension: Australian Education and Prospects for Democracy in China; Human rights; and Environment and Climate Change. The three are dealt with in detail separately in order to assess how they strengthen or weaken the larger political relations between the two countries. At the start, a brief discussion is done evaluating the validity of the nomenclatures of the two nation-states, namely, Commonwealth of Australia and People's Republic of China.

## CHAPTER V

### **Australia-China and Regional Groupings**

This chapter would factor in the roles of two major institutions and groupings in the region: ASEAN and allied institutions (including ARF); and APEC. After setting out the evolutionary pattern of Asian/Asia-Pacific regionalism and the role of Australia and China within them, the influence of the two major institutions on bilateral relations between the two would be considered. While the primary focus of ASEAN and allied institutions would be on non-traditional security and trade and investment and their contributory impact on relationship between the two countries, the impact of APEC on bilateral relations would be examined through the three chief objectives of the organization: trade liberalization, trade facilitation and economic and development cooperation. This exercise would also involve a study on the impact of closer relations between the two on the Asia-Pacific region and beyond.

## CHAPTER VI

### **Conclusion**

This chapter would sum up the findings of the above research and set down a concluding and realistic analysis in favour or against a closer relationship between the two countries.



## Chapter II

### Australia-China Security Relations, 1989-2005

This chapter seeks to examine the security relations between Australia and China over the period 1989-2005. Any in-depth study of security relations between two countries limited by a timeframe involves analysis of events, reactions and counter-reactions to those events by the two players, and the other actors and institutions. While each event has its particular context and rationale, events between nation-states occur at such a vast pace that a conciliatory stance today could turn into confrontational position the next day. Therefore even as the title apparently and in itself sounds descriptive and the study period circumscribed, the intent is to go beyond a linear and factual account of the security arrangements underpinning a relationship between the two over that period. Instead, the objective is to lay bare the complex and multi-layered concept of security in all its manifestations as it is understood today and to see how Australia and China both individually and bilaterally fit in that multi-layered framework. In effect, any study of security relations between Australia and China would not merely look at what real agreements or understanding constituted the security relations between the two countries, but also what could have been or what extraneous issues or actors may have also had a material bearing on the security relationship between the two countries. In essence, this study would progress at four levels, though not necessarily in the same order.

1. What has been the security relationship trend in actual substantive terms?
2. How has Australia's over-all threat perception and vis-a-vis China evolved over the years? Whether China has been seen as a security threat or security-neutral or even as a security asset? And to what extent?
3. Conversely, how has China's over-all threat perception and vis-a-vis Australia or otherwise evolved over the years? Whether Australia has been seen as a security threat or security-neutral or even as a security asset? And to what extent?
4. How have other players (regional institutions) and issues come to impact Australia-China security relations?

To begin with, what is security? Security is the quintessential pre-requisite for the survival of a nation-state. As Joseph Nye puts it — “Security is like Oxygen—you do not notice it until it

is missing.” (Sanchez 2002: 148) At first instance, though the term security communicates a common, stereotypical almost ubiquitous notion of physical and military protection, at a deeper level, it is more than just securing the borders and frontiers and thereby the territorial integrity of a state. As a matter of fact, it entails a holistic and comprehensive vision of the sense of well-being of a nation-state and its people underpinned not only by the usual military insurance cover, but also social, cultural, moral as well as economic security cover. Extracted from the version of US Joint Chiefs of Staff, National Security Strategy (NSS) would subsume the crafting, implementation and synergy between all the elements of national power (political/diplomatic, economic, informational, military and sociological/cultural) to accomplish a country’s goals in domestic and global contexts, both in peace and war (Finkelstein 1999: 101). The scope of this work will however be limited to military and associated physical security.

The usual military security apparatus of a country does not merely prepare a country for war against another country. This apparatus in its various forms, branches and specializations is designed to deal with threats emanating from non-state actors too— both outside and inside the country. These non-state actors could range from trans-national terrorists to domestic insurgency groups to anyone considered antithetical to the larger national interest. There are certain non-traditional security threats envisaging low-intensity conflicts that have substantial military component in them---internal secessionist movements and insurgencies, weak and failing states in the neighbourhood, terrorism, proliferation and transit of weapons of mass destruction including nuclear weapons, arms smuggling, drug and human trafficking, piracy, illegal immigration, and maritime and trade security. These will also be covered. Furthermore, the security interests of a country do not only include the safety of its own land and territory, but also extend far beyond its borders. This extra-territorial security implies that the security of states and regions (other than the home country) being sources of necessary supplies like energy, food items, trans-national services, etc. was as much critical for a country’s comprehensive security calculations as the safety of its own borders and territories. This also extends to country’s economic investment and installations outside its borders especially in regard to the FDI and trade playing a critical role in the growth and development of its economy. This clearly means that the extra-territorial security imperatives of two countries have an immensely contributory role in forging a common security ground between two countries.

## **Australia-China Security Relations in History**

Any security dynamics underlying Australia-China relations must start with the question-- does Australia have a real military threat in the short, medium and long-run? And does this threat in any way come from China? Also, does a political-economic rise of China automatically presuppose a military threat? Does that military threat from China extend to Australia? Or does an economic rise of China mean a lesser military threat or even an opportunity for Australia? Even when there are no immediate threats, policy formulations are based on perception of threat and potential sources of threat. For Australia, the construction and reconstruction of security as a conceptual tool for designing a defence policy has duly followed the shifting perceptions of its security imperatives-- both in light of its own history as it progressed, and in the context of the political, economic and security developments occurring outside its borders. The earliest conception of security need in Australia can be traced to the then prevailing 'White Australia' nation versus 'yellow peril' paradigm that had shaped the country's security perceptions, if not initial policy outline for a nascent Australian nation-state (Horne 1966: 448; Kent 1996: 366; Fischer 1971: 281, 295; Kendall 2007: 2, 61; Lyman 2000: 689). A predominantly race-based society physically away from its parent land and situated in a non-White neighbourhood, itself was a matter of serious security concern. In fact even before the coming about of federation, statesman like Henry Parkes and Alfred Deakin had argued for the shaping of an Australian federation in the face of the vast surrounding populations of Asia. Therefore driven by the natural instinct of self-preservation, race was devised as a political construct around which the sustenance of an Australian nation could be secured overriding the accepted and uniform virtue of equality. Question also arises as to whether the journey from White Australia to multiculturalism has changed the nature of threat perception of the people of Australia vis-a-vis China. Whether immigration is merely a political problem or a security problem? In fact even the coming together of various colonies in a federated union has been said to be a result of a 'visceral fear' in a distant land. Therefore, though the entrenched colonisation of the major portions of the region by Western countries (and so the presence of the White race) in the early 20<sup>th</sup> century and extending into the latter half might have been a source of some comfort, this couldn't have been taken for granted for long. Also, not only was the original and the majority of the population of the region mostly non-White seething under different White colonial governments, it was also an unpredictable and volatile region marked by incessant independence and insurgent movements, unstable regimes and worst of all--a militarist and expansionist Japan that had

just defeated Russia. The colonial nature coupled with multi-national character of Australia's history even went so far as to raise concerns over the country's security policy rationale, howsoever indirectly, during the First World War when various non-British western citizens had questioned the need for Australians to die for remote British imperial interests (60,000 perished out of a total population of 5 million) (Lim 1998: 93; Australian Yearbook 1988; Australian War Memorial; Teare 2000: 85). This had exposed the faultlines intrinsic to the composite multi-national character of the Australian nation-state highlighting in sharp relief the question of security arising out of it. The marauding and ravaging role of the Japanese army in the course of the Second World War had both confirmed and compounded the phobia of yellow peril (Millar 1985: 261). The idea of yellow peril however that had initially signified a threat from Japan had soon morphed into a threat from China in the backdrop of US' co-opting Japan in a post-War regional security and economic order, and China falling under Mao's communism with the defeat of the nationalist forces. At the Conference of Commonwealth Prime Ministers attended by Australia on the ongoing Korean war standoff at London on 4th January 1951, a report by British Joint Intelligence Committee had indicated that even without a Soviet air intervention and even with the use of atomic bomb if a full-fledged open war with China was to follow, an allied victory was impossible (Whitlam 2002: 324). Such was the kind of fear psychosis that China had wrought upon the western powers including Australia. Therefore Coral Bell had pointed out that Australian national attitudes had been ingrained with the idea of China as a patently dangerous force, back in 1964 (Huck 1984: 1961). This does not mean that Japan was no longer a threat at all; it means that Japan was thought to be less of a threat to Australia than China. At the same time, the post-Second World War saw Australian security policy tethered effectively to the American foreign policy with the signing of Australia New Zealand and the United States of America (ANZUS) Treaty on 1st September 1951 at San Francisco the Article V of which clearly stated: "...an armed attack on any of the Parties is deemed to include an armed attack on the metropolitan territory of any of the Parties, or on the island territories under its jurisdiction in the Pacific or on its armed forces, public vessels, or aircraft in the Pacific" (Australian Treaty Series 1952). That Australian government which was earlier mulling on granting recognition to China on the heels of the British reconsidered its stand immediately after the end of the Korean war wherein the US had convincingly faced down the Chinese, clearly demonstrates that it was the US military might and the resultant security perceived by Australia that had guided Australia's policy towards China than anything else. In fact, ANZUS became the bulwark of Australian security for over half a century and had served the country very well

until recent times, though there are debates on whether the treaty had served Australia better or its senior alliance partner, i.e., the United States, or indeed both. What can't however be questioned is that though the treaty has remained the same in letter till date (except for the fact that New Zealand has been ousted in 1980s), in spirit (in interpretation by parties) it has seen occasional drift, as borne out by Foreign Minister Downer's remarks in the late 1990s and early twenty-first century (Tow and Yen 2007: 335). Back in the sixties, Australia had further strengthened its security by joining South East Asia Treaty Organisation (SEATO) the success of which is though open to question, the symbolism of which certainly cannot be missed (Strahan 1996: 131). Underpinning these treaties and alliances had been a very powerful doctrine of 'forward defence' adopted by successive Australian governments that was geared towards keeping any potential conflict and its resolution away from Australia's borders by involving Australia and its allies far away from its frontiers, thereby keeping its borders and people safe and secure (Cheeseman 1993; Dibb 2006: 259; Snyder 1998: 3). Keeping the big powers engaged in the region and away from the Australian shores, the policy with one stroke had managed to neutralize an assortment of threat perceptions—the fear of military resurgence of Japan, the anxiety about the spread of communism and the routine dread of the expanding influence of the Soviet Union. Under the forward defence strategy, three consecutive lines of defence were envisioned: First, the defence of the Indo-Chinese mainland was to be the first bulwark of defence. Second, should first fail, contingency plans were to be in place so as to defend Malaya. Third, and if second had also failed, the immediate defence of the north-west approaches to Australia had to be considered (Dibb 2007). However, though the theory of forward defence had stood its ground until the 1960s, it started to witness first signs of weakening in the beginning of the 1960s only when the Menzies government had been disappointed by the American military stand on Indonesia. Without actually announcing a policy change, the Menzies government had mounted an effort towards modifying the Australian Defence Forces (ADF) that could serve unaided, prompting purchase of new capabilities such as F-111, Mirage III, C-130 Hercules, DHC-4 Caribou aircraft, UH-1H Iroquois 'Huey' helicopters, Oberon-class submarines, Guided Missile Destroyers, M-113 Armoured Personnel Carriers, besides introducing conscription (White 2007). This had set in motion the doctrine of self reliance which had become an article of faith in the subsequent years and decades. At the same time, though the alliances such as ANZUS and SEATO shielded Australian key interests, they did not over-oblige Australia to fight for interests outside its 'forward defence' margins. Therefore, for instance Australia was ready to dispatch troops to Korea, Vietnam and Southeast Asia, but did not

want commitments under SEATO to extend to Formosa (former Taiwan) which was seen as on the margins (Lee 2007: 12). What is however more important here is that it were the Chinese troops or China-backed forces that Australian forces had been ranged against at all these regional flashpoints. The possible fall of South Vietnam during the Vietnam War was often used as a political bogey by the ruling Liberal Party adding to the fear that a fall of South Vietnam would provide a stepping stone for China towards Malaysia, Indonesia and ultimately Australia. Furthermore, Australia along with New Zealand and United Kingdom had also entered into Five Power Defence Arrangements (FPDA) with Malaysia and Singapore in 1971 in order to secure the air defences of these two countries at the withdrawal of the British forces east of Suez in 1967 (DFAT; Chung 2007: 156). With the Vietnam War ending in a loss of face for the US and with the enunciation of Gaum doctrine by Nixon administration in 1969, Australian security and defence policy thinkers came to realize that time was ripe for Australia to adequately conceptualise and evolve a defence policy that was bereft of any alliance dependence. Nonetheless, there does seem to appear a bit of a contradiction in the sense that even when there was a pronounced need for an independent defence force strategy and force building, mending fences with countries like China and establishment of diplomatic ties with them was seen to be taking a cue from the broader US foreign policy contours (at least in some quarters).

## **Evolution of Security Doctrines, Perceptions and Strategies of Australia**

It was in this backdrop that Australia had issued the defence White Paper in 1976 titled *Australian Defence* the central purpose of which was to posit a concept and doctrine that would orient the country's defence forces and strategies to a mode of independence and prepare the country for its defence unaided by any alliance powers. The White Paper had focused on Australia's maritime geography--embracing countries and territories in Southwest Pacific, PNG, Indonesia and countries in Southeast Asia as primary strategic concern for any Australian defence preparedness (Cheeseman 1993: 8; Dibb 2007). As a matter of fact, security as a point for debate and deliberations had always been part of the Australian strategic community, even before 1976. At the broadest level, the debate has veered between two ends of the security spectrum. While one school popularly known as the 'defence of Australia' school or sometimes as 'continental defence' perspective advocates for utmost priority to be given to the Australian landmass and its nearby air and maritime approaches

particularly in the northwest, the other group favours a policy-design preparing the forces for expeditionary and low-intensity challenges far away from the country's geography accounting for the country's wider strategic interests. These wider strategic interests could be expanded to embrace the Southeast Asia region, the Southwest Pacific region and finally the rest of the globe. What should be made clear here is that the degree of importance accorded to these regions has undergone variations with every strategy document that has come out from the security establishment. The September 11 incident has further reignited this debate within Australian policy-making circles sharply polarising the strategic community into two camps--traditionalists, for whom 9/11 did not fundamentally change the Australian security landscape, and transformationalists, who view the incident as having altered the basic assumptions behind understanding and formation of the country's security strategy (Hirst 2007: 177).

Tracing the evolution of the conceptual blueprints emerging from the Australian strategic community post-1960s, the 1967 Strategic Basis of Australian Defence Policy had recognized that Australia must be ready to face up to events which directly threatened its territorial interests and for which the allies could not be relied upon completely (Dibb 2007). Then the 1971 Strategic Basic Paper had proposed that compared to before, the continental defence should be paid greater attention to and that remained the basic obligations of Australian defence establishment (Cheeseman 1993: 3; Hawke 2000). The 1973 Strategic Basis of Australian Defense Policy had further asserted that Australia must be primarily responsible for its own defence against any neighbourhood or regional threats (Hawke 2000). Then as pointed out earlier, it had been the Defence White paper of 1976 that had first set out a self-reliant defence policy for Australia in clear cut terms. The 1979 Strategic Paper came followed by the 1983 Strategic Basis Paper, both also focusing on the need for an independent defence of Australia and not quite departing from the broad theme of 1976 White Paper (Fruhling 2009: 32; Smith 2009: 5). However, none of these papers could clearly spell out the force structure in specific terms critical to Australia's defence forces in response to the avowedly self reliant posture. This was even more so in the absence of a specific threat that hung over Australia. Despite a number of deliberative meetings and brainstorming at the highest level of proficiency and expertise, military analysts and practitioners could not come to an agreement over the specificities of threat perception to Australia and so the shape and composition of the force structure was still to be settled upon. Some of the other issues that quite often were the subjects of discussion at these platforms were the size of the army, the

warning period for intelligence, the definition of minor and major levels of contingency, the precedence to be accorded to northern approaches, the core force and the expansion base, the suitable ratio between equipment, personnel count, installations and operating costs, between existing readiness and long-run investment and between the relative importance assigned to different levels of potential threats (Dibb 2007). Further on, the Dibb Review of 1986 had focused on the possible contingencies arising out of country's neighbours such as Indonesia, PNG and New Zealand, and maritime approaches including the Timor and Arafura Seas, the Coral and Tasman Seas and Indian Ocean approaches (Cheeseman 1993: 14). The 1987 Defence White Paper titled Defence of Australia set out the government's strategic priorities, including the matters of overseas operations. It might be added that in the prevailing atmosphere for attainment of self reliance, the 1987 Defence of Australia had called Southeast Asia and the Southwest Pacific as 'Region of Primary Strategic Interest' (Evans 1989; Brown 1993: 311). The renewed emphasis on Southwest Pacific had to do with a fast developing clutch of local incidents including Vanuatu's non-aligned posture since independence, signing of fishing agreements between Soviet Union and Kiribati and Vanuatu (in 1985 and 1987 respectively) and alleged evidence of Libyan involvement in New Caledonia—a situation that apparently went overboard with the May 1987 coup in Fiji (Cheeseman 1993: 17-18). However a deliberate ambiguity remained in the 1987 White Paper as captured in the phrase "self-reliance within a framework of alliances" (Lim 1998: 95). Nonetheless, the 1970s and 1980s' pursuit of defence of Australia had been rendered possible firstly, because of the historical turnaround in diplomatic relations between the USA and China; and secondly, the peaceful evolution of Southeast Asian region in consequence of the emergence of ASEAN as a model of politico-economic stability other than the rise of Suharto in Indonesia. However most importantly in none of these strategy documents, Northeast Asia of which China was a part, had even surfaced as an area of security concern for the Australian defence analysts. What is even more surprising is that Australia's Strategic Planning in the 1990s, approved by Cabinet in 1989 but not released until 1993 had completely underestimated China. Writing a few months after the Tiananmen incident, the paper had sought to foresee China as a country which would be somewhat more caught up with domestic matters even as it was increasing its strategic influence and reach. The paper had projected the Chinese economy slowing down hampering its capacity to supply resources for defence while flagging Soviet Russia as remaining the chief source of military concern (Government of Australia <sup>1989</sup>). Therefore till the early 1980s and even late 1980s, it was Soviet Union and not China that had been on the Australian security policy radar from the



point of view of threat. On the other hand, the end of the Cold War had created different dynamics of relations between the US and the regional powers. There were signs of both economic and political strains between Japan and US. The collapse of USSR meant that Japan and China were no more as much strategically important for the US as before. Peacekeeping and Peace enforcing operations were on the rise around the world which saw Australian Defence Forces (ADF) being deployed in far off areas—Namibia in 1989, Western Sahara in 1991, Cambodia and Somalia in 1992 and Rwanda in 1994, other than many intermittent deployments to the Persian Gulf and in near geography including Solomon Islands, PNG, Indonesia and East Timor (White 2007; Government of Australia 2000 a). However, with the military rise of other powers in the region, Australia was gradually losing its supremacy and edge in the realm of military technology. In this backdrop, the Defence White Paper 1994 defined self reliance as consisting of the ability to defend Australia against credible threats without support from foreign combat forces. While it does not assume that Australia could be defended without non-combat support (eg., supplies of modern missiles) from overseas, it reaffirms the ANZUS alliance with the US as a “key element of our defence policy” (Australia Department of Defence 1994). This should be read with the Sydney Statement in 1997 that had expanded ANZUS’ coverage from the Pacific to a broader Asia-Pacific circumference (Inoguchi 2001: 202; Tow 2008: 32-33). Coming back to the 1994 paper, there was substantial emphasis placed on regional engagement: the aim was “to promote an environment which sustains a stable pattern of strategic relationships and avoids destabilizing strategic competition” (Australia Department of Defence 1994). The defence industry was identified as a key element in maintaining self reliance. More importantly, it departed from erstwhile policy papers by homing in not on Australia’s nearer region—Southeast Asia and the Southwest Pacific—but on the wider Asia Pacific as a whole (White 2007). Acknowledging China’s dramatic rise, it had stated that over the next fifteen years it would be China at the core of economic growth in Asia. And if the trend had continued, within fifteen years, the Chinese economy would become largest in Asia and second largest in the world impinging on global power equations becoming a forceful factor in Asia Pacific’s strategic calculus (Ibid).

Therefore the central and the overriding message coming from this string of defence policy documents in the 1970s to 80s including the Defence White Paper of 1994 was that while China was an emerging economic power and consequently of increased strategic eminence in the region and beyond, it was not a security threat to Australia by any means. However, this

perception of China considerably if not dramatically, changed with the coming of the Howard government. *Australia's Strategic Policy, 1997* – the first major defence policy statement of the Howard government – had while acknowledging China as *already the most important factor for change in the regional security environment* expressed doubts on how it would be accommodated regionally. Yet, it unequivocally cautioned against any possible erosion of US strategic influence and the rise in regional competition between China and others, an eventuality which was liable to be seen as being inevitable by some in China and outside (Government of Australia 1997). While this statement underlines the reality of China's ascendancy in the eyes of Australia's policy planners, it also somehow reflects that in some ways they did see it increasingly more as a concern if not a threat though not openly accepting it. The paper also replaced the much-used phrase 'in defence of Australia' by 'defeating attacks on Australia' which signified the readiness to embark on military measures that may include operations beyond the defence of the continent. In another noteworthy change, this 'defeating attacks on Australia' was not cited as the only primary responsibility of the ADF, but as one of three fundamental responsibilities the other two of which were—defending regional interests and supporting Australia's global interests—clearly underlining a more assertive stance (White 2007). Then in the run-up to the White Paper of 2000, a wider community consultation exercise was put in place culminating into a report entitled *Australian perspectives on Defence* to the Australian Defence Minister. Among the key findings were that in most Australians' opinion, enhanced expenditure on military capabilities would be wise; that the Australian Defence Force, single-handedly or with coalition allies, should be able to execute important operations within the region particularly "in our nearer region"; and that many immediate threats were non-military—illegal immigration, drug smuggling, attacks on information systems and terrorism (Moore 2000). The 2000 defence White paper *The Defence 2000: Our Future Defence Force* was a watershed document as far as a comprehensive analysis of the needs and priorities of the Australian defence establishment was concerned. Though it stuck to the traditional objective of ensuring the 'defence of Australia and its direct approaches', it also did lay emphasis on the security of the immediate neighbourhood, stability and cooperation in Southeast Asia, strategic stability in the wider Asia Pacific region and global security. It highlighted increase in the military competencies of regional states as the 'key factor in the evolution of Australia's strategic environment' (Hirst 2007: 176). In addition, it also provided for a long term defence budgeting which had not occurred over twenty-five years (Government of Australia 2000 a). However, even when the paper emphasised on self-reliance as one of the principal objectives,

its close military linkages with the US cannot be missed. This is clearly evident in its approach to nuclear defence clearly spelling out that the US nuclear forces served as deterrence against any possible missile-borne nuclear attack on Australia. In fact the paper admitted that the desired ADF was not possible but for the technology access afforded by the alliance with the US (Government of Australia 2000 a). As a reflection of September 11 concerns, the 2001–2002 Annual Report published by the DFAT not only announced the practical tilt from the subject of East Asian security being on top of priority list to terrorism and WMDs as principal security issues of the time but also urged holding of bilateral and regional security discussions with Southeast Asian countries. Then, the transformational impact of September 11 was evident from the 2003 Defence Update that had affirmed that in the last two years since the release of the Defence White Paper there had been no doubt that the strategic landscape had changed (Government of Australia 2003). The Update had also pointed to the reduced possibility of inter-state warfare. Then the Defence Update 2005 had further invoked globalisation as having sharpened the threat from terrorism and WMD proliferation (Government of Australia 2005). More importantly, the Update had observed that the growth of China would spur increased competition with the US for strategic influence (Ibid).

The preceding overview of the defence policy blueprints and history broadly establishes four distinct phases of Australian defence policy-making. First, in the pre-Second World War period when the country had been virtually dependent on Great Britain and its allies for protection. Second, in the post-Second World War period when its defence was anchored to the US-led ANZUS and other regional security organisations. Third, the post-Vietnam Asia-Pacific security order with ‘self-reliance’ being the leitmotif of the country’s defence strategy. Fourth, the post-September 11 period the precise nature of security needs and threats when though hasn’t been established with finality, a dual trend of deepening engagement with the US and simultaneous preparation for non-traditional in terms of both local and far-away security contingencies has emerged.

Coming specifically to China, historically, the concept of China as a security threat to Australia had informed three approaches: One, it was a communist power intent on spreading communism and its influence in the region and beyond and hence fundamentally challenging the liberal-capitalist and democratic world order of which Australia had been an integral part. Two, it was a country that proudly considered itself the ‘middle kingdom’ and that fiercely wished to resurrect its past glory and heritage in the new scheme of worldly affairs. Australia,

an offshoot of Anglo-Saxon civilization had every reason to be apprehensive of a China striving to reclaim its both oriental and predominant past. Three, and in consequence of the second, drawing from its unique socialist economic experiments and due to an intensely nationalistic military tradition embodied by the PLA, it was an emerging power preparing itself to question the post-World War global order redrawn by the Cold war dynamics and the resultant bloc politics.

In the period for this study, i.e., 1989-2005, while the first approach does not completely fit the context (that Communist Party still has a stranglehold on power leaves some scope for a Communist-driven resurgence outside China, howsoever remote the possibility), the second to a great extent fits the examination period context (exception being the attempts on part of the Australian government to promote multiculturalism and increasingly identifying the country as part of Asia). However, the third approach completely fits the context as China is indeed the emerging power divorced from any ideology or according to some, a revisionist power intent on inverting the American-dominated global system on its head and in the consequent churning capable of radically impinging on Australia's foreign policy priorities with the possibility of weaning it away from its 'outmoded' friendship and 'outdated' friends. While the intent of the Chinese government to take a hardline stand has often been tested and in many of which the Chinese have actually displayed an aggressive streak, the last conventional war that the Chinese fought was the Sino-Vietnamese war in 1979 since when the Chinese armed forces have not really been put to test. As the Chinese acquisition of the nuclear weapons had propelled it into the great power club and thereafter, China was not to be confronted but it had become in everyone's interests to manage China. This was the beginning of the reformulation of strategies towards China's great power status and the risks arising out of it.

Consequent to a broad understanding of how the Australian security policy has evolved through history and how the defence analysts and policy makers' perceptions and priorities have come to continuously respond to the changing narratives, it is time to look at how China's security perceptions and priorities have shaped and emerged over the years.

## **Evolution of Security Doctrines, Perceptions and Strategies of China**

Broadly, the Chinese perception of Australia can be seen as four-pronged: One, that Australia has been for most of the time an appendage to the US and US-led alliances, cooperates very

closely with them, is a Major Non-NATO Ally (MNNA), enjoys the nuclear umbrella and is also sought to be covered under the ongoing US-led missile defence systems process. Also, that China considers the US as the biggest security threat completes the picture. Two, Australia periodically advances concepts of self-reliance in terms of security so as to maintain a sense of ambivalence vis-à-vis US and its allies. Three, Australia has increasingly begun to identify itself more with its near-geography and Asian neighbours and is also actively participating in regional security institutions. And four, and most importantly, Australia has a small military as compared to China or US and by itself doesn't pose a security threat to China (Global Firepower website). It also seems content being an economically prosperous middle power keen on regional activism and never really harbours global ambitions.

Having briefly spelled out China's security viewpoint of Australia, it is imperative to examine the broader security and military theory, doctrine, planning and psyche of the Chinese security establishment drawing on history and through contemporary period. For starters, security and sovereignty always went together for China and neither could ever have been taken for granted and in isolation from each other through history, through present, and certainly can not be even in future. Since mid-19th century, from time to time China has had to willy-nilly yet resolutely fight off foreigners to protect and preserve its sovereignty. The 'hundred years of humiliation' (from Opium wars to foreign intervention in the Boxer rebellion and the war against Japan during 1937-45) from outside, and regionalism and warlordism from inside had been a recurrent challenge to the conception and sustenance of a unified and monolithic 'Chinese nation' (Finkelstein 1999: 105). Equally, the unsavoury and disquieting legacies of the White Lotus, Taipings, Nien, Miao Tungan, I-ho ch'uan, civil war, Red Guards, right through to Tiananmen in 1989, symbolize what every Chinese government has been most anxious about – internal stability can never be taken as a given (Ibid: 106). Another offshoot of Chinese security can be extended to the very protection and survival of the Chinese Communist Party (CCP) particularly in light of the role of the People's Liberation Army (PLA). In addition to defending sovereignty and against aggression, one principal military objective of the PLA has been to protect the Chinese Communist Party and safeguard stability (Wang 2007: 94). Indeed, of the five General Requirements laid out for a PLA soldier by Jiang Zemin, *political reliability* had ranked first followed by *military proficiency*, *strict discipline*, *good work style* and *strong logistical support* (Blasko et al 1996: 495). Also, military apparatus is headed by the Party's Central Military Commission

(CMC) which reports to the Party Standing Committee (Oksenberg 2001: 22). The periodic pronouncements of the senior-most leaders of the PLA on the supremacy of the Party are an indication to this effect. In the past few years, much of the internal security responsibility of the PLA has shifted onto the shoulders of the People's Armed Police (PAP). However, the PAP is again eventually under the control of the CMC and there has been no relaxing of responsibility of the "regular" PLA as far as the defence of the party is concerned.<sup>3</sup>

As for the doctrinal principles guiding the Chinese military planning and strategy, there are broadly four strains that can be identified. First and the oldest, and perhaps least relevant (in terms of application) today is the concept of People's War. Whereas in near-contemporary terms the idea can be attributed to Mao and his vision of war, military theory as a remedy to insecurity goes far back into ancient history when the great master strategist Sun Tzu in 6<sup>th</sup>-5<sup>th</sup> century BC had laid the doctrinal foundations of prosecution of war with his monumental work, 'The Art of War'. The work had been a source of inspiration to a generation of military strategists and warriors around the world including Mao; and even now, the Chinese military think tank adheres to the broad philosophy of Sun Tzu though they might differ on the aspect of execution of war strategy. Sun Tzu had enunciated long back that since all warfare was deception based, one should pretend to be incapable even when capable of attacking and inactive even when active and moving troops. Also, one should pretend to be far away when one is near the enemy and near when one is actually far from the enemy (Johnson 1991: 12).

However, in practical terms and in a modern context, the Chinese take a more holistic approach to national security and war strategy. At one level, this means that the Chinese attach relatively less significance to military factors alone than the political, economic, psychological, or moral dimensions of inter-state equations and contestation. In Chinese military calculus, the human aspect is considered critical with staying power being more critical than firepower. The opponents' tactical advantages can be counterbalanced by strategic planning, deceit and moral justness (Mohanty 1988: 588). Man's creative resourcefulness if backed with the right ideology (the spiritual atom bomb), fealty, discipline and fortitude could defeat an enemy's sophisticated weapons. It was this philosophy which had enabled the Chinese Red Army (which became the PLA in 1946) to be triumphant against the very much better armed KMT and Japanese armies (Deshingkar 1990: 355). This

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<sup>3</sup> One of the many reasons the PLA was called upon to converge on Beijing in the Spring of 1989 was because the PAP was incapable of handling a situation that was viewed by the CCP leadership to be burgeoning into a direct threat to the rule of the regime and the CCP

belief in the superiority of man over weapons was reaffirmed by the experiences of the Korean and Vietnam wars in which ‘spiritually armed’ men battled the US forces armed with the latest tools of war (Ibid). Unlike the western planners who emphasise on a specific frame to achieve the goals, the Chinese war fighting strategies is rooted in a very long-term orientation. They unlike the western strategists do not believe that the order-of-battle can only be measured in terms of armaments, force disposition, command, control and communications (Mohanty 1998: 588). Then even in the case of negotiations, the Chinese operate with a long-term framework and work from general principles to specific points while westerners take the opposite routes (Ibid).

The second doctrine that has governed Chinese military thinking, and that had evolved out of People’s war is the concept of Local war (*zubu zhanzheng*), a theory developed in 1980s by Chinese war experts, or as some would credit it to Deng Xio Ping, that instead of large-scale invasion by the Soviet Union, war would originate in territorial or border disputes along with religious and ethnic conflicts. So, there was a shift in national strategy from a single-minded focus on a major potential nuclear war with the Soviet Union to potential “local, limited wars” on China’s periphery. But as Soviet Union weakened and indeed dissolved thereafter, the security need of northern borders with Soviet Russia was no more as expedient as before (Ding 1999: 97–98; Finkelstein 1999: 117). Moreover, China had also begun to resolve its territorial border issues with most of its other neighbours in Central, South and Southeast Asia. Therefore as perceptions of strategic threat encountered change, doctrinal transformations to meet this challenge, too followed suit. In practice, this had necessitated the need for a more flexible, modular, and highly mobile force structure with the capacity of not only inflicting swift response in an armed confrontation but also with the purpose of joint coordination of land, sea and air forces in any local low-intensity insurgency or humanitarian and disaster operation. Then, with the concept of local war graduating to *local war under hi-tech conditions* (*gaojishutiaojianxia jubuzhangzheng*), the third doctrine came to fruition, a theory formally announced by Jiang Zemin in 1993 (Finkelstein 1999: 125; 2007: 96, 104-06; Goldstein 1997-98: 43; Ding 2009: 98; Shambaugh 1999: 662). It was the heavy and intense employment of hi-tech precision munitions with the help of Global Positioning System (GPS) during the Gulf war that had illuminated the high utility and efficacy of modern weapon systems in ‘real war situations’ to the Chinese. Further the West-led wars against Kosovo had further reinforced the impact value of high-technology on weapon systems. In addition to the use of electronic jamming of military and public communications, remote targeting by long-

range cruise missiles, large-scale usage of space-based sensors and satellites, laser-guided precision weapons and satellite-guided bombs, the Chinese had particularly noted the importance of air defence against aerial bombing which the Yugoslav forces had managed protecting their anti-aircraft defense by tactically scattering their Surface-to-Air missile (SAM) sites through the mountainous and cave-like terrain (Shambaugh 1999/2000: 57-59). Intimately connected and partly overlapping with the doctrinal positions is the changing nature of force structure that has come to characterise the Chinese military establishment. As the threat of a conventional territorial warfare on the continent recedes and the probability factor of a naval confrontation surges bearing in mind China's mounting maritime territory and resource interests and its concomitant assertiveness over them, there is an added impetus given to the PLA Navy (PLAN) and PLA Air Force (PLAAF). According to estimates by experts, by the mid-1990s, between 15 and 25 percent of the PLA comprised of elite forces designed for airborne and marine assaults as well as ground attack missions (Goldstein 1997-98: 44). The 2006 Defence White Paper had sought to "gradually extend the strategic depth for coastal defence." (Government of PRC 2006) Also, China seeks to counter a potential US intervention in Taiwan Straits through 'sea-denial strategy' in tandem with its air force and other networked systems (Ding 2009: 97-101). Incidentally in March 2010, China listed for the first time its South China Sea claims among its "Core interests" alongside previously claimed Taiwan, Tibet and Xinjiang (Chang 2012: 21).

And built on the third doctrine is the fourth concept of Revolution in Military Affairs (RMA), a concept though owing to its 'technology-intensiveness' is in its infancy, in terms of its practical application, it has nonetheless assiduously engaged Chinese military establishment and has even been termed as 'RMA with Chinese characteristics' in many quarters (Finkelstein 1999: 126; Blasko 2007: 295). Known to form a part of what is called 'asymmetric warfare' in the sense of being able to spring an element of surprise and to deny a far too technologically advanced adversary (read the United States) the usage of advanced satellite and space based weapons, the doctrine of RMA envisages the Chinese military to eschew as much as possible a linear path of defence technology modernisation (Wang 2007: 92; Lieggi and Quamm 2007: 12-13). Instead RMA envisages 'leapfrogging' onto a state-of-the-art defence technology platform in order to prepare for an information or network centric warfare (NCW) entailing an integrated Command Control Computers Communications Intelligence Surveillance and Reconnaissance (C4ISR) architecture (Wortzell 2007: 8 ; Ding 2009: 101). Chang Mengxiong, the former senior engineer of the Beijing Institute of System



Engineering of COSTIND spells out new concepts of asymmetrical strategy—High power microwave weapons to destroy electric equipment; Information superiority's precedence over air and sea superiority; and Information deterrence (Pillsbury 2000: 292, 293). The successful testing of an anti-satellite ballistic missile in January 2007 proved that China had stepped into the realm of high military space technology (Leiggi and Quamm 2007: 6).

On non-traditional security threats to China, General Xiong Guangkai, perhaps China's foremost strategic thinker, advanced the following four criteria for defining nontraditional threats: (1) they go beyond national boundaries and are thus transnational in nature; (2) they go beyond the domain of military; (3) they often are sudden and unexpected; and (4) they are frequently intertwined with traditional security threats (Craig 2007: 102). Non-traditional threats can also occur in tandem with other threats and can even set off other threats.

In connection with the doctrinal outline as laid out above, it makes sense to understand the critical connection in Chinese military thinking between internal disorder and external pressure (*neiluan waihuan*) that has always existed and their role in shaping tangible Chinese security policies and priorities (Shambaugh 1996: 194). The Chinese communist leaders had been afraid of political subversion from outside since the days when John Foster Dulles had first spoken of "promoting the peaceful evolution of communist China" (*Ibid*). In the 1970s, Zhou en-lai in his conversation with the visiting labour leader Gough Whitlam in early 1970s had raised the point that both ANZUS and SEATO had US as a common member and the negotiations being steered by John Foster Dulles had been an attempt to encircle China (*Whitlam 2002: 328*). In the contemporary context, the Chinese perceive the frequent and aggressive campaigning for socio-political issues of human rights and democracy by the West almost at the expense of the political and territorial sovereignty of other countries, an attempt to engineer internal political disaffection and disorder.

As a matter of fact, the overriding linkage between domestic factors and the Chinese external policy making can be attributed to the very circumstances in which the Chinese nation was born. Having emerged triumphant in the teeth of nationalists' resistance under Chiang Kai Shek riding on western assistance, this was a violent legacy communist China had to brace with for all times to come. Even before the outbreak of the Second World War (SSW), the country had been mired in a series of civil wars culminating coterminously with the end of the SSW in the banishment of the nationalist forces to the island of Taiwan and the establishment of the People's Republic of China on the back of the strength of the Maoist red

army. At the same time, having become battle hardened against Japan as part of the nationalist army from 1937 to 1945 in the Sino-Japanese War and having seen the American-led resistance in the Korean War, the importance of a strong military force was not lost on the Chinese political-military leadership. Therefore, threat perceptions of a nation-state have a tendency to vary with time and in the context of a changed international scenario. For instance, Mao's security doctrine was based on the expectation that a world war (i.e., involving the super powers) was inevitable for which China must be ready even involuntarily (Deshingkar 1990: 355). Deng on the other hand had held that such a war was unlikely to break out in the near future; so China must capitalize on the peaceful period to develop its economy (Hu 1995: 122). And so, as the regional and global contexts changed, the assessment of threats changed and so did the priorities for the policymakers. Until the relations with former Soviet Union had been favourable, China's security had been largely dependent on the Soviets and their military technology and hardware supplies till the late 1950s (Garthoff 1963: 83). Since parting of ways with the Soviets, the Chinese had adopted an independent almost isolationist position on many world issues. The use of atom bomb as a trigger to end the Second World War had also kept the Chinese working on acquisition of nuclear capability that had finally found success in 1964 when they tested their first nuclear weapon. Not surprisingly, the Chinese government statement announcing the success of the test had openly cited the purpose as to shield the Chinese people from the risk of the United States' mounting a nuclear war (Halperin 1965: 76; Chari 1978: 817). However, along with the announcement on successfully conducting its nuclear test, China had also pledged no-first-use and even called for a universal summit for prohibition and complete elimination of nuclear weapons (Young 1966: 148–149). Then until the 1970s when Beijing had been openly antagonistic towards both superpowers and its security projections were steeped in the forebodings of an immediate large-scale nuclear strike, the utmost security priority for the time was to survive a massive and surprise aggression (Baiyi 2001: 276). So, massive natural and human resources were redirected towards mastering a second-strike capability and making other war preparations at the expense of economic development (Ibid: 277). In the meanwhile in a slew of regional conflicts particularly involving Malaya, Indonesia, Vietnam and Cambodia, and in three full-fledged wars with India, Russia and Vietnam; Chinese and Chinese backed forces had been sufficiently tested and reminded of the need for better military preparedness. However the 1970s saw a complete turnaround in its relations with the United States which can be attributed chiefly to three factors: intensifying and seemingly endless Cold War rivalry with the USSR, China's huge population offering the prospect of a

huge market, and most specifically, the irreversible nature of the nuclear parity that China had come to attain vis-a-vis US and the other nuclear powers. Once the rapprochement with the US had fructified, the Chinese security experts expended their complete time and energies on the threat from the Soviet Union. The Brezhnev doctrine had further compounded their anxieties and insecurities vis-à-vis the Soviet Union (Rea 1975: 22). However in the last decade of the Cold War when the Soviet Union began to tone down its rhetoric and when there arose the first signs of a détente not only with the US but also with the Chinese, the Chinese security experts had a relatively peaceful decade. It was then when China began to reevaluate its concept of security, as can be seen in three areas. First, it began to greatly focus on economic and technological benefits as it was opening up its economic and investment borders. In the mid-1980s, China participated in negotiations on multi-party security regimes under the United Nations, including treaties on chemical weapons, comprehensive disarmament and outer space. Within the country, the People's Liberation Army demobilized one million servicemen as a contribution to world disarmament (Baiyi 2001: 277). Second, multilateralism though highly limited, evolved as China started cooperation with neighbouring states on transnational security problems. And finally, the Tiananmen incident and the consequent western sanctions once again awakened China to the intersection between internal and external security challenges (Ibid: 277-78). It became increasingly wary of the outside opinion and influence that could so blatantly and seemingly justifiably intervene in its internal affairs, at least vocally. In fact, the Tiananmen incident and its widespread condemnation was a major 'security reminder' to the Chinese political-military leadership. The fall of socialist-communist governments in Eastern Europe and the demise of the Soviet Union held out virtually an existentialist threat to the Chinese Communist Party and in turn to the Chinese state itself. Tiananmen and the resultant Chinese regime's internal insecurity had also forced the Chinese to mend fences with the Soviet Union, Laos, Vietnam and India (partially) on bilateral territorial disputes (Fravel 2005: 74, 77). Internally, the Tiananmen had even forced the recentralization of the command and control system of the PLA since 1989. The differential earlier maintained between principal force units, commanded by the Central Military Commission and regional force units helmed by individual Military Regions (MR) commanders had been removed; the movement of any troops larger than a battalion had to be now sanctioned especially by the CMC via the PLA General Staff Department, and in no case could troops be moved beyond Military Region boundaries sans CMC's go-ahead. There was recentralizing of access to weapons and munitions by the PLA General Logistics department (Shambaugh 1996: 196).

In continuation with the Tiananmen backdrop vis-à-vis China restructuring its command structure, it would be useful to run a brief survey of the Chinese foreign policy body and defence bodies and gauge the worldview of the men who are their key decision-makers. Functionally speaking, PLA lies at the heart of the Chinese military apparatus and machinery. At the level of military strategy and decision-making though, the Chinese national security and military authority is vested in the Central Military Commission and the General Staff department of the PLA. A close ally of military policy, foreign policy is in the hands of the Communist Party Politbureau and its Standing Committee (PBSC). The PBSC sets the “direction” (fangzhen) and “general line” (zhonghe luxian) for Chinese diplomacy and arbitrates over leading diplomatic issues or inter-bureaucratic wrangles (Ibid: 197). Below the level of the PSBC and Central Committee Secretariat, there is a Central Foreign affairs Leading Small Group (FALSG or waishi xiaozu) to coordinate the handling of foreign affairs. Normally, FALSG has been under the leadership of the Premier. The FALSG can requisition the State Council’s office of Foreign Affairs (Guowuyuan Waishi Bangongshi) and Center for International Studies (Guoji Wenti Yanjiu Zhongxin) for policy inputs (Ibid: 197-99). The China Institute of Contemporary International Relations (CICIR) also supplies the FALSG with research assessments and policy studies, although it formally comes under the control of the Ministry of State Security (MSS). Thus foreign policy is managed by a few Polit bureau level officials while defence and national security policy is completely in the hands of the Central Military Commission. Though they sometimes travel abroad, the seven military members of the CMC and their principal deputies in the four “general headquarters” (zong siling bu) seldom meet with foreign visitors and when they do the meetings are closely scripted and controlled (Shambaugh 1999-2000: 54). Therefore, narrowly-based decision-making system closely controlled by a few with poor foreign intelligence and information flow to principal policy architects implies that Chinese foreign policy is often made in a void which cuts out the bureaucratic and interest group pressures in the process also reducing the policy options. This also implies that a decision that affects millions may be taken by a very few at the top not necessarily having taken note of the popular and majority opinion on an issue. However today, even when decision-making process remains considerably centralized in fewer numbers of individuals, it is no more as much fully concentrated in the hands of the supreme leader as earlier times. The process is much more open-ended, entailing more frequent internal (and some external) consultations with a somewhat sincere need to forge a consensus. The paramount leader still makes the final decision, but his decision must more closely echo the views of his peer leaders. In a time of crisis, the opinion of military

leaders is considered if relevant, but, as in the Maoist era, they do not convert into an absolute veto over decisions made by civilian leaders. Keeping that in mind, the information provided to the senior leadership by military sources coupled with the operational plans and procedures of the military, can mould substantively the views of senior civilian decision-makers and hence the ultimate behavior of the leadership in a crisis.

In terms of concrete accomplishments, since 1949, China has resolved seventeen of its twenty-three territorial disputes. Moreover, it has conceded significant compromises in most of these settlements, often settling for less than 50 percent of the contested land (Fravel 2005: 46). Of twenty-three territorial disputes of China, it has showed willingness to compromise on 15 of them; but on six of those (Taiwan, Paracel, Spratly, Senkaku, Hong Kong, and Macao) it held an absolutely non-negotiable stance (Ibid: 55).

It was in this backdrop that the New Security Concept had been advanced by the foreign policy mandarins of the Chinese government. The New Security Concept by China was curiously first expounded at ARF meet in 1997 by former foreign minister Qian Qichen and was further elaborated in the first Chinese Defence White Paper in 1998 (Evans 2003: 755-756; Tow 2004: 59; Cha 2003: 109; Arase 2010: 818; Shambaugh 1999-2000: 67). As the Chinese economy riding on Deng's radical overhauling of policy practices started to deliver its first clutch of dividends, security had to be yoked inexorably to the economic imperatives. The principles underlying this New Security Concept had included extending of cooperation as per UN Charter, the Five Principles of Peaceful Coexistence and other globally acceptable precepts guiding foreign relations while upholding the United Nations as the central guiding force. According to this Concept, all territorial and border disputes and issues had to be sorted out peacefully through parleys. There was a need to improve the global economic and financial bodies with the aim of promoting common prosperity based on the doctrines of quid pro quo, mutuality of interests and benefits. Also, the Concept trained focus on non-traditional security issues such as terrorism and transnational crime besides the traditional security concerns such as repelling of foreign invasion and preservation of territorial integrity. The idea was to establish a robust disarmament and arms control regime based on fairness, fullness of scope, reason and sense of balance with the aim of prevention of arms race and proliferation of weapons of mass destruction (Government of PRC 2002 a).

Reading the content of this New Security Concept does cast the Chinese strategic mindset in a new light. Enhancing economic security as a subsidiary to national security, economic

stability and sustained development have been cited as essential components of comprehensive national security. Economic security could include safety and security of its economic interests and instalments both within and outside the country, safety of sea, air and land-borne trading mediums in transit, trans-national economic crimes such as money laundering, counterfeit currency circulation, forex violations and so on. As China has come to grow into a foreign direct investment (FDI) driven economy both outbound and inbound, physical security of its economic investments and interests becomes increasingly paramount. The Concept also acknowledges the growing relevance of new-age non-traditional security challenges. Fundamentally, what really emerges out of the New Security Concept is the message that the Chinese state is willing to respond to the misgivings and apprehensions of the international community in the most positive manner. It could also be interpreted as a means of allaying the anxieties of the outside world particularly in the backdrop of the Tiananmen incident (Even before Tiananmen, the Chinese declaration in early 1986 that it had abandoned atmospheric nuclear testing, despite the technical difficulties it had with underground testing was important to and welcomed by the Australian government) (Woodard 1987: 149). In fact, since 1991, Beijing has undertaken numerous steps to address concerns about its role in proliferation. Some key measures include the: 1991-1992 pledge to adhere to the Missile Technology Control Regime (MTCR); March 1992 accession to the Nuclear Nonproliferation Treaty (NPT); January 1993 signing and subsequent ratification of the Chemical Weapons Convention (CWC); October 1994 statements on the MTCR and fissile material production; November 1995 paper on arms control and disarmament; May 1996 reiteration on making only safe-guarded nuclear transfers; July 1996 declaration of a freeze on nuclear testing; signing of the Comprehensive Test Ban Treaty in September 1996; October 1997 entry to the Zangger Committee; and November 2000 missile nonproliferation pledge (Kan 2002). The Chinese have also demonstrated their sincerity by acceding to a series of other legally binding international treaties and agreements relating to security and stability in the world —“Protocol for the Prohibition of the Use in War of Asphyxiating Poisonous or Other Gases and of Bacteriological Methods of warfare; the Convention on Prohibition or Restrictions on the Use of Certain Conventional weapons which may be reckoned to be Excessively Injurious or to have Indiscriminate Effects; the Antarctic treaty; the Treaty on Principles Governing the Activities of States in the Exploration and Use of Outer Space including the Moon and Other Celestial Bodies; The Convention on the Prohibition of Development, Production and Stockpiling of Bacteriological (Biological) and Toxic Weapons and on their destruction; the Treaty on the Prohibition of the Emplacement of

Nuclear Weapons and other Weapons of Mass Destruction on the Seabed and the Ocean floor and in the subsoil thereof; the Treaty on the Non-Proliferation of Nuclear Weapons and the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their destruction” (China White Paper on Arms Control and Disarmament 1995). Then in June 1996, after conducting a nuclear test when it was condemned by Howard government, it tested another nuclear device the following month, but this time calming the global community that it was its last test and had actually signed the Comprehensive Test Ban Treaty (CTBT) in September 1996. In 2004, Beijing joined the Nuclear Suppliers Group and applied for membership of the Missile technology Control regime in order to project itself as a responsible power. By the end of 2005, China had completed reducing the PLA by 200,000 troops, with the strength of the PLA being 2.3 million troops in 2009 (China Internet Information Centre).<sup>4</sup> On September 15, 2005, Chinese President Hu Jintao had exhorted the international community on the need for a “harmonious world” at the summit for the 60th anniversary of the establishment of the United Nations (UN) (Chinese Ministry of Foreign Affairs; Ding 2009: 107). Therefore such measures taken by the Chinese government did in many ways to tilt the scales on the debate between China as a revisionist and prospective expansionist power and one as status-quoist rule-abiding power in favour of the latter. The theory of ‘peaceful rise’ increasingly gained acceptance.

In parallel to the many constructive and cooperative measures that the Chinese State has exhibited, there have indeed been trends and measures that have been held contrary to the norms and standards of international law. It should be no surprise that China has fought more border wars than any other country on earth over the last half a century (Shambaugh 1996: 187). The Chinese proclaimed military budgets are a third or less of reasonable estimates, while its expenditure on military modernisation—particularly with respect to its navy, air force and missile capability—seems to be more than what is required for any Taiwan Strait conflict. By 1987, China had a considerable submarine nuclear capacity and had tested nuclear weapons in 1984 and 1987 (Lee 2007: 30). During the 1990s, the defence expenditure of China rose from US \$ 16 billion in 1989 to US \$ 62 billion by 2005 (Stockholm International Peace Research Institute). In another estimate, between 1996 and 2006 China raised its defence budget at an annual average rate of 11.8% (inflation adjusted) with the GDP growth for the same period being 9.6% (inflation adjusted) significantly indicating

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<sup>4</sup> China Internet Information Centre operates the authorised government portal China.org.cn which is published under the auspices of the State Council Information Office and the China International Publishing Group (CIPG) in Beijing

where its priority lay (US-China Economic and Security Review Commission 2007). In an attempt to guarantee future energy security, China has had no misgivings about moving closer to 'rogue and 'problem' states' like Iran and Sudan (Lee 2007: 44). Moreover, China strenuously rivals Taiwan for competitive influence in the South Pacific through 'developmental aid' for obtaining assurances of support for its 'One China' policy. Its stand on South China Sea has been implacably belligerent and Taiwan remains non-negotiable. In March 2005, China's National People's Congress passed an 'anti-secession law' by an overwhelming vote of 2896 to nil, legalizing China's use of force against Taiwan if it decided to unilaterally declare itself independent (Tow 2005: 457). This again reflects the level of China's self-confidence both in its own military capability and in its ability to convince the international community to come round to its point of view if not fully supporting its action. In this context, it would have certainly drawn strength from its growing security confidence with Australia and through its initiatives of regional multilateralism both of which would have in some ways also neutralised the US. In fact on Howard's visit to China immediately after the passage of anti-secession law, when asked to give his reaction he stated, "...I don't believe that I was asked to give support for it and I did not. I in fact did not express a view on the anti-secession law. I wasn't asked to and I saw no point in doing so" (Tow 2005: 457; The Age 2005). While this signifies a growing understanding of each other's concerns, as section of Chinese opinion makers did urge the Australian government to review its ANZUS treaty and to clearly exclude any Taiwan contingency outside its ambit. This at the same time doesn't make any explicit guarantee of Australia clearly coming around to China's viewpoint on Taiwan. Internally, it has come down with a heavy hand on domestic dissident and insurgency movements such as Tibet, Xinjiang, Inner Mongolia and faith based movements such as Falun Gong. Human rights have been overlooked in many cases under the iron-fisted, closely controlled rule of the Chinese Communist Party (CCP). Censorship and excessive regulation of media including Internet is almost an institutionalized affair.

### **Tiananmen Square and Implications:**

As for the year 1989 which marks the beginning of this study, the Tiananmen massacre can arguably said to be the watershed event for the Chinese political and therefore security history. The fact that China continued to tighten control in the immediate aftermath of Tiananmen raised serious security concerns over not just its internal human rights records but



also signalled to its neighbours and regional players that the Chinese state was not to be taken lightly. An authoritarian regime that could not spare its own people could well have turned its military fury on its neighbours too when the time came and therefore was not to be trusted in terms of its real intentions and design. Even though more people had perished in the Cultural Revolution and the numerous other internal civil upheavals before, the extraordinary and the unprecedented international outcry against Tiananmen signifies that precisely because China as a nation-state had joined the international mainstream since signaling the opening up of its economy, it was therefore not expected to engage in such anomalies and political deviancy.

Prior to Tiananmen, Australia had not publicly pushed human rights as aggressively. In the immediate aftermath of Tiananmen, Canberra had enacted a series of sanctions on China including a ban on all high-level visits and had expressed support for all regular resolutions at the UN Human Rights Commission condemning China's human rights record (Minyue 2007: 349). In fact, Australia which before Tiananmen considered itself as helping the Chinese regime 'sobering down' and joining the international orthodoxy found itself unprepared to deal with a situation as that of Tiananmen and was reminded of its finite leverage on the domestic conduct of the Chinese government. Yet, by 1991, virtually all sanctions against China had been repealed and Prime Minister Paul Keating made a visit to China in 1993 (Ibid: 350). Importantly, the 1993 visit targeted only trade and economic relations and eschewed more sensitive questions such as human rights and defence (Lee 2007: 35).

Subsequently from time to time, though China continued to display belligerent behaviour such as occupying Mischief reef in the South China Sea giving offence to Vietnam in 1995, carrying out nuclear tests in 1996, militarily posturing against Taiwan in 1995-96 and releasing a policy document in February 2000 warning Taiwan against even considering independence—these were all reacted to with concern and a certain degree of caution by the US, Australia and the larger international community. Yet none of these measures by the Chinese were considered provocative enough for any country to contemplate as far as to go to war with China. Focusing specifically on Australia, Beijing had reacted strongly to Australian Defence Minister Ian McLachlan's statement that China was a strategic concern in the region after the June 1996 Chinese nuclear test by China (Wesley 2007: 68). On its part, Howard government had also openly supported Clinton administration's sending of two aircraft carriers to Taiwan against Chinese military misadventure in 1996. Just when the relations had seemed at their lowest, leaders of both countries decided to halt the decline in relations and agreed at the Asia-Pacific Economic Cooperation (APEC) Summit in late 1996 in Manila for

Howard to visit China in April 1997 (McDowall 2009: 12-13). From then onwards, great diplomatic efforts were made by both sides to speak good of the other and soft pedal any fear or suspicion of the other. In 1997, Australian warships paid their first port visit to China and Chinese warships returned the gesture the following year. Australia offered strong backing for Chinese entry into the WTO, which was appreciated by China. Australia also spurned US pressure to desist from supporting a co-sponsored annual UN motion which condemned China for human rights abuses—the first time Australia took this position since 1989 (Mackerras 2000: 188; Lee 2007: 36). But on the flip side again, China didn't take kindly to Howard government's endorsement of US' stand on downing of US EP-3 surveillance aircraft. In April 2001, three ships of the Royal Australian Navy were challenged by a PLA Navy vessel in Taiwan Strait, something that had never happened before (Wesley 2007: 68). In fact, the government's two foreign policy white papers (1997 and 2003 White Papers) released during Howard period have designated China as one of the most important regional and global powers with which Australia must deal with (Tow 2005: 453). However all this was also not to imperil the long-term momentum that the relationship had already acquired. So much so that in October 2003, President Hu Jintao addressed the Australian Parliament one day after the same honour had gone to President Bush, a hugely symbolic yet a significant accomplishment (White 2005: 470). Hu Jintao's avowed assertion in the Australian Parliament in October 2003 that ties with Australia were viewed from a 'strategic and long-term perspective' was followed by the 'building a bilateral strategic relationship' with China speech by Foreign Minister Alexander Downer in August 2004 (Yu 2016: 752; Tow and Yen 2007: 335). Then the 2003 Australian Foreign and trade policy White Paper had talked of 'building a strategic economic relationship with China'. This frequent usage of the word 'strategic' is to maintain a sense of ambiguity and does not necessarily mean a long term security relationship (Wesley 2007: 60). It is to keep engaged both the US and China simultaneously and expand Australian's options. Howard government had steadfastly stood for one-China policy and despite appeals by Taiwanese President Chen Shui Bian to end its ban on Taiwanese leaders' visit to Australia (in effect since 1972) and to support Taiwanese Head of Government's participation at APEC, Australia did not relent (Mackerras 2000: 190; Tow 2005: 460). In fact on China as a threat, Howard had even advised his audience at Asia Society that 'to see China's rise in zero-sum terms is overly pessimistic, intellectually misguided and potentially dangerous. It is the negation of what the West has been urging on China now for decades' (Kerr and Tow 2007: 174).

Now that a detailed historical account of both Australia and China's wider security perceptions and of each other as well as a chronicle of security related events and measures between 1989 and 2005 have been dealt with, it is time to examine both countries' immediate geographic expanses and how the complex intermingling of geopolitics of Australia and China and their respective neighbours and the political-military issues arising out of them impinge on their bilateral security relations and concerns.

## **Domestic and neighbourhood insurgencies and their fallout**

Needless to say, the security of the physical boundaries of both countries can be cited as the inexorable axis around which the entire security philosophy, architecture and focus of their respective armed forces should revolve. No matter what the debates and where the deliberations lead to, it is difficult to miss the centrality of the territorial safety and integrity of the country. Yet, an insurgency-ridden neighbourhood in case of Australia and the long-running secessionist movements within China would also have to be factored in for their cross-cutting implications on the two countries' bilateral security relations. While the 2000 Australian Defence White Paper had clearly highlighted "countries in our immediate neighbourhood—Indonesia, East Timor, Papua New Guinea, and the island states of the Southwest Pacific", China's relations with its neighbours span a complex interweaving of border disputes along with domestic irredentist/autonomy movements in Xinjiang, Tibet and most notably, Taiwan. And of these insurgencies and movements, from Australia-China point of view, the several secessionist movements in Indonesia most particularly the movement for East Timorese independence hold enormous relevance. Being the largest regional neighbor with the world's largest Muslim population, it is a country which has been in the throes of a substantive socio-political and economic transformation particularly after the internal power shift from the Suharto era to the post-Suharto Indonesia. Owing to its archipelagic topography dotted with scores of dispersed islands, the country has had to face a string of internal divisive and secessionist movements throughout history often sounding alarm bells in Australia. Australia's active role in securing the independence of East Timor in 1999 had not been taken kindly by the political elite as well as the people of Indonesia where popular perception had coalesced around the idea that Australia had wantonly and clearly violated their sovereignty. From the Chinese standpoint on Australia's role in East Timor, its role in East Timor can be scrutinized from two opposing prisms. While on the one hand, the Chinese may be cautious about Australia's interventionist role, which could possibly be used as a

model for replication elsewhere (read Taiwan); on the other hand, the Chinese might find it beneficial for themselves stemming from an obvious negative fallout on Australian-Indonesian bilateral dynamics – since the Australian-Indonesian defence agreement of 1995 could have been interpreted as being directed towards the Chinese. Nevertheless on the whole, it was a bad and ominous precedent for outside countries to intervene in others' internal affairs which could also cast a shadow on the Chinese long-term interests given their own highly sensitive separatist issues. The Chinese had been equally jittery about the prospect of 'hot pursuit' against the Pro-Indonesian militia by International Force for East Timor (INTERFET). The successful intervention by Australia in East Timor leading to the independence of that country might also encourage it to be more assertive regionally in the eyes of the Chinese. However the issue is not as straight as it seems. Though the Chinese had eventually concurred with Australia over the subject of peacekeeping forces being sent in (but only with the consent of the Indonesians), they were against the idea of setting up of an independent crimes tribunal to try the Indonesians involved in human rights violations in East Timor. This has to be seen in the backdrop of China's own equation with Indonesia which has seen bouts of reconciliation in recent years at least at the government-to-government level, a far cry from the Suharto era's foreign policy predicated on suspicions of and antipathy towards the Chinese Communist Party. Regionally, Indonesia's leadership role as part of ASEAN and ARF and other regional security institutions largely necessitates that both Australia and China and indeed Indonesia together cooperate with one another on regional security issues. Australia must be watching closely the intensified defence relationship between Indonesia and China over the past decade, something which began in July 2005 when China had even agreed to assist Indonesia in developing indigenous missiles as part of a new 'strategic partnership' which would have found expression in 2011 with the agreement to produce anti-ship missile C-705 locally (Strategic Comments 2005: 1-2; Hamilton-Hart and McRae 2015: 9).

Similarly the insurgency movements within China such as Xinjiang, Tibet and Taiwan carry important implications for Australia-China security relations. Whereas Xinjiang has an ethnic-religious separatist dimension which runs the risk of degenerating into a sub-terror identity group, Tibet only has a partial separatist streak with the Dalai Lama leadership merely battling for autonomy instead of outright independence. Taiwan, perhaps the most critical intervening variable for any analysis of Australia-China ties, has its own separate

character given that it is a *de facto* self-ruling independent entity even as the larger part of world community including Australia has conceded its *de jure* status under PRC enshrined under the 'One-China' policy. The Chinese state has sought to deal with each of these movements with a mix of social reengineering, orchestrated population resettlement, economic blandishments, political-military repression and a belligerent and pro-active foreign policy posturing (on Taiwan). On Australia's part, it has broadly taken a stance affirming respect for Chinese sovereignty over each of these territories while serving to periodically caution the Chinese on human rights issues. Australia has often counseled China on protection of Tibetan religious, cultural and linguistic identity and even sounded out to the Chinese that should Dalai Lama pass away, the Tibetan autonomy movement could acquire a more radical and extreme political manifestation moving from autonomy to independence. Australia has also urged China to differentiate between acts of violence and peaceful dissent when dealing with leaders protesting for their respective demands. Diplomatically, it has often been confronted with a dilemma on the question of allowing any activity or even the visit of any of the leaders of these movements to Australia, namely the Dalai Lama, Rebbiya Kadeer or leaders representing Taiwanese state, among others. While occasionally and in limited measure, Australia has acceded to the Chinese requests, more often than not it has taken an independent stance overriding the Chinese advisories. Interestingly enough, in almost most cases, China too has never made them a 'make or break' issue thereby keeping the spirit of the broader relations intact. Except on Taiwan, the policy that Australia follows is that while it doesn't support the political views of the dissident leaders, it does support their right to express those views. Given the gravity and the extreme nature of Chinese sensitivities on Taiwan, Australia has tried not to overlook Chinese concerns. For instance, in October 2004, when Taiwan's Deputy Minister of National Defense, Michael Tsai, offered an 'Asia-Pacific Security Cooperation Mechanism' to maintain a regional balance against growing Chinese power, the Australian government had politely ignored the proposal (Tow and Yen 2007). In this context, the controversy over Australian Foreign Minister Alexander Downer making a statement to the effect that Australia's commitments vis-à-vis ANZUS did not involve Taiwan assumes importance. Nonetheless, it must also be noted that Downer was immediately corrected by the US State Department and he had to retract his statement though there was a definite hint of Australia taking an independent stance. Furthermore, Australia has also been accommodative of China's concerns on growing Taiwanese influence in South Pacific. When in 2004, Vohor government in Vanuatu signed an agreement recognizing Taiwan – challenging the traditional Australian policy of preserving the status quo of the

Chinese and Taiwanese positions in the South Pacific and thereby inflicting a diplomatic setback on China – Australia had made a pitch for the Communist country forcing the Vohor government's ouster, which was a diplomatic victory for the Chinese (Atkinson 2007: 352). This can also be taken as an effort by Australia and China to jointly address an issue of security.

Therefore both Australia and China are well aware that as the insurgencies within China (and potentially in Australian neighbourhood) increasingly get more militarized with time, it would cast a shadow on not only within the Greater China but also on the larger regional order, namely, Northeast Asia, a region that notably includes North Korea, a 'deviant state' in the eye of the international community, though a close ally-protégé of China (is discussed in the next section).

### **The long shadow of the neighbouring weak states**

Without doubt, any failure on part of state systems in any neighbourhood territory is fraught with grave security consequences for their stable neighbours also. Keeping that in mind, both Australia and China are susceptible to spillover effects from disruptions and instability in nearby countries as a result of which the weak or failing states in the neighbourhood too hold significant security interests for both the countries and their bilateral security dynamics. This is particularly true of some of the small countries in the South Pacific as well as North Korea in Northeast Asia – many of which are reeling under tremendous political turbulence, pressing economic and financial contingencies, poor leadership and governance, systemic corruption and perennially out-of-control law and order. Such a situational background has all the ingredients for trans-national crimes like drug and narco-trafficking, human smuggling, organized crime, money-laundering and other white crimes to not only survive but thrive. Robert I Rotberg defines weak states as those including a broad array of states that are innately weak on account of geographical, physical, or economic limitations; fundamentally strong but momentarily or circumstantially weak due to domestic discords, management issues, avarice, tyranny or external attacks; and a mix of the two. They are usually ridden with ethnic, religious, linguistic, or other inter-communal tensions which have been simmering but not turned openly violent (Rotberg 2003: 4). In that backdrop, PNG a former colony of Australia and the largest island neighbor in the south Pacific emerges as a relevant weak state. More particularly for Australia, as a part of the PNG-Australia-Indonesia triangle, it holds critical strategic weight (Alves 1993: 524). A country the secessionist and the internal

security problem of which has in the past been notoriously subjected to a ‘fix’ through private security contractors under the benign watch of the state with corruption in high places following, PNG has been a classic case of privatization of violence and the state’s failure to contain it. In terms of physical location, the porosity of PNG’s border with West Papua too is a matter of worry as many border communities have familial ties on both sides with crossings being common and easy which makes it almost impossible to police the border areas. Some of these border communities have highest rates of malnutrition and lowest per capita incomes in PNG, which again pose a socio-economic, non-military security threat though not a customary security threat (Herlihy 2003). However even as the Bougainvillea secessionism has died down, in recent years, more than intermittent gang violence it has been high-ticket corruption and wrongdoing with no less than the prime minister himself being at the centre of it all rendering the country a weak state. In light of this, the fact that a considerable 30% of Australia’s total aid to the country was for *effective governance* illustrates its priorities vis-à-vis its weaker neighbour. The linkage between effective governance and security is evident by the fact that of Australia’s total non-aid support to the country, 16% was devoted to security engagement while 28% was invested towards transnational crime (Figures from 2014-15) (DFAT 2016 b). In recent years, China too has been making its presence felt in the country. China is not only investing, but also developing mines and building roads and satellites (Callick 2013). Notably in 2015, Australia and China also decided to work together to tackle malaria in PNG (Bishop 2015).

Not quite like PNG and yet similar in many ways, Solomon Islands has gone up even a notch further being described as Pacific’s “first failed state” with *The Economist* and the *Australian Strategic Policy Institute* echoing the same description in 2003 (Kabutaulaka 2005: 295; Kabutaulaka 2004: 5). In a country which recognizes Taiwan and not China, Australia has repeatedly intervened to ensure peace whenever there has been an internal unrest. On top of brokering peace between two warring factions in early years of the new century, in 2006 when Australia had intervened in Solomon Islands – notably it was also to ensure protection to Chinese people who were at the receiving end of the violence during large-scale riots and unrest over political corruption (Spiller 2006; BBC 2006). Incidentally, Chinese businesses dominate the country and as such it becomes critical for Australia and China alike. China is also the chief export destination for Solomon Islands. In the same way, Fiji is another country often classified as a weak state. Lying on the border between the Polynesian and Melanesian regions of the Pacific, it is the most populous Pacific island country. With a history of ethnic

strife and political instability, it has attained an unenviable disrepute for periodic coups and toppling of central governments. The deep-rooted ethnic divide also plays a role in the electoral process in the country wherein the voting during elections primarily takes place along narrow ethnic lines and not necessarily reflecting a consideration on merit (Durutalo 2007: 580). As such, the fact that Australia places high premium on the internal stability of the country is evident from the former reserving 15% of its total aid to the latter for *effective governance* (for period 2014-15, emphasis added). Of total Official Development Assistance received by Fiji, Australia contributes 53 per cent, a giant proportion of sorts (DFAT). Similarly, China too has been raising its trade and investment volumes with Fiji enormously. Between 2004 and 2014, the number of Chinese investment projects in Fiji has grown at an astonishing CAGR of 60.35 per cent (Muller-Teut 2015).

More particularly in terms of security, from Chinese perspective, the recently launched Fiji's Look North policy seems to achieve confluence with the discussion around Fiji forming a part of China's second island chain strategy.<sup>5</sup> Apparently going by Fijian leadership's pronouncements, the country is almost indebted to China for not taking an extremely stern view of the past coups in the country. Then yet another weak country with a history of short-term governments and resultant political instability is Vanuatu, a country discussed earlier how Australian government in deference to China's position had contrived the ouster of Vohor government when it had switched recognition from the mainland to Taiwan. The switchover had been an extreme step which had challenged the traditional Australian policy of preserving the status quo of the Chinese and Taiwanese positions in the South Pacific. This brought the Chinese influence back into the country though at a prohibitively higher costs in pure financial terms. This can also be taken as an indirect form of security cooperation between Australia and China wherein because of China's concerns and the consequent action by Australia in order to preserve peace has actually resulted in an over-all peace for all, though certainly at Taiwan's costs. However, it must not be overlooked that the political conflict in Vanuatu is usually not a conflict between peoples or communities. Rather, it is among elites themselves, to the detriment of the wider community (Evans 2012: 27).

Therefore as China enlarges its diplomatic and financial footprints on the region with many weak states, the stakes for both Australia and China have only risen to enter into a

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<sup>5</sup> The second island chain strategy comprises the Bonins, the Marianas, Guam and Palau archipelago. While the first island chain stretches from the Aleutians to the Kurils, the Japanese archipelago, the Ryukus, Taiwan, the Philippines archipelago, and the Greater Sunda islands, Chang 1998: 94



cooperative approach on security. In fact China which was once an aid recipient from Australia has joined hands with it to together deliver aid to the countries in the region (Carr 2013). Over the year, the two have also engaged the region institutionally. While Australia was its founding member in 1971, China was a founding dialogue partner and participant in the first Post-Forum Dialogue (PFD) held in 1989 (DFAT). Earlier in 1987, China had signed Protocol 2 and Protocol 3 of the Treaty of Rarotonga committing itself to the South Pacific Nuclear Zone (Zhang 2007: 369). Therefore, both Australia and China's security participation has to be seen in the backdrop of the nature of security situation in the region which is one with less likelihood of a traditional state to state conflict and among states themselves than more of a non-customary kind entailing trans-national criminality compounded by internally weak and failing states with big power jostling for influence backstage.

On the lines of the weak states in South Pacific as discussed above, North Korea is another weak state – albeit located in a different geography, namely, northeast Asia – which can have implications for Australia-China security dynamics. A communist regime well recognised as a 'rogue state' in the eye of the international community, it has survived the end of the Cold War without undergoing any alteration in its personality based authoritarian political system and a state-controlled economic model (Snyder 2000/2001: 517). Even as it has been widely believed to be a protégé of China, in recent years, it has been increasingly been difficult to ascertain precisely how much leverage China wields vis-à-vis its northern neighbor therefore making it more critical from Australia-China standpoint. As the country repeatedly becomes more and more defiant under the new leadership on internationally-prohibited nuclear and missile programme, the challenge for Australia and China only becomes more urgent. More particularly for Australia, as the only state among the three allies (Japan, US and Australia) to have formal relations in place with North Korea and as a state engaged in trade and generally reliant on the stability of Northeast Asian marketplace, it has a compelling interest to avoid a Korean war (Tow 2005: 460). In October 2006, in response to North Korea's nuclear tests, Australia had imposed several banking, financial, immigration, transport and offshoring restrictions on North Korea of its own accord, and had also placed sanctions in compliance with UN Security Council resolutions (DFAT). And for China, North Korea is both a threat and a friend. By maintaining friendly Sino-DPRK relations, China gains from the North Korean buffer against the potential advance of the U.S., Japan, and South Korea. With a friendly country on its northeast border, China was also able to pare its military deployment

there and “focus more directly on the issue of Taiwanese independence.” (Dingli 2006: 20). Although China’s relations with South Korea have improved significantly through deepening economic cooperation, Beijing is still unsettled by the fact that the Republic of Korea (ROK) hosts around 29,000 U.S. troops and Marines and that its existing alliance with the U.S. is firmer than ever (Song 2011: 1138).

Therefore, any fallout of a western led military operation against the North can be devastating for the region including both Australia (economically), and China when it might have to face severe problems of illegal immigration, refugees, environment, resource-constraints, etc, which could again impact Australian economy adversely. Technically, the two Koreas are still at war since the armistice of 1953 had only ended the armed conflict and there has not been a peace treaty signed between the two as yet.

### **Terrorism as an emerging rallying point**

Without doubt in recent years, terrorism is the single-biggest non-traditional security threat that has come to challenge the wisdom and preparedness of nation-states, security agencies and policy makers the world over. For Australia too, terrorism as a key security issue has come to engage the Australian security specialists in recent years. In an age of what is arguably called ‘Islamic terrorism’, the location of Indonesia with the world’s largest Muslim population in the immediate neighbourhood makes this challenge all the more pressing. Similarly in case of China, the government has taken for long the simmering separatist movement in Muslim-majority Xinjiang province and the resultant violence and instability as an expression of terror activity with Beijing even listing out terrorism as one of the ‘five poisons’ facing the country (Wesley 2007: 76). Even as September 11 was the near culmination of the long-standing debate between the defence of Australia (DOA) strategy and imperatives for an expeditionary force, in some ways settling the issue in great measure in favour of the latter, Hugh White, a co-author of *Defence 2000* had suggested two key changes that had occurred since September 11: ‘The first is everything we capture in 9/11, the second is a *significant evolution in the role of China in the region* and both these have significant implications for Australia’s basic strategic situation” (Hirst 2007: 184, emphasis added). Therefore, the relevance of China in the Australian security calculus can’t be overlooked.

Even though both Australia and China have differed in terms of the narrower conception of the nature of terrorism – with the latter presupposing a distinctly separatist

tinge – as well as in the nature of consequences of terror that they have suffered, the two countries have broadly categorized it under the rubric of non-traditional security issue. Just as the Department of Foreign Affairs and Trade of the Australian government avers, “Terrorism is a form of asymmetric warfare: an approach that uses *non-traditional methods* to counter an opponent's conventional military superiority. It uses unconventional means to attack unexpected targets” (emphasis added), the 2002 Chinese Defence White Paper while discussing the emerging non-traditional threats, has also clearly affirmed, "Terrorism, in particular, is posing a real threat to both global and regional security" (Government of PRC 2002). However, the similarity almost ends there. While there is no universal agreement on the definition of terrorism as yet, according to the Australian Criminal Code Act 1995, “a terrorist act means an action or threat of action where the action causes certain defined forms of harm or interference and the action is done or the threat is made with the intention of advancing a political, religious or ideological cause” (Government of Australia 2004: 3). Further, the Act defines it as an action that is done entailing a threat that is made with the intention of forcing or intimidating the government or public which may pose a risk to a person’s life or health or safety of public, or result in a person getting physically harmed or even death, or property getting severely damaged, or disrupt an electronic system such as information, telecommunication and financial systems, or systems used for delivery of government services, public utility, or transport (Australia Criminal Code Amendment (Terrorism) Act 2003).

In contrast, unlike the Australian law which focuses on ‘action’, the draft law on terrorism floated by the Chinese parliament in December 2015 seems to also include an emphasis on ‘thought’ as well as about ‘splitting the state’ (depicting State’s fear of irredentist sub-nationalism) with Article 104 defining terrorism as “*any thought*, speech and activity that, by means of violence, sabotage, or threat, aims to generate social panic, influence national policy-making, create ethnic hatred, subvert state power, or, split the state.” (Zhou 2015). The invoking of thought as well as splitting the state is a reflection of the Chinese state seemingly wanting to exercise control even over subjects’ thoughts flowing from a possible fear that the challenge could be so potent as to cause a territorial breakdown of the country. Expectedly, even as the Chinese draft law has stirred all-around controversy also on account of the breadth of scope of the law and the mandatory provisions for service providers to supply data to government agencies, leading to their possible misuse by State, the attempts by the

Australian governments in recent years to update anti-terror laws have evoked similar fears of state overreach (Williams 2014; Anderson 2015).

Therefore, both Australia and China have been in the process of updating and refining their domestic anti-terror laws in recent years in light of newer threats such as ISIS spreading its toxic footprints, a fact that somewhat indicates a more converged domestic ideological if not legal position on terrorism.

The universality and the 'neutral' lethality of terror acts in terms of impact value irrespective of their perpetrators or their causes is another source of commonality for both Australia and China. Therefore, in terms of scale of consequences, both countries have suffered almost in equal measure. Australia has been a victim of terror long before 2002 Bali bombings and the 2003 JW Marriott Hotel bombing in Jakarta. In 1990, two Australians had been killed by the Irish republican Army (IRA) in the Netherlands as victims of mistaken identity, the terrorists believing them to be British nationals. Then even earlier than that, the Hilton hotel in Sydney had been bombed in 1978 claiming the lives of three Australians, even though the attack had actually been intended against Indian officials attending a Commonwealth Heads of Government Meeting (CHOGM (Government of Australia 2004: 5). However, what has changed is that unlike in the past when the Australians had not been specifically targeted even as they had ended up as victims, some of the recent attacks have been staged clearly keeping Australian nationals as one of the end-targets in mind. In that regard, the Osama Bin Laden statement on 12 November 2002 giving more prominence to Australia than any other non-US Western country had reaffirmed Australia as a terrorist target. In the statement, Osama Bin Laden had clearly implied that despite earlier warnings to Australia to desist from joining any war in Afghanistan or separating East Timor, it had chosen to ignore them until Bali occurred and even after Bali, the Australian government was falsely telling its people that Australian citizens were not the targets of those attacks. In fact, Australia has been referred to in six statements of Osama Bin Laden with his deputy Ayman al-Zawahiri and Islamic radicals taking Australia to be a part of Jewish-Christian conspiracy (Government of Australia 2004: 66; Horowitz 2004: 467). Furthermore, the damaging consequences of being in the vicinity of Indonesia was evident from Australia also having been picked out as the foremost target for terrorists in Indonesia by an Al Qaida manual titled Targeting the Cities (Government of Australia 2004). As the government machinery has cracked the whip more recently, since 12 September 2014, when the National Terrorism Public Alert level was elevated to High, 26 people have been booked as a result of 10 counter-terrorism operations

around Australia, a figure which is more than one third of all terrorism related arrests since 2001 (Attorney General's Office media release 2015). The Sydney café siege in December 2014 soon after had demonstrated the reality of this threat. In addition, Australian citizens falling prey to terrorist ideology and methods is a major threat for the country. In 2004, Jack Roche was convicted for terror related cases under the Crimes (Internationally Protected Persons) Act 1976. More recently, the march and influence of ISIS and the increasing arrests of individuals (even teenagers) ideologically prepared to execute terror attacks has heightened the pressure on the authorities.

Similarly, China which unlike Australia has not been at the receiving end of such overtly focused and targeted attacks by so-called Islamic terror and as such has differed in the nature of the perpetrators of such attacks – too has been witness to violence and deaths with a certain degree of regularity. The deadly July 5th 2009 riots that left at least 184 dead was a reminder to the Chinese government of the deep-rooted separatist sentiment in the minds of the ethnic minorities and was not likely to go anytime soon (China Daily 2009). Earlier between 1990 and 2001, according to the Chinese government, 162 people had perished in the terror attacks by the Uighur separatists (Christoff 2008). Also similar to Australia, terrorism in China also has extraneous dimensions. Just as Australians have been vulnerable to terror factions originating from Middle-east and elsewhere, the ETIM too in recent years seems to have developed linkages with global network of Islamic terror, albeit in a limited way. The July 2011 bomb blasts in Kashgar and Hotan in Xinjiang leaving 19 dead had brought Pakistan's role to fore – a country notorious as a breeding ground for terror groups – when Kashgar government had issued a statement saying that the links to the incident stretched to Pakistan based terrorist camp of the banned outfit East Turkistan Islamic Movement (ETIM). Even though Ilham Tohti, a Uighur economist from Beijing's Minzu University after a visit to both Kashgar and Hotan had suggested that none of the Uighurs involved in the attacks had ever visited Pakistan (Krishnan 2011), in a sensational disclosure in August 2014, Memetuhut, ETIM's co-founder had admitted to having been indoctrinated in Pakistan. The September 2014 arrest and life sentencing of Ilham Tohti foreshadows a more iron-fisted approach on this subject by the Chinese state.

Then the geographic proximity of both Australia and China to Southeast Asia with the region's assortment of terror outfits and groups further prepare the two countries for a closer cooperation on terror. Jemaah Islamiyah which represents the rise of Muslim militancy in South-East Asia has connections to Al Qaida and is strongly swayed by Osama Bin Laden's

terrorist ideology and methodology. Some of the other terrorist groups active in the region include the Moro Islamic Liberation Front (MILF), and Abu Sayyaf Group in the Philippines, the Pattani United Liberation Organisation (PULO) in Thailand, and the Rohingya Solidarity Organisation in Burma. Then there are some sub-national groups such as Mujahidin KOMPAK, Laskar Jihad (supposedly disbanded) and Laskar Jundullah in Indonesia, and the Malaysian Militant Group (Kumpulan Militan Malaysia - KMM) which can also be classified as terrorist groups. That both Australia and China have business and investment interests in the region sets up for a cooperative approach towards terrorism. However, it must be kept in mind that though many of these organisations had their origin in some regional political movement against their respective national governments for certain socio-economic and political objectives, most, if not all of them have now morphed into radical faith-driven dangerous dispensations with global networks and agendas with potential to harm both Australians and China even outside their respective countries. Even if the two countries manage to rein in these groups' activities within their respective borders, both Australians and Chinese have a significant presence abroad and are vulnerable to terrorist acts outside their borders. Between June 2009 and June 2010, over 6.8 million of Australians had travelled overseas (Australian Bureau of Statistics 2010). According to DFAT Paper *Transnational Terrorism: The Threat to Australia*, some 720,000 Australians or almost 4 per cent of the population live overseas. Around 45,000 Australians live in the Southeast Asian region with their families (Government of Australia 2004: 52, 69; Richardson 2004: 38).

In the same way, the Chinese too in recent years have been among the top source of tourists/travellers globally as well as in the Southeast Asian region. Between 2007 and 2011, the number of Chinese tourists to Southeast Asia has jumped from 3.93 million to 7.32 million, an incredible 86 percent. Globally, the number of overseas trips made by Chinese people had stood at a staggering 70 million in 2011 (Branigan 2012). Keeping all this in mind, as the Chinese adopted a two-pronged approach to address the terror threat: domestic and external, Australia formed a part of the external dimension. At the APEC Ministerial meeting in October 2002, Chinese Foreign Minister Tang Jiaxuan had denounced the Bali bombings reminding that terrorism remained a direct threat to the peace in the region. Moreover, the two countries have been a part of the several multilateral regional counter-terror initiatives. Both of them have signed Joint Declarations (separately) on the fight against international terrorism with ASEAN. ASEAN (particularly ARF) has also occasioned plenty of instances through inter-sessional meetings, conventions, and seminars where both Australia and China have participated together and shared valuable perspectives. For

example, at the ARF Inter-Sessional Support Meeting on Counter Terrorism and Transnational Crimes held in Malaysia in March 2003, Australia had made a presentation on “Counter-terrorism-Border Security: Document Security”. Notably, at the same venue, China (as well as Australia) had made a presentation on topics such as “Update on Terrorist Organisations, Recent Terrorist Activities and Counter-terrorism Measures” and “Counter-terrorism-Border Security: Movement of People” (ARF 2003). Then, Australia along with others had shared its experiences and best experiences on counter-terrorism emergency plan at the fourth ASEAN Inter-Sessional Meeting on Counter-terrorism and Transnational Crime co-chaired by Brunei and held in Beijing in April 2006 where China was one of the lead speakers on Recent Regional Developments of Terrorism (ARF 2006 c). Furthermore, at the 10<sup>th</sup> ARF Heads of Defence Universities/Colleges/Institutions Meeting held in Sep 2006 in Kuala Lumpur, while Australia sponsored a paper on “Enhancing Cooperation To Counter Terrorism Threats”, China sponsored a paper on “Regional Co-operation Against Terrorism” (ARF 2006). As part of its external efforts, China has also actively lobbied as well as partnered with the international community outside ASEAN/ARF framework with an eye on creating suitable public opinion against the terror/separatist groups and gaining legitimacy for the state’s iron-fisted measures. As one example, the Shanghai-5 had been an effort to contain any adverse spillover effects emerging out of the Chinese Muslims’ of Central Asian origin interaction with their respective parent countries by closely engaging with these Central Asian republics. In June 2001, China along with other Shanghai Cooperation Organisation (SCO) members had initialed the Shanghai Convention on Combating Terrorism, Separatism and Extremism which was entered into force in March 2003. In June 2002, China had also been a part of the Conference on Security Building in Asia (CICA) at the first CICA summit meeting that passed the *Alma Ata Document* and the *Declaration on Eliminating Terrorism and Promoting Dialogue Among Civilizations*. However most significantly and as a symbolic diplomatic achievement of sorts for China, on September 11, 2002, the UN Security Council, in deference to a common demand from China, the United States, Afghanistan and Kyrgyzstan had formally included the “East Turkistan Islamic Movement” on its list of terrorist organizations (Government of PRC 2002; Roy 2003: 68).

Although it is not yet clear if there is a subtle or substantive difference in approach between Australia and China on conceptualizing terrorism as a problem and the manner it is to be tackled, it is clear that China has differed with the US’ approach to handling terror. Alternatively, it is as much clear that the September 11 had revitalized the umbilical connection between the American and Australian security establishment with Howard

government invoking the ANZUS for the first time in treaty's history even though, it must be relevant to know that the words of the ANZUS treaty are far less committing than those of NATO (Hirst 2007: 182). Notably, while Australia has had a series of Counter-Terrorism arrangements with various countries in the region such as Indonesia, Malaysia, Philippines, Thailand, East Timor, Cambodia, Fiji and PNG, there is no similar bilateral arrangement with China. The Chinese have differed with the manner in which the US has gone about prosecuting its 'war on terror'. While the Chinese are opposed to terrorism in principle, they would want to retain a say in who is labelled a terrorist and is to be targeted, besides advocating for a UN-sanctioned and led intervention under the principles of UN charter in any terror operation (Roy 2002: 512-513). On a rather negative note, they are even alleged to extend arms and weapons cooperation to countries or entities that patronise terror. Worse, there are sections of Chinese government that obliquely blame the US for the terrorist backlash that it is confronted with. Moreover, China seemed to be in favour of some sort of a quid-pro-quo with the west, expecting western backing on its own battle against separatism for its support on terror, an allegation stoutly denied by the Chinese (Ibid 513-514). In fact, there appear to be Chinese 'contra-interests' intrinsic in the potential US success against terror in Afghanistan. A successful Afghanistan operation could trigger the fleeing of terror operatives, cadre and refugees to several neighbouring countries including northwest of China and the country could have an aggravated security situation on its hands. On the other hand, cooperating with the west on terror could accrue to China access to western technology and expertise on terror operations, and also western acquiescence to China's suppression of ethnic nationalism and separatism (Ibid: 516-517). The impending drawdown of the US combat troops from Afghanistan leaves China in a quandary given that US departure does boost its regional profile per se, the possibility of a renewed terror footprint in the region also poses a challenge to the Chinese government vis-à-vis the home-grown variants such as the ETIM.

Nonetheless, for Australia, it is important to cooperate closely with China in view of Australian citizens being particularly targeted by the terror outfits. The growing commercial and tourist linkages between the two countries raise the likelihood of their nationals being common targets in each other's territories by terror groups. For China, the increasing reach and frequency of terror occurrences by domestic groups makes it imperative that it enlists Australian counter-terror experiences and expertise for security within its borders. The fact that both countries have extensive maritime interests makes them a natural ally against terror.



## **Maritime Security as an inextricable link**

After terrorism, maritime security is another issue that must be factored in any examination of security relations between Australia and China. Both the countries boast of an extensive maritime geography with enormous resource base and therefore the rationale emerges for a maritime strategic policy for the two of them. As far as Australian maritime geography is concerned, it adjoins the Pacific ocean in the east, the Indian ocean to the west, the southeast Asian archipelago to the north and Southern ocean to the south, not to mention the three seas in the north – the Timor, Arafura and Coral seas – with the country’s maritime jurisdictional area amounting to more than 14 million square km, an area twice that of Australian mainland. Furthermore, the combined coastline of mainland and offshore territories is more than 47,000 km, a huge security responsibility by any account (Geoscience Australia 2017). Similarly, in terms of plain oceanic geography, China lies entirely in the Pacific Ocean surrounded by three major seas —East China Sea, Yellow Sea and South China Sea with a total maritime area of 4.73 million sq km. Even as around 54,000 islands dot China’s territorial waters, its mainland coastline is approximately 18,000 km. China’s *Ocean Development Report* published in 2010 specifically states that the oceans are a nation’s “blue soil” and underlines that the sea and land should be seen as having equivalent strategic value (Cheng 2011: 9).

Therefore the economic value (and therefore the security implications) of their maritime geographies can never be underestimated, a pressing reason why they can’t be overlooked within Australia-China’s over-all security relations matrix. Economically, Australia has a declared Exclusive Economic Zone (EEZ) of 8.15 million square km. More specifically in terms of trade, more than 75% of the country’s exports and imports by value are carried by sea and over 99.9% by weight (Royal Australian Navy 2010). Then almost 40% of Australian exports and 32% of imports by value are shipped through the Indonesian archipelago, underlining the need for safety at various choke points in these waters. The marine industry’s value of output had grown by over 7% between 2001-02 and 2006-07. Most importantly from the point of view of security, more than 95% of its population constitutes coastal in composition (Ibid).

Likewise, by dint of being a predominantly resource and energy-dependent trading economy, the Chinese have huge stakes in the safety and the security of their maritime geography including the sea lanes of communications, both in the nearby and distant waters. In terms of raw materials, China is now the world’s largest importer of iron ore, with the bulk coming

from Brazil and Australia. Its major share of non-ferrous metals (e.g., tin and aluminum) is carried by sea from locations such as Africa and Australia. China also imports timber from Africa, Southeast Asia, and Latin America. It is the world's third largest oil importer (3.3 million barrels/day), sourcing most of its oil supplies from the Middle East and Africa. China currently obtains approximately 85 percent of its imported oil by sea; forty to forty-five percent comes from the Middle East and nearly a third from Africa (Erickson and Collins 2007: 51-54). It has also begun importing liquefied natural gas (LNG) and coal from Australia and Indonesia. Such acute dependency on energy imports is only likely to continue to grow. Xu Qi, Senior Captain of People's Liberation Army Navy (PLAN) estimates that by 2020, China's maritime commerce will cross U.S. \$1 trillion and three-quarters of its oil may have to be imported from outside (Ibid: 51). By implication, it certainly raises the stakes for the Chinese in terms of maritime security. According to China's *Ocean Development Report*, in 2008, ocean commerce by itself constituted 9.87 percent of China's gross domestic product, with a valuation of nearly 3 trillion RMB (approximately \$456 billion) (Cheng 2011: 2). Chinese companies also rely on inexpensive, efficient maritime transport to ship finished goods to world markets. In 2004, five of the top twenty global container ports were Chinese together accounting for nearly one-quarter of global container traffic that year. If the Hong Kong S.A.R. is included, then Chinese ports had moved nearly 40 percent of world container volume in 2004. Notably, two of the ten largest container-shipping companies in the world are Chinese state-owned enterprises: China Ocean Shipping (Group) Corporation, or COSCO, and China Shipping Container Lines, LTD, or CSCL (Ibid: 3).

Apart from Australia's and China's broad commercial interests over seaways, more specifically, both the countries also have massive stakes in the safety and security of Southeast Asian and the extended Asia-Pacific waters. Straits of Malacca is one of the busiest maritime route in the world carrying about 50,000 ships every year, transporting about 30% of the world's trade goods. According to a report by Royal Australian Navy, about 60,000 vessels pass through the Malacca Strait which is set to climb even further and many Asian countries including China, India, Malaysia, Indonesia and Philippines are set to double their energy demand between 2004 and 2030 (MacDonald 2008: 7). In terms of actual commercial routes, Australia's exports of crude petroleum and oil pass through the Lombok and Makassar Straits, and then via the South China Sea if destined for Hong Kong or China, or through the Philippines Sea if bound for Korea and Japan (Royal Australian Navy 2010). Exports of coke and coal transit through the Lombok and Malacca Straits if headed for Burma and Europe, or

they transit through the Lombok and Makassar Straits and then the Philippines Sea if destined for Hong Kong, Taiwan, Korea and Japan. The LNG trade leaves north-west Australia through the Suva Sea, Ombai Strait, Manipa Strait, and east of Obi Island through the Moluccan Passage and hence direct to China and Japan (Forbes 2008: 18). Any disruption of any of these routes could cost significantly to Australian exports. Then even though Australia imports a small portion of total energy trade (particularly for Northern Territory), any sabotaging of these routes by terror or any other physical threats could certainly hurt apart from spelling disaster for these regional economies which in turn would eventually cascade on Australia which has a very rapidly growing trade and investment relations with these countries. In the same vein, China has its own concerns over security of production and exploration in its maritime vicinity particularly with regards to offshore oil and gas production in Bohai Bay and other areas in East China Sea and South China Sea (particularly near the Pearl River Delta) that now are a source of the rising proportion of Chinese hydrocarbon production (Ibid: 57). Then the ever increasing sourcing of LNG by sea route poses additional security challenges. In fact, in the case of LNG SLOC security, being able to secure one's supply lines militarily may turn out to be more pressing than with oil. LNG is physically more cumbersome to handle than oil and not as easily tradable. LNG projects are typically served by dedicated tankers that carry LNG on one route and cargoes are seldom resold at sea. From a military standpoint, this would make shipments much easier to interdict because – in contrast with oil cargoes – it would be easier to establish where an LNG cargo was headed (Ibid: 58). This means that a consumer nation has a strong motivation for possessing the capacity to militarily defend its LNG supply lanes, if it relies to a significant extent on LNG, which China does not yet do. So far, China has largely depended on the US to defend the sea lines of communications in most of the seas relevant for its trade and energy security. However, as the volume and value of shipments containing and energy resources increasingly go up, China would have to formulate its own strategies and forces for an effective SLOC security capability, an aspect that also makes it imperative for it to develop maritime security relations with Australia, the key source of its resource and energy material.

Another important facet of maritime security from Chinese standpoint is the threat arising out of contesting claims of sovereignty and accompanying right to their use of ocean properties and resources. China has been embroiled in scores of such disputes with neighbouring countries in all three of the seas it is surrounded by—East China Sea, Yellow Sea and South China Sea. However, China's foremost focus and strategy in the last decade or so has been

primarily on South China Sea where it has been mired in several very complicated disputes. In that Sea comprising islands such as Spratlys, Paracels, the Pratas islands, Scarborough Shoal, Macclessfield Bank and many others, Spratly islands have been the most contested ones. On them, there has been a running confrontation among many Southeast Asian countries including Malaysia, the Philippines, Singapore and Brunei besides Taiwan and, of course China. Occasionally, particularly in the 1990s, the Chinese had been militarily inclined to settle the issue stirring resentment and recriminations in the region. In Feb 1992, China's National People's Congress had passed a declaration stating that the Spratly Islands were an integral part of Chinese territory (Gallagher 1994: 171). Then on Paracel islands, China has repeatedly clashed with Vietnam. In reinforcing its case, while it has applied the continental shelf principle in defining its maritime claims in the Yellow Seas and East China Sea, it claims South China Sea on the basis of "historic use and administration". Even if going by its avowed principle of "historic use", it seems to have an unsustainable case as the tiny outcrops in the sea do not appear to be legally qualified to justify exclusive economic zones of 200 nautical miles. Only 26 features in the Spratly group are above water at high tide and none has ever sustained a permanent population (Segal 1996: 117). In fact, Continental shelf claims from states surrounding the Spratlys are likely to be seen stronger by the International Court of Justice. The farthest reaches of the South China Sea stretch some 1800 km from undisputed Hainan and touch Natuna island in the south (held by Indonesia) (Ibid). China's increasing assertiveness in the South China Sea may also pose a future challenge to Indonesia's sovereign rights over Natuna islands (which mark the maritime entry points to Java) (Lim 1998: 100; Tow 2004: 58). In a remarkable turn of events in July 2016 with regards to South China Sea, the Chinese received a crushing diplomatic blow at the hands of the Permanent Court of Arbitration in a case filed by Philippines when the UN tribunal rejected that China had historic claims to most of South China Sea chiefly underlying its nine-dash line theory. Characteristic of Australian foreign policy vis-à-vis China, the government without taking an explicitly strong line against China instead called on all involved parties to resolve the disputes peacefully and in accordance with international law.

Apart from South China Sea, in East China Sea too, China's maritime claims conflict with other countries such as Japan, South Korea and Taiwan wherein each party has a different interpretation of the extent of their respective Exclusive Economic Zones (EEZs) and the concomitant entitlement of marine resources. Also, China and Japan along with Taiwan are at odds with one another over Senkaku islands there. China and Japan even have a long-running

dispute over gas field development in the East China Sea's Xihu Trough. The two also disagree markedly on the amount of reserves in the area. While Japanese estimates set the potential gas reserves at 200 billion cubic meters, Chinese put the figures at 20 million cubic meters of gas in the area (Valencia 2007: 132). From Australia-China perspective, the creation of an Air Defence Identification Zone (ADIZ) in East China Sea embracing the Japan-China disputed Senkaku islands by China in 2013 should have been a real test of the strength of the security relations between the two countries. Expectedly, although Australia like many others did register its diplomatic protest through the pronouncements of the foreign minister Julie Bishop and which was promptly assailed by the Chinese, there has been no reported evidence of Australian aircraft – commercial or military – actually testing the Chinese resolve in enforcing its ADIZ regulations.

Similarly, Australia (though not to the extent as China) too has found itself politically embroiled with neighbours such as Indonesia and East Timor on questions surrounding appropriation and usage of ocean resources. The independence of East Timor had reopened the question of Timor Gap Treaty between Indonesia and Australia which had first been signed in 1989 with the purpose of resolving differences on sharing of marine resources (mainly petroleum) in the region and in which both had agreed to share resources in 50: 50 proportions. The independence of East Timor had however complicated the situation precipitating new arrangements such as the Timor Sea Treaty between East Timor and Australia in 2002 under which the latter had agreed to share the marine resources in ratio of 10:90 in favour of East Timor. This arrangement was again revised through the International Unitisation Agreement for Greater Sunrise (IUA) in 2003 and Treaty of Certain Maritime Arrangements in the Timor Sea (CMATS) in 2006 (DFAT 2016 a).

Under maritime security, illegal immigration is another dimension that can mutate into a serious security threat to Australia. Though it is a socio-economic threat by its very nature, it can degenerate into a security threat too. This especially fits in the context of the scourge of terrorism. Terrorists can not only themselves be illegal immigrants first, they can even find potential recruits among the illegal immigrants for their operations. The illegal immigrants through their own network can also aid in finding sanctuary and safe exit modes for a fugitive terrorist. The number of illegal immigrants to Australia even though has substantially come down steadily from 90,000 in the late 1980s to about 60,000 by the end of the century, illegal immigration as a problem has persisted. Of these over the years, even as there has been an uneven and patchy trend in terms of role of both boats and air as a mode of illegal entry; that

the number of illegal boats outstripped the aerial route about three times in 1999-2000 strongly underlines the linkage between illegal immigration and maritime security (Australian Bureau of Statistics 2001). Australia's illegal immigrants are mostly from the Middle East and southern Asia, landing at its western coasts and especially on Christmas Island, which lies relatively near the Indonesian archipelago. Majority of the refugees from Asia first get into Malaysia, where they are taken to the south before a short ferry ride to the Indonesian island of Batam. From there, it is not hard to get to Jakarta and continue onward to the southern Indonesian Islands of Bali, Flores or Lombok where they set off for Australia (The Interpol). Therefore, Indonesia is also important since a substantial number of illegal immigrants from Indo-China and Afghanistan enter Australia through Indonesian territorial waters. Then the sizable presence of around 20,000 East Timorese refugees in Australia even further adds to this complexity (Chalk 2001: 235). Some of the recent source regions for most of the illegal immigrants are mainly West Asia and the Middle-east (Iran, Iraq, Afghanistan and Turkey), South Asia (Pakistan, Bangladesh, Sri Lanka) and Southeast Asia (Malaysia). As for illegal immigration from China to Australia, there have been cases from the early 1990s though they became large in numbers to pose any trouble only by the end of 1994. Between mid-November and the end of November 1994, 735 'boatpeople' arrived with some of the main sources being Beihai, Guanxi and other places in southern China (Mackerras 2000: 191). In a news report in May 2009, of the 50,000 illegal immigrants in Australia, more than 10% were Chinese people (News Network 2009). The establishment of new Coastwatch National Surveillance Centre within the Australian Customs service in Canberra in April 2000 was a huge step forward to counter illegal immigration (Australian Customs and Border Protection Service).

Even though China has historically been a migrant-sending country, akin to Australia though to a lesser extent by way of comparison in terms of average per population, China has had its own share of illegal immigration challenge it has been confronted with in recent years. Usually, it is the job-seeking, high quality-life chasing immigrants mainly from poorer parts of Southeast Asian countries including Myanmar, Vietnam, Cambodia Laos and Philippines as well as northeast Asian countries such as North Korea which have contributed to the bulk of the illegal immigration population in the country (Epstein 2010). In a smaller proportion, there are also illegal immigrants from African countries such as Kenya and Nigeria many of them settled in the southern province of Guangdong (Faas 2013). In 2012, some 47,000 people were found to have violated immigration laws according to data released by Ministry

of Public Security (Boehler 2013). In the same year, a new Entry and Exit Immigration Law was passed which has marked out 'three illegals' for redress: illegal entry, residence and work in China (Haugen 2015). Therefore as China upgrades its legal and institutional devices in order to deal with the problem of illegal immigration, Australia's longer practical experience and more evolved legal, policing and administrative structures could come in useful for China. Moreover, the fact that a substantial number of illegal immigrants comprise Chinese nationals is another pressing reason for both countries to cooperate on the matter.

Any scope for relationship between Australia and China in terms of maritime security can be looked at in three different ways: One, Australia and China both being seafaring trading economies, a mutual interest in maintaining the safety and security of the sea lanes of communications becomes supremely imperative for both. Two, China being an energy and natural resource-dependent economy and Australia being an energy-exporting country, both again have an enduring interest in the peaceful and hassle-free transit and transport of their shipments. Especially as China procures its natural gas from Australia and as just elucidated on the increased vulnerability of natural gas transport by the seas, both countries have equally high stakes in this regard. Three, since both have been and are to be likely targets of terrorism (though threat to China by terror is limited in terms of its geography), and are equally vulnerable in terms of magnitude and impact; the chances of terror groups using open seas to access their land and population and inflicting massive casualties most unexpectedly cannot be ruled out; again a compulsive situation for them to cooperate. Related to both the second and third point is focus on the Philippines. As mentioned before, there is LNG trade between northwest Australia and China that passes through the Celebes Sea and near the Sulu archipelago—areas where terrorist groups operate and which have been vulnerable to piracy (Chung 2007: 159, 160). Initiatives financed by Australia to improve maritime security in the southern Philippines include upgrading of sea surveillance systems, border controls and port security. Australia has also donated new patrol vessels to the Philippine Coast Guard. Then that the Chinese are also importing LNG from Indonesia makes the safety of the Indonesian sea lanes particularly the Malacca strait extremely critical for them.

Closely related to maritime security is the threat and proliferation of Weapons of Mass Destruction (WMDs). On this, Australia has been an unwavering supporter of the Proliferation Security Initiative (PSI) right from the start to check and counter proliferation of Weapons of Mass Destruction (WMDs). It hosted two PSI exercises in the Coral Sea in Sep 2003 and in Darwin in April 2006. It also participated in the two exercises in Asia: Team

Samurai hosted by Japan in 2004 and Deep Saber in Singapore in 2005 (Chung 2007: 159). In September 2010, Australia had hosted PSI interdiction exercise-Pacific Protector 10. However, on China's part, other than the fact that it has in practice not entirely accepted the initiative; it has also expressed serious concerns on the possible abuse and misuse of this exercise in effect that could lead to a breach of international law. Particularly with regards to North Korea in this context, China may prefer economic and diplomatic methods instead of making a choice that could provoke a confrontation (Buyers 2004: 531).

### **Role of the connection between Economics and Security**

After terrorism and maritime security, another issue that closely bears upon any Australia-China security ties is the close connection between economics and security. China's first White Paper in 1998 had clearly stated, "In international relations, geopolitical, military security and ideological factors still play a role that cannot be ignored, *but the role of economic factors is becoming more outstanding, along with growing economic contacts among nations*" (Government of PRC 1998). One frequently cited instance of the far-reaching negative impact of economic problems on political stability was the Asian financial crisis of 1997 that had accounted for the demise of long-ruling Suharto regime precipitating an internal political uncertainty which invariably had aggravated security concerns within the country and outside. Nonetheless, this connection between security and economics has been scrutinized in two ways: One, there are clear linkages between perceived insecurity of a country and its defence budget. Any country that with time finds itself increasingly insecure and vulnerable regardless of factors, is certain to raise its defence expenditure. This linkage must also be examined in the light of the prevailing contemporary regional and international security trends. This increase in insecurity can occur in three possible scenarios—first, when there is a definite threat from a definite enemy or a set of enemies. Second, this increase in insecurity can also gain ground because of any distinct absence of threat or an ambiguous security scenario. Third, there is exaggerated/exacerbated perception of insecurity due to competitive defence spending from others. The other way in which security-economics linkage can be looked at is by taking account of the fundamental political culture of a country and the accompanying aspirations and autonomy of decision-making of the political elite.

In case of Australia, even though it doesn't have any real threat from a foreign power, it can't overlook the fact that it is predominantly a White country surrounded by 'non-White' people, notwithstanding the syncretic multicultural socio-political trends that have pervaded the



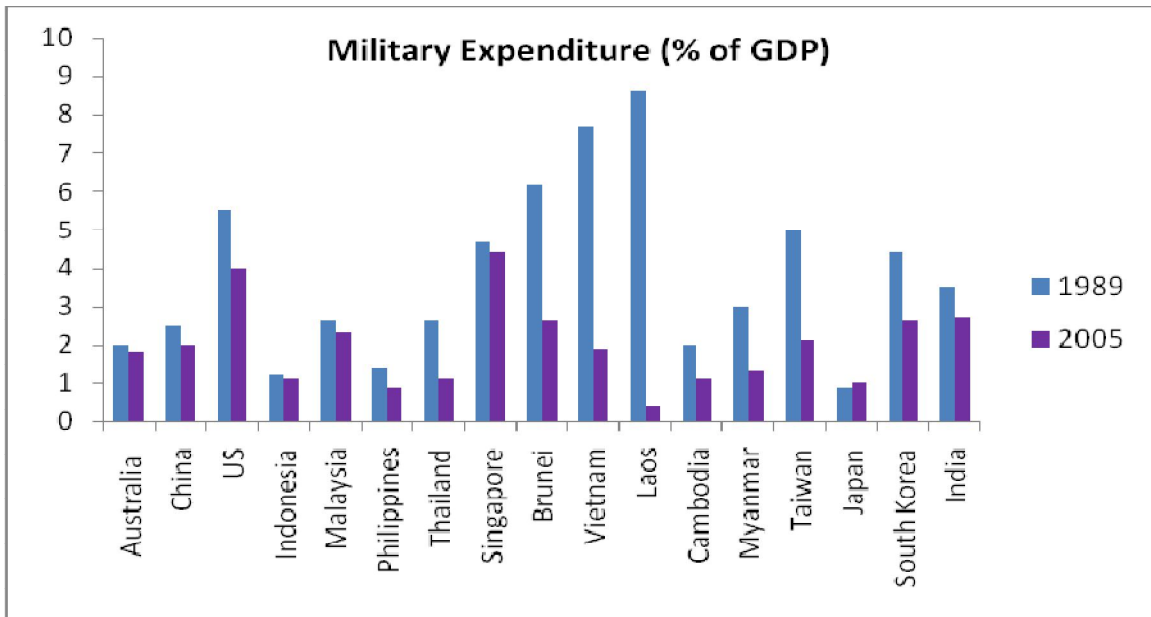
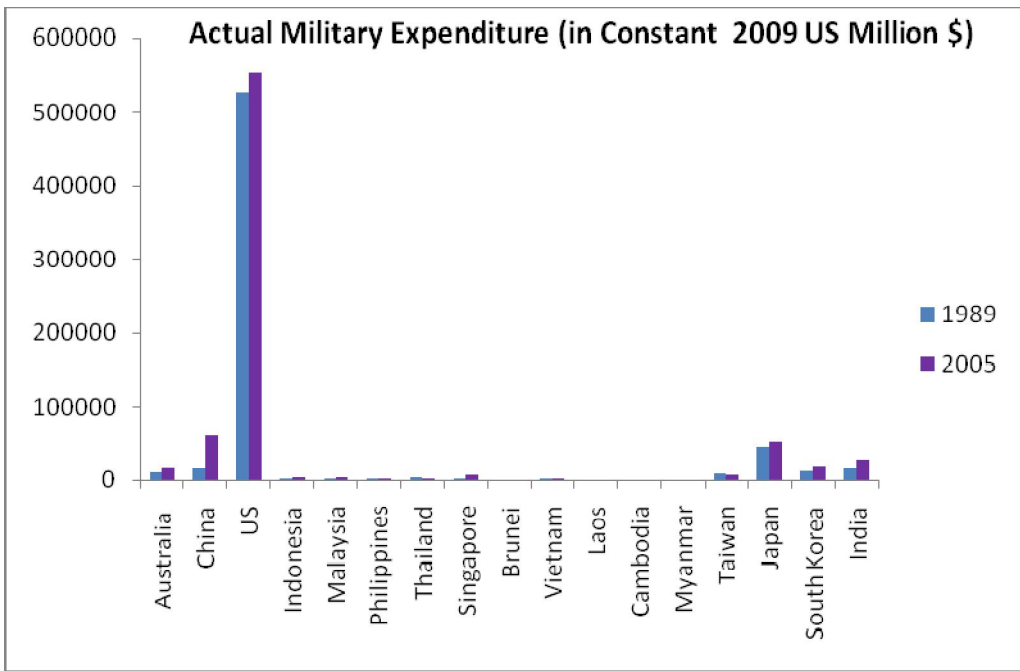
country over the last few decades. That economics can bear an impact on security can be seen from the fact that in their first security policy document in 1997, Howard government had clearly raised concerns on whether the country was falling behind its east Asian neighbours in growth and how that could impact its defence-building capacity (Government of Australia 1997). Australia's own military expenditure went up by 65% between 1989 and 2005 as against its one major concern, Indonesia, whose defence expenditure for the same period had shot up by as much as 160 percent (Stockholm International Peace Research Institute).<sup>6</sup> However in real terms, Indonesian military expenditure was still way below Australia's—about 15.3% of Australia's in 1989; this proportion had though risen to about 24% in 2005; yet Australia has a substantial lead. Then among the other ASEAN countries in Southeast Asia in 1989, countries that could come anywhere close to Australia were Thailand, Singapore and Malaysia all of whose military spending as a percentage of Australia's was merely 27%, 24% and 13% respectively. By 2005, Thailand's defence spending had further come down to 14% of Australia's, while Singapore and Malaysia's had increased to 38.5% and 21% of Australia's defence expenditure respectively, both of whom are close allies of the country. Therefore, going by the defence budget and expenditure patterns of the countries nearby Australia, there is not any reason to believe that Australia could sense a threat in terms of competitive defence spending in the region.

In case of China, its defence expenditure has certainly caught the eye of defence experts, planners and policy makers around the world. Between 1989 and 2005, Chinese defence expenditure has ballooned by over 290 percent and has largely been one of the leading defence spending powers along with the US and Japan in real terms, though America has been by far the clear leader, much ahead of China in all the years. While China's defence expenditure as a percent of its GDP was between 2 and 2.5% during the period 1989-2005, America's has been between 4 and 5.5 percent (SIPRI database). However, over the years, China has decidedly bridged this gap, since in 1989, US' expenditure was 33 times that of China, by 2005 it had come down to 9 times, a considerable fall though US still remains far ahead of China (Calculations made based on data from SIPRI). After the US, it is Taiwan that China looks to with apprehension when it comes to a race in defence spending. Taiwan's military spending which was over 55% of China's in 1989 has come down to 12.7% by 2005, certainly a bigger worry for Taiwan than the other way round. Another major

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<sup>6</sup> All defence calculations in this section made on basis of data from Stockholm International Peace Research Institute website

competitor and possibly a security threat to China is Japan whose expenditure in real terms has though increased by only 15% for the period 1989-2005, the baseline figure in 1989 itself was about three times the Chinese expenditure clearly obtaining a head start over China (Calculations made based on data from SIPRI). However in recent years particularly between 2001 and 2005, Japanese defence spending has virtually stayed flat whereas China's spending has increased by 57% over the same period. India is another country whose spending patterns could be worrisome for the Chinese. However in the period 1989-2005, India's defence expenditure has risen by 85 percent against 291% of China and though both had started off at almost equal level in 1989, by 2005 Chinese expenditure in real terms had more than doubled that of India (Calculations made based on data from SIPRI). Such an analysis of competitive defence spending must also be placed against the larger international trends such as Revolution in Military Affairs (RMA) spending and the constant emergence of newer military technologies and the early obsolescence of relatively new technologies.



Therefore in terms of defence expenditure and competitive spending patterns, Australia has no real threat while China has only US to be mindful of. Any security cooperation between Australia and China particularly in areas such as joint intelligence, surveillance and reconnaissance; joint monitoring, patrolling and execution of security and law enforcement operations through integrated communications, command and control systems not only enhances operational capabilities and efficiency but also helps economizing on resources and funds. As non-traditional security challenges mount, the role of intelligence sharing becomes even more critical, and since there is generally more funds being allocated towards intelligence gathering, processing, sharing and management, intelligence cooperation saves resources for all parties involved. This idea of resource sharing also becomes unavoidable since threats such as terrorism, piracy and WMDs not only cause immediate loss of resources but also in the medium to long term, they create uncertainty, reduce confidence and increase risk perceptions and insurance premiums. The cumulative effect is to cut down on overall investment and slowing rates of economic growth. According to IMF, the loss of US output flowing from terrorism-related costs could be as much as 0.75 per cent of Gross Domestic Product, or US\$75 billion per year (Government of Australia 2004: 70). Any fall in US real GDP worsens and prolongs the negative impact of economic uncertainty on Australia and Asian countries including China.

The linkage between security and economics must also be briefly examined in light of the political culture of the military elite and the level of accountability and openness that surrounds Australian and Chinese military purchases, awarding of contracts and over-all financing of the defence establishment. In case of Australia, the government introduced a defence planning and budgeting process built around a new annual Defence Financial and Management Plan in 2001 under which defence will shift to output-based budgeting arrangements within the limits of the ten year old budget. Every year, defence presents Defence Financial and Management plan detailing the projects, measures and activities in that year and setting of annual targets is done. A Chief Financial Officer has been appointed to improve organizational and financial accountability. A Defence Improvement Committee chaired by Defence Minister to oversee all issues related to management and accountability has been established. Also, a White Paper not after very five years will have to be published consisting of annual Defence Planning Guidance for the first three years, strategic assessment, force structure review and independent audit update in the fourth year, and development and release of a White paper in the fifth year (Government of Australia 2009 a,

Government of Australia 2000 a). Over all, there is a separate Defence Materiel organization (DMO), under the Financial Management and Accountability Act, 1997 that is responsible for oversight of procurement, sustainment and industry support. As for China, in recent years, in line with financing and budgeting reforms in the government, the administration of defense expenditure has been subjected to a wide range of reforms, including reform in the defense expenditure budgeting method, centralized payment for weapon and equipment procurement, and a tendering and bidding system for the procurement of defense materials, projects and services. Defense funds are therefore managed in a more just, fair and transparent way (Government of PRC 2002). Therefore, even when both the countries do have institutional mechanisms to address any issues of procurement and sourcing in a transparent manner, the fundamental difference in the transparency of their politico-military functioning makes it seem easier for Chinese PLA to upgrade or build new capacities than Australian defence establishment. This is not to say that there is no accountability at all in the Chinese system, it is just that the Australian parliamentary democratic system will have a more rigorous system of checks and balances when it comes to defence spending. In this respect, the Chinese defence establishment can learn valuable lessons from advanced levels of accounting, budgeting, financials and processes that Australia has. Another related aspect is that as Australia-China economic ties strengthen, an increasing section of business concerns would not be supportive of an Australian entanglement over Taiwan between the US and China.

### **Approaches towards multilateralism**

Building on the bilateral security relational dynamics characterizing Australia and China, it becomes also imperative to assess how the two approach towards multilateralism and how their security relationship stands vis-à-vis regional multilateral institutions. Given that multilateralism operates regionally and in view of the fact that most countries have obtained some membership or the other in the region, it would be imprudent on Australia and China to eschew the regional multilateral processes. Indisputably or at least in majority view, APEC and ASEAN-derived institutions have primarily represented these processes. APEC with a mandate for security via shared economic prosperity and development, and ASEAN with a pronounced Declaration ‘to promote regional peace and stability’ and even following up with

a separate offshoot such as ASEAN Regional Organisation (ARF)<sup>7</sup> are the principal institutions (apart from others) which have been embraced by Australia and China alike.

It is no less than a truism to say that both countries have demonstrated active and effective leadership on multilateralism processes. Even though China initially and for considerably long had been somewhat disinclined to even join the regional institutions, much less showing leadership unlike Australia, in course of time both did show active leadership and participation. Australia's steering of the APEC in its early days and even shaping of it afterwards as well as the ideational initiative on ARF has been similar to China's assuming leadership of ASEAN through ASEAN Plus Three (APT) and subsequently becoming a dominant voice at East Asian Summit (EAS). Then in principle, both Australia and China had approached ASEAN with a similar political-security worldview. Just as Australia had not been very keen on the organisation's incoming principles such as ASEAN's Zone of Peace Freedom and Neutrality (ZOPFAN) lest they diminish the US' regional military engagement coupled with its own vis-à-vis the Five Power Defence Agreement (FPDA), China has stoutly resisted the third tool of conflict resolution of the ARF (the other two being confidence building, preventive diplomacy) until today, something that it considers an innately interventionist attribute. Incidentally, it had been Australia that had persuaded China to join the ARF which Beijing initially had been reluctant on joining. Getting China to join a security forum like ARF is a measure of Australia's efforts to tie China into an ordered security framework thereby guaranteeing its own security and the larger security of the region. Australia's own commitment to regional multilateralism is further evident in the fact that in its bid to join the East Asian Summit (EAS), it even reversed its earlier stand of not signing the Treaty of Amity and Cooperation (TAC) in 2005, a necessary pre-condition for accession to EAS. In October 2010 when it had also formally clinched a seat at Asia-Europe Meeting (ASEM) on behalf of Asia, it had overtly testified to its 'Asian-ness'. Quite significantly, the positive approach to regional security fora had provided both Australia and China an added source of legitimacy. While Australia as a 'torn country' often wavering between its Anglo-Celtic lineage and Asia-Pacific geography had to demonstrably exhibit its 'Asian-ness' by joining them, the earlier inward-looking and isolationist China, and which was aspiring for a global power status, had to show that it was no more alienated from the region and indeed the wider world. Furthermore, much in contrary to APEC's avowed dictum of open regionalism, even as ASEAN-led processes which had started with the core idea of

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<sup>7</sup> The others are ADMM, ADMM Plus, ASEAN Political and Security Community

closed regionalism (ASEAN itself) but which have increasingly allowed a greater inclusiveness through APT, ADMM, ADMM Plus and EAS implying an acquiescence with the idea of open regionalism, the fact that both Australia and China have eventually joined the bandwagon means that there is an inherent consensus on multilateralism, not least on account of the perceived utility value of these organisations. This also reflects the changing nature of security challenge that not only the two face individually but also that the region faces collectively. It has already been mentioned in multiple places elsewhere in the chapter how the emergence of non-traditional security concerns and their formidably dangerous character for the two countries necessitates a greater cooperation not only between the two bilaterally but also within the multilateral framework. In time, as newly-minted processes emerge such as ADMM Plus, both Australia and China have also become their members. Even at the non-government level, both Australia and China have been active members of the Council for Security Cooperation in the Asia Pacific (CSCAP) allowing for a parallel channel of dialogue, communications and discourse on security related issues away from rigidly defined framework of government level negotiations and deliberations (Snyder 2006: 325; Yahuda 1999: 654). Thus even as Australia and China have enhanced their bilateral security ties, their embracing of multilateralism also speaks of the continuously transforming nature of security challenges.

### **The US as a strategic variable**

The role and relevance of US as an intermediary variable in any Australia-China bilateral equation can never be underestimated. Now it has been well recorded that while the US is Australia's top security ally, it is China's foremost strategic rival and competitor. Then, how does Australia find that right balance in its relations between China and the US?

It has already been mentioned that Australia maintains a security alliance with the United States as exemplified in the ANZUS treaty. In 1989, Australia was also among the first group of Major Non-NATO allies (MNNAs) of the United States which signifies extremely close functioning relationship between the US and Australian defence forces. In terms of intelligence, Australia has maintained much of the intimacy with Washington through closer intelligence-sharing arrangements; new and more liberal protocols for the sharing of classified information; stationing significant numbers of ADF and intelligence personnel in US agencies and military commands; and heightened inter-operability arrangements. Intelligence, Surveillance and Reconnaissance (ISR) field has always seen a close

cooperation between the US and Australia. Canberra has been a member of the close inner intelligence club of Anglo-Saxon countries that had its origins in the Second World War—a club that consisted of the United States, the United Kingdom, Canada, Australia and New Zealand under the UKUSA intelligence-sharing agreement (Ball 2001: 235; Reynolds 1985-86: 11). In recent years, the intelligence relationship which is extremely critical for issues such as terrorism has become extraordinarily close to the extent that in many spheres of capability, Australia is for the US the trusted and only provider of certain types of analysis, information and systems. Australia also leads from the front when it comes to strategic analysis of military developments in Southeast Asia and the Pacific and is increasingly being requested by the US to provide assessments on common operational theatres. Unlike the other regions, the US looks to Australia for all Signals Intelligence (SIGINT) in the region of principal coverage and doesn't duplicate the effort —demonstrating the regard in which Australia's capability is held. Very significantly, Australia is solely responsible for SIGINT on Islamic terrorists in the region (Government of Australia 2006). Another definitive example of integrated collaboration is the Joint Defence Facility Pine Gap. The facility's two principal roles — the collection of intelligence and provision of ballistic missile early warning —have become more crucial in recent years. In fact, the Pine Gap facility is critical to the functioning of not only Theatre Missile Defence (TMD) but even Nuclear Missile Defence (NMD). The SBIRS (Space Based Infra Red Missile Defence System) operating at Pine Gap would be critical to the operation of TMD systems being considered for defending Japan or Taiwan (Tow 2005: 461). However, hosting joint facilities imposed certain risks and costs on Australia. Australian sovereignty was compromised by operations involving some of the facilities (and especially North West Cape, where Australia had no power over or even any right to be informed about the communications passing through the station, including possible commands to launch nuclear missiles) (Albinski 1965: 33-34). Hosting these bases could also mean to incur the animosity of an actor or an institution for the omissions and commissions of the Americans. Malcolm Fraser, the former Prime Minister expresses apprehension on Australia being a target for no advantage to itself due to its hosting of US nuclear facilities at Pine Gap (Fraser 2001: 230–231). Nevertheless, in relation to intelligence cooperation and classified defence information relevant to their combined operations, there is a presumption of release in their information sharing arrangements. Unlike earlier, there is no need for this to be cleared specifically for release between the two countries. What's more, Australia is one of the few nations whose military personnel can be fully integrated with US



forces with the highest level of security clearances and who have been entrusted with full operational control of US military personnel.

The September 11 attacks saw Howard government drawing on the ANZUS treaty for the first time and had agreed to sending of troops to Afghanistan and later to Iraq and other conflict-ridden countries in step with the American military forces. However, Canberra's commitment outside the region such as Persian Gulf and Afghanistan may apparently convey a US-aligned policy, real picture emerges when we compare the scale and quality of Australian forces' engagement in the nearby region—the 1999 East Timor region, then 2003 interventions in Solomon Islands and PNG. While the number of troops sent to Iraq and Afghanistan was around 550 and 1100 respectively, it was between 1500 and 2000 troops in East Timor and around 1400 troops to Solomon Islands in July 2003 (Government of Australia 2005; Tow 2008: 31). This implies that Australia is only engaging in military operations to the extent of the need on the ground and not necessarily going along with the US indiscriminately without any merit. While it stands in step with US in Iraq and Afghanistan, it also fulfils its military obligations in its neighbourhood as a responsible middle power in the region.

At the most fundamental level, there is a deeply inherent difference in foreign policy world view between the US and Australia. While the US is a global power with global interests that would do everything in its power to preserve its unipolar dominance despite its faltering economy from time to time and the emerging challenge from China, Australia is a regional middle power with a small population and a modest military and does not nurse global ambitions. Australia is less likely to be a willing partner in all of US' pro-active military drives and ventures in its neighbourhood and will weigh its options carefully before throwing its full weight behind the US. In the same way, the US cannot always be expected to be mindful of Australia's concerns. For instance, during the Konfrontasi in the 1960s, and the loss of West Irian to Indonesia, the American indifference to Australian concerns was disturbing. Then during the initial phase of East Timor crisis in 1999, the Clinton administration's dithering on providing military logistical support to neutralise pro-Indonesian militia had also unnerved the Howard government. Some Americans had even dubbed Australia as a potentially 'soft ally' with a weak military capability and 'limited geographic preoccupation' that if left unattended, could lead to 'strategic myopia' (Tow 2005: 456). However the question that really arises is whether Australia will come to the aid of the US if China decides unilaterally to exercise a military option to incorporate Taiwan.

William Tow says that neither US nor China will allow Australia to maintain a discriminate engagement policy towards their regional interests if a situation arises over Taiwan or any issue that could reverberate across entire Asia-Pacific. Australia cannot remain neutral because not rallying behind the US in such a critical moment would not go down well at all with the US keeping in mind the close historical association between the two countries. In 1999, soon-to-be Deputy Secretary of State Richard Armitage had clearly stated: “If Washington found itself in conflict with China over Taiwan it would expect Australia’s support. If it didn’t get that support, that would mean the end of the US-Australia alliance” (Wesley 2007: 76). So much so that when Foreign Minister Alexander Downer reflected that ANZUS obliged Australia and US to come to each other’s defence only if there was an armed attack on each other’s soil and did not extend to their ships plying in the Pacific, he was made to retract his statement (Tow and Yen 2007: 335; Malik 2006/07: 592). Therefore, just like what US did to New Zealand when it ousted New Zealand out of ANZUS in the 1980s for not allowing American nuclear ships in their territory, US could also do the same to Australia and even snap all kinds of military ties with it. However, this may not be the right answer as the situation cannot be read as this simplistically in black or white. That the same US had gone on to accord MNNA status to New Zealand in 2002 indicates that the US will never shoot itself in the foot and allow Australia to break away in such an easy and straightforward manner. US would also have to weigh in the fact that it has nuclear facilities on Australian territory. This whole scenario would also probably be contingent on the US being able to take on China on its own without Australia’s direct help and may well settle for an indirect Australian assistance in secrecy that would allow Australia to maintain its relations with China overtly. Notwithstanding all this conjecturing, if there is a US-China military face-off in the short term, Australia will have to openly and decisively go with the US, though in the long term it might adopt a neutral stance. This also depends on the relative level of military decline that the US might experience and the level of Australian security dependency on the US. How will China react to an open siding of Australia with the US? China will also be circumspect and deliberative, will desist from a rash reaction to any Australian taking a pro-US position, and take a considered and well thought-out approach. On Missile Defence ties between US and Australia, China is also likely to keep its judgment reserved as long as missile defence capabilities are not transferred to Taiwan and or be deployed by others proximate to Taiwan. Therefore, somewhere the Americans are also increasingly conceding that Australia ‘has got to act in its own interests’, as stated by President Bush during Howard’s Washington visit in 2005. The US also finally (initially expressed serious

apprehensions) endorsed Australia's participation at the inaugural East Asian Summit to be convened in December 2005 at Kuala Lumpur (the complex dynamics surrounding the Summit will be discussed in detail when we deal with institutions subsequently). By early August 2005, a senior US official interviewed anonymously had said that Australian grasp of US' concerns had become better and Canberra's relations with China were no longer a cause of concern, something in the sense of 'agreeing to disagree'. In 2009, US and Australia even proposed trilateral war games with China in order to understand the thinking of the Chinese forces more closely and to foster greater degree of trust and confidence with them (ABC 2009). In another related event, keeping access to South China Sea in mind, American troops might field troops in Australia, as commander of the US Pacific Command Admiral Robert Willard said in his testimony on Capitol Hill. Then in August 2011, Chinese foreign ministry had vigorously reacted to Pentagon's annual report titled 'Military and Security Developments Involving the People's Republic of China' terming it 'irresponsible that does no good to enhance China-US strategic trust' (Kamphausen 2011). Then towards the end of year 2011, when Barrack Obama had announced the stationing of 2500 US marines at Darwin, the Chinese had officially condemned the move branding it as "Cold War thinking" and a threat to regional stability. This again brings out the fundamental fissures between the US and China making it difficult for Australia.

## **CONCLUSION**

Hence it does seem that the very nature of security situations having undergone a significant change underlines the need for Australia to move from the Cold war policy of forward defence to continental defence to once again what can even be termed as 'neo-forward defence'. However this new forward defence does not at all mean a new version of forward defence where the security of Australia would still only hinge around its alliance arrangements with the western countries especially the US. This new forward defence means that a sufficiently self reliant Australia would be capable of rising to the various demands in far off places both for its own interests as well as to uphold and enforce the norms and standards of international law and justice as a responsible member of the international community. More significantly, this new forward defence must be placed against the new security environment both globally and locally where the chances of a conventional military confrontation among countries are diminishing and non-conventional security issues have assumed prominence. Another way to argue this neo-forward defence proposition is to say

that because of the increasing need for expeditionary readiness and services, China could be considered as one of principal partners in Australia's quest for its security. Improbable as it may sound, barring a few exceptional cases where China has a no-compromise attitude, there could be many commonalities over which both could cooperate for mutual security objectives. Therefore, as the very nature of security challenges undergoes a 'transformational' shift, no vision, no prospects become impossible. Also, it is not only the players but even the tools and instruments that simultaneously both guarantee security and foster insecurity are going through a drastic 'transformational' phase. As technology becomes more destructive and weapons get more sophisticated, the idea of threat that informs a country's foreign policy and military planners too becomes more refined and subtle in nature. The steady shift of the concept of threat from traditional to the non-traditional end of the spectrum enforces a shift in approach towards security too. Therefore, a country willy-nilly would have to be on working terms with its immediate neighbours if not an intimate and institutionalised relationship. In this backdrop, it would not be out of place to say that the non-traditional imperatives of security do exercise a greater influence on security collaboration between two countries, especially of the likes of Australia and China. This is not to say that there is absolutely no strategic space for Australia and China to come together on a conventional security (hard-core military) platform, notwithstanding the US pivot to Asia-Pacific. However, the vagaries of international relations can defy historical logic of friendships and equations particularly in view of the fact that geopolitics has increasingly come to be if not replaced, overshadowed by geo-economics. The recent election of Donald Trump to presidency is a case in point. No one can definitely foresee the perpetuation of American military and economic dominance for all time to come. In fact, the era of Pax-Americana already seems to be facing its first real test after the demise of the Soviet Union. Even if American hegemony had continued, how can they be dependent upon for eternity? Historically, the Americans have had an instinctive aversion for unnecessary entanglement in issues that don't directly concern them. In both the Great wars, they joined only when their installations and interests were directly challenged, not out of any obligation to an ally. Nonetheless, even if US has in the past abandoned close allies for its own cause and interests, the repetition of such an act in case of Taiwan could carry long term adverse consequences on its relation with other powers particularly middle level or even smaller powers in the region. It would be a matter of credibility for the US in the eye of the regional players despite the possible variations within regional perceptions in this regard (Kennedy 2007: 282, 283). A counter-argument could be put that the Americans would come to the aid of Australia not out

of any treaty obligations but precisely to defend their own interests given the globalised nature of American national interests and the immense regional stakes that they have come to acquire. US also needs Australia for counter-terrorism, regional balancing in Asia and its support for free trade especially when there is an growing anti-Americanism in many parts of the world.

So, Australia could still count on the Americans for a long time. How long is long time, no one is sure. In the actual event of a nuclear war between US and China, any American attack on China if sustained and then followed by a withdrawal of the Americans from the region would expose Australia to China's assault if Australia would have participated on behalf of the US. Just like in Vietnam when Australia lost its first war when siding with the US, the current American failure in carving a complete military victory in Iraq, Afghanistan and its increased vulnerabilities to the terror systems and ideologies both at home and away should give enough food for thought to Australian strategic analysts for its one-stop sustained military dependence on the USA. On missile defence cooperation with the US, some analysts doubt the technological feasibility of the defence systems owing to its nascent stage of R&D and so any enormous investment by Australia towards it would not make much of a financially strategic and judicious decision for the Australians. Australia must also remember that if Australia's own standing is diluted in any way and if it were to be marginalized in the region, its utility to the United States would be diminished and US-Australia relations could also suffer (Kerr and Tow 2007: 170). Hence, for Australia to put all its eggs in the American security basket would be imprudent, to say the least. In fact, the rise of China as an alternative military and economic power centre to the US offers even more policy options and strategic latitude to the Australians in the long term. It makes sense to promote the concept of self reliance here though it could be argued that even to become completely self-reliant, one needs to rely on someone else for sometime. Furthermore, the legs of self-reliance and bilateral cooperation need to be carefully balanced.

Continuing on the real prospects of security cooperation between Australia and China, as stated before, the first and foremost point is that both the countries have no disputes over land or resources anywhere and have never had any disputes even in history. Also, both face no certain threat of any conventional attack from any of their neighbours. This is a propitious beginning because this means that both can always design their security policies keeping in mind the development of future interoperability between the two defence forces. Though the Australian forces are deeply interoperable with the Americans and their weapons systems are

predominantly of western origin, defence cooperation with the Chinese would give them an access to the competing Russian defence technologies and so broaden their defence technology base. For the Chinese, an access to western and American defence technologies would help them unravel the complexities underlying the western weapons and improve upon their own weapon systems. Though it does seem a very far-fetched scenario, it can never be absolutely discounted. For all we know, what if the US again effects a durable rapprochement with the Chinese (as it did in the 1970s to counter USSR) in the wake of the rising Russia or even a militarised Japan? This means that there could even be a triangular cooperative arrangement between the US, Australia and the PRC. There have already been modest beginnings in terms of military visits and port calls between Australia and China.<sup>8</sup> Port calls to Sydney by the Chinese navy and Australian defence ministerial visits to Beijing commenced during the 1990s and have since become routine. In September 1996, General John S. Baker, Chief of the Australian Defense Forces paid a formal visit to China. Air Marshal Fisher, Chief of Staff of the Royal Air Force and Vice Admiral Christopher Barrie, Deputy Chief of Defense Forces visited China respectively in May and June 1997. In February 1998, Chi Haotian, China's Minister of National Defence and Vice Chairman of Central Military Commission, visited Australia, the first Chinese in that position to do so and the Australian Defence Minister Ian McLachlan had on the occasion said that both were engaged in the development of an Asia-Pacific regional dialogue (Mackerras 2000: 193). Then in January 1999, Chief of the General Staff of China paid a visit to Australia returned by Defence Minister of Australia in May 1999. In October 1999, there were port calls made by Australian naval ships to Shanghai which was soon followed by the visit of Principal of the Institute of National Defense, Australia. This was reciprocated by the visit of the Chief of the Political Department of China in November 1999. Then in Feb. 2000, the Commander of the Chinese Air Force visited Australia which was returned by the visit of Commander of Australian Defence Forces in April of the same year.<sup>9</sup> In August 2004, Australia even conducted a joint naval exercise in the East China Sea with the Chinese forces (Tow and Yen 2007: 338). In 2008, Australia upgraded its bilateral Defence Strategic Dialogue to talks at the Secretary of Defence and Chief of Defence Force level (DFAT 2009). Most importantly, on top of the fact that Australia exports uranium to China, a mineral of dual-use that could possibly be diverted for military applications, that Chinese companies are now even being

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<sup>8</sup> The two countries had exchanged military attaches as early as in 1982

<sup>9</sup> A consolidated list of bilateral visits and exchanges has been given at the end of the chapter

considered for licenses to explore uranium in Australia, speaks of the growing trust-building in terms of security between the two countries (Kelton 2005: 235).

Therefore with the changing nature of issues of security and the fast-emerging variations in the security environment, it would be almost impossible to avoid cooperation between the two nation-states. Given the actual physical proximity between the two (at least in comparison to the US), there are a number of scenarios when they will have to cooperate. In the northeast Asia, North Korea and its nuclear posture perhaps poses the greatest threat to not only the immediate region but the whole of Asia and any cooperation between Australia and China on the issue can be a great asset to the ongoing attempts to resolve the problem. Though Australia is not a member of the Six Party Talks, its intercession through China will greatly alleviate the suspicions and anxieties that the North Koreans harbour against the western countries particularly the US. Then, the commercial and strategic significance of the maritime corridors in the Southeast Asian region hardly needs any elaboration. The sea lanes are the life line of the East and Southeast Asian economies which are heavily dependent on international trade and import of energy. Since trading interests of both the countries pass through those waters, cooperation between the two to tackle piracy, maritime terrorism, illegal immigration and other maritime related security threats. In this context, they could even cooperate with the ASEAN Regional Forum (ARF). Then in South Pacific, both could coordinate to foster stability and order in the region especially in the context of failing states. Rampant transnational organized crimes pose most serious threats to international community including Australia and China and the prospect of organised criminal groups providing nuclear, radiological, chemical and biological weapons to terrorists is particularly worrying. Since China has developed considerable influence and stakes in the region particularly in competition with Taiwan, a joint initiative between Australia and China would only neutralize China's apprehensions about Australian tilt towards US and Taiwan. In fact, Australia has already on several occasions demonstrated its favourable posture towards the PRC in the South Pacific as apparently against Taiwan. Though it is difficult to speculate on Australian stance on a possible military confrontation between the US and China on Taiwan, it does not preclude for certainty the prospects of an Australia-China security cooperation. Then on the most raging non-traditional issue of terrorism, the two countries can cooperate to tackle a scourge that transcends borders and can strike at the most unexpected and inopportune times. Australia because of its perceived closeness with the US has been on the hit list of Al Qaida, regional variants like Jemmah Islamia and their operatives. The Chinese

too have been affected particularly in their western province of Xinjiang. This makes for tremendous opportunities for the two to cooperate. As a matter of fact, terrorism has even served to narrow the differences between the US and the PRC and made a strong case for global cooperation in the spirit of multilateralism. Expectedly, the Chinese have been cooperating in the Security Council resolutions against terrorism.

Hence to conclude, there are very strong reasons and contexts for Australia and China to come together for common security objectives. What is required is a hard appraisal of one's long-term interests by the two countries and it will appear that nothing in the realm of foreign policy is impossible as there are no permanent friends and enemies between countries. Just like the rest of the world, Asia seems to be going through an intense transitory phase. While other parts of the world have seen a decline in military spending, military purchases through most of the Asia-Pacific region have been on the rise. Though a number of regional institutions and groupings (among whom APEC, ASEAN, ARF and PIF discussed before) have emerged with their usual accompaniments of regular meetings and declarations, some of the fundamental issues like the North Korean crisis, Taiwan, Myanmar, Kashmir and Afghanistan have not been addressed with any degree of finality as yet. While different issues have their own dynamics and complexities, one common thread apparently running through them seems to be the tendency of the policy elites to somehow keep things in abeyance for posterity (hoping that time and economic benefits would automatically erode the political-military differences). A security engagement between Australia and China could be considered a pro-active step to break the ice on precisely this line of argument, i.e., instead of brushing things under the carpet, it makes more sense to face them squarely and resolve them. This bilateralism could then be extended to a more multilateral exercise of diplomacy. Any lack of teeth and real effectiveness of institutions and security arrangements is always an advantage for the biggest power in the region since a collective security-building would inevitably by its very nature constrain the ambitions of that biggest power. In this sense, China must consider itself strategically favourable positioned as the few security institutions that are there in the region, they have been rather inhibited in their approach when it comes to 'disciplining' china. In such a backdrop, it is almost a compulsive necessity for Australia to forge a security cooperation with the PRC. Within a liberal-institutionalist framework, one of the most usual ways of managing security is by co-opting more stakeholders in an arrangement wherein the common interests of each make it imperative for each to maintain security thus enabling the cause of the original security-seeker entity. Therefore, can



Australia find a better security partner than China at least in the regional context? Not surprisingly, Australia's most recent 2016 White Paper not only welcomed the elevation of Australia-China relations to a Comprehensive Strategic Partnership in 2014 but had clearly acknowledged Chinese strategic primacy with the assertion, "China has a central role to play in contributing to the peace and stability of North Asia and the Indo-Pacific" (DFAT 2016). This echoes a sense of continuity from the 2009 White Paper which had declared, "As China assumes a greater role on the regional and world stage, the Government recognises that Australia must build a deeper understanding of China's security policies and posture...Developing our defence relationship with China is therefore a priority" (DFAT 2009).

## Chapter III

### **AUSTRALIA-CHINA ECONOMIC RELATIONS, 1989-2005**

This chapter seeks to explore the economic relationship between a classically market driven Australian economy and a Chinese economy which is apparently in the process of getting there. By calling Australia a classically market based economy, the intent is not to brand it as one archetypal orthodox capitalist economic system in a strict theoretical sense, instead it is to drive home the relative degree of openness with respect to China and the head start that market economy has attained in taking roots in Australia, as compared to China. Economics constitutes a fairly wide canvas and it is not confined merely to trade in goods and services but also includes investment with associated strands of capital, science and technology, finance, movement of labour, grants-and-aid, legal cooperation, etc. Particularly in terms of China, the Australian White Paper on National Interest issued in 2003 explicitly states, “The Government will pay particular attention to securing the long-term vitality of Australia’s successful partnership with Japan *and to building a strategic economic partnership with China*”(DFAT 2003). And in the process, this chapter will also examine the ‘almost’ open door policy implications of a yet ‘communist’ Chinese state that has in time joined the world market economy bandwagon, and see how and where Australia fits in their over-all national economic interests framework over the period 1989-2005.

For the sake of clarity and convenience, the chapter has been subdivided into five broad sections with each section outlining the myriad dimensions of both cooperation and conflict of interests in that particular domain between the two countries. These five sections are: Agriculture, Mining, Manufacturing, Services and Investment. Though there would indeed be inter relations and overlaps between various issues, there would be an attempt to deliberate on them, both individually and holistically and wherever necessary, sectoral or any other linkages will be sufficiently established and discussed. Most naturally, while the first four, namely, agriculture, mining, manufacturing and services would deal with the trading or commercial aspects between the two countries, the last one, i.e., investment would examine the dimension of bilateral investment position mainly in terms of Foreign Direct Investment (FDI) (as opposed to Foreign Institutional Investment or FII) between the two.

The nineties through the dawn of the new century and the millennium stretching up to 2005 has truly been a time of momentous significance for the world economy. With growth rates

slowing down and even stagnating in many parts of the developed world and the epicentre of economic activities gradually shifting towards the East (economies like China and India as the new flag bearers), the rules and priorities for national governments to conduct their economic relations with each other have undergone a dramatic change. The now clichéd “death of distance” made possible by new technologies and innovations in the information technology and communications space has allowed trans-national corporations to situate their businesses in regions and locations that minimizes input costs, maximizes profitability— and for the host regions, they trump as low-cost manufacturing and servicing zones— a means of employment for local population and therefore a source of enhanced national productivity and income. The proposition that trade is an engine of growth was amply confirmed in 1989 when the volume of world merchandise trade, growing at 6.7%, continued to lead the expansion in the world economy. While this represented a slowdown from the 9% recorded a year before in 1988, it nonetheless marked the fifth consecutive year in which the increase in world trade exceeded the increase in world output (World Economic Survey 1990: 1). In terms of value, world trade had expanded nominally by \$ 532.6 billion in 1989, or 9.1%, thus pushing the value of both world imports and exports over the \$ 3 trillion mark for the first time (Ibid: 51). As for world trade vs GDP, the increase in share of world trade as compared to GDP continued apace. True to the trends in the 1990s, the over-all volume of trade grew 2.5 times faster than world GDP, compared to an average of 1.5 times over the period since the Second World War (World Bank report titled Economic Growth in the 1990s: Learning from a Decade of Reform 2005: 63). In 1990, the total value of trade was less than 40% of global GDP; by 2004 the world economy had grown 50% and two-way had trade exceeded 55% of global GDP (World Bank).<sup>10</sup>So, the inexorable march of globalisation in terms of integration of international capital, labour, and product markets continued as before. Then the spurt in international capital and labour mobility (ratio of assets owned by foreign residents to World GDP) as a proportion of World GDP is evident from pure data—from 25.2% in 1980 to 48.6% in 1990 which has since risen to 92% by 2000 (Crafts 2004: 20). Outsourcing and overseas back office businesses grew to unprecedented proportions and McKinsey Global Institute (2003) estimated that by 2001 off-shored business services amounted to about \$ 2.6 billion focusing on call-centres, data processing, accounting, etc. Not to miss, this had also been a period of occasional economic turmoil on the wave of recessionary trends, some

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<sup>10</sup> Calculated on basis of World Bank database

globally such as that of 1990-91<sup>11</sup> and 2001, and some locally such as that of the Asian financial crisis of 1997 (ABC 2006).

Against this international backdrop, China's share of world GDP was 1.78% in 1989 which had grown to an impressive 5.13% by 2005. For the same period Australia's proportion of world GDP was a mere 1.44% which grew to a measly 1.57%. In terms of per capita income, while in 1989 Australian figure was \$25,292 rising to \$34,713 by 2005; China in 1989 recorded a GDP per capita of 460 that had swelled about four times to \$1761 by 2005 (Economic Research Service of US Department of Agriculture).

Against such a whirlwind of changes in the patterns and trends in the world economy, a comprehensive study of economic relations between Australia and China becomes perfectly in order. As pointed out earlier, the first and unarguably the most dominant dynamic of any economic relationship between two countries is trade. Trade on its own constitutes the single-most point of economic interest between two sovereign countries. Keeping political complexities aside (for the time being), an export-driven employment generating forex earning trading economy is what every sovereign nation's supreme objective is when it comes to economic relations between two countries. This is not to deny that for various other externalities, one country often voluntarily runs trade deficits with some countries and pro-actively strives for a favourable balance of trade status with many others. As a matter of fact, a trade deficit in the short run capital account could also mean that the country's businesses are busy buying and expanding and building subsidiaries abroad, though it may not be attractive to foreign buyers. At a more basic level, no country can be expected to naturally produce or artificially manufacture every product or commodity for all its citizens at all points in time. Some might be self sufficient in a few but may not be fully sufficient on their own. Or even if for a moment it is assumed that a country is fully self-sufficient in all the products and commodities known to mankind, this still leaves a question mark on the efficiency of production and the most optimal allocation of resources. Besides, the innate connection between trade in goods and commodities and exchange and provisioning of services, flow of capital and labour (skilled, semi-skilled and unskilled) means that in the globalised world of today, it is virtually impossible to remain cut off from the rest of the trading world.

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<sup>11</sup>Between Sep. 1990 and 1991 during the recession, Australian GDP fell by 1.7%, employment by 3.4% and unemployment rate rose to 10.8%

Further defending the rationale behind a trading collaboration between two separate entities, some common theoretical frameworks serve as useful guidelines to our understanding of the subject. Moving a step further from the idea of absolute advantage in production of any good or commodity by a trading entity (a sovereign country, a regional trading bloc or a multi-nation caucus like WTO), the theory of comparative advantage underlines why it is advantageous for a country to trade in a certain commodity with another country despite being more efficient both qualitatively and quantitatively for that particular commodity. This can be elucidated through the concept of opportunity costs of producing goods which are different for different countries for various goods. What this means is that a country because of the difference in opportunity costs for particular commodities vis-à-vis another country should strategically allocate its resources towards producing that good at which it is more efficient in relation to another good at which it is relatively less efficient (but yet more efficient than its trading partner). Then the lesser efficiently produced good can always be purchased from another country from the earnings that it makes through the export of its more efficiently produced good. So, a country with excess labour will tend to specialize in producing labour-intensive commodities and will export these commodities in exchange for capital-intensive commodities. Though the above argument sounds simplistic, it lies at the heart of any discourse favouring free trade among nation states. Not only does it explain specialization and wider efficiency of allocation of resources and production, it also paints a favourable picture (at least theoretically) in terms of more equitable distribution of these efficiency gains. However, the basic comparative advantage model takes account of only two factors of production—labour and capital and assumes them to be homogeneous. Subsequent theorists have extended this model to account for technological change, market imperfections, industry structure and demand side considerations which influence trade flows such as tariff and non-tariff impediments to trade. Also, comparative advantages change over time as economic development proceeds.

Any economic relationship between any two countries is strongly guided by both domestic and external factors. One big difference lay in the fact that whereas Australia was a parliamentary democracy with room for open public discourse on national trade and economic policy affording a role for various parts of public, interests groups, lobbies, etc. to have a considerable say in the design and formulation of trade and investment policies, China spelled a different political climate. China effectively being a single-party body politic dominated by the Communist Party of China (CPC), allows little space for public debate on

matters of trade and economy. Usually, it is a small politico-military elite that exercises control over critical decision-making on trade and economic issues. Nonetheless, according to international approach, domestic decision makers formulate foreign economic policies based partly on their perceptions of the international system and the relevant position of the country in the system. Policy outcomes also reflect the distribution of power of the international structure. At the same time, the international system can also influence domestic policy makers' ideas, preferences, perceptions, policy inclinations, the power configurations of the institutional structure, and ultimately the policy choices. Thus the making of foreign economic policy is essentially a two-level game between domestic and foreign actors (Feng 2006: 137).

To begin with, this chapter would first draw out the actual status of the economic relationship between Australia and China in 1989 and how over the years the partnership has expanded from a purely merchandise trade-driven dynamic to a multi-dynamic relationship inclusive of investment, services, finance, technology and labour. It would not be out of place here to point out that in 1989 China was not even a full-fledged member of GATT (the earlier charter of trading arrangement between countries that has since evolved into a full-scope institution in the form of WTO). It had a mere observer status<sup>12</sup> (China though was one of the 23 founding members of GATT until on May 5<sup>th</sup> 1950 when the Kuomintang Government moved to Taiwan and withdrew)<sup>13</sup>(Feng 2006: 53). Acquiring observer status at the WTO on 11<sup>th</sup> July 1995 through a protracted period of negotiations and parleys, it was finally on 11<sup>th</sup> Nov. 2001 at the Fourth Ministerial Conference at Doha when China became a full-fledged member of WTO (Ibid: 61, 64). However in 1989, aside from the fact that it wasn't a WTO member, it wasn't even considered an Economy in Transition (EIT—the acronym EIT caught on in the context of the post-communist countries gradually migrating towards a market based economic structure.<sup>14</sup> In fact it was in Nov. 1993, when the Chinese decided to change gear towards market economy when the historic “Decision on Issues Concerning the establishment of a socialist market structure” was adopted by the third plenum of the 14th Congress of the Chinese Communist Party (Naughton 1995: 274; Qian and Wu 2000: 1).As a

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<sup>12</sup>In 1982, China was granted observer status in GATT

<sup>13</sup>On 24<sup>th</sup> march 1948, though Nationalist Government of China signed the Final Act of the United Nations Conference on Trade and Employment in Havana and the Protocol of Provisional Application to GATT, after the defeat in the civil war, it withdrew from GATT in March 1950

<sup>14</sup>According to World Bank, they are countries moving from centrally planned to market-oriented economies. These countries- which include China, Mongolia, Vietnam, former republics of the Soviet Union, and the countries of Central and Eastern Europe- contain about one-third of the world's population)

result, some radical reforms that followed in the next few years included: “unification of exchange rates and convertibility under the current account; the overhaul of the tax and fiscal systems with the separation of national and local tax administrations; and reorganization of the central bank, including establishing cross-province (i.e., regional) central bank branches. China also started to privatize small-scale state-owned enterprises, to lay off excess state employees, and to establish a social safety net” (Qian and Wu 2000: 3). Australia on its part, for all its openness and claiming to be a market-determined economy had considerable similarities with China when it came to being a liberal trading economic structure. Here we must make a distinction between openness in terms of domestic market economy and an international market economy. Internally, Australia had a free market economy with sufficient freedom of enterprise where resources were allocated and businesses allowed to be developed to a great extent based on market dynamics. Market can be defined as a ‘set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated by those institutions...’ as defined by Hodgson (Rosenbaum 2000: 460). According to the International Trade Administration, Department of Commerce, Government of United States, there are normally 6 factors taken into account for establishing that a country has a non-market economy:

- The extent to which a currency is convertible to other countries’ currencies
- The extent to which wage rates are determined by free bargaining between labour and management
- The extent to which joint ventures and other investments of firms of other countries are permitted
- The extent of government ownership or control of the means of production
- The extent of government control over allocation of resources and over the price and output decisions of enterprises
- Such other factors as the import administrators consider (China Internet Information Centre 2003)<sup>15</sup>

If we follow the Index of Economic Freedom (Annual Guide published by Wall Street Journal and Heritage Foundation, leading Washington based think tank), a standard

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<sup>15</sup> *Criteria of Market Economy*, Available at <http://www.china.org.cn/english/2003chinamarket/79507.htm>

containing benchmarks against which Economic freedom is measured, Australia again appears to have a clear edge over China. Aggregating all these indicators (Business freedom, Trade freedom, Fiscal freedom, Government size, Monetary freedom, Investment freedom, Financial freedom, Property rights, Freedom from corruption and Labour freedom), Australia's over-all score was 79 in 2005 as against China which had a score of 53.7 (Wall Street Journal and Heritage Foundation).<sup>16</sup> However, when it came to participation in open international trade, Australia was no less 'restrained' if not inward-looking than China. Despite being an early signatory to GATT (GATT was approved by the Australian Parliament with the passage of the International Trade Organisations Act No. 73, 1948), it had studiously avoided any participation in the Dillon and Kennedy rounds of multilateral GATT negotiations during the 50s and 60s (Anderson 1987: 177). Till late 1960s, Australia along with New Zealand had the highest tariff rates on manufacturing industries among the OECD countries, as well as protective schemes for weaker rural industries such as dairying and dry fruits (Rich 1988: 401). It was only in 1973 when all tariffs were reduced unilaterally by 25%. This was followed by another round of tariff reduction in 1977 when the average tariff reduction amounted to 40% since 1973 enabling it to qualify for participation in the Tokyo round of GATT negotiations (Anderson 1987: 177). Nonetheless, as compared with China, Australia had been a more active member of GATT.<sup>17</sup> Its international dependency can also be traced even before in history when the fortunes of the Australian economy swung much in step with the ebb and flow of the broader global economy as a whole. With a few exceptions that there were, it had indeed been susceptible to the depressions or recessions (in the 1890s, 1930s and 1970s) of the world economy while sharing intermediate periods of prosperity.

### **Agriculture vis-à-vis Australia-China Economic Relations**

First and foremost, trade relationship between the two countries on primary products will be discussed. It must be mentioned that China applies Most Favoured Nation (MFN) rate on imports from Australia while Australia applies developing country tariffs on its imports from China establishing that Australia already has a concessional approach in its trade relations with China. According to Revision 3 of the Standard International Trade Classification (SITC) of the WTO, Primary products can be classified under two heads: Agricultural

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<sup>16</sup>In 1995, Australia's over-all score was 74.1 against China's 52

<sup>17</sup>Australia in Dec. 1989 was the first GATT member to be reviewed under the trade policy review mechanism (TPRM) of the GATT Council



Products and Mining Products. Agricultural Products can be further categorized under two sub-heads: Food and Raw Material. Under Food come food and live animals; beverages and tobacco; animal and vegetable oils, fats and waxes; oilseeds and oleaginous fruit (SITC sections 0, 1, 4 and division 22). And Raw materials include hides, skins and furskins, raw; crude rubber (including synthetic and reclaimed); cork and wood; pulp and waste paper; textile fibres and their wastes; crude animal and vegetable materials, n.e.s. (SITC divisions 21, 23, 24, 25, 26, 29). Mining products can be further classified under three sub-heads—Ores and other minerals {crude fertilizers (other than those classified in chemicals) and crude minerals, metalliferous ores and metal scrap (SITC divisions 27, 28)}; Fuels (SITC section 3) and Non-ferrous metals (SITC division 68) (WTO Technical Notes). Agriculture includes not only basic agricultural products such as wheat, milk and live animals but also the products derived from them such as bread, butter and meat. It also includes wines, spirit and tobacco products, fibres such as cotton, wool and silk, and raw animal skins destined for leather production. Fish and fishery products as part of agriculture have also been included for this study.<sup>18</sup>

However before elaborating on the actual relations between the two, a brief overview of Agriculture in the two countries has been done.

Agriculture has been one of the mainstays of Australian economy right through its history--be it contribution to employment, its critical role in food security for domestic population and not to mention, its share in foreign trade for several commodities. Until the late 1950s agricultural products had constituted more than 80% of Australia's total exports (Australia Yearbook 1991). Despite the growth in agricultural output, the sector's relative share in the economy declined from 25% of national income in 1949-50 to 8% in 1969-70, a period in which first the manufacturing and then the tertiary sector had expanded dramatically. Through the early 1980s till 2004-5, the share of Australian agriculture in GDP has gone down from 3.6% to 2.7% though in actual terms agriculture has grown by about fifty percent as against GDP that grew about twice the size what it was in over the same period of time (net inflation) (ABARE 2006: 4).<sup>19</sup>

However, from the very beginning, Australian farmers have been commercial in terms of nature of operations than being subsistence workers. They were mainly dependent on market

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<sup>18</sup>Fish and fish products and forestry products were not included under Uruguay round negotiations

<sup>19</sup>ABARE stands for Australian Bureau of Agricultural Resource Economics which in 2010 became Australian Bureau of Agricultural Resource Economics and Social Sciences (ABARES)

sales, especially export markets for most of their income. On agriculture as a domestic industry, operationally, there has been a consistent increase in the scale of farming activities as that there has been a greater investment of capital. In terms of numbers, this has resulted in a fall in farm businesses (from 39000 to 30500 effectively by 22% between 1985-86 and 2005-06) flowing from a greater consolidation. For the same time horizon, there was a 58% rise in average area cropped per farm in effect a rise from 450 hectares to 710 hectares and a doubling of capital from an average of A\$1.4 million to A\$2.8 million (Ibid: 2006: 4). Agriculture has also been a significant source of employment, though in real terms its share has considerably come down. While the sector and allied businesses employed 380100 persons in the year 1989, by 2005 the figures had come down to an estimated 336800 people employed in agriculture (Australia Yearbooks 1992 and 2007). Though Australia is certainly not dependent on natural forces to feed its domestic population and is unlikely to face food shortage at least in the short to medium term, natural forces can certainly impinge on Australia's over-all productivity as evident from the 2002-3 drought that brought down agricultural output by nearly a quarter and real agricultural income fell by over 50 percent (Australian Productivity Commission 2005: 4). In fact, there were droughts even in 1982-83 and 1994-95 the impact of which wasn't though as far-reaching as the latest one in 2002-3. Therefore, given the extreme variability and flux in the climatic patterns on the island-continent and the rising frequency of droughts ravaging the country in recent years with negative spillover effects including falling water availability leading to diversion of water from a staple food item such as rice towards more profit-making pursuits such as wine, and raging forest fires and the resultant creaking and weakening physical infrastructure especially in inland and remote areas, agricultural policy makers have a recurrent problem on their hands. Most recently even as the collapse of rice production set off a panic internationally in economies such as Hong Kong, the Philippines, Cameroon, Egypt, Ethiopia, Haiti, Indonesia, Italy, Ivory Coast, Mauritania, Thailand, Uzbekistan and Yemen (Bradsher 2008), its potential domestic ramifications in future can not be underestimated. Uncertainties arising from natural situations such as droughts and floods do not only impact domestic production but also deter potential investment in the sector to the extent that the country might have to import food grains to feed its own population for certain years or possibly in future. As for the domestic consumption pattern of the country, we must also take into consideration the constant influx of people from outside Australia and the resultant changing population mix in a multicultural society that creates the need for food types typical of their respective cultures and habits. Even the tastes and needs of Australians themselves continue to evolve and

change as they are more willing to experiment with new foods and cuisines. There is certainly a trend towards more processed and pre-prepared food. There is also increasingly the additional choice of quality, low-cost foods available from developing countries. Since “up to 80% of Australian agricultural products are destined for the international market place, where prices fluctuate in an increasingly open and competitive economy” (Marangos and Williams 2005: 581), a small domestic market has been an abiding challenge for Australian farmers. Internationally, even when the Uruguay round under WTO has included agriculture as a subject for multilateral negotiations and placed time-bound reduction of export subsidies and domestic support on agricultural products by developed countries such as the US, EU and Japan, in terms of implementation not much headway has been made so far in the subsequent Doha round. Substantive barriers in the form of tariff and non-tariff barriers, quarantine and technical barriers (such as labelling requirements), sanitary and phytosanitary measures continue to exist in various forms. Despite the fact that there has been a declining terms of trade for agriculture and allied products arising from a constant rise in input prices owing to increasing shortage of water<sup>20</sup> and spurt in land prices among other factors, Australian farmers have sustained their businesses and remained competitive internationally because of their single-minded focus on total factor productivity which has grown strongly for grains and the cropping industry—averaging 2.7% a year from 1977-78 to 2003-04, though significantly lower than livestock and dairy industry. The earlier mentioned paper *Trends in Australian Agriculture* of the Productivity Commission has identified high-growth agricultural products in poultry, grapes, cotton, nurseries and dairy; declining or slow-growth products in pigs, egg and sheep; and average performing industries including beef, grains, fruit and nut, vegetables and sugar (Australian Productivity Commission 2005).

As to China’s agricultural journey, for a country of its size and population, agriculture for long never really had to look outward for markets and whatever little growth that it saw had essentially been a domestic market driven one and under the aegis of a closely controlling state. So one huge difference with Australia has been that the share of agriculture in total trade has been much less unlike Australia whose agricultural sector primarily depends on exports for markets. While Australia’s agricultural raw material exports (% of total merchandise exports) was 15% in 1989, China’s was 5 percent. By 2005, indicating a clear trend away from agriculture, Australia’s share had plummeted to 5% whereas China’s share

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<sup>20</sup>Water which sold for A\$25 per million litres in 2003-4 rose to A\$1200 per million litres by 2008

had come down to as low as 1 percent.<sup>21</sup> Therefore initially China's growth process resembled of a typical developing country's wherein in their attempt to fast-track industrial development, agriculture was initially overlooked, over-taxed and under-invested to the benefit of secondary industry which attracted dominant share of investment and was subsidized. It was only in 2004 when China moved its policy approach away from taxing farmers toward subsidising them (Roberts and Andrews 2005: 16). Even with the launch of reforms in the Chinese economy in the late 1970s and raising of procurement prices to stimulate grain production, government called all the shots and the overarching goal was food self-sufficiency and not immediate streamlining of domestic market and de-regulation of prices, much less alignment with the world market. Nonetheless, the replacement of commune system by individual responsibility system did yield good results as agricultural output increased by over 50% between 1978 and 1984 (Johnson 1988: 235). In fact for agriculture, average annual growth rate had hovered over 8% in the initial phase (1981-85), then steadily dropped to 4.2% (1985-90 and 1991-95) and 3.6% (1996-2000) which again recovered to 4% for 2001-2005 and seemed to get even better, going by the figure of 4.25% for 2006-09. At the same time, the relative contribution of agriculture (value added, % of GDP) to GDP came down from a high 40% in 1970 to 30% in 1980 to 27% by 1990, and had even come down to 12% by 2005.<sup>22</sup> The implication is that while output has grown, its relative share has decreased vis-a-vis the other sectors of economy such as industry and services that have concurrently grown even more.

As domestic agriculture market becomes more 'market based' and gets more integrated with international market, China is likely to migrate from growing land-intensive products such as grains to a more labour-intensive commodities such as fruits, vegetables and meat in which it has a greater comparative advantage. In the face of challenges in terms of land degradation and shortage of irrigation water, the manner in which the policy makers would handle the situation keeping environmental concerns and food priorities in mind will also determine the course of future Chinese agricultural production and trade. Also the Chinese accession to WTO and the commitments on that account to cut down tariffs and reduce non-tariff barriers should also cast an impact on the decision and priority-making of the government on agriculture. By 2005, China had to a great measure fulfilled its commitments on WTO with the average of applied import duties having been brought down from 15.6% in 2001 to 9.7%

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<sup>21</sup>Figures taken from World Bank website

<sup>22</sup>Figures taken and calculations made based on World Bank website data

to that year. China's agricultural tariffs were also lower than many developing countries and developed economies like EU and Japan, an indication of progressively liberalized agricultural trade (Lamy 2006). As the state still exercises sufficient control on the quantity and flow of trade through state trading enterprises and sundry policy measures, it can not be said with absolutely certainty as to the precise direction of Chinese agricultural production and trade.

Coming back to the actual agriculture trade relations between Australia and China, at the very outset, it is important to lay down the significance of the commodity classification that has been used in the computation of agricultural exports. When we calculate the agricultural exports using the SITC classification Rev 3 as designed by the United Nations (that includes Agriculture as including Food & Raw material as indicated earlier), we get a more realistic assessment of the performance of the sector vis-a-vis the rest of the economy.<sup>23</sup> As opposed to this, when we consider data according to the industry of origin and not by commodity classification, the contribution of agriculture gets a great deal under-represented. The difference that lies between the two sets of classifications is that while commodity based classification under SITC accounts for products that have not undergone significant value addition or haven't been processed to a much higher level to the extent of manufacturing, the industry of origin based classification mainly depends on the final stage of processing of a certain commodity and thereby includes many articles under Industry that should otherwise be categorized under agriculture. One principal example is that of Food, Beverages & Tobacco that do not feature under Agricultural exports by virtue of their being processed to a higher level and therefore are calculated under Manufacturing exports, sharply bringing down the value of Agricultural exports.

For the period under study, i.e., between 1989 and 2005, while in real terms Australia's Food exports value rose by 121%, the value of Raw material exports actually came down by 28%. Over-all, agricultural exports (as including both Food and Raw materials), posted a 63% surge between 1989 and 2005. Accounting for the individual components, it is the Beverage and Tobacco segment that has shown a stupendous performance with a 1170% growth rate followed by Oil Seeds & Oleaginous fruits (792%), Pulp & Waste Paper (280%), Animal & Vegetable Oils, Fats & Waxes (182%), Cork & Wood (143%), Crude animal & Vegetable material, nes. (106%), Food & Live animals (92%) and Hides & Skins (18%). On the other

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<sup>23</sup>The United Nations SITC is the most widely used commodity-based classification

hand, items such as Crude Rubber (94%) and Pulp & Waste Paper (72%) depicted a marked decline over the period.<sup>24</sup> For a comparative analysis between Food and Raw materials, while Food comprised 59.4% of total Agricultural exports in 1989 as against 40.6% for Raw Material, it rose to 80.51% against Raw material that contributed to 19.49% of total agricultural exports by 2005. Again speaking in terms of the relative performance of individual items in their respective year, Food & Live animals maintained the largest share throughout 1989 (57.11%) to 2005 (67.26%) of Total agricultural exports. When calculated against Food exports, the proportion of Food & Live animals rose from 83% in 1989 to an all-dominating share of over 96%. While Beverages & Tobacco exports contributed to a measly 1.37% of total agricultural exports in 1989 (2.31% of Food exports), it shot up to a whopping 10.66% of total in 2005 (13.24% of Food exports) underlining the increasing significance of Beverages & Tobacco articles for Australia's export returns. Then Oil Seeds & Oleaginous Fruits that held a dismal 0.26% share of total agricultural exports (0.44% of Food exports) rose to contribute 1.44% to total agricultural export value (1.79% of Food exports). As for individual items among Raw material, of total agricultural exports, the share of Textile fibres and their wastes plunged from a significant 33.95% to a modest 12% by 2005. On calculation against only Raw material (not total agricultural exports), they threw up even more imposing figures of 83.63% in 1989 which though came down to 62.05% in 2005. Besides, Crude Rubber (from 0.09% to 0.03%) and Hides skins, Furskins (from 3.1% to 2.24%) too showed a decline against total agricultural export figures over the period. However, of the Raw material, Cork & Wood (from 2.46% to 3.66%), Pulp & Waste paper (0.2% to 0.47%) and Crude animal & vegetable materials, n.e.s exhibited a small increase in their share of total agricultural exports.<sup>25</sup>

Against the figures put forth in terms of the totality of agricultural exports in the preceding paragraph, we will now take a look at the figures thrown up in case of China for the period 1989-2005. Australia exported Food worth 289 \$ million to China in 1989 against total Food export value of 7714 \$ million, a not so significant contribution of 3.75%. This figure has even further come down in 2005 to a meagre 3.01% even as in absolute terms, food exports to China grew by 78% over the period. As far as Raw Material is concerned, the percentage contribution of export to China vis-a-vis total Raw Material exports exhibited an astonishing growth--a figure of modest 3.73% in 1989 surging to a dominant 40%. Attempting a further

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<sup>24</sup>Calculations made on basis of figures from Comtrade database accessed through Interactive Graphic System of International Economic Trends (SIGCI) of UN Economic Commission for Latin America and the Caribbean

<sup>25</sup>Calculations made on basis of figures from Comtrade database

componential analysis of China's share of Australia's agricultural exports, we see that Food & Live Animals constituted a sweeping 98.56% of total Food exports to China followed by Animal & Vegetable Oils (1.4%) and Beverages & Tobacco (0.04%).<sup>26</sup> However by 2005, the share of Food & Live Animals of total Food exports had come down to 78.46% followed by Animal & Vegetable Oils, Fats & Waxes whose contribution rose to a stupendous 16.66% further accompanied by Oil Seeds & Oleaginous fruits (2.53%) and Beverages & Tobacco (2.34%). However comparing these components against themselves respectively between 1989 and 2005, we notice that Oil Seeds & Oleaginous Fruits registered an extraordinarily phenomenal growth of 52032%<sup>27</sup> followed by Beverages & Tobacco and Animal & Vegetable Oil Fats & Waxes with equally incredible figures of 10855% and 2004% respectively.<sup>28</sup> Such astonishing figures actually reflect an extremely low base at which these items had contributed towards Australian exports to China in 1989. However, Food & Live animals turned out to be the clear laggard showing a dismal rise of merely 39% over almost sixteen years, though this points to the high base at which they had started in the late 1980s. Turning to a componential examination of Raw Material exported to China, Cork & Wood<sup>29</sup> has gone a step ahead of Oil Seeds & Oleaginous fruits with a gigantic leap of 96245% followed by Pulp & Waste Paper (67075%), Crude Rubber (2048%), Hides, Skins, Furskins (1785%), Textiles, Fibres & their Wastes (614%) and Crude animals & Vegetable materials, nes (605%).<sup>30</sup> These skyrocketing numbers are again indicative of the low base at which Australian exports of Raw material to China had featured in 1989. Over-all, total Raw Material exports to China registered a stupendous 704% growth against a poor Food export growth of only 78%. However, a yet more true picture emerges when we place each individual item against total agricultural exports to China and seek to establish each one of their share against an over-all agricultural export value. We observe that Food & Live animals share has taken a drastic fall (from 58.7% to 19.26%) whereas Textile fibres & their wastes have recorded a dramatic rise (from 37.44% to 61.97%) underscoring the direction Australian agricultural exports has been inclined to take vis-a-vis China over the examined period. Also noteworthy is the rise in share of Hides, skins & Furskins (from 1.42% to 6.19%) and Animal & Vegetable oil, Fat & Waxes (from 0.84% to 4.09%) in Australia's agricultural export basket to China. Aggregating figures for both Food and Raw Material

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<sup>26</sup>There was no export of Oil Seeds & Oleaginous fruits to China in 1989

<sup>27</sup>Since there were no Oil Seeds & Oleaginous Fruits exported to China in 1989, the 1990 figure has been taken to compare with the 2005 figure

<sup>28</sup>Calculations made on basis of data from Comtrade database

<sup>29</sup>Since there was no Cork & Wood exported to China in 1989, the 1990 figure has been considered

<sup>30</sup>Calculations made on basis of data from Comtrade database

exports into consolidated Agricultural exports, in 1989 an insignificant contribution of exports to China at 3.74% of total agricultural exports rose to a very significant figure of 9.87% by 2005, a little less than one tenth of Australia's total agricultural export basket.<sup>31</sup>

Having done an item-wise comparative examination of exports of Australian agricultural products to China for the period, we will now undertake a more specific study of certain agricultural commodities (based on differentiation between Food & Beverage items and Non-food & beverage items) that could be relevant from the Chinese import standpoint and where Australia could make a contribution. To do this, we will first identify and prepare a prioritized list of agriculture-related commodities that the Chinese have been imported between 1989 and 2005 (not necessary from Australia) and the trend in terms of Australian contribution (not necessarily to China) to their needs. The purpose is to first identify the broad trend needs of China and then see where and to what extent Australia's Food and beverage export profile meets them. To begin with, we have gone not by the quantity of commodity dealt in by the two countries but on the basis of import/export value of an item every year for our period of study.<sup>32</sup> Drawing on our study, we identified top 16 food & beverage commodities that were imported by China over the period—Soybean, Wheat, Maize, Palm Oil, Soybean Oil, Cigarettes, Food prep Nes, Sugar Raw centrifugal, Barley, Bev. Distilled Alcohol, Chicken Meat, Meat Cattle boneless (Beef & Veal), Milk Whole Dried, Tobacco Unmanufactured, Rapeseed Oil and Rice Milled (given in their descending order of value).<sup>33</sup> Against this list of items, we plot and compare the export value of Australia with respect to the individual items over the period. This is to establish not only the relevance of Australia from the point of view of China's food & beverage needs but also to pinpoint those top food & beverage needs of China that do not and can not rely on Australia. Based on a comparison, we observe that of the sixteen commodities, there are only five food and beverage items (in their respective categories) that throw up an export value for Australia more than that of Chinese import value—the list is topped by Meat cattle boneless (Beef & Veal) with an export value more than 11 times than that of Chinese import value followed by Sugar Raw centrifugal (2.74 times), Wheat (1.71 times), Barley (1.47 times) and Milk whole Dried (1.45 times).<sup>34</sup> For the rest twelve commodities, the Chinese import far outweighed the Australian export value highlighting the reduced scope for possible trading cooperation

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<sup>31</sup>Calculations made on basis of Comtrade database figures

<sup>32</sup>To that end, all items that had a minimum import/export value of \$ 100 Million for at least ten out of the total seventeen years have been included

<sup>33</sup>List prepared on the basis of values for food and beverage items drawn from FAO website

<sup>34</sup>Calculations made on basis of data from FAO website



between the two in terms of those commodities. It is nobody's case that just because Australia exports certain food commodities worth less than what China imports, there is no room for trade between the two for those articles. The purpose of this exercise is two-fold: One, to lay out broader contours as to the congruity between China's needs and Australia's export capacity and trends. And two, also to bring out with more clarity the items that may not warrant much cooperation between the two.

Delving further into the inter-relationship between China and Australia from the standpoint of Chinese food import needs, of the five items thrown up above, we will attempt to bring out which of them has been most dependent on Australia. Based on calculations, we find that barley has been the most dependent food item (based on share from Australia of total import in all the years from 1989 to 2005) of China vis-a-vis Australia with a 62.47% share of total Chinese import over 1989-2005 followed by Meat-Cattle Boneless (Beef & Veal) (50.12%), Sugar Raw Centrifugal (24.77%), Milk Whole Dried (23.07%) and Wheat (12.5%). As for the progress for each of these items over the years, to our surprise we find that even of these five commodities, there are two commodities that have registered an emphatic decline– the import value of Chinese Milk Whole Dried vis-a-vis Australia fell by 60%, as did wheat by 23%. Modest signs however are evident from the instances of barley (grew by 244%), Sugar Raw centrifugal (192%) and Meat-Cattle Boneless (Beef & Veal)(45%).<sup>35</sup> In addition to an examination of the five commodities as done above, we will now make an attempt to ascertain the relative importance of the other (rest eleven of the sixteen) Chinese food & beverage items' import need vis-a-vis Australia. Since, they have all displayed widely inconsistent patterns, we shall deal with them one by one.

Soybean-Though there was no import of this item from Australia for the first few years (1989-1991), it reached a little over a million dollars worth by 2005 (yet an infinitesimal 0.012% of total Chinese soybean import).

Maize-Again a poor performance with 0.02% of total Chinese import of maize in 1989 and remaining the same in 2005 and actually declined by 16.22% over the period.

Palm Oil-Once again an extremely poor indication with eleven out of sixteen years recording no transaction at all between the two.

Soybean Oil- None whatsoever for 14 years except bare minimal in 1997 and 1998.

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<sup>35</sup>Figures arrived at using data from FAO website

Cigarettes-None for 13 years except bare minimal in three.

Food prep Nes-A 2.11 % share in 1989 comes down to 1.07% though in real terms, the figure a little more than quadruples.

Bev. Distilled Alcohol-Though grows 400 times in real terms between 1989 and 2005, relatively still very minimal contribution.

Chicken Meat-Again started off with a tiny 0.64% in 1989 and was none for the last two years of 2004 and 2005.

Tobacco Unmanufactured- Absolutely none for all the years.

Rapeseed Oil-A minuscule 0.36% in 1989 remaining at 0.37% in 2005.

Rice Milled- A minuscule 0.05% in 1989 staying at 0.04% by 2005.<sup>36</sup>

After carrying out a segmented and comparative examination of Chinese food and beverage import needs against Australian export value, the same process for non-food and beverage items accounting for the rest of the Chinese agricultural import basket will be followed. Based on the figures,<sup>37</sup> six such items have been identified: Cotton Lint, Rubber Nat Dry, Wool Greasy, Crude Materials, Hide Wet Salted Cattle and Wool Degreased (in descending order). Placing these figures against Australian export value of these commodities, we see that the import values of only two of these items (Wool Degreased-more than 3 times and Wool Greasy- 2.79 times) come out to be more than the export values of Australia. This is a rough pointer to the dependence of China on Australia in terms of non-food & beverage items though in no terms does it mean that the lesser Australian export value than Chinese import value necessarily puts out of question any chances of trade for those items between the two. Further looking at dependence of China on Australia for non-food and beverages, we find that between 1989 and 2005, Wool Greasy has cornered maximum share (82.56%) followed by Wool Degreased (45.73%), Hides Wet Salted Cattle (7.63%), Cotton Lint (7.14%), and Crude Materials (2%).<sup>38</sup> In terms of simple growth (Chinese import value from Australia) over the period between 1989 and 2005, Hides Wet Salted Cattle has shown the best performance with a growth rate of 727% followed by Crude Materials (547%), Cotton Lint

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<sup>36</sup>All the calculations for above commodities done based on figures from FAO website

<sup>37</sup>We have included items where China has an annual import value of at least \$100 million for at least ten of the sixteen years

<sup>38</sup> Rubber Nat Dry saw no transaction over the period except once with 0.01% share in 1996

(320%) and Wool Greasy (286%). The only exception was Wool Degreased that actually declined by 62 percent.<sup>39</sup>

So far we have considered from the point of view of what China's top agricultural import needs have been through 1989 to 2005. Now, we will take a look at what Australia's top food and beverage export commodities have constituted (other than the 16 items discussed above) over the years and the potential that they hold in meeting Chinese requirements.<sup>40</sup> In order of value (descending order), they are Wine, Sheep Meat, Cheese of Whole Cow Milk, Milk Skimmed Dry, Pet Food, Cattle Meat, Malt and Butter Cow Milk. Of these 8 items, Pet food has shown maximum export dependency of Australia on China over the period 1989-2005 with a share of 7.25%, followed by Milk skimmed dry (6.83%), Sheep meat (5.23%), Butter cow milk (4.37%), Cheese of whole cow milk (1.95%), Cattle meat (1.15%), Malt (0.96%) and Wine (0.56%). However, in terms of simple growth rate (export value to China) over the period, Wine has shown a whopping growth rate of 35708% though with an abysmal share of 0.05% in 1989 and 0.86% by 2005. Then Pet Food has grown by a tremendous 2021% with relative share climbing up to about 9% from a lowly 1.67%. Next comes Cheese of Whole Cow Milk that has again recorded an impressive growth rate of 1311% with a relative share of 1.15% in 1989 going up to 3.78 percent in 2005. Then Milk Skimmed Dry records a growth of 655% with relative share improving from a little more than 4% to about 9 percent in 2005. Sheep meat has grown by 385%, the relative share has stayed almost constant at 5.62% in 2005 from 5.2% in 1989. The relative share of Cattle Meat has improved only marginally from 0.91% to just over 2%, with the over-all simple growth rate being 237 percent. However the biggest fall in relative share has been in Butter Cow Milk (from over 13% in 1989 to a little below 3% in 2005), though actual value grew by a modest 59%. Nonetheless the only item that showed an actual decline in value over the years was malt that came down by about 60%; also its relative share registered a steep fall from 1.66% to 0.41 percent.<sup>41</sup>

As China gets on its way to becoming a more developed and urbanised economy marked by an increasing urban income, the consumption profile of its domestic market has also undergone a consistent upgrade. The dietary patterns of its consumers have increasingly featured a rise in spending on higher-value products like meat, dairy products, seafood,

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39 Calculations made on basis of FAO website figures

40 Those other than 16 items discussed before and which have a yearly value of at least \$ 100 million for ten of the sixteen years have been included; based on FAO website

41 All the above calculations made based on FAO website figures

vegetable oils, fruit and vegetables while a fall in starchy staple grains such as wheat and rice. China's per capita meat consumption is large for a developing country, reflecting its position as the world's largest meat producer; China accounts for approximately half of global pork production. But grains (mostly rice and wheat) and vegetables make up about 70 percent of per capita food consumption in China – higher than the world average, reflecting China's lower per-capita income (Gallagher 2004: 3). Nonetheless, as the demand for meat and meat products relentlessly goes up, China is likely to import more of feed grains such as maize, soybean and oilseeds. Also over the years as Australian producers have been shifting from wool production to lamb, crops and beef cattle, the shifting dietary trends of the Chinese could well complement the Australian production patterns. In case of milk in China, though its production has risen, the consumption need has grown faster and the country might need to import milk products, particularly milk powders (Roberts and Andrews 1995: 2). The country is also likely to be an importer of wheat in the future, since the rate of wheat consumption has been rising faster than its actual production. The consumption of wheat products is also becoming diversified away from traditional noodles, steamed bread and dumplings towards more westernised products including bread, cakes and other processed foods. Then the demand for beer could also rise and so a greater impetus in demand for malting barley could occur. With national income growing about 7 percent faster than the growth in population, this changing composition of China's domestic consumption and the consequent import demand will open up greater opportunities for Australian producers. The demand for fibres in which Australia is a competitive producer (cotton, wool) also seems likely to continue to grow strongly as China benefits from the January 2005 termination of the textile and clothing quotas in Europe and North America. (Gallagher 2004: 2). Future agriculture related technologies such as Climate risk management, Canopy Management, Precision Agriculture, Dual purpose crops, Automation & robotics, ICT, GM crops, and Soil biology are set to play a greater role in agricultural production, distribution and marketing and could see active cooperation between Australia and China.

## **Mining vis-à-vis Australia-China Economic Relations**

In addition to agriculture, Mining forms the other component of Primary products as defined by the WTO.<sup>42</sup> Mining as defined by the 1993 edition of Australian and New Zealand

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42 As defined earlier, WTO classifies Mining Products as part of Primary products and comprise: Ores and other minerals, that can be even further segmented into two: Crude fertilizers (other than those classified in

Industrial Classification (ANZSIC) broadly refers to the extraction of minerals occurring naturally as solids such as coal and ores; liquid such as crude petroleum; or gases such as natural gas. Beginning right with its history, Australia backed by its unique geology and topography has always been a rich repository of minerals, base metals, metalliferous and non-ferrous and hydro-carbon wealth, though few base metals including iron, manganese, nickel and uranium resources were only found after the 1950s. The finding of a number of oil and gas accumulations in the zone of cooperation in the Timor Gap between Australia and East Timor had further added to the resource potential of the country. Towards the end of the 1990s as many developed nations were de-coupled from mineral economy and as their dependency on mining sector receded, there was a decline in exploration expenditure. As investors saw mining industry more and more risk prone and moved to dot-com and IT companies, the sector witnessed a shortfall in venture capital in the late 1990s particularly for smaller mining companies. Yet, the decline in investment was not much and not for long. In fact according to Drysdale and Findlay, “foreign investment has accounted for more than one third of capital formation in all Australian industry since the turn of the twenty-first century; in mining and resources it has accounted for almost half—and in some years a much higher proportion—of total capital formation in the sector. Importantly, foreign investors have played a similarly prominent role in capturing export markets and account for a growing share of mineral exports” (Drysdale and Findlay 2009: 353).

Despite the occasional fall in FDI, mining industry exports continued to contribute substantially to the export income of the country—though the mining exports as a percentage share of total exports had come down from 41% in 1989 to 35% in 1995, again climbed to 40% in 2000 and 48% by 2005—reclaiming its place in the Australian export space.<sup>43</sup>

As far as Chinese mining industry is concerned, the country that has seen a globally unprecedented double digit growth rate for around a decade and that is poised for a wholesale overhaul of its physical and social infrastructure as well as sharply enhanced energy consumption going into the future, minerals and raw materials hold enormous value. Despite the country itself being the largest producer of many mining raw materials in the world, it has also been the largest consumer for many minerals. This is exemplified by the fact that between 1992 and 2005, China has been a net importer of mining products for every single

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chemicals) & Crude minerals, and metalliferous ores & metal scrap (SITC divisions 27, 28); Fuels (SITC section 3); and Non-ferrous metals (SITC division 68)

43 Calculations made on basis of Comtrade data

year. The Balance of Mining trade (Mining Export-Import) that was a little more than a billion dollars in 1992 surged to a massive 21 billion dollars by 2000 that shot up to over 88 billion dollars by 2005. In purely import terms, the Chinese import value of mining products multiplied by 16 times between 1992 and 2005 as opposed to exports that rose merely 5 times clearly underlining the criticality of foreign sources.<sup>44</sup>

As for the actual relations between Australia and China in terms of mining, it is important to state that foreign investment ties with respect to this sector become as critical (particularly for outward Chinese FDI into Australia) as trade if not more, for the two countries. The Chinese investment into Australian Mineral Exploration and Development sector rose from a paltry \$ 5 million to a modest \$ 971 million in 2003 to an impressive \$ 6.8 billion in 2005 which if extended to 2008 shot up to a phenomenal over \$ 26 billion clearly showing the trend direction.<sup>45</sup> As for trade, Australia's total mining exports to China for the period 1989-2000 increased 6.6 times and an incredible 33 times if we consider the whole period from 1989 to 2005 clearly establishing the extraordinary mining export growth between 2000 and 2005. As to the proportion of individual components, Metalliferous ores and metal scrap display a clear dominance with a share of 62.62% in 1989 to 82% by 2005 and lie in the zone of about 59 to 85% right through out the period. For the second spot in terms of relative share for the whole period, both Non-Ferrous metals and Fuels seem to vie with each other closely and have shown inconsistent patterns of supremacy. So, when we added up the respective totals and in all, fuels exports trumped over Non-ferrous metals for 1989-2005. Another way to ascertain the relative better performer between the two would be to compute the Average Annual Growth Rate of the two over 1989-2005 and on doing so, Fuels emerge stronger with an AAGR of 57.6% as against Non-Ferrous Metals with an AAGR of 37 percent. However for 2000 to 2005, Non-ferrous metals have had the edge with an AAGR of 33.3% as against Fuels that recorded an AAGR of 20.4 percent. The least share of Australia's mining exports to China is held by Crude fertilizers and crude minerals and have ranged between an abysmally low 0.1% to 0.78 percent, though this category has clearly outpaced the other three in terms of growth with an AAGR of a whopping 480% for 1989-2005 though for the period 2000-2005 it plunged to a modest 37 percent.<sup>46</sup>

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<sup>44</sup> Calculations made on basis of data from Comtrade database

<sup>45</sup> Various reports by Foreign Investment Review Board, Canberra ACT, Government of Australia

<sup>46</sup> All the above figures based on data from Comtrade database

Having done a component-wise examination of mining exports by Australia to China, we shall now turn to what China supplied to Australia with regard to mining products. To start with, China's mining export value to Australia for the period 1989 to 2005 has been far too less in relation to what was sourced from the reverse direction. While average mining export value for the period was about \$ 23 billion from Australia to China, it was an extremely low figure of \$ 145 million for the other way round distinctly bringing out the disparity in the mining export potential between the two. Nonetheless, Chinese exports to Australia have shown a definite growth trend in the period as evident from a massive 50 times jump (from a miniscule \$ 8 million to about \$ 433 million) by 2005. With further probing of relative importance of various components, Fuels have had the maximum average export value for 1992-2005 followed by Non-ferrous metals, Crude fertilizers and crude minerals with the least important being Metalliferous ores and metal scrap. Incidentally, as we noticed in the preceding paragraph Metalliferous ores and metal scrap topped the list on Australia's mining exports share to China--emphatically underlining the complementarity between the two countries on that score. As for growth of individual Chinese mining components to Australia, it is the Non-ferrous metals that have grown the maximum (151 times) between 1992 and 2005 with Fuels coming a distant second (98 times) accompanied by even worse performing Metalliferous ores and metal scrap (12 times) and Crude fertilizers and crude minerals (5 times). What must also be brought out that the proportion of Crude fertilizers in total mineral exports to Australia was 44% in 1992 that plummeted to as low as 4% by 2005. Also metalliferous ores and metal scrap came down from a share of a significant 14% to a lowly 3% by 2005. Whereas the share of Non-ferrous metals had almost tripled from 16% in 1992 to 45% in 2005, the proportion of Fuels had almost doubled from 26 to 48 percent.<sup>47</sup>

Having examined the specifics of the mining trade as that existed between the two countries for the period, we shall now go into the production trends of core minerals and raw materials in the two countries and attempt to draw out any inter-dependencies if there could be, based on the difference in rates of growth and actual growth in production of minerals in the two countries. Starting with bauxite, the production of this aluminium ore in Australia was 18 times that of what China produced in 1989 though this difference by 2002-03 had come down to as little as four times. Yet, Australia continues to be a major source of this mineral for China. Then Australia has about 30-32 times of Zirconium as compared to China. Then cobalt ore which Australia only had about 3 times that of China in 1989 became 13 times by

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<sup>47</sup> All the calculations made on basis of Comtrade database

2002-03. Uranium bearing ores is another example where Australia could be of help to China with production being ten times that of China. Then on both industrial diamonds and diamonds gems, again Australia could help China with Australian production for the former being an incomparable about 30 times and for the latter being about 60 times that of China.<sup>48</sup> Then there are a number of minerals that feature no production whatsoever (or very insignificant) in China and in whose case again Australia could fulfil Chinese requirements. They include: Lignite; Limestone flux and calcereous stone; Sand, silica and quartz; Gravel & crushed stone; clay; bentonite; fuller's earth and kaolin. Closely related with minerals are metals and fuels which though originate from raw minerals but that are manufactured to a higher level. Of those, jet fuels, white spirit/industrial spirit and LPG from natural gas are some products that have no or very limited production base in China and where Australia could possibly fit in as a source of supply.

Just as Australia could be a potential supplier to China for many mining products, China too could be a source of supply for Australia. China produces the following commodities many times more than Australia: hard coal (5 times); crude petroleum (6 times); tin-bearing ores (8 times); antimony-bearing ores (108 times); magnesite (8 times); natural phosphates (11 times); barytes (175 times); salt, unrefined (3 times); and talc, powdered steatite & prophyllite (21 times). Also there are minerals that have no or very insignificant production base in Australia and for which China could fit in as a supplier. These would include: chromium bearing ores, vanadium bearing ores, mercury, potash salts crude, Sulphur native, iron pyrites, fluorspar excluding precious stones, arsenic, graphite natural and asbestos. In terms of manufactured mining products, the following command a multiple times production advantage vis-a-vis Australia—pig iron steel making (34 times); coke (46 times); naphthas (66 times); kerosene (13 times); LPG from petroleum (9 times); copper refined unwrought (3 times); lead refined unwrought (2.25 times); motor gasoline (3 times); and Gas diesel oil (7 times).<sup>49</sup>

In the final analysis, since iron ore (by extension iron and steel), coal, crude oil and natural gas happen to be the key mining articles (without prejudicing the others) that lie at the core of industrialization, construction and development, it is worthwhile recapitulating Australia and China's relations in the light of those items. In 2005, despite Australia's iron ore output

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<sup>48</sup> Based on data from 1995 Industrial Commodity Statistics Yearbook, 1997; 2003 Industrial Commodity Statistics Yearbook, 2006

<sup>49</sup> All the calculations based on data from 1995 Industrial Commodity Statistics Yearbook, 1997; 2003 Industrial Commodity Statistics Yearbook, 2006, Pub. by United Nations New York



ranked second in the world, due to limited iron and steel output capacity, the country ended up exporting more than 90% of its iron ore, which is positive from Chinese standpoint. As China has been unable to meet the demand for iron and steel from its domestic production, it has had to look outwards and Australia has rightly stepped in. China's import of iron ore as a percentage of world's iron ore shipping volume has shot up from 20.3% in 2001 to 30% by 2004 (Ning 2005: 27). China has also been one of the fastest growing market for stainless steel (in 2005, the country consumed 6 MT of stainless steel-- 26% of the world's steel). The Chinese iron ore also has low iron content. It has been estimated that by 2020, domestic iron production will only meet 29% of the total demand for steel (Ibid: 24). On the other hand in Australia, both the increasing high prices and high demand for iron ore have spurred increased investment in Australian iron ore resources and the country is likely to remain a reliable source for the Chinese in this regard. In terms of coal, China burns more of coal than the US, the EU and Japan combined and its consumption is rising by 10% a year (Richards 2008: 45). However although China has the world's largest coal reserve, coking coal accounts for just 10% of the total detected amount, with high-grade coking coal making up as little as 4-6 percent (The Chemical Engineer 2008: 10). It is both the world's largest producer and consumer of coal, with a record high 2.2 billion metric tons of coal mined in 2005 (Li 2007: 105). Australia despite ranking behind China in coal output, is the leading coal exporter and therefore is always a favourable prospect for future Chinese needs, particularly for coking coal. As for petroleum and natural gas, as a result of sustained economic expansion, China's dependence on oil imports rose to 44% of total domestic demand in 2005 (US Geological Survey Minerals Yearbook 2005: 2007). Australia for its part has been a net importer of oil and is unlikely to be a source of supplies to the Chinese. Moreover by 2020, China's domestic crude oil production is expected to meet only 35 to 40% of the demand with a shortage of about 275 to 304 million tons (Ning 2005: 24). However, Australia could help China in case of natural gas the production of which is slated to go up in the country. Also, China is the world's biggest consumer of copper, aluminium, lead, zinc and tin among other raw materials. Australia could contribute to China's needs in all of these except probably tin the production the output of which in China is about 8 times that of Australia. In 2005 alone, China used 26% of the world's steel and 47% of its cement (Li 2007: 105). It is already the world's largest consumer of refined lead (Ibid). Also as pointed out earlier, China could always be a source of investment into the Australian mining sector. The trend in high commodity prices is prompting mining companies to explore even the remotest, unchartered and potentially hazardous areas triggering the need for automated mining and safety

equipment and technologies where Australia could help China. One of the leading agencies in this respect in Australia is Commonwealth Scientific and Industrial Research Organisation (CSIRO) (Richards 2008: 47) and China could greatly benefit from Australian knowledge and experience. Towards this end, China Australia Mining Development Alliance Pty Ltd. (CAMDA) was founded in Beijing in January 2005 by China Research centre of Coal Industry and Australia Mining Services International Pty Ltd.—to provide all-round mining services between China and Australian government, enterprises and research institutes (China Australia Chamber of Commerce 2005).

## **Manufacturing/Industry vis-à-vis Australia-China Economic Relations**

As far as any relationship between the two countries on manufacturing and industry is concerned, it covers a very complex dynamic. To begin with, it is important to outline the distinction between Manufactures and Industry. Manufactures by definition include Manufactured goods classified chiefly by material (SITC section 6); Machinery & Transport equipment (SITC section 7); Miscellaneous Manufactured articles (SITC section 8); and Chemicals & related products (SITC section 5)—minus Arms & ammunition (SITC grouping 891) and Non-ferrous metals (SITC division 68) (WTO Technical Notes).<sup>50</sup> Whereas Industry in addition to manufacturing also includes value added in mining, construction, electricity, water and gas.<sup>51</sup> In parts of this work, data based on manufacturing as given out by the annual Australian yearbooks published by the Australian Bureau of Statistics have also been included. The different sub-divisions under this include Food, Beverage & Tobacco manufacturing, Textile, Clothing, Footwear and Leather manufacturing, Wood & Paper product manufacturing, Printing, publishing & recorded media, Petroleum, coal, chemical and associated product manufacturing, Non-metallic mineral product manufacturing, Metal product manufacturing, Machinery and Equipment manufacturing, and Other manufacturing (Australian Bureau of Statistics, as defined in several Australian Yearbooks). According to United Nations International Standard Industrial Classification of All Economic Activities (ISIC), manufacturing is ...the physical or chemical transformation of materials or components into new products, whether the work is performed by power-driven machines or

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<sup>50</sup> Classified according to Revision 3 of the Standard Industrial Trade Classification (SITC)

<sup>51</sup> Industry is usually classified according to International Standard Industrial Classification of All Economic Activities, (ISIC Rev.3) and corresponds to ISIC divisions 10-45 and includes Manufacturing (ISIC divisions 15-37)

by hand, whether it done in the factory or in the worker's home, and whether the products are sold at wholesale or retail (Clark et al. 1996: 1). Most understandably, while manufacturing and industry hold enormous value for an emerging economy such as China with a large population to support in terms of employment, for high-income and low population countries such as Australia, the relative importance of manufacturing vis-a-vis other sectors such as services has tended to come down. Being predominantly a natural resource based economy, the share of industry value added (% of GDP) for Australia has clearly shown quite an inconsistent pattern since 1980s—from 38% in 1980 going downward to 31% by 1989, showing a sharp 41% jump in 1990, again rising steadily to 48% by 1996, falling drastically to 27% in 2000 and remaining around that figure by 2005. More specifically, though in real terms manufacturing has indeed grown over the years by over 100% between 1989-2005, in terms of value addition (% of GDP) it has shown a consistent drop—from 19% in 1980 to 16% in 1990 to 13% by 2000 to about 12% by 2005.<sup>52</sup>

Starting out as a colonial appendage to British economy<sup>53</sup>, the Australian secondary industry has indeed come a long distance. Instead of undergoing the classical evolution in the pattern such as from a primary to secondary to a services economy, the Australian economy has somewhat been a more natural resource dominant one wherein the far-off isolated character of its geography coupled with a colonial political history played a defining role in shaping the very nature of its production structure, economy and trade. The onset of the two world wars particularly the Second World War saw the country's manufacturing sector slowly graduating to a level of a more capital-intensive, more complex and of a heavy industry kind. For the period from the 1980s through the 1990s and until 2005, the Australian manufacturing economy can be split into two phases. While the first phase until the end of the century saw manufacturing grow both in terms of value added production and exports, the latter phase saw a sharp decline in rate of production growth and substantial fall in contribution to exports.

Coming to China, it has for more than a decade been called the workshop of the world by dint of its low-cost production model and supreme efficiency of production particularly in terms of labour-intensive, basic technology low-end manufacturing inputs. Endowed with a large landmass along with an arguably abundant supply of natural resources and worked by a mass

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<sup>52</sup> Australia yearbooks and World Bank website

<sup>53</sup> As early as in 1850, New South Wales had displaced Germany as the largest overseas supplier to British industry

of enterprising people, the country though embarked on industrialization more than almost a century after the West, the incredible pace at which it has covered ground has been a subject of unending deliberations and research.<sup>54</sup> With the onset of the 1970s, particularly in 1978, there was a substantial reorientation of the Chinese manufacturing industry from a heavy and capital-intensive one to a light and labour-intensive one. In fact, the new reforms under the leadership of Deng underlined more than a mere shift from heavy industry to light and agricultural sector. Heralding a paradigm shift, the country was placed en route to a radically reformed and market oriented economic system underpinned by a reasonably and progressively diminished state control, decentralization of production, allowing greater role for market forces in determining pricing structures and resource planning and apportionment, greater sanctifying of property rights protected by adequately improved regulatory and legal systems, and most importantly incrementally opening up of the domestic economy to foreign investment and competition. It is instructive here to point out that the pace, the degree and the scope of these reforms were no doubt gradual, varied and selective in application. As for the actual steps undertaken from late 1970s until its accession to the WTO in the twenty-first century and afterwards, the process can be divided into three phases. The first phase in the late 1970s and early 1980s saw the state introducing market prices and factors to a few select sectors and factor markets. In this same phase, the unique Special Economic Zones (SEZs) was introduced as the core around which the new industrial policy was to be experimented upon. In the second phase in the 1990s, there was a loosening of control over most sectors except strategic manufacturing and services industries and entailed the opening up of the light manufacturing and services sector, though the dominance of state over large manufacturing and services considered strategic persisted (Mai et al. 2003: 1). Barry Naughton has coined the term ‘growing out of the plan’ to highlight the importance of non-state sector’s contribution to development outside the plan system. The third phase was marked by the Chinese efforts to gain an entry into the WTO the fulfilling of pre-conditions for which had to be set in motion much before the country was actually conferred the membership in 2001. As for the reforms on the foreign trade front, Sheng (2002) sets the evolution of China’s trade reform into four stages, namely, import substitution and marginal export orientation (1980-83), offsetting import substitution by export promotion (1984-90), export promotion and marginal trade liberalization (1991-93) and trade liberalization (after 1994). Broadly these trade reforms included: decentralization of trading rights, relaxation of import and export

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<sup>54</sup> The Chinese have given to the world gunpowder, the compass, the use of silk, and printing from carved blocks, not to mention the engineering marvels in Great Wall and the Grand Canal

licensing, foreign exchange reform and FDI reform (Feng 2006: 49). The results were all too clear to see. In fact, even before becoming a member of GATT and WTO, China had tasted the fruits of trade liberalization (when it had participated in the international trade negotiations on textiles governed by the Multi Fibre Agreement that allocated quotas to GATT members, joined the MFA in 1983 and saw textile exports almost double in five years). Although the accession to WTO did have its formidable challenges, the undeniable truth was that the manufacturing exports surplus between 2001 and 2005 had multiplied four and a half times, a considerable progress in such a short span of time.

Any study of Australia's manufacturing trade relationship with China must start with the fact that the Australia's figures per se are overwhelmingly inclined towards imports as against exports. Through out the late 1980s and 90s until 2005, Australia's manufacturing imports have been on an average between three to four or over four times the value of manufacturing exports. And of these, without doubt Machinery & transport equipment have been the predominant source of imports (over 50% right through 1989 to 2005) followed by Miscellaneous manufactured articles in some years and by Manufactured goods classified chiefly by material in some other years. In real terms however, it is the Chemicals and related products the import value of which has grown by 239% followed by Machinery & equipment and Miscellaneous manufactured articles both having equally grown at 202 percent.<sup>55</sup> If we consider the average annual growth rate for the period, again Chemicals and related products are number one (8.22%) followed by Miscellaneous manufactured articles (7.55%) and Machinery & equipment (7.44%).<sup>56</sup> Going further micro, we find that the average annual import growth rate of Pharmaceuticals is at the forefront (15%) followed by Telecommunications equipment (12.55%), iron and steel (11.3%), Clothing (10.66%) and Automotive products (10.41%).<sup>57</sup> Textiles was one manufacturing industry that displayed the least import dependence as it grew only 1.75% in terms of annual average growth over the entire period. During the last five years of the study, i.e, between 2000 and 2005, again textiles showed the least annual average growth rate (2.48%) and was surpassed only by office and telecom equipment (7.07%), Clothing (11.67%), Chemicals & related product (12.69%) and Automotive products (13.31%). However iron and steel manufactures and

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<sup>55</sup> Data considered on the basis of SITC manufacturing classification and taken from Comtrade

<sup>56</sup> Calculations made on basis of Comtrade data

<sup>57</sup> Calculations made on basis of figures from WTO website

pharmaceuticals' average annual import growth rates were massive at 24.4% and 18.8% respectively.<sup>58</sup>

Having acquired a sense of Australia's manufacturing import needs, we will now consider the actual and potential export capacity of the Chinese and the extent to which they fulfilled and could fulfil the import needs of Australia. This examination of their bilateral relationship will delve into not only what the Chinese manufacturing export trends have been towards Australia as against the rest of the world, but also in what respect Australian manufacturing industry serves the Chinese import requirements. As to China's manufacturing export position to the world at large, for the period 1990-2005, the total value of manufacturing exports increased by 1480% with an average annual growth rate of 20.8 percent. In terms of broad categories, machinery & transport posted a growth of a staggering 3151% with an annual average rate increase of 27 percent followed by Chemicals & related products (853% with AAGR of 17.1%), Manufactured goods classified chiefly by material (700% with AAGR of 18.8%) and Miscellaneous manufactured articles (474% with AAGR of 14.8%).<sup>59</sup> At a further segmented level, while Office and telecom equipment grew by a gigantic 7129% with an AAGR of 33.7%, Automotive product exports were equally impressive with 3760% export growth over the period with an AAGR of 30.8 percent. Then followed iron & steel that in real terms grew by 1404%, and had an AAGR of 34.8 percent. This was followed by clothing (667% with AAGR of 15.2%), pharmaceuticals (488% with AAGR of 13%) and textiles (469% with AAGR of 13.1%). As for the period 2000 to 2005, iron and steel clocked an average annual growth rate of 49.8% followed by automotive products (45.8%), office and telecom equipment (39.6%), machinery and transport equipment (34.1%) and chemicals (24.7%), textiles (20.9%), pharmaceuticals (16.2%) and clothing (15.8%). In 2005, in terms of the relative proportion of total manufacturing exports, machinery & equipment topped the list with a share of 50.3% accompanied by office and telecom equipment (32.3%), clothing (11%), textiles (5.9%), chemicals (5.1%) and iron & steel (2.8%) and automotive products (1.4%).<sup>60</sup>

Now that we have considered both Australia's larger import trends and China's broader export trends, it is imperative that we see their bilateral relationship as it was, that is, the type

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<sup>58</sup> Calculations made on basis of WTO website figures

<sup>59</sup> Calculations made on basis of data taken from Comtrade and WTO websites

<sup>60</sup> While these data have been taken from Comtrade and WTO websites, these categories are overlapping and their relative shares are not strictly additive

of manufacturing products both traded in with each other, the value at which their trade could be estimated and the pattern, if any, that could be deciphered out of the exchange.

In order to ascertain the relative relevance of different manufacturing commodities for Australia vis-a-vis China, there are two ways to determine that. One is the aggregate value of imported commodities over the examined period. However since an extraordinary import value in a single year could prejudice the establishment of over-all relative importance of commodities, a second method has been adopted.<sup>61</sup> The second method entails assigning ranks to first fifteen manufacturing commodities in order of rank every year between 1989 and 2005 and then by aggregating the total rank value and thenceforth establishing a list in order of importance, not value. As we studied a number of manufacturing commodities<sup>62</sup> that Australia imported from China and their import value in each of the years (1989-2005), we observe that clothing is the top-most import purchase from China having ranked number one in sixteen out of the seventeen years. Then followed Miscellaneous manufactured articles having ranked second in 13 out of the seventeen years. These two are followed by Electrical machinery apparatus parts, Telecom sound equipment etc, Textile, Footwear, Metal manufactures, Travel goods, handbags etc, Office & ADP machines, General industrial machinery, Non-metal mineral manufactures, ness, Furniture & Bedding, Road vehicles, Photo apparatus, clocks etc, and Prefab buildings, fitting etc—all in descending order. However in terms of aggregate value over the years, there is a shift in the order of commodities—though Clothing and Miscellaneous manufactured articles again top the ranks, the following positions are taken up by Office & ADP machines, Telecom sound equipment etc, Electrical machinery apparatus parts, Textile, Footwear, Metal manufactures, Furniture & Bedding, General industrial machinery, Travel goods, handbags etc, and Non-metal mineral manufactures, ness. As to the simple growth rate for the period, Australian import of Chinese Office & ADP machines easily rank at the top of the table (at a phenomenal 6505%) followed by equally formidable Telecom and sound equipment etc (4620%), Prefab buildings fitting etc (4165%), Furniture & Bedding (3993%), Electrical machinery apparatus, parts (2984%), Metal manufactures, ness (2560%), General industrial machinery (2385%), Road vehicles (2269%), Miscellaneous manufactured goods (1166%), Footwear (1150%), Clothing (1005%), Non-metal mineral manufactures, ness (916%), Travel goods, handbags etc (409%)

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<sup>61</sup> For example, in a list of fifteen, if the top ranked article is Clothing in a year and last ranked is Furniture & Bedding, 15 is assigned to Clothing and 1 to Furniture & Bedding and so on

<sup>62</sup> Manufacturing commodities under SITC Rev. 3, two-digit classification have been included keeping out food and mining related commodities except metals; data taken from Comtrade database

and Textiles (274%). What is important to note here is that the usual leaders like Clothing and Miscellaneous manufactured articles and Textiles etc slip down the ladder on this measurement whereas Office & ADP machines, Furniture and Bedding, Road vehicles etc firm up indicating their certain low-base start. However in order to show a more consistent representation of import growth, in terms of AAGR, it is the Office & ADP machines that have again forged ahead far too much (52.9%) as compared to others accompanied by the telecom and sound equipment etc (29.1%), Prefab buildings fitting etc (28.9%), Furniture & Bedding (27.9%), Electrical machinery apparatus, parts (25.2%), Road vehicles (24.7%), General industrial machinery (24.3%), Metal manufactures (23.4%), Footwear (18.1%), Miscellaneous manufactured goods (17.7%), Clothing (16.6%), Non-metal mineral manufactures (16.3%), Travel goods handbags (11.3%) and Textiles (9.43%).<sup>63</sup>

With the accession of China to WTO, it was expected all-around that as the tariffs, quotas and other export barriers would be dismantled, Chinese share of world manufacturing market would grow even further and their average rate of manufacturing would far outstrip all their achievements on that front in the past. However, a look at pure data at first instance suggests quite otherwise. Taking advantage of hindsight, over-all manufacturing exports grew at an average annual rate of 14.1% over 2005-10 as against 26.6% in the period 2000-2005. However a closer look at different manufacturing components' figures for 2009 reveals that the data for 2009 reflect a decline virtually through all sectors except pharmaceuticals.<sup>64</sup> This could possibly be attributed to the world-wide recession that occurred in 2008 dealing a crippling blow to the import capacity of most of the manufacturing import-dependent economies. Therefore, standing scrutiny to the traditional theory that WTO accession would spur the Chinese manufacturing exports to greater heights, the figures for 2005-08 reinforce just that. While the average annual growth rate for manufacturing exports as a whole was 24%, iron & steel grew by a massive 55 percent, followed by Automotive products (43%), chemicals (31%), pharmaceuticals (29%) and Machinery and transport equipment (24%). The expiry of Multi-Fibre Agreement (MFA)<sup>65</sup> on Textile and Clothing in 2005 was expected to give a tremendous boost to the Chinese textile and clothing industry though even after the

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<sup>63</sup> All the above calculations have been made based on data from Comtrade database

<sup>64</sup> For 2008-9, Chinese manufacturing exports as a whole dropped by 15.5% with iron & steel dropping by as much as 67%, Automotive products by 31% and Chemicals by 22 percent; calculations made on the basis of figures drawn from WTO website

<sup>65</sup> A transitory instrument set up in 1974 to help developed countries cope with textile and clothing import surges from the developing world and slowly integrate with the world market by 2005. However, even after the expiry, EU and US negotiated hard with China on textile and clothing import restrictions and managed to wrest some concessions



expiry of the agreement and at the insistence of the European countries, China had agreed to work with the European officials to manage and limit the growth of Chinese textile and apparel exports to Europe to about 10% through the 2008 (New York Times 2005). As a matter of fact China's worldwide exports of textiles that grew 154% between 2000 and 2005 increased merely 46% between 2005 and 2009. Same is the case with clothing that recorded a growth of 106% between 2000 and 2005 but ended up growing only 45% between 2005 and 2009--clearly bringing out that the dismantling of MFA hadn't brought in as much of benefits to China as expected.<sup>66</sup>

On the question of Australian manufacturing exports to China, in line with the broader trends as pointed out earlier, the export figures are far too less as compared to imports from China in essence Australia being a net importer of manufactures vis-à-vis China. For the period 1989-2005,<sup>67</sup> manufactured goods classified chiefly by material featured as the top export article from Australia to China not in terms of actual value but in terms of frequency of occupancy of top rank (has held number one share 13 out of 17 years). Then the second most important item is Machinery and transport equipment that held the number one share in four out of 17 years. The third export item would be Chemicals and related products (held third rank 14 out of 17 years). And the fourth and last manufacturing export item from Australia to China in order of importance would be Miscellaneous manufactured articles. However, on assessment of the relative growth patterns of each of these articles over the years, it is discovered that Miscellaneous manufactured articles have grown the most with an AAGR of 29.7% accompanied by Machinery and transport equipment (29.27%), Chemicals and related products (25.7%) and Manufactured goods classified chiefly by material (20.7%). At a more segmented level, since there was an uneven distribution of various manufacturing commodity exports through the period, a listing out of top twelve commodities each of the years from 1989 to 2005 has been done, values have been assigned in accordance with the frequency and their ranking each year and then a list of commodities in their order of importance has been thrashed out.<sup>68</sup> According to this method, the top ten manufacturing commodities exported by Australia to China between 1989 and 2005 have been as follows-- Special industrial machinery, Iron and steel, General industrial machinery, Electrical machinery apparatus ness, Paper, paper board etc, Dyes colouring material, Other transport equipment, Telecom sound

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<sup>66</sup> Calculations made on basis of data from WTO website

<sup>67</sup> Manufactures have been considered according to definition—SITC sections 5, 6, 7, 8 minus division 68 and group 891; Data taken from Comtrade database for SITC Rev.3

<sup>68</sup> Manufacturing commodities under SITC Rev. 3, two-digit classification have been included keeping out food and mining related commodities except metals, data taken from Comtrade database

equipment, Scientific equipment and Metal manufactures. This list is a clear indicator that the majority portion of the manufacturing exports from Australia to China includes industrial machinery, technological equipment and metals such as iron and steel and which amply highlights Australian supremacy in terms of technology especially industrial technology vis-a-vis China. Of these, as for the commodities that have fared well in terms of relative growth rate over the period, the export of Telecom sound equipment has grown the maximum at 55 times of what it was in 1989 ahead of Dyes colouring material (48.4 times), Electrical machinery apparatus parts (30.8 times), Scientific equipment (13.9 times), Special industrial machinery (13.3 times), General industrial machinery (8.3 times), Other transport equipment (4.2 times), Paper paper board etc (3.8 times), iron and steel (2.8 times) and metal manufactures (2.78 times). However, there are items that though do not belong to this top ten list but have nonetheless registered impressive growth, such as textiles (17.5 times), Office and ADP machines (16 times) and Plastics in primary form (9.9 times).<sup>69</sup>

Even though the apparent proportion of manufacturing to output, trade and employment is on a downward curve, dramatic changes in the very nature of manufacturing economy worldwide are underway. The advent of high technology and game-changing transformations in the information technology sphere has not merely brought down physical and legal barriers between countries but also blurred lines of engagement between companies, business units and with other sectors such as resource and services industries. Manufacturing involves using of raw materials, transforming them into an intermediary or finished good and then using the services like transportation, construction, energy, banking, insurance, marketing, advertising and sales etc to derive value from the final finished product. So, any activity in manufacturing has a flow on effect on many other sectors and industries. New technologies also put pressure on labour markets and it is always a challenge for policy makers to decide between a labour-intensive option and a technology-driven production. In that sense, manufacturing by its very nature is R&D-intensive. At the same time manufacturing is also a regular wage generating sector that underwrites the sustenance and welfare of the people. Another critical feature of manufacturing is that it is a highly import dependent sector. For it does depend on external inputs and supplies for the completion of a final product. Therefore manufacturing serves the twin objective of driving up exports and bringing in imports signifying increased economic activity in the country on the one hand and stimulates other segments of the economy such as the services sector on the other hand.

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<sup>69</sup> Calculations made on basis of SITC Rev.3 two-digit classification data taken from Comtrade database

## Services Sector vis-à-vis Australia-China Economic Relations

With respect to Services sector, it is first important to define what Services actually are. By their very nature, there is no universal definition for them, though there are certain commonalities such as intangibility, non-transferability, nonstorability and the need for a direct interaction between producer and consumer-- features that are usually shared across most services industry. The Economist has defined Services as 'things you can not drop on your foot'. Therefore, Services are anything other than agriculture, forestry & fishing, mining and manufacturing--residual parts of an economy (House of Representatives Inquiry 2007). Service is typically considered as an application of specialized knowledge, skills, and experiences, performed for the benefit of another. Service is perishable, heterogeneous, and intangible, commonly provided for either individuals or businesses to create desirable value to satisfy their needs.(Qiu 2007).Services can also said to virtually have a reciprocally symbiotic linkage with manufacturing, that is, as services grow in terms of delivery quality and their scope of operations, the demand for goods goes up naturally. Conversely, as manufacturing strengthens, the need for a whole array of general and specialised services arises on way to the final delivery and consumption of the good. From the commercial standpoint, according to General Agreement on Trade in Services (GATS)<sup>70</sup> of the WTO, there are four ways of trading services. Mode 1 or Cross-border supply—services supplied from one country to another; Mode 2 or Consumption abroad—consumers or firms making use of service in another country; Mode 3 or Commercial presence—a foreign company setting up branches or subsidiaries to provide services in another country; Mode 4 or Presence of natural persons—individuals travelling from their own country to supply services in another.(WTO website).<sup>71</sup> In this study, going by Extended Balance of Payments (EBOPS) 2002 Manual of the United Nations, we will consider services as including Transportation, Travel, Communication services, Construction services, Insurance services, Financial services, Computer & information services, Royalty & license fees, Other business services, Personal, Cultural & Recreational services and Government services (United Nations Statistics Division).<sup>72</sup> However, wherever necessary for most recent data, we have also considered the updated EBOPS 2010 classification that includes twelve services, namely,

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<sup>70</sup> GATS or General Agreement in Trade in Services is the set of multilateral rules governing international trade in services. Negotiated in the Uruguay Round and entered into force in 1995, it was developed in response to the huge growth of the services economy over the past 30 years and the greater potential for trading services brought about by the communications revolution

<sup>71</sup> Available at [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm#4](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#4)

<sup>72</sup> Available at [http://unstats.un.org/unsd/tradeserv/db/docs/ebops2002\\_eng.pdf](http://unstats.un.org/unsd/tradeserv/db/docs/ebops2002_eng.pdf)

Manufacturing services on physical inputs owned by others, Maintenance and repair services, Transport services, Travel services, Construction services, Insurance & pension services, Financial services, Intellectual property charges, n.i.e, Telecommunications, computer and information services, Other business services, Personal, cultural and recreational services and Government services (WTO Training Module on Measuring Trade in Services).<sup>73</sup>

As to the relationship between Australia and China in the services space, it should be useful to begin with the fact that while Australia is primarily a services-dominant economy, China has been a manufacturing-driven one. However in the recent years as China opens up and gets more prosperous, services too acquire an increasingly central position in the over-all scheme of its economy and trade. Whereas Australian services sector accounts for more than three-fourths of its annual output and about four-fifths of its employment, China's services sector's value addition share (as a percentage of GDP) is a little over two-fifths and entails less than a fifth of its total employment. In terms of cross-border commerce for services, while Australia's trade in services is around 9 percent, for China it is a little less than seven percent.<sup>74</sup> Keeping in mind the period of this study, Australia's services value addition (% of GDP) has improved from 63 percent in 1989 to 70 percent by 2005 as against China's figures of 32 and 41 percent respectively.<sup>75</sup>

For a short overview of the Australian services industry, it was as far back as in 1900-01 when services had accounted for a majority (around 59%) of output (Australian Yearbook 1988). Though the growth of the sector in the first four decades of the twentieth century was relatively modest, the last four decades of the century saw the sector's share of GDP increase by about 17 percent. On the performance oversight exercise of the Australian services sector internally however, we will go by the categories as considered under the Australia and New Zealand Standard Industrial Classification (ANZSIC) and that will include Construction, Wholesale trade, Retail trade, Accommodation, Cafes and restaurants, Transport and Storage, Communication Services, Finance & Insurance, Property & Business services, Government administration and defence, Education, Health and Community services, Cultural & Recreational services and Personal & Other services (Australian House of Representatives Standing Committee report on Service sector 2007).<sup>76</sup> For the period 1990-2005, the output of Finance & Insurance registered the maximum increase (over 271%) followed by Property

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<sup>73</sup> Available at [https://www.wto.org/english/res\\_e/statis\\_e/services\\_training\\_module\\_e.pdf](https://www.wto.org/english/res_e/statis_e/services_training_module_e.pdf)

<sup>74</sup> As of 2008; taken from World Bank website

<sup>75</sup> Data taken from World Bank website

<sup>76</sup> Servicing our future: Inquiry into the current and future directions of Australia's services export sector

& Business (267%), Accommodation, Cafes & Restaurants (192%) and Communications (190%). In contrast, the least performing sectors were Wholesale trade (33%) and Cultural & recreational services (83%). And taking a stock of the service sector's performance between 2000 and 2005, Construction tops the list (84%) accompanied by Retail trade (57%) while the poorest performers have been Cultural & Recreational services (17%), Personal & Other services (22%) and Accommodation, Cafes and Restaurant (24%).<sup>77</sup> On export front, Transport services (as percentage of service exports BoP) have gradually tapered off over the years from 34% in 1990 to 22% by 2005 which further slipped to 18% by 2009. Whereas Travel service exports (as percentage of service exports) have risen from 42% in 1990 to 54% by 2005. Australia's ICT service exports doubled their share from 3.5% in 1991 to 7% by 2000 which since has dipped continuously to 4.9% in 2005 and remained so in 2008 as well. In terms of Insurance & finance exports, the country's share has increased from 4% in 1990 to 6% in 1999 and by 2005 was again 4 percent portraying a consistent albeit stagnant relative performance.<sup>78</sup>

As China took to market economy and per capita income rose strongly, its services sector too followed suit. As per capita incomes increase and growth takes roots, services in comparison to other sectors of the economy grow faster. This could be explained by a high income elasticity of demand for services as compared to goods. Also the increased use of consumer durables increases the need for repair and maintenance hence propping up services. However to quote from a report of the Australian government titled *Unlocking China's Services Sector*, prepared by the Economic Analytical Unit of the Department of Foreign Affairs and Trade in 2005—'an efficient and competitive services economy has yet to emerge'. This is indicative of the vast ground that is yet to be covered by the Chinese services industry as seen through the lens of Australian policymakers. Until recently, policy makers in China had failed to recognize the relevance of services for the growth of the economy. This stems from the conceptual prejudice in the minds of the policy planners that the services are essentially only unproductive and merely perform a redistributive function. Because of this, the sector has not been allowed to develop to its full potential and suffers from structural shortcomings a fact that could stifle the development of the Chinese economy on a sustained basis in the future.

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<sup>77</sup> Except for Electricity, Gas & Water, Construction, Transport & Storage, Communication and Government administration & defence, we have taken data from 1991 instead of 1990 since earlier data reflect a different set of combinations, for instance, retail and wholesale trade as one and finance & insurance and Property & Business combined into one; Calculations based on data from Australia Yearbooks 1995, 1996, 2003 and 2008

<sup>78</sup> Data taken from World Bank website

As compared to the economies of similar levels, services are under-contributed to the over-all Chinese output with high value added services such as professional services and IT-related services yet to grow sufficiently. The frequent blocking of foreign players on grounds of geographic scope and regulatory norms continues to bedevil the sector. Nonetheless, there are strong signs that China has been making amends for its past. According to the then Vice-Premier Wen Jiabao, 'the expansion of China's service industry over the past two decades had played an important role in increasing employment, improving industrial structure, upgrading the people's quality of living, boosting economic growth and maintaining social stability' (Ibid). The reform of the hukou system allowing for greater labour mobility would serve to harness the corresponding expansion and upgrading of the service sector towards creating more employment in the economy. The Tenth Five Year Plan (2000-2005) has suitably declared its intent to give a push to producer service sector by way of bringing in new types of enterprises utilising advanced technology; promoting chain operations, logistics and distribution, agency systems and multi-modal transportation while at the same time upgrading the transportation and postal services. In the run up to its WTO accession, China had consented to liberalise logistical services, including packaging and courier services, maritime and rail transportation, freight forwarding, and storage and warehousing services. In the process, the country aims to give further stimulus to the sector by relaxing norms for foreign service providers, expediting urbanisation and remaining on the path of industrial development.

As for actual performance of the Chinese services sector, the country has made giant strides over the last decade and a half. In fact, Services' value addition to the economy between 1990 and 2000 grew phenomenally by over twelve times which has since grown by over 65% by 2005.<sup>79</sup> In terms of individual service industries, Education and other services' value addition to the economy has grown the maximum (1386%) for the period 1989 to 2005 indicating a clear shift in policymaking priorities, followed by Construction (1079%), a sign of extensive infrastructural building activity--followed by wholesale & retail trade and other associated activities (8.53%), Transport, storage & communications (8.2%), and Financial and other related business activities (7.06%).<sup>80</sup> Coming to exports, while Transport services have steadily come down from 46% of total service exports (including Government services) in 1989 to 21% by 2005, Travel services exports from 30% in 1989 shot up to 53% by 2000

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<sup>79</sup>Services etc value added (Constant 2000 US \$), Calculations made from data taken from World Bank website

<sup>80</sup>Calculations made on the basis of data on Value added by Industries (at current prices, in millions of Yuan renminbi)

which since came down to 39% by 2005. As for ICT export record, China's share of total service exports more than doubled from 1.4% in 1997 to 3.1% in 2005 which has again jumped to 6% by 2009. However, its share of financial and insurance services exports is certainly on a decline—from 4% in 1990 to when it shot up to as much as 10% for two years in 1994 and 1995 and since then drastically fell to 1% in 1996 and stayed at that all the way till 2008 until in 2009 when it made a slight improvement to 2 percent. In terms of the country's joining the WTO, the concomitant advantages don't reflect tremendously in the export figures as Services exports that grew 420% between 1990 and 2000 and 145% between 2000 and 2005, only recorded a 74% increase between 2005 and 2009.<sup>81</sup> However, Chinese service imports have always been greater than its exports and have swelled by 728% between 1990 and 2000, by 133% for the period 2000-2005 and by about 90% between 2005 and 2009.<sup>82</sup>

Coming to the actual services sector ties between the two countries, while Australia's service exports to China have surged over thirteen times between 1990 and 2005; its imports vis-a-vis China have increased over eight times in value. The balance of trade in services has for most of the years also been in favour of Australia except for six occasional years when China managed to notch up a balance of trade in its favour. However, it might be added here that for the majority of these years the services export value of Australia to China against import value was not dramatically high in any of the years and the difference had been quite modest in fact. This was until 2003 when Australian service exports to China not only almost doubled in a year, but also more than doubled that of imports in that year. This could be a clear signal of the Chinese increasingly opening up their service sector markets in the wake of WTO accession and Australia readily finding itself in the right place in the opportune moment (The investment relations will be separately dealt with). To substantiate this, while the Average Annual Growth Rate (AAGR) of Australian service exports to China was recorded at around 21% between 1989 and 2005, the figure for the period 2000-05 jumped to about 33 percent. To put things in perspective, Australian service imports grew at an AAGR of 11.8% in 2000-05 as against 18% for the entire period of study. Attempting a further segmented services export profile between the two countries, between 2000 and 2005-6, Travel export value increased between the two over six times, Computer & Information services over five times, while Personal, cultural and Recreational services and Royalty and

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<sup>81</sup>Calculations made on basis of World Bank data; Service exports (BoP) at current US \$

<sup>82</sup>Calculations made on basis of World Bank data; Service imports (BoP) at current US \$

license fees over three times each.<sup>83</sup> A clearer picture on the Australian service sector relations with China emerges when we compare the figures for the period 2005-09.<sup>84</sup> This takes into consideration China joining the WTO as the intervening variable that may have influenced the services trade relations between the two. Broadly, the dominance of Travel (with a relative share of over 85% for all five years) and Transportation services (with a relative proportion of over 5% for all years except in 2009 when it came down to a little below 4%) continue as before followed by Other Business services (over 2.5% for all the years). Then Telecom, Computer and Information services and Personal, Cultural and Recreational services are almost tied for the next spot though the former certainly showing a higher growth rate. Within Travel services (split between Business and Personal travel), Personal travel has been overly dominant on the back of a stupendous Education and related services (part of Personal travel) performance. Personal Travel also includes Other travel that comprises health-related travel and cruise fairs. Other Travel shows a relative share of about 12 to 14% through 2005-09 implying that for the Chinese, Australia matters more for education (will elaborate in next paragraph) than health services and leisure, relatively speaking. Then the extremely low Business travel export component (not more than 8% of Travel exports for any of the years between 2005 and 2010) as part of Personal travel does raise concerns as to the actual level of business to business ties and inter-corporate confidence between companies in the two countries. Closely related with Travel services is Tourism.<sup>85</sup> In real terms, the number of Chinese tourists to Australia grew about four times between 1990 and 2000 which further increased to more than twice by 2009.<sup>86</sup> China is set to become the recipient of highest number of tourists and fourth largest exporter of tourists by 2020 according to a report by the World Tourism Organisation (World Tourism Organisation 2000). Flight Centre, an Australia based travel and tour consultancy has already joined hands with a Chinese tourist agency China Comfort to facilitate an easy, inexpensive and trouble-free visit of the two countries by their respective denizens (DFAT Economic Analytical Unit 2005). Taking advantage of China continuously liberalizing its licensing and operating of

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<sup>83</sup> Calculations made on basis of UN Comtrade service database using their classification

<sup>84</sup> For the period 2005-09, data has been based on taken from Trade in Services Australia 2009 report of DFAT, Australian government with slight modifications in services classification

<sup>85</sup> Tourists are usually defined as all travellers who stay in the host economy for less than one year regardless of their purpose for travel such as (business, education, health and recreational purposes)

<sup>86</sup> Calculations made on basis of data taken from various Australian yearbooks; Releases of Overseas Arrivals and Departures, by Australian Bureau of Statistics; Trade in Services 2009 report of DFAT, Government of Australia



travel market, the Australian flagship airline Qantas has expanded its operations to cover several more Chinese destinations (Ibid).

Of Personal travel, Education services truly lead the charge registering over 85% of Personal travel exports right through 2005 to 2009. In 2005, of the total overseas enrolments in the country, the Chinese overwhelmingly dominated with a share of 24%, far ahead of the next country India with a share of about 8 percent.<sup>87</sup> Arrivals from China were the largest group of overseas education arrivals in 2005 representing nearly one-fifth (17%) of all visitor arrivals for education purposes, up from just over 1% in 1985 (Australian Bureau of Statistics 2007). In 2009, China was the largest source of students (24%) followed by India (18%) and Republic of Korea (6%), according to the Department of Education, Employment and Workplace Relations, Government of Australia (Department of Education, Employment and Workplace Relations, Australian Government). In fact, China is the world's largest consumer of international education. Going slightly back as early as in 2000, Australia-China Special Fund for Scientific and Technological Cooperation was established to promote bilateral science and technology collaboration between the two countries (Australian Education and Training Ministry 2006). Then a Memorandum of Understanding (MoU) on Education and Training Cooperation was signed between the Hon Dr Brendon Nelson, MP, Australian Minister for Education, Science and Training and Mr Wang Zhan, Chinese Vice Minister for Education with China on 7th December 2002 to develop bilateral relationship in the schools, vocational education and training sectors (Australian Department of Education, Science and Training 2002-03). On 6<sup>th</sup> June 2003, Australian Minister had announced the setting up of the International Centre for Excellence in Asia-Pacific Studies and Diplomacy at the Australian National University (Ibid)<sup>3</sup>—a subtle hint as to the direction in which the foreign policy studies at the academic level was being steered into.

On the question of Australia importing services from China, total service imports swelled to about five-fold between 1990 and 2005 and about twice in value between 2000 and 2005. However in contrast to Australian exports to China which were led by Travel, the year 2000 saw Transportation services heading the tally of Australian imports from China followed by Travel, Communication services, Other Business Services and Personal, Cultural & recreational services in that order. However, by 2002 itself Travel services had surpassed Transportation and by 2006 had more than tripled in value whereas Transportation services

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<sup>87</sup> Calculations made on basis of data from article titled International Students in Australia in Australian Social Trends 2007

remained virtually as they were. Between 2005 and 2008 however it was the import value of Communication services from China that grew the maximum (1.7 times), ahead of Travel (1.5 times), Transportation (1.2 times) and Other Business Services (0.9%). More specifically between 2005 and 2007 Computer and Information services had more than doubled—a sign of China’s increasing profile in information technology space.<sup>88</sup> However when using the EBOPS 2008 data from a report on services trade by DFAT, Government of Australia for 2005-09 period, Travel service imports from China have grown the most (45%), ahead of Telecom, computer and information services (34%) and Government services (13%). Of Travel services, Personal Travel imports have grown much more than Business travel, a trend in line with Australian exports to China. However what is different from Australian exports to China is that Other travel imports (relative share of 87 to 91%) as a share of Personal travel far outweigh education related travel imports (relative share between 9 to 13%) from China.<sup>89</sup> From the Chinese viewpoint what is worrisome however is that for this period, Transport services and Other business services imports of Australia just about inched along (3% and 2% rise respectively). Worse still, Australian imports of Personal, cultural and recreational services, financial services and Insurance and pension services from China drastically dropped between 2005 and 2009 (89%, 63% and 26% respectively).<sup>90</sup> However, this poor performance can not conclusively establish a negative pattern for the entire 2005-9 period since the over-all dip can be attributed to the lowly 2009 figures which could have been a result of the world-wide recession in 2008. In fact, if we consider the period 2005 to 2008, figures are much more promising. As against total import value from China that sharply rises from 21% for 2005-09 to 33% for 2005-08; compared to 2005-09, in 2005-08, Telecom, computer and information services surge to a growth of 75% followed by Travel (52%), Insurance and business services (50% growth as against a fall earlier), Transport (22%). The consistently poor performers have been Personal, cultural and recreational services (89% fall again), Financial services (88% fall) and other business services with a 13% drop when considering figures till 2008 only.<sup>91</sup> In tune with the trends as China embarks on a massive construction and building drive in an attempt to create a world class infrastructure matching the developed world, its construction imports are quite understandably rising manifold (262% for 2005-09 period); what is however baffling is the equally sterling performance of Chinese construction services exports (a growth of 265%) for this period which really defies any

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<sup>88</sup> Calculations made and classification used on basis of UN service trade database

<sup>89</sup> Calculations made on basis of DFAT report titled Trade in Services 2009

<sup>90</sup> Calculations done on basis of DFAT report titled Trade in Services 2009

<sup>91</sup> Calculations done on basis of DFAT report titled Trade in Services

plausible explanation. Then the growth in computer and information service exports (254%), financial services (201%) and Insurance services (191%) are some of the other export growth-driven Chinese service sectors.

## **Investment (FDI) vis-à-vis Australia-China Economic Relations**

As any economy progresses to the rank and grade of a more modern economy with an increased share of services sector contribution, foreign investment becomes not only the inevitable agent of domestic growth in output but also almost becomes an index of the international firms and financial institutions' trust and confidence that they place in that particular economy. Foreign investment also signifies the business opportunity stemming from that market and also brings in question the regulatory and oversight climate that an economy offers to the overseas investors. As tariff barriers for trade come down, it should be logically followed by a more liberal investment climate since the domestic firms are anyway on their way to a greater competition; and hence to meet competition effectively, it makes sense to import FDI that potentially brings in technology, best practices, international standards, more employment and enhanced revenue and export income for the host economy.<sup>92</sup>The Foreign Investment Review Board of Australia defines Direct Investment as that "has the objective of establishing a lasting interest in, and a strategic long-term relationship with the targeted enterprise. It may allow a significant degree of influence by the investor in the management of the targeted company. While it is common international practice to consider any investment of 10% or more as a direct investment, Australia's foreign investment regime is concerned with all investments that provide the investor with influence or control over the target investment."<sup>93</sup>According to Foreign Investment Review Board's (FIRB) policy guidelines, foreign investment proposals "requiring substantial equity (single foreigner holding of more than 15%, or a group of foreigners holding more than 40%) in an Australian company need prior government approval and notification before they can go ahead with an investment" (FIRB2004). Foreign resources can be secured either through

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<sup>92</sup> A McKinsey Global Institute study drawn on an examination of hundreds of firms found out that exposure to "global best practice firms" via trade and FDI stimulates productivity while protection from global best practice retards it

<sup>93</sup> Interests below 10 per cent may also be direct investments and must also be notified if the acquiring foreign government or related entity can use that investment to influence or control the enterprise. In particular, investments of less than 10 percent which include any of the following must be notified: preferential, special or veto voting rights; the ability to appoint directors; and contractual agreements including, but not restricted to, for loans, provision of services and off take agreements; Foreign Investment Review Board, Government of Australia

borrowing (debt) or greater foreign ownership of Australian activities (equity), and Foreign Direct investment as a latter type activity will be mainly dealt with in this thesis. Foreign Direct Investment could either come through Mergers and Acquisitions (M&As) wherein a foreign entity acquires the ownership of existing assets and operations in a different country through equity or via the Greenfield route which involves creation of new facilities and assets altogether.

As for the foreign investment position in Australia, the country by its very nature and history (being a resource-rich but capital-deficient economy), has essentially been a net importer of foreign investment. To a very large extent, it has been the contribution of foreign capital and investment that has transformed Australia from a distant and deserted continental landmass that it was in history into a modern and developed economy that it is today. Foreign capital inflows have been a key driver of Australia's industrial development particularly with regards to the development of rural, mining, housing and manufacturing industries apart from being a source of foreign borrowings for the financing of the public infrastructure of the colonies (Kalfadellis et al 2005: 4). Before Second World War, the ambit of international law was mainly limited to territorial sovereignty and the physical property owned by foreigners with the private capital inflows mainly remaining unregulated by states. Australia among others had chiefly relied on foreign capital which particularly in the 19<sup>th</sup> and first half of 20<sup>th</sup> century had come in the form of borrowings (Westcott 2007). In fact, foreign investment was seen as an instrument of national development, supplying the requisite capital that the Australian economy could not otherwise raise (Sadleir and Mahony 2009: 340).

Following World War II, the highly protected manufacturing sector witnessed a massive influx of foreign multi-national enterprises (MNEs). By the 1960s, foreign dominated oligopolistic industries comprised three-quarters of the manufacturing sector, dominating the production of motor vehicles, pharmaceuticals, aluminium, non-ferrous metals, iron ore, soap, cigarettes, oil refining and the manufacture of agricultural, telecommunications, mining and electrical engineering equipment. In fact, in the backdrop of the extraordinary surge in the FDI levels in manufacturing and primary sectors in the mid 1960s and early 1970s, there was an all-round concern around the questions of sovereignty arising out of the foreign-owned MNCs. The then Deputy Prime Minister and the Country Party leader John McEwen did not hold back when he had asserted, "We want business herewith all its magnificent skills of management at all levels. But we don't want to be taken over. We will not be taken over." (Kalfadellis et al 2005: 4)

In their Economic Papers to the Economic Society of Australia, Chris Sadleir and Greg Mahony (Sadleir and Mahony 2009: 338) have disaggregated Australian foreign investment policy evolution into three broad phases: First, from 1968 to 1976, when for the first time foreign investment complexities were understood from a political viewpoint while formulating policies, in effect the government adopting an increasingly more active regulatory stand particularly with respect to natural resources sector. Yet, moral suasion, rather than legislative or regulatory guidance, was the preferred method to induce overseas companies operating in Australia to share their equity with local investors (Ibid: 340). Second, from 1976 to late 1990s that saw increased consolidation in FDI policy formulation and an added attention to the services sector. And third, from late 1990s till today spans a period when there has been a dual trend of allowing more foreign investment through more clearly defined laws and regulations, though correspondingly resorting to a more active regulatory mode, especially for the minerals and energy sector. Typically since the 1970s the country has gradually evolved a more liberal regulatory framework for foreign investment with sectors and industries considered strategic and involving vital national interest of their time kept under tighter reins and those considered less strategic entailing less restrictions in scope and operation. In the 1970s, federal restrictions on foreign ownership and participation applied only in banking, civil aviation, and broadcasting (Ibid). In its announcement of government's foreign investment policy in 1975, it was noted that the government wished to encourage investment on a 'basis that recognizes the needs and aspirations of Australians' (Commonwealth Treasury of Australia 1999: 64). This implied that there had to be a greater domestic equity participation in sectors such as mining, agricultural, pastoral, fishing and forestry industries in order to maintain a countervailing balance of force in terms of the ownership and running of these resource-intensive industries. In the 1980s some big-ticket macro-economic reforms by the Australian government included reducing tariff and non-tariff barriers on manufacturing, privatizing government owned enterprises, floating the exchange rate, removing controls on capital movements, deregulating markets (financial and labour) and opening the banking, insurance, real estate and media sectors to foreign ownership (Maitland and Nicholas 2002: 82). By the 1980s, sectors such as newsprint and residential property and government enterprises such as Qantas and the Commonwealth Bank were opened up for more privatization, though there remained restrictions on foreign ownership. Even as the ceilings on foreign ownership of domestic firms are periodically and in a graded manner continue to be brought down in sectors such as airlines, media and telecom, certain sectors such as land ownership, transportation, media/broadcasting,

mining/energy, telecommunications and financial services remain to various lengths under FDI restrictive regime just as yet. Nonetheless, the inflow of foreign capital into Australia continues unabated with Australia being the third largest recipient of foreign direct investment (FDI) among OECD countries in the 1990s (OECD 2003). Also, preliminary findings in an UNCTAD conducted survey of APEC economies reveal that between 1996 and 2008, Australia took 21 more favourable investment related measures as against 1 less favourable measure—a clear and positive signal coming from the country in terms of FDI (World Investment Reports 1997-2009).

For the period 1989 to 2005, going by the figures compiled by UNCTAD commissioned various World Investment Reports, Australia recorded an average annual FDI inflow of about \$ 6.9 billion with an AAGR of over 49 percent, as against an average annual FDI outflow of about \$ 3 billion with an AAGR of -21.6% making it amply clear that the country has been a net importer of FDI.<sup>94</sup> However, when we consider data as per Australian Investment Reports published by Foreign Investment Review Board, Government of Australia, between 1991 and 2005, the country received an average annual inflow of over \$ 11 billion with an AAGR of over 79% with the corresponding figures for outflows being \$ -1 billion (again portraying a net importer status) with an infinitesimal AAGR of 0.83 percent.<sup>95</sup> Sectorally speaking, for the period 1995 to 2005, Services bagged the maximum proportion of proposed investment with an average annual \$ 26.5 billion with manufacturing coming at second (\$ 19.9 billion) followed by Real estate (\$ 15.4 billion), Mineral, exploration and development (\$ 14.2 billion), Finance & Insurance (\$ 6.6 billion), Resource processing (\$ 2.3 billion), Tourism (1.75 billion) and Agriculture, forestry and fishing (\$ 0.48 billion). However, in terms of number of approvals by sector for 1995-2005, Real estate is the uncontested front-runner with an average number of approvals (over 3725 proposals), a figure phenomenally ahead of other sectors such as Services (over 181 approvals), manufacturing (103), Mineral, exploration and development (85), Tourism (52), Finance and Insurance (34), Agriculture, forestry and fishing (34) and Resource processing (14).<sup>96</sup> This contrast between services leading in terms of value and real estate leading in terms of proposal count signifies that the actual business value per service sector proposals is far ahead of real estate which may have brought higher number of projects but could not match the level of actual capital infused through the services sector.

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<sup>94</sup> Calculations made on basis of data from World Investment Reports, 1992-2010, UNCTAD

<sup>95</sup> Calculations made on basis of data from Australian Investment Reports 1995-2005

<sup>96</sup> Calculations made on basis of data from Australian Investment Reports 1995-2005

Briefly touching upon foreign investment outflow from Australia, although the Australian firms have engaged in FDI since the mid 1850s when colonial banks established London offices to facilitate the flow of bullion from the newly discovered gold fields, the level of outward investment remained minuscule. Particularly with respect to eastern Asia, within the Department of Foreign Affairs and Trade, the East Asian Analytical Unit (EAAU) was established to provide extensive reports on the political and economic conditions awaiting Australian firms willing to expand into the region. Particular attention was focused on Indonesia as Australia's closest geographic market, the people's Republic of China as the emerging economic and military power of East Asia and India (Maitland and Nicholas 2002: 83). In a sample survey to assess the relative motive factor for Australian FDI investment in Asia, it was found that of all the locational factors, growth prospects of the host economies was the single biggest factor whereas low wage costs, sourcing components and establishment of export bases were only of low-to-medium importance. This underlines that the Australian firms were from the very beginning focused more on the physical size of the potential Asian markets than on using them as a low-cost export base. For China, the preferred form of expansion had been through joint ventures with dominant Australian control.

As far as the Chinese foreign investment trajectory is concerned, ever since the country went down the road of openness and liberalization in the 1970s, foreign investment has been a principal instrument of increased domestic productivity, tax revenue, export income, employment and most of all, raised profile and confidence of Chinese firms on their way to acquiring international or transnational stature, competitiveness and capabilities (resulting in increased FDI outflow). Between 1982 and 1990, the total FDI inflows into China multiplied an astonishing eight-fold as against Australia that grew only 3.4 times in the same period.<sup>97</sup> As the world production systems were increasingly integrated as an echo of globalisation, a massive domestic market with a large pool of cheap labour in an increasingly favourable regulatory environment was the natural choice for multinationals wanting to expand their operations and take advantage of the value chain efficiencies emerging out of China. On their part, the central government in the aftermath of Tiananmen wanted to show the world that China was still open for investment and was continuing its reforms. In an unconventional and interesting argument, Huang even argues that it were the institutional deficits such as

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<sup>97</sup> Though in real terms, Australia was far ahead with about 5.5 times of China's in 1982 which narrowed down to 2.3 times by 1990; Calculations made on basis of data from World Bank website

economic fragmentation of the Chinese economy resulting in a locational competition for FDI and weakening the bargaining power of China as a whole that spurred inflows into the country (Zhang et al. 2005: 4). As for the period 1989 to 2005, FDI inflows into China were recorded to the tune of over \$ 36 billion (about 6 times as much as of Australia) with an AAGR of about 27 percent (much lower than Australia's 49%). This means that while China has operated on a much bigger scale than Australia, it is the latter that has been on a higher growth path when it comes to FDI inflows. Nonetheless, not surprisingly and in a reflection of growing self-confidence of the Chinese firms, the country has also shown an impressive FDI outflow with an average annual \$ 3 billion (equal to Australia) for the same period though with a negative AAGR of 178 percent.<sup>98</sup> In terms of inward flow of FDI, the number of foreign firms in operation rose phenomenally from a non-existent seven in 1980 to over 25,000 in 1990 to about a gigantic quarter of a million firms by 2004. Their share of tax revenue rose from a very modest 4.25% in 1992 to a sizable 20% by 2004 once again highlighting in sharp relief the immense contribution made by foreign firms towards the prosperity of the country (Zhang and Reinmoeller 2007: 44). FDI inflows could also be said to be a major change agent for the export composition of the country; in a matter of about twenty years, it has graduated from a natural resource based exporter to labour-intensive manufactures to technology related products exporter. The export-driven nature of FDI into China is also evident from the fact that foreign firms' share of total exports had jumped from a paltry 1.9% in 1986 to 57.1% in 2004. In 2004, machinery and electronic products amounted to 54.5% of the total export values, of which more than 70% were produced by foreign firms. In terms of agreement on FDI inflow into China sector-wise, between 1995 and 1999, industry<sup>99</sup> led with a huge margin (66.2% share) ahead of real estate (15.5%), construction (3.2%), wholesale and retail trade (3.03%) and transportation, post and telecommunications (3.02%).<sup>100</sup>

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<sup>98</sup>This negative figure is due to one bad year in 2003 (\$ -152 mn) for FDI outflow from China. Between 1989 and 2002, AAGR is at an impressive 65.8 percent. Calculations made on basis of data from World Investment Reports, 1992-2010, UNCTAD

<sup>99</sup>Industry includes manufacturing, mining & quarrying and utilities such as electricity, gas and water; Before 1998, figures for industry given as a combination of manufacturing, mining & quarrying and utilities

<sup>100</sup>Calculations made on basis of figures sourced from various China Statistical Yearbooks 1996-2000



As to the actual Australia-China relationship vis-a-vis Foreign Direct Investment, the total value of Chinese FDI into Australia has grown about 14 times between 1993 and 2005.<sup>101</sup> In the 1980s, Australian natural resources had attracted the largest share of China's overseas investment projects exemplified in the development of Channar iron ore mine and Portland aluminium smelter (30.1% over 1978-90); this had though plunged to 1.5% over 1991-97 as a result of geographical diversification into Asia, Africa, South America and the former USSR (Wang 2002: 196, 197). In case of Australia however, going by estimates of the Australian Investment Reports for different years, the value of the total approved investment or proposed investment associated with approved proposals has swelled about 35 times between 1995 and 2005. This seems like an over-estimated figure when we consider that the share of Chinese investment against the value of total FDI inflow into Australia has been less than 1 percent for each year between 1995 and 2002. Notably, if we include Hong Kong (a Special Administrative Region of China since 1997), a widely acknowledged conduit for round tripping of FDI for mainland based investors, the quantum of Chinese origin FDI into Australia rises substantially. However in terms of People's Republic of China sourced FDI from a strictly technical viewpoint, it was only in 2003 when the Chinese share rose by a tiny margin to 1.07% of the total FDI inflow into Australia which went on to register a remarkable improvement with a share of 8.5% by 2005. Even in terms of number of proposals, the share of Chinese FDI proposals of total proposals was not significant for a long period of time. A share of 2.4% in 1995 rose to about 5% by 2001 which steadily climbed to 8% by 2005. In terms of sectoral distribution for Chinese FDI inflow into Australia, one sector that has clearly outshone all the others is real estate which was about 84% in 1995 and was 75.2% of total Chinese FDI in 2001.<sup>102</sup> From 2003 onwards however, the share of real estate has been quite inconsistent—from 11% in 2003 to climbing to a high of 68.6% in 2004 and again dropping precipitously to an abysmal 3.8% of total Chinese FDI in 2005. Juxtaposed against this fall in real estate, one sector which has increasingly attracted the Chinese FDI attention is Mineral exploration and development. This sector recorded a share of 88.3% in 2003 coming

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<sup>101</sup> Calculations made based on data from Laurenceson 2008: 89; It must be mentioned that Bank of China was one of three foreign bank groups (other than groups from New Zealand and France) operating in Australia as early as in 1942 when it established a branch in Sydney (though it shut its operations in 1972)

<sup>102</sup> For the intervening period, since China doesn't appear among the top FDI source for Australia, there is no data available

down to 14.8% in 2004 and again effecting a steep climb to 93.1% of total Chinese FDI in 2005.<sup>103</sup>

More recently, the value of the approved investment or proposed investment associated with approved proposals from China into Australia has multiplied about 2.2 times between 2005 and 2009. Especially from 2003 onwards, there is a clear sense of optimism for the Chinese foreign direct investment into Australia. Though as compared to 2005 there was a decline in Chinese share of total FDI investment into Australia in 2006 and 2007, the years 2008 and 2009 have again displayed an extremely favourable trend with a share of 16% and 11.7% respectively. And leading the ranks again is resource-driven Mineral exploration and development commanding with a 45.6% share in 2006 to 71% in 2007 to an overwhelming 98.7% and 75% of total Chinese FDI in 2008 and 2009 respectively. The sector that follows is real estate with a 14.9% share to 27% of total Chinese FDI between 2006 and 2009 (except in 2008 when there was no Chinese FDI in real estate). Some other occasional performers have been manufacturing with a share of 26.5% in 2006 and finance and insurance with a share of 5.6% of total Chinese FDI in 2007.<sup>104</sup>

According to the Department of Foreign Affairs and Trade which ranks investors according to annual revenues, the three largest direct investors in Australia are China Trust and Investment Company (CITIC) Australia, CITIC Australia Trading and Sinosteel Australia. As Chinese companies have been increasingly exhorted by their government to adopt 'go abroad' policy and expand their operational and controlling footprints, there have been a few instances when a bid to acquire a controlling stake in a foreign company was strongly resisted and effectively blocked by the respective governments of the targeted companies the most famous of them being the China National Offshore Oil Cooperation's (CNOOC) bid to take over the American Union Oil Company of California (Unocal). Then the case for Chinese computer major Lenovo's acquisition of the Personal Computer business of IBM had to be rigorously tested in the Committee on Foreign Investment in the United States (CFIUS) before a go-ahead was sanctioned. In the same vein, Chinese companies have also had to come to face stringent political and regulatory questions (if not impediments) in the course of making controlling investments in Australia the most celebrated example being that of Chinalco's proposed investment of \$19.5 billion into Rio Tinto, the world's second largest

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<sup>103</sup> Calculations made on basis of various Australian Investment Reports, Foreign Investment Review Board, Government of Australia

<sup>104</sup> Calculations made on basis of various Australian Investment Reports, Foreign Investment Review Board, Government of Australia

mining company. As the proposed deal fell through the reasons for which were attributed in Australia more to economic considerations (owing to the falling commodity prices around that time) than political compulsions, there were nonetheless 'bitter tastes left in the mouths of some Chinese executives and policymakers'. (Powell 2009) Then the Shanghai-based Bright Foods' lost out to Wilmar's International Ltd. in its attempt to buy out the Australian major CSR's sugar unit Sucrogen. However, these isolated incidents don't quite capture the depth and breadth of Australia-China foreign direct investment relationship as evident from the successful conclusion of some other high-profile controlling investments by Chinese companies into Australia resource companies such as those of Sinosteel's takeover of Midwest for \$1.32 billion with a 50.97% of controlling stake, Minmetal's purchase of Oz minerals for \$ 1.3 billion and Sinopec's acquisition of 60% of AED Oil's Puffin and Talbot fields (Anand 2008).

With regard to often raised questions on the motives behind the Chinese government's systematic promotion of acquisition of natural resources outside its borders especially through sovereign wealth funds and state owned enterprises, it is too early to conclusively establish how complexities inherent in geopolitics and geo-economics would eventually play out in future. One must also acknowledge that sovereign wealth funds are quite distantly linked to FDI in their nature of functioning. Since they do not involve acquisition of a lasting interest in a foreign company, they are not relevant from an FDI point of view. It is the state owned enterprises that are relevant here. Since 2003, State-owned Assets Supervision and Administration Commission (SASAC) has been responsible for exercising the ownership of SOEs on behalf of the Chinese government. What is different about the new wave of investments by the SOEs is that unlike before, they are now highly specialized and streamlined agencies trained not only for securing resources for future in distant land but are also meant to operate on purely commercial basis and are largely guided by canons of corporate governance, transparency and open competition. The contradiction again however lies in the perception fuelled by the fact that among certain ranks of the SOEs' organizational hierarchy there are still political cadres who run and perform senior management functions—raising suspicions about them being used as disguised political instruments by the Chinese government. Under the auspices of the Rudd government which assumed power in 2007, the Treasurer Wayne Swan took upon himself the task of training a more concerted focus on the Chinese sovereign wealth funds and their investment designs into the Australian resource sector. In fact, the Rudd government had made it mandatory for SOEs to undergo a set of

tests for foreign investors. In less than six months in February 2008, the Australian government had spelled out six principles to be followed by the Foreign Investment Review Board when examining investment from sovereign wealth funds and entities associated with governments. They included an assessment of the degree of independence of the investor from the domestic government; whether the investor 'adheres' to common standards of business behaviour; whether the investment would be anti-competition; whether the investment would adversely affect Australian revenue or impinge on other policies including but limited to national security; and how an investment might impact the operations and directions of Australian business (Marchik and Slaughter 2008: 11). In fact, even before in 2006, OECD using a methodology developed by Productivity Commission had ranked Australia second most restrictive towards foreign investment among OECD countries after Iceland. China was considered roughly one and half as restrictive as Australia using this same methodology (Cook and Thirlwell 2008: 6).

Nevertheless, as China needs more and more of raw material and there is a sustained pressure on its exchange rate, the propensity to invest outside its borders and to acquire natural resource assets abroad is not likely to diminish in the foreseeable future. Therefore access to foreign markets and a stable supply of resources can be said to be two major reasons behind China's FDI activities abroad. In relation to the first, the Chinese are also investing in manufacturing in Australia in order to overcome the protectionist sentiments through import quota against Chinese finished products represented by industries such as textile, clothing and footwear (TCF). To that end, Chinese TCF firms have invested in Australia and exported 'made in Australia' products to US markets. Another related strategy of the Chinese companies has been to target relatively low-developed countries to set up manufacturing and assembly plants not only to derive the low-cost advantage but also to grab local market share in a consumer market not having the requisite purchasing power to buy more expensive western goods. Then, the schism between different regions and provinces within china over a comprehensive national strategy of economic development was also a factor behind Chinese looking for natural resources outside. When inland provinces such as Xinjiang, Inner Mongolia and Gansu instead of serving as a source of raw material to coastal provinces decided to chart a separate course and focus on higher processing in their own areas, coastal regions had to look for supplies from overseas and Australia rightly fit the bill.

According to Australian Bureau of Statistics (ABS) data at the end of 2008, Australian assets owned by Chinese entities stood at around \$ 8 billion which was less than half of one percent

of total foreign investment in Australia. From China's perspective, Australia accounted for less than one quarter of one percent (Battellino 2009). This should to a great deal allay the misgivings that the sceptics and the naysayers might have on the Chinese political designs behind overseas resource acquisition. However from 2005 onwards, the percentage share of total proposals coming from China to Australia has been consistently on an upswing (except for 2008 when it came down to 9.4%)--from 8% in 2005 to 13.6% in 2006 to 21% in 2007 to a dominant 39.3% in 2009.<sup>105</sup> In 2009, of the top ten Chinese outbound deals (in terms of value), as many as six were meant for Australia, and for various resources such as iron ore, coal, base metals, non-ferrous metals and minerals (Thirlwell 2010).

Coming to foreign direct investment away from Australia into China, though the figures are not as impressive as the Chinese FDI into Australia, the path ahead certainly looks more promising than before. On Australian companies' motives behind investing in China, though various studies have attributed various motives, it is the growth prospects of the economy and the real and potential size of the Chinese market that have been the biggest draw before low-cost advantage factors in order of priority (Maitland and Nicholas 2002; Ma et al. 2008). Also, the difference between FDI as efficiency seeking (export-driven) and market seeking must be understood. While efficiency-seeking mainly applies to manufacturing, market seeking applies to service sector including tourism and offshore services. Efficiency-seeking manufacturing FDI has advantages in low-factor costs, access to easy supplier and business service provider base, flexible labour market and an efficient infrastructure. The journey of Australian companies in China can be said to be somewhat of a roller-coaster marked by sharp highs and lows. Indeed the early years of gaige kaifang (reforms and opening) in China had seen Australia feature as the fourth largest investor in the country after Hong Kong, the US and Japan which had slowed down in the years thereafter. Some of them entering in the 1980s did not survive and many that came in after 1992 were retreating by 1997 (DFAT East Asia Analytical Unit 1997: 188). Even so, there were 1000 Australian companies in China by 1997. However, even as many of the Australian firms setting foot in China in the early reform days didn't last very long, the long-term trend that could be discerned was one of learning by trial and error. As there was a progressive deregulation and liberalization of the Chinese business environment, the investment and business commitment by Australian companies into the country also grew in tandem. Between 1991 and 2000, the total FDI outflow from

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<sup>105</sup> Calculations made on basis of various Australian Investment Reports, Foreign Investment Review Board, Government of Australia

Australia into China grew about seventeen times as compared to Australian FDI outflow to the world that increased by a mere 1.6 times. Though this might be telling from the over-all Australian FDI outflow standpoint, from 2000 onwards, total FDI outflows have shown a more positive pattern growing about 3.5 times in three years.<sup>106</sup> In fact, 2001 was the first year when total FDI outflow was more than total FDI inflow into Australia. In 2004, Australian investors signed over 700 agreements committing over \$ 2 billion worth of investment into China. Considering another set of data for more recent years, total Australian FDI outflow grew 4.5 times between 2000 and 2006 and about 3.6 times between 2000 and 2009.<sup>107</sup>

Indeed, China has made more commitments in more service sectors than a number of industrialised countries, other developing countries, or other countries that had acceded to the WTO in the early years of the new century. However, China's commitments on commercial presence were qualified with a number of restrictions, including restrictions on 'form of establishment' (the requirement to form a joint venture with foreign ownership frequently restricted to specified levels), geographic scope (allowed only in specified cities or in the Special Economic Zones), business scope (permitted only in a subset of consumers) and regulatory requirements (minimum capital requirements and requirement to establish a representative office prior to full business operations) (DFAT Economic Analytical Unit 2005: 25). Scholars and analysts are also confronted with the problem of accurately identifying the actual source of FDI flow into the country. A good amount of FDI into China is by way of 'round tripping', that is, because of the differences in the treatment of domestic and foreign investors, some domestic investors may route their investment via outside channels (mainly Hong Kong) apparently in an attempt to show that the funds have originated from outside though in reality the funds could have been very much local in origin. Unofficial estimates suggest that such flows may amount to 25% of total inflows (World Investment Report 2006). In order to address this, State Administration of Foreign Exchange (SAFE) has promulgated a regulation concerning foreign exchange management related to "round-tripping" investments. Another issue is that data on inward FDI released by the Government of China before 2006 did not include FDI in financial services which again presents less than an accurate picture of things. Also Chinese data do not include greenfield investments which further complicates calculations (UNCTAD 2007). On challenges faced by the investors, the

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<sup>106</sup> Calculations made on basis of data from UNCTAD World Investment Directory, Country Profile

<sup>107</sup> Calculations based on data from various World Investment reports, Pub. by UNCTAD

biggest and often the most cited obstacle for any foreign company (read western company) desirous of doing business in China is of cultural nature. This includes the language factor as well as the psycho-social behaviour patterns, i.e, the subtle difference between Chinese and the Australian values, notions, ideals, mannerisms and the ways of functioning in a business environment. Numerous studies have highlighted the prominence of relationships (*guangxi*) in conducting business in China that can often override institutions, laws and regulations. Investing in good relations with local governments is as necessary a strategy as investing in business networking for reducing transaction costs and acquiring market and political information in China (Zhang and Reinmoeller 2007: 57). It could well be argued that while cultural variables may impinge on the investment relations between two countries possibly explaining the difference in the level of trade and investment between two culturally contrasting countries such as those of Australia and China, it is not a sufficient explanation. In a world which is increasingly getting culturally homogenized and real-world business interests far outweigh any other considerations, cultural difference can never quite justify the low level of investment relations between the two countries. In fact, instead of cultural factors, it could be more of a policy issue. A case in point is that when compared to global standards, China's FDI numbers differ considerably (for instance according to International Monetary Fund, the definition of FDI entails a threshold level of 10% unlike China which reckons a threshold level of 25%) (UNCTAD 2007). For a long time, the Chinese government has barred foreign investment in national security-sensitive sectors including news agencies, broadcasting and programming, press and audio-visual products, arms production and the mining and processing of certain minerals. In December 2006, the state-owned Assets Supervision and Administration Commission (SASAC) published an exhaustive list of 'critical economic sectors' where the government looked to exercise a tight rein in a bid to limit foreign activity. These "pillar" industries had included automotive, chemical, construction, electronic information, equipment manufacturing, iron and steel, nonferrous metal, science and technology, and survey and design (Marchick and Slaughter 2008: 9). Flowing from this, Australian firms' strengths in sectors such as mining, financial services and broadacre agriservices and the Chinese inclination to raise barriers in those very sectors underlines not only a lack of commercial synergy but lack of political convergence between the two on FDI.

Another challenge that could possibly be faced by Australian firms operating in China is that of widespread, frequent and virtually routine infringement of trademarks, patents and

intellectual property rights. Notwithstanding more firm legal and statutory measures in place, China had remained a hub of counterfeiters. In 2003, software piracy rate for China was recorded at 9 percent with only 8 percent of all software being legally purchased in the country incurring the industry a loss of over US\$ 3.8 billion on account of piracy. This had even led the US Trade Representative 2005 Special 301 Report raising the country to the 'Priority Watchlist' level upon the discovery that despite attempts by the Chinese government, there had been no significant reduction of piracy cases ( DFAT Economic Analytical Unit 2005: 48). One prominent instance of an Australian firm coming to a head-on collision with the Intellectual Property Rights (IPR) regime in China was when Ilum-a-lite an energy saving device maker had to confront a situation in which a Chinese multi-billion dollar enterprise had copied its patented mechanism and was exporting the same product to Australian markets in its own name. Eventually Ilum-a-lite dealt with the matter by erecting physical and software barriers in order to prevent its product from being copied again, instead of taking the legal route which could have been financially exacting against the big Chinese company (Australian Business Foundation 2009: 35). Another way to beat intellectual property rights infringement and piracy issues is to make good sales not only on a first-mover advantage basis but also on basis of a fast mover advantage. Companies low on budget to fight long legal battles against behemoth state-owned concerns alleged to be engaging in violation of patents and intellectual property rights need to harness their brand positioning and through fortified customer interaction and product and services education strategies. FDI investors also have to deal with unfair competition from local low-productive and tax-evading rule-breaking players which could possibly hamper FDI inflow.

Notwithstanding the roadblocks and hurdles that the road to FDI into China is dotted with, there are opportunities aplenty too. China is also steadily though studiously opening up its domestic market in conformity with its WTO obligations. The Chinese government's increasingly liberal stance on FDI is clear from the fact that while joint ventures accounted for 93% of total FDI in 1985, by 2004, wholly owned foreign enterprises dominated with a 67% of FDI and equity joint ventures accounted for only 30% of FDI. In the immediate two-three years of the WTO accession as Chinese export composition saw an upgrade from mid-value manufacturing products such as toys and plastic items to high-end information technology and electronics products, the FDI scenario also underwent a radical overhaul. As China shifts focus from manufacturing to services, builds large-scale infrastructure (both physical and social), strives for a redistribution of income through job-creation and financial



inclusion in effect enlarging the size of its already huge middle class and empowering them with greater purchasing power, there are opportunities galore for the Australian resource and service companies. The real estate industry has become a hot spot for FDI. According to the Ministry of Commerce (MOFCOM), inflows to China in this industry surged to \$5.4 billion in 2005. In another estimate, foreign investment accounts for 15% of China's real estate market (UNCTAD 2007). The Chinese boom in construction is opening up opportunities for Australian construction companies such as Leighton,<sup>108</sup> Australia's largest project development and contract group operating as a wholly foreign-owned enterprise running several projects related with environment and infrastructure, transportation including rail and tunnelling, mining, petrochemical and power industries – on a build-operate-transfer (BOT) basis. The regulatory changes brought in 2002 and 2004 were reckoned by many contractors as regressive and in effect less economical while allowing less scope for adaptability and improvisation. Given that the growth in Chinese demand for transport and logistics services is expected to continue, Australian firms' expertise on high technology and supply chain management would help them tap that market segment. Merchandise trade also has spin-off effects on transport and logistics services companies. As China continues to become one of the largest trading players, Australian transport and logistics management companies have milked the opportunity—one of Australia's largest, Linfox has built on its earlier Chinese connections to fortify its presence finalising a five-year contract with Home World Group, China's biggest construction material and department store chain. Despite having ploughed in sufficient resources into developing a transportation infrastructure, China hasn't as yet built a matured and integrated logistics industry nor has it evolved related regulatory guidelines spanning the whole national economy. Going by the figures for 2000, the expenses on logistics including transportation, inventory storage and loss and breakages constituted 20 percent of the country's GDP, a number which has turned out to be much higher than even that of US, Europe and Japan. Notably, the costs of transport and logistics were calculated to be over 20 percent of retail prices which shot up to even 50 to 60 percent when it came to ferrying fresh produce. As regards financial services, China's financial services market is to outsize Germany by 2020 with the pace even expected to clock more than double that of the

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<sup>108</sup> Most recently in 2011, Leighton was awarded contract to construct the Tse Uk Tsuen to Shek Yam section, the West Kowloon Terminus Approach Tunnel and Track Fan Tunnel section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link

rest of the world. Therefore, it will also serve as a natural hunting ground for Australian banks to position themselves (DFAT Economic Analytical Unit 2005: 61).<sup>109</sup>

In December 2003, China opened up the country's cities for foreign financial institutions to conduct business with Chinese companies in local currency (People's Daily Online 2003). Despite this, China was accused of retracting on its WTO obligations related with banking and financial services. Overriding international norms, the Central Bank of China had stipulated working capital requirements along with other prudential norms for foreign banks headquarters and branches (DFAT Economic Analytical Unit 2005: 28). In 2003 and 2004, though the country reduced the amount of requisite capital on account of pressure, much needs to be done in order to align with global practices. Not to be discouraged, as a component of its Asia-Pacific strategy, the Commonwealth Bank of Australia has marked out Greater China and going a step further has even included Indonesia and India as key new markets. In an attempt to make a direct connect with the market on the ground and to expand its presence, the Commonwealth Bank is steadily buying into small stakes in local entities. Following a purchase of 11% stake in Jinan City Commercial Bank in September 2004, it again bought a 9.9% share in the Hangzhou City Commercial Bank in April 2005. Then the insurance service made a major stride when Insurance Australia Group (Australia's largest insurance firm by gross written premium) wholly acquired China Automobile Association, an institution it had been a joint venture partner with since 1999 (CAA). As China became the largest telecommunications market in 2002 surpassing the US, the country became a great market opportunity for Australian telecommunication service and equipment firms. Telstra (with a 100% ownership of CSL, a Hong Kong-registered firm) has already been offering consultancy services to several Chinese telecommunication companies. As China's economy matures and adopts more of global practices, there will be more scope for Australian firms to offer quality professional services. China had already agreed to permit cross-border supply of professional services, in particular the wholly foreign owned companies to run accounting, taxation, architecture, engineering and urban planning services by 2007. Of a total 114 foreign law firms operating in China, seven were from Australia (Ibid: 84).

As more and more Chinese people get armed with higher purchasing power and top-notch multinationals line up to explore that opening, retail and distribution services is another space

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<sup>109</sup> Under WTO, China was to allow foreign banks to provide local currency services to all types of local enterprises by the end of 2003, and to Chinese citizens by the end of 2006 (i.e., five years after WTO accession)

where Australian retail majors can expect to gain enormously.<sup>110</sup> With the advent of information technology and 'electronicfication' of trade and commerce within countries' borders and outside, there has been a surge of new crop of small and medium sized companies (particularly in services sector) having a low-cost set-up and highly flexible business models. Often termed as micro-multinationals, there is a strong potential for the growth of these companies. Then, as China wants to upgrade itself from being a low to medium value assembling factory to a thriving hub of high value high technology-intensive products and services and move up the value chain by building world-class internationally competitive companies, it is both a challenge and opportunity for the foreign multinationals wanting to market themselves in China.<sup>111</sup> Challenge because the intent of building a self-sufficient indigenous scientific base while poses a direct competition to Australian companies, it is as much an opportunity since constructing a domestic science and technology base would require Chinese students and apprentices to acquire world-class science and technology education and that could be leveraged by Australian educational bodies, universities and research centers to the country's advantage. Another related area of opportunity is that as the Chinese government gets ready to market home-grown product companies as world class brands, Australian Business schools will have a role to play in training the next generation in the modern ways and practices of marketing, branding and communications.<sup>112</sup>

In the final analysis, both Australia and China have performed exceedingly well in the period 1989-2005 in terms of national output, trade, investment, income generation and employment. Australia has been among the best of OECD countries registering continuous growth<sup>113</sup> while China has been a consistent world-beater. Not only have they shone individually, bilaterally too, their trading and investment relations have portrayed a strong sense of mutuality of benefits, deepened and long-lasting trust with even the resultant possibility of a wider strategic realignment between the two as against Australia's age-old ties with the west particularly the United States and UK. As in the case of the rest of the

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<sup>110</sup> FDI into retail trade has become a raging issue in many developing countries as it is supposed to 'kill' local and corner retail shops impacting local employment and businesses. On the other hand, advocates of FDI in retail emphasise on lowered costs that make goods available at affordable rates to local consumers taking advantage of improved supply chain efficiencies

<sup>111</sup> In 2006, China launched its famous Medium-to-Long Term Plan for the Development of Science and Technology calling for becoming an innovation-oriented society by 2020 and a world leader in Science and Technology by 2050

<sup>112</sup> By 2005, the number of foreign invested R&D centres had risen to 750 in China; World Investment Report 2006

<sup>113</sup> Except in 1991 when Australia posted a decline in growth

world, the Tiananmen incident in 1989 had been a test case for Australia to reappraise its confidence in the 'Chinese economic story'. It is a testimony to Chinese transformation into a more globalised and trade-dependent economy that Trade (as % of GDP) which was barely 32% in 1989, exactly equivalent to Australia's, had since shot up to 69% by 2005 while Australia's remained at only 39 percent by the same year. Notwithstanding Tiananmen, quite understandably the broader economic relations between the two not only continued but over the years grew, flourished and by 2005 had attained considerable breadth and depth. Their bilateral trade in merchandise in this period had grown 17 times, trade in services a little less than 10 times while combined foreign direct investment<sup>114</sup> into each other had multiplied 13 times over this period. At an even more segmented level, their bilateral agricultural trade increased 4.5 times, manufacturing in excess of 17 times and mining an astonishing 31 times. Clearly, mining sector has been the utmost beneficiary of the closer economic engagement between the two countries underlining the added value that Australian mining industry has been able to create for itself vis-a-vis China, given the fact that Australia has been the net exporter of mining products to China. Likewise, the famed Chinese manufacturing industry has certainly reaped rich dividends out of a deeper trading tie-up with Australia. Agriculture seems to be the only weak link when placed against other merchandise components such as manufactures and mining though the picture doesn't emerge as grim when we find that by 2005, Chinese export market turns out to be the destination for about a tenth of Australia's agricultural exports. The reason for this could be attributed to the very nature of Chinese agriculture that is more of an agricultural importer driven by its huge domestic demand than being a surplus producer.<sup>115</sup> Within agriculture, it is Food trade that has grown much less at 2.4 times than raw material trade that has posted an eight times growth between 1989 and 2005. However since both China's consumption profile and Australia's agricultural export profile (shift from traditional commodities, such as wool, and more reliance on processed agricultural products such as wine, cheese and seafood) are inclined towards a shift, there is likely to be a greater convergence in terms of food trade between the two.

Nonetheless, looking further ahead into the future as China appears to be heading towards being a major consumer of processed food, raw material and minerals and increasingly opens up its services market, the prospects for both countries to strengthen their trading and

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<sup>114</sup> Investment considered between 1991 and 2003; UNCTAD WID Country Profile Australia, Pub. by UNCTAD

<sup>115</sup> The number of Chinese living in poverty has fallen by more than 300 million since reform process began

investment relations get only brighter. Due to limited natural resources, as China's domestic agricultural production will not be able to meet the increasing demand, the chances of agricultural imports rising are very high. Also, China's demand for agricultural commodities is expected to continue, driven by the effects of fast economic growth, higher incomes and rapid urbanisation. Since it is likely that the commodity prices in the coming years will stay high and China will continue to need commodities in its run-up to attaining a high-income economic status, Australia will remain on a path of strong export growth. In the context of the WTO membership as China's manufacturing industry is expected to meet competition by moving up the quality value chain particularly in textile, clothing and automotive sectors, related Australian input providers are certain to exploit this opportunity. Furthermore, Australia's capital-intensive and China's labour-intensive manufacturing are to complement each other nicely. A labour-intensive manufacturing as against capital-intensive manufacturing is critical to the need of a developing economy like China whereas for an economy like Australia where services dominate, a more skill-based workforce needs to be prepared in order for the economy to leverage the growing services-centred productivity structure. At the same time, having comparative advantage in a tradable commodity is not enough. For a country merely attempting to compete on items of comparative advantage and not training its focus on items that could offer better terms of trade in international markets could prove to be counter-productive. What this means is that while it is perfectly logical for a country to work on the goods and services in the context of which it holds a competitive advantage vis-à-vis the others, it must also make efforts to diversify towards items that could command a higher market return particularly if the international prices of objects of its comparative advantage are on a downward path. So the challenge lies in developing comparative advantages in industries that are growing and that are expected to head towards higher terms of trade in the international market. The onset of digital revolution is throwing up different business models in terms of not just service delivery and management but even for changing the modes of production and ownership vis processes such as sub-contracting, licensing, joint ownership and direct foreign direct investment. Also, since there is a trend towards manufacturing of multi-purpose, programmable production equipment allowing for reallocation of equipment to different items from time to time as per the need of a specific market or consumer demand, flexible labour laws in that sense become critical.

As a country begins to import more and more, it is a natural follow-up that its industries would look to invest and set up more plants and would consider even moving outside the

borders if it makes business sense. This underlines the strong link between trade and investment where successful trade is always followed by successful investment, particularly Foreign Direct Investment. In fact, both forms of market entry—export and direct investment can be complementary to each other (Ma et al. 2008: 70). As China begins to import more of capital goods in its endeavour towards embarking on large scale urbanization, it would need to ramp up its relatively backward infrastructure and services industry, something where Australia's long experience and expertise could serve as a tremendous asset. For the Australian companies wanting to enter China and making foreign direct investment, the most important lesson for Australian companies is that there is not one uniform China. There are many 'Chinas.' This means that Australian firms can design their products and services in accordance with a wide range of market segments from premium to middle to low-value customer ends. While Australian firms in China are active in architecture, medical and health services, agricultural consulting, technologies and machinery, minerals technology and environmental products and services, the Chinese have made their presence in Australia in agricultural and resource processing, tourism and technology supply (Australia-China FTA Joint Feasibility Study 2005: 9). On the three measures of economic relationship as designed and improvised by ACCI such as Relative Degree of Trade Intensity (RDTI), the Relative Country Bias (RCB) and Relative Degree of Trade Complementarity (RDTC) for 1989 to 2002, it has been a fairly decent performance.<sup>116</sup> While Australia's RDTI vis-a-vis China declined by just over one percent per annum in trend terms, its RCB was strong with an compounded average growth rate of 12.8% per annum with RDTC growing by a robust 18% per annum. According to the joint feasibility study commissioned to explore a Free Trade Area (FTA) arrangement between the two countries, an FTA could boost Australia's and China's real GDP \$ 18 billion and \$ 64 billion respectively over the period 2006-15 (Australia-China FTA Joint Feasibility Study 2005: 4). So far, since May 2005, 16 rounds of negotiations for an FTA have been held (until July 2011) between the two countries and substantive progress has been made.

Most recently, impacted by the 2008-09 Global Financial Crisis (GFC), even when Australia's total merchandise trade decreased by 10 percent in 2009 and trade between Australia and its major trading partners had reduced considerably, trade between Australia

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<sup>116</sup> RDTI benchmarks Australia's export performance in China relative to its trade competitors; RCB measures Australia's export performance in Chinese market as compared to other export markets; RDTC measures in terms of comparative advantage market match between what Australia wants to sell and what China wants to buy

and China, instead of contracting, went up on the contrary, reaching a record of A\$78 billion or more. In fact, the recessions of 2001 and 2008 in the US and Europe had a relatively muted impact on the Australian economy one prime reason for which among many others being the pulling away of Australia away from the western world towards countries such as China (Battellino 2009). As a consequence of the global financial crisis of 2008 not only many of Australia's smaller mining enterprises, had been denied their normal credit facilities, even the "blue chip" performers on the Australian Stock Exchange had found themselves in very hard times with their shareholders. Here, Chinese investor interest in Australia's minerals and energy sectors could become relevant. China has become Australia's single largest export market and Australia is the largest supplier of bulk commodities to China and so the two economies are very closely intertwined. Such is the level of economic engagement and trust between the two and positively foreshadows an even closer relationship. One small caveat for Australia however would be that as China now decides to move from a more external trade driven economy to a domestic consumption driven growth, Australia might have to look for wider options though it is too early to say anything decisively on that count.

## Chapter IV

### **AUSTRALIA-CHINA POLITICAL RELATIONS, 1989-2005**

This chapter intends to examine the bilateral relations between Australia and China through a political prism. While any relations between two countries are essentially political in nature and conception, the intent here is to study critical issues permeating the broader political discourse in the two countries—issues that are relevant not only domestically but that also figure in the thinking and process of their foreign policy and foreign relations decision-making. In effect, they would constitute domestic issues in the two countries that carry an international dimension and that also exercise a bearing on the wider relations between the two. Though the topic of this work limits the study to the period 1989-2005, a brief historical overview of the issues would be done setting the stage for an in-depth discussion and analysis with a policy roadmap at the end for the two countries to build further on their bilateral political ties from thereon.

Any study of political relations between two nation-states must begin with a broad understanding of their respective political systems, institutions of administration and governance and the direct and indirect role and participation of the people at large in the running of the country. After all, any decision that is made with respect to political relations between two independent countries on any number of issues (or most number of issues) is the representative outcome of the interactions between different agencies of government, dominant and not-so-dominant political parties, varied interest groups, disposition of the media, and direction of public opinion, as much as it is a rough product of historical and current dynamics underlying the bilateral relations between the two. Admittedly, not all these participatory factors go into influencing the progress and outcome of a decisive bilateral relationship with another country, and the political latitude afforded to each of these variables certainly differs from country to country and from issue to issue, and most importantly from time to time. For instance, Australian political stand vis-à-vis China on a political issue would most likely be different, say, in a post-WTO-joining scenario from the pre-membership period. Also, not all of the above mentioned factors would find application and respect on a hard-core military-cum-strategic issue even in a representative democratic country such as Australia, much less in a one-party authoritarian system as that of China. Nevertheless, the



intent and the scope of this study post discussion of the respective political systems in the two countries is to consider at length some of the raging political issues animating the political mainstream in the two countries over the period 1989-2005 and even beyond, and the stance adopted by the leading political elites in both countries culminating in any kind of formalised bilateral exchange, agreement, or a treaty between representatives of state and governments; or even simple informal visits by representatives of state and governments; or an opinion expressed on a political question by any of the participatory factors as mentioned above.

As for the organisation of this chapter, this chapter has been organised into four different parts with

the brief first part setting the tone for the more detailed latter three parts. The first part entitled *Australia a Commonwealth & China a People's Republic?* deals with the validity of their respective nomenclatures. The second part entitled *Education and Democracy vis-à-vis Australia-China Political Relations* discusses the potential impact of Australian education on prospects for democracy in China. The third part entitled *Human rights vis-à-vis Australia-China Political Relations* explores the role of human rights as an intervening variable on political relations between the two countries. And the fourth part entitled *Environment & Climate Change vis-à-vis Australia-China Political Relations* seeks to understand the role and scope of environment and climate change as an arbiter of Australia-China political relations.

### **Australia a Commonwealth & China a People's Republic?**

On addressing the issues of political systems in the two countries and the scope that it holds for bilateral cooperation, the first and foremost question that arises is—whether Australia is truly a Commonwealth and China a People's Republic, as embodied in their respective formal names.

While Australia is officially called *Commonwealth of Australia*, China is *People's Republic of China*. Do their names justify the true character of their polity? Even though the substance and sustainability of the term 'Commonwealth' or the federated Commonwealth in the country's name was debated during the convention debates in the run-up to the federation, post-federation it has come to have a broad and largely majoritarian acceptability (Nauze 1971: 60). The term Commonwealth can be examined in two ways — one, the

Commonwealth of Nations associated with the historically institutionalised politico-cultural linkage with the British Empire. And two, the federated Commonwealth signifying the coming together of six separate colonies for common weal or common good — backed by a common constitution fleshing out adequate division of powers between the centre and the constituents. Sticking to the second interpretation of the term Commonwealth of Australia, it can be roughly stretched and equated to the proportion of autonomy implicit and enunciated in the federal character of the Australian constitution wherein barring taxation, defence, foreign affairs, and postal and telecommunications services, it was left to the respective states to enact laws and regulations. By implication, Commonwealth illustrated the degree of individual legislative and executive freedom that each of the six states was prepared to concede in the name of collective and as a result effective governance. And in that spirit of common and collective good, there has been a steady reinforcement of the central government's powers at the expense of the states with some of the chief instances being — to collect taxes and make grants to states; to legislate on welfare measures such as medical benefits, student allowances and unemployment benefits; to make special laws for aboriginal people, and to even override states' authority on certain erstwhile state spheres such as environment by virtue of the force of international treaties entered into by the centre — clearly cementing the dynamism and validity of the 'Commonwealth' in the political realm of the country. On a broader plain, Australia is one of its own kind of representative government — with a directly elected upper house both at the centre and in the states (except for New South Wales and Queensland) embodying a broader and more popular mandate unlike the narrow conservative interest representation of the British House of Lords; a system of Judicial Review non-existent in the sovereign traditions of the British Parliament; a provision of referendum for any Constitutional amendment present in neither the British nor the American versions; and last but not the least, a written constitutional document neatly demarcating the borders of responsibility between the federation and the states on the one hand and upholding the balance of power between the three main arms of government on the other. Even though Australia does not have a bill of rights, it has a substantial number of express or implicit guarantees of rights and immunities. Therefore, the Australian blend of constitutional monarchy and parliamentary democratic system of governance was the distilled product born out of long-tested and accumulated wisdoms of disparate strands of democratic models being worked out elsewhere in the world.

Just as Australia's Commonwealth was derived from history, China too which calls itself People's Republic of China has had a historical antecedent to that terminology. The term People's Republic is different from the way the concept of a republican government is used in mainstream Political Science literature. While the term 'People' can be attributed to the pivotal and prominent role of the people in the revolutionary history and the culmination into what became of China as a nation-state in the Marxist-Leninist framework, the term republic certainly connotes an import of western motif of government, howsoever tenuous it may have been in practice. In a rather simplistic way, the Chinese government can be said to be a republic to the extent that the head of the state, i.e., the office of the President is an elected one, elected by the National People's Congress which is a body elected indirectly by provincial congresses which in turn are elected by a successive tier of directly elected congresses at county and local levels (National People's Congress of the People's Republic of China 2017). And to add, there is no element of heredity or monarchy whatsoever. However, is the concept of Republic limited to an absence of monarchy alone? Or, does the idea have a more extended province? In that sense therefore, the question that arises is whether China can be called a republic in the true sense of the term without being a democracy. As posited by Philip Pettit, the political theory of republicanism lies in the roots of a unique idea of freedom: freedom as nondomination. An individual relishes freedom as nondomination if and only if he is "more or less saliently immune to interference on an arbitrary basis" (McMahon 2005: 67). In another definition of Republic, it is that ideal form of government, in which heredity is outlawed, laws and parliaments rule, and the affairs of the public (*res publicae*) count above all else (Lary 2007: 1–4). For a large section of scholars mainly Chinese theorists and writers, China is a unique socialist country (Socialism with Chinese characteristics), invoking the 1982 constitution that defines the PRC as "Socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants" (Constitution of the People's Republic of China 1982). This description in a literal sense meets both the criteria of democracy and by inference republicanism, and also implies equality through socialism. However upon closer inspection of this description emerges a somewhat mixed, if not confusing message for two reasons. First, the term democratic dictatorship sounds contradictory in itself. Subsistence of a dictatorship and democracy at the same time sounds rather implausible. Also to envisage a dictatorship of a working class based on its alliance with peasants presupposes an amity and concord lasting between the two classes in perpetuity. And secondly, it does not address the

political dynamics of new forces emerging in view of the opening of the economic systems of the country.

Numerous studies, particularly the western literature or west-trained scholars have shown how China essentially being a one-party state is not a democracy and how even in the presence of a Constitution, rules and laws are routinely bypassed by the all-influential Chinese Communist Party. Even when there are eight other ‘democratic’ parties besides the CCP, their role doesn’t go beyond consultation and practically rubber-stamping the decisions of the CCP. Even as the core philosophy of the CCP rests on the concept of democratic centralism, i.e., ‘individual is subordinate to the organization, the minority is subordinate to the central committee’, the question one might ask: why the absolute paramountcy of one party in the first place? (Saich 2001: 91, 236) Also more importantly in this light is that there is no effective line of difference between the Chinese Communist Party and Chinese government and the two are often melded into one, even though the Chinese Constitution allows for the three separate organs of government—the legislature represented by the National People’s Congress, the executive by the State Council, and the judiciary by the Supreme People’s Court—they are limited in terms of their linkage to the citizenry, their independence, and their ability to make public policy. In addition, there have been numerous recorded instances of any individual voice or groups even remotely suggesting what could be considered “political reforms” were promptly purged or silenced.<sup>117</sup> Yan Jiaqi, the former director of the Political Studies Institute of the Chinese Academy of Social Sciences wrote in the wake of Tiananmen in an article titled *China is hardly a republic*, ‘All of China and the rest of the world now clearly see that any country that calls itself a “People’s Republic” is neither of the people nor a republic’ (Jiaqi and Lin 1989–90: 163).

At a comparative level, as pointed out before, both Australian and Chinese political systems can safely said to have been born of their history. Both have written constitutions even with the limited following of the Chinese constitution. The difference is that while Australian Parliamentary system is an offspring of the British system of governance steeped in liberal-democratic traditions, the Chinese one-Party system straddled by the Chinese Communist

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<sup>117</sup>One principal trend in the Chinese political realm has been that over the years the system has thrown up individuals and leaders who have shown a more reformist (democratic) streak, including among others, Peng Dehuai and Liu Shaoqi in 1950s and 60s, Zhao Ziyang in 1980s, Peng Zhen in 1980s, Wan Li in late 1980s and early 1990s and Qio Shi in mid to late 1990s; but who eventually had to abort their visions and plans under the pressure and in the interests of the party and the party elite

Party has been a progeny of the rebellious marxist-leninist philosophy and traditions inspired by the Soviet Union in conjunction with a recent bloody history. Also, whereas the Australian nation was established on the basis of a series of referenda, the Chinese nation was a party-state created through violent revolution and based merely on history, ethnicity, culture and Chinese language (Galligan and Walsh 1990: 1). Most importantly, while there is clear division of powers between legislature, executive and judiciary in Australia, China has an omnibus supreme body in the form of National People's Congress. One key and almost oddly inexplicable difference that emerges out of the comparative examination of the two systems is that while Australia is a constitutional monarchy with a parliamentary democratic system, China has a 'limited republican' government sans the liberal democracy.

It is in the backdrop of such widely divergent political traditions that the relationship between the two countries will be examined under three broad headings: One, Education and Democracy— how can the two countries cooperate on vital political matters such as democracy-building in China, and to what extent Australian education can mediate as an agent of political change in China? Two, Human rights— how does human rights as a subject of international dimensions impinge on the political relations between the two countries? And three, Environment and Climate Change— how does environment, particularly, climate change as a subject of global expediency impinge on the political relations between the two countries?

In effect, this chapter would focus on three frontline issues— education and democracy, human rights, and environment— discussing at length how each individually and all collectively would come to exercise a decisive bearing on the broader political ties between the two countries. Towards the end, the chapter under a separate heading would briefly also enumerate the top-level exchanges and visits between the two depicting the political confidence and commitment that underpins the relationship.

## **Education and Democracy vis-à-vis Australia-China Political Relations**

Examining China's prospects for democracy building and its concomitant impact on its foreign relations should be the starting point when discussing Australia-China political relations. Could Australia assist China in transitioning to democracy and if it could, how, and

to what extent? Could educational exchanges between the two countries be the prime driver of democracy in China? What could be the shape and form of political relations between a more democratic China and Australia?

### **Australian Education and Prospects for Democracy in China**

While it might be too far-fetched to think that Australia in addition to its export of physical commodities and intangible services would add another ‘commodity’ in the form of constitutional democracy to its basket of export products and services to China, it is certainly possible that through education Australia can help China in nurturing a mass of Chinese minds increasingly open to democracy, not to mention developing rules, norms and institutions that could pave the way for a stronger and deeper democracy in China. To be sure, it is nobody’s case that Australia ‘from above’ can impose a system of democracy on China. The prerogative to (or not to) chart a path of democracy and wider civil and constitutional rights lies entirely with the Chinese people themselves and to that extent Australia can merely serve as a model and a political training ground, if the Chinese indeed decide so. However, the assumption is that the Chinese would trust Australia enough and want Australia to help in deepening democracy in their country and in that case, Education is one mode by which Australia can extend a helping hand to China. The obverse argument could also be: why would China want to import democracy from Australia? Should it decide to have a democratic form of government, why can’t it chart a democratic course by itself? The intent nonetheless here is to examine how educational exchange with Australia can strengthen the voices for democracy, and as such democracy-building in China.

John Dewey, the celebrated American philosopher and educationist who spent many years in China had remarked, “The school is the instrument by which a new society can be built, and through which the unworthy features of the existing society can be modified. . . . Other institutions such as agencies of law enforcement, the courts, political parties, and so on, do contribute to social reconstruction; but none of them is as effective as the school, because they are constantly confronted with obstacles which can be overcome only by education” (Tan 2011: 200). Therefore, education is one mode that can directly or indirectly lay down ideological, doctrinal and cultural foundations of any political systems including that of democracy. Democracy may have many variants and the object here is not to delve deep into the dynamics and complexities of democracy but how educational curricula and practices in Australia for Chinese students or education and training imparted by Australian educational

institutions and faculties can prepare the younger generation Chinese for an eventual transition towards a democratic government in the country. The hypothesis that higher education spawns more democratic politics has been complemented by substantive empirical support. The linkage between education and political participation has been emphasised by Almond and Verba who envisage education as a mainspring of “civic culture” and democratic politics participation (Glaeser et al 2007: 77-8). New economic theories in particular recognize that education produces new ideas, which in tandem with physical capital and research and innovation can raise the rate of economic growth (Carrington et al 2007: 572). Education multiplies the benefits from social participation since it aids smooth and uninterrupted swap of information (Glaeser et al 2007: 82).

Shortly before coming to the bilateral educational dynamics between Australia and China, going by official data, from 1978 to 2003, 700, 200 Chinese students and scholars in all have received education in 108 countries and regions all across the world (Li 2006: 6; Yang 2007: 2). According to the Chinese ministry of education, of the 815, 000 students who went outside the country for educational purposes between 1978 and 2004, a total of 198, 000 returned (OECD 2009: 187). Coming specifically on Australia, Australia allowed Chinese students inward for the first time in 1986 with the students coming in several thousands in 1987 (Gao 2006: 295). And the total number of Chinese students in Australia at the end of 2010 was 167, 000 (Australian Embassy, China). In higher education courses in Australia, over 97,000 students from China had taken enrolment by the end of 2011, which was about 40 per cent of total international enrolments in higher education. Around the same time, it is estimated that in excess of 3,000 Australian students were receiving education in China (Evans 2012). According to another estimate, more than 126,000 Chinese students (26% of all overseas students in Australia) obtain higher education in Australia (Ivanov 2011). Curiously, even though China is one of the countries imposing greatest constraints on education services, it is also one of the highest importers of education and contributes almost one-quarter of Australia’s total exports from education service (Carrington et al 2007: 566). Though China is disposed favourably towards foreign entities imparting education services at home, it projects it as a source of local educational development (Marginson 2006: 20). Accounting for the period 1999 to 2005 (for which comparable data is available), the total Chinese students’ enrolment in Australia had increased over 9 times. For the same period, higher education topped the growth rate (over 11 times) followed by vocational education (10 times) with school and English Language Intensive Courses for Overseas Students

(ELICOS) each registering an increment by over 6 times.<sup>118</sup> This data counters the widespread impression of Australia being mainly a vocational educational destination since both higher education and vocational education seemed to have grown equally, at least for the Chinese. Therefore, the chances for a Chinese student undergoing a more liberal campus education in the finest western traditions while pursuing higher education in Australia and hence being more amenable to the idea of a democratic government is quite real. During their stay in Australia, they are exposed first-hand to an open and liberal political climate within and outside the confines of their academic processes and institutions. There are free elections held for the Chinese students and scholars' groups in all campuses in Australia. In terms of courses and curricula, under higher education, a cross section of liberal arts disciplines ranging from political science, civics and international relations, public administration, law, media and journalism, history and sociology—all grounded in liberal western traditions—can serve as an ideal nurturing vehicle for shaping young Chinese minds. The example of the western university system, the wide and eclectic range of course offerings, the practicality and their social utility, and the spirit of academic freedom in searching for truth would certainly have their fallout on the Chinese students.

### **Tiananmen and Chinese students in Australia**

The Tiananmen faceoff was possibly the first politically-sensitive incident in response to which the Chinese students in Australia had organised themselves against the undemocratic and authoritarian onslaught of the Chinese state in their own land. Incidentally, it was the English language students in Australia who had been the spearhead of permanent residency agitation in the country in the aftermath of Tiananmen incident in 1989. Soon after Tiananmen on June 4th, the Australian government had declared that there were 15, 405 Chinese nationals receiving education in Australia (Gao 2006: 296, 299). The post-Tiananmen situation for Chinese students in Australia had in fact somewhat proved to be the perfect training ground for them to explore and experiment with democratic practices. By organising themselves into collective fora such as International Federation of Chinese Students and Scholars (IFCSS), Friendship Association of Chinese Students and Scholars (FACSS), Chinese Alliance for Democracy (CAD), and particularly Federation of Democratic China (FDC) in Australia and elsewhere, and by lobbying, appealing to public sentiments and mobilising public opinion, they had managed to elevate the subject of student protection and residency into a human rights and refugee issue (Gao 2006: 304, 305, 307-8,

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<sup>118</sup> Calculations based on Australian Education International, Australian Government data



311, 312). Using mass media, Chinese student leaders had written open letters to Australian members of parliament and government departments making a request for providing safety and through publicising a raft of seminars on how to apply to stay. In Oct 1989 when Federation of Democratic China (FDC) was opening up a string of international branches, its membership had expanded rapidly among the student community in Australia (Ibid: 305, 308). Ironically even as these students had used their democratic activism to stay on in Australia, the exposure would have at least prepared a huge mass of democratic minded Chinese outside the borders of China who could if the situation so turned even in the long-term make their contribution in the form of finances, networks, channels, propaganda and campaigns, and training for the cause of democracy in China.

### **Possible sources of influence outside the educational institutions**

In addition to regular courses in the university systems within Australia that could serve as the training ground for Chinese students, there are political and educational processes outside their own educational apparatus that could work as live political models for students for them to replicate in their own country. For instance, in the run-up to the referendum on whether Australians desired a republican form of government or monarchy in 1999, or during the celebrations of the centenary of Federation in 2001, the wide public discourse on governmental forms coupled with Australian government's initiatives to illuminate the public through reinforced civic and citizenship education in school systems such as *Discovering Democracy* in May 1997 and their vigorous promotion through mass media could also have helped shape the political leanings of the Chinese students (Print and Gray 2000). The conduct of elections itself in Australia is a major learning exercise for any student of democracy. The nation-wide telecast of pre-election debates between contending leaders, the parliamentary debates, and their spirited following would foster in Chinese students' minds a culture of deliberative politics, tolerance for others' viewpoints and choosing of government and leadership through raising the level of citizens' political education so that they can make a considered and informed choice. The Australian Electoral Commission specifically has a section on Education that is envisaged to enlighten the Australian community on the electoral mechanisms by which representatives are elected to the Commonwealth Parliament, and how Australian citizens are able to exercise influence on modifying the Australian constitution. It also consists of a National Electoral Education Centre based at Canberra which offers curricula and programmes on theories and practices on the functioning of different components of the Australian political system (Australian Electoral Commission).

Australia also runs a body what is called Australian Political Exchange Council, funded by the federal government and tasked with nurturing skills of young and upcoming politically active individuals in political organisation and practices. China is one of the eight countries with whom political exchanges are sponsored by the Exchange Council with the US, New Zealand and PNG being among others. It facilitates individual study tours, international forums and professional development programs overseas. The counterpart exchange organisations include All-China Youth Federation other than American Council of Young Political Leaders and Japan Center for International Exchange. By June-July 2006, as many as 15 Australian delegations had visited the People's Republic of China on behalf of the Australian Political Exchange Council (Guy Barnett Consulting Pty Ltd),<sup>119</sup> and by Feb 2008, 16<sup>th</sup> delegation from China had made the visit (Confucius Institute, University of Western Australia).<sup>120</sup>

Notably, China has been a frequent member of Australian Parliamentary Groups or Friendship Groups geared towards fostering and maintaining friendly relations with, and appreciating of, countries through linkages with national legislatures (China a member of Parliamentary Group for 42nd and 43rd Australian parliament for which information was available)<sup>121</sup> (Parliament of Australia). Some instances of Australia/China Friendship Group delegations that took place were in April 1999, May 2003, Nov 2003, and in April 2005.

As indicated earlier, the educational relationship between Australia and China is not altogether limited to the movement of students for regular studies. Both countries are striving towards, and should continue to expand the level of collaboration by promoting closer research cooperation, educational partnerships and programs of exchange, etc. In the 1990s, the Chinese researchers had even cited Australian institutional amalgamations as a very strong referent for the Chinese practice as a part of over-all educational restructuring and streamlining, though with limited and superficial understanding of the Australian process

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<sup>119</sup> Available at <http://www.guybarnett.com/SenateCareer/SenateSpeeches/tabid/74/articleType/ArticleView/articleId/3165/Australian-Delegation-to-the-Peoples-Republic-of-China.aspx>, Accessed on 17<sup>th</sup> June 2012

<sup>120</sup> Available at [http://confuciusinstitute.uwa.edu.au/index.php?id=328&tx\\_ttnews\[pS\]=1332213783&tx\\_ttnews\[pointer\]=3&cash=b2003031d7](http://confuciusinstitute.uwa.edu.au/index.php?id=328&tx_ttnews[pS]=1332213783&tx_ttnews[pointer]=3&cash=b2003031d7), Accessed on 17th June 2012

<sup>121</sup> The Groups assemble for get-togethers with representatives of visiting parliamentary delegations and other relevant dignitaries, apart from meeting diplomatic representatives of relevant countries in Australia. When travelling abroad, members of the Groups may also utilise the opportunity to meet with their counterparts

(Yang 2000: 328). Even so, Australian universities are conducting in excess of 100 joint teaching programs in China. For over two decades, the Australia China Council has supported Australian Studies in China supplying funds to a chain of over twenty Australian Studies Centres across China. In 2003 the ACC had collaborated with a consortium of Australian universities, with the Australian Studies Centre at the University of Queensland in the lead along with the Australian Centre at the University of Melbourne, to advance Australian Studies in China (DFAT). China is not only a huge and diversified market; different provinces have different education needs. Guangdong, Jiangsu, Beijing, Shanghai, Liaoning, Shandong, Zhejiang, Henan, Hubei and Fujian are the top 10 provinces and municipalities of China contributing towards students availing of education services in Australia for the year 2012–13 (Austrade 2014). In the past years, a string of Confucius Institutes has been set up at various Australian universities to facilitate engagement with China at individual, enterprise, community and institutional levels as well as with the global Chinese diaspora. The Australia-China joint higher education forum held during the 40<sup>th</sup> anniversary of diplomatic relations between Australia and China towards the end of 2012 saw the congregation of university leaders from both countries (Evans 2012). OECD estimates that China's middle class population would have reached 500 million by 2025, a natural corollary to which would be a greater demand for higher education. Given the inadequacy of seats in universities, particularly in the top and second-tier institutions, in combination with quality issues and sound prospects for global career and immigration opportunities, the Chinese students would continue to pursue education abroad (OECD 2009: 181).

Therefore, building on the educational exchanges at the student level, in an advanced context, another way in which Australia can facilitate nurturing democracy in China is by helping it develop institutions and build capacities of human resources and personnel manning the Chinese government and administration. This could involve actual training and exchange of law-makers, policy-makers, bureaucrats, judges and judicial officials, and even representatives of non-governmental institutions working in spheres of electoral politics, legislation-making, public policy and administration, and law. This cooperation could also extend to development of a full-fledged legal system in China including all aspects of law from civil to criminal to corporate to finance, commerce and trade, human rights, environment and cyber law.

In the backdrop of such extensive ‘democratic indoctrination’, the ‘indoctrinated’ Chinese students under normal circumstances would want government to absorb criticism, shore up the private sector or at least competitive sectors without political prejudices, and uphold the rule of law. Western political, social, and educational ideas and thoughts have exercised a lifelong impact on scores of returnees who consciously or sub-consciously or even unconsciously have taken to the western ways of reasoning and thinking, not to mention living and doing things the western way. In terms of sheer numbers, the reflux of Chinese students in the last decade has only accelerated, especially since 1998, when as many as 7,379 persons had returned to China, almost five times the number in 1990 (Li 2006: 10). As to the influence of these returnees on the Chinese political ethos and culture, one study found that the *haigui* (a new Chinese term for returnees) already figure among top ranks in China’s higher education and there has been an overt dissemination of liberal thoughts and western values in Chinese society. They also hold influential positions in central and provincial governments (Ibid: 7, 12). In recent years many returnees have also joined the think tanks. For instance, there are several respected *haigui* at the China Centre for Economic Reform at Beijing University who have contributed substantively on discourses touching upon socio-economic issues. The returnees have also forged collective organisations underpinned by their common experiences and outlooks nurtured abroad including Australia. For example, the Western Returned Students Association (WRSA) is an organization that allows those returned students to foster a spirit of unity and patriotism, even though most of these associations are under the surveillance and sponsorship of the party-state (Ibid: 21). In more recent years there has been an added complexity with many returnees increasingly not being able to land appropriately satisfactory work quickly, becoming “unemployed from abroad” (waiting to find jobs). An enquiry by the World HR Laboratory reveals that in China over 35 percent of the returnees from abroad have a hard time in landing employment, and 40 percent of them feel that they have been inaccurately placed or have been misfits in their search for jobs. The harsh economic reality is making them focus less on championing of values that they cultivated overseas and direct more effort towards their work (Ibid: 26). Inverting this reasoning, the other way to argue this point would be that precisely because of this lack of adequate employment opportunity fuelled by the feelings of being qualified enough and yet not being able to land a suitable opening, might cause the returnees to question the very fundamentals of economic planning and management, and by extension the rationale behind the persistence of de facto single party-state model of polity.

In a survey measuring Chinese students' motives for studying in Australia, ninety seven percent of students had claimed migration opportunity after completion of their education as the most important factor for considering Australia. Yet, the same survey had also placed Australia as a more preferred destination by Chinese students ahead of the US and UK. Of those students who had already made up their minds on studying abroad, 49% of students had opted for Australia, 23% the United Kingdom, 15 % the United States and Canada, and only 13 % had gone for other countries (Yang 2007: 6, 8). Also, the fact that as opposed to the policy stance of the US and UK, where there is an increasingly diminishing commitment to trade liberalisation in education under the pressure of academic community, Australia along with New Zealand emerging as the most ardent supporter of free trade in education holds tremendous prospects for a country like China (Ziguras et al 2003: 359). And also, since Australia has increasingly positioned itself as a mass education market as against the US/UK elite market, it holds out incredible promise for China looking to develop its human capital (Marginson 2006: 1, 3, 20).

Going by the elaborate account of Chinese educational exchanges with Australia amidst the persisting uncertainty that surrounds any likelihood of China taking to democracy at least in the near term (despite various propositions being advanced to that effect), it is difficult to estimate precisely the impact value of Australian education on the course of democracy in China. What can be said with certainty however is that China's educational relations with Australia has come to acquire a degree of permanence which is only likely to grow keeping in view the extraordinary rise in trade volumes between the two with education forming a key component of Australia's over-all trade, particularly services trade basket. Despite Chinese growth story often stuttering nowadays, given the impending emergence of a large middle class with a massively disposable income and in need for top quality western education, Australian education sector is suitably placed to exploit that opportunity. Even though the US and the UK remain top choices at present for most Chinese students, the growing sentiments in those countries for a more restrictive educational exchange climate coupled with the higher competitiveness of Australian currency vis-à-vis theirs would make it easier for Australia to forge ahead in this competition for Chinese market. Furthermore, Australian educational offerings make for mass market as opposed to the US' and UK's which remain limited to aspirational and niche market thereby enabling Australia to steal that edge in terms of sheer numbers. This number dynamic when placed in the political context holds incredibly explosive potential for any radical transformation in the political system of a country,

especially in a politically restrained country as that of China. Therefore trade is only one aspect of education exchange. The other aspect, i.e., the political aspect, holds equal salience in terms of its capacity to sharply incite the expectations of a young student community born out of their enlightened democratic experiences first-hand in Australian educational institutions. Though apparently this doesn't bode well for Australia's political relations with the Chinese political elite, this would merely be a short-term phenomenon. As the tidal force of expectations for democracy gathers momentum riding on the crest of western educational experience particularly Australian, the existing political elite would eventually have to reconcile with the new political realities to institute reforms and make way for a new democratic political elite. This creates a paradox which was first noticed by Alexis de Tocqueville. According to him, the anomaly was that the chances of repressive regimes being toppled were greatest when they would attempt self-reformation. As a result, even the most radical reform-minded within the CCP would be overly circumspect on championing change (Pei 1992: 108-9). So, even a truly reform-minded Chinese leader would think many times over before he actually goes about setting off real train of political reforms. However, on a more balanced note, nobody should disagree that each new succeeding generation of political leadership appears to be with relatively lesser individual power resources than the previous one as Deng was less supreme in his individual authority than Mao and Jiang Zemin even less than Deng, and so on (Bachman 1992: 1047). This means that even as the Communist Party has managed to retain its stranglehold on power or may be even has strengthened its hand, the personal power of the individual leader per se has progressively tapered off over the years. Kevin O'Brien has advanced that as Chinese leaders recognize parliaments as a routine feature of political system they can be seen as becoming "embedded" in the political system, even if autonomy from other institutions such as the Chinese Communist Party eludes them (McCormick 1999: 170). David Shambaugh has spelled out a host of components to aid intraparty democracy initiative chief among which are multicandidate polls for party committees enhancing over-all transparency and accountability while subjecting the party committees to feedback and critique from other party members, other officially approved "political parties," such as the China Peasants and Workers Democratic Party; and the common people (Gilboy and Read 2008: 154). The country has also undertaken considerable reforms to its legal system. Such reforms only make it easier for western nations such as Australia to nudge China gently towards a democratic system. From making it explicitly clear to the Chinese regime as to what is acceptable and what is not for every 'political transgression', major or minor, that the ruling elite in China might make, Australia should

make it look personally rewarding for Chinese political elite themselves, should they take to the path of democratic government. The voice of Australia-educated-and-returned would only add to that gentle force of diplomacy.

## **Human rights vis-à-vis Australia-China Political Relations**

As far as human rights are concerned, in the prevailing international environment they indubitably occupy a dominant if not priority position in the over-all panoply of political relations between Australia and China. A deeply sensitive issue, in the last few years and even decades, human rights have come to assume overriding importance in international political discourse among nation-states of all political and geographical stripes. And to that extent, neither Australia nor China has remained insulated, regardless of their maximal or minimal cross-connection with the subject. However, before elaborating on their respective roles in that process and the converging or divergent paths taken by the two thereafter in the realm of human rights, human rights first as a concept will be briefly dealt with raising necessary questions that inform the subject particularly in the context of Australia and China.

At the most rudimentary level, human rights can be defined as rights naturally accorded to someone by virtue of him/her merely being a human being. It overrides all other qualifications such as race, religion, caste, tribe, ethnicity, gender, geography, community, nationality, age, occupation, profession and others. The International Bill of Human Rights includes Universal Declaration of Human Rights, International Covenant on Civil and Political Rights, International Covenant on Economic Social and Cultural Rights, and two optional protocols.<sup>122</sup> The Chinese political philosophers and scientists have often raised their own visions of what constitutes human rights from a position of cultural relativism as opposed to the western universal notions of human rights adopted by Australia in theory. Nonetheless, there are three fundamental ideological conflicts that underpins a debate on human rights—one, whether socio-economic rights stand equivalent to politico-civil rights with each of them deserving equal treatment and constitutional-legal sanction, or whether one clearly supersedes the other. And two, to what extent should an external power or indeed the international community be entitled to intervene in an internal human rights situation of a country? In other words, how does one reconcile the seemingly inherent contradiction between the moral imperative to address a domestic human rights situation and the practical

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<sup>122</sup> Optional Protocols include Optional Protocol to the International Covenant on Civil and Political Rights and Second Optional Protocol to the International Covenant on Civil and Political Rights

implications on the sovereignty of a nation-state? And the third ideological conflict essentially entails the government vs citizens spectrum, i.e, the inherent dichotomy between the people's act of freedom and government's freedom to act. Where does the point of confluence lie between government's rights to curb individual freedoms in the name of governance and order, and individual citizen's right to freedom of full politico-civil expression and socio-economic fulfilment? Since the idea of human rights entails not only protection of man against State but also man against man, how does State ensure this protection without overreaching itself?

In the backdrop of such questions, how have Australia and China, both individually and bilaterally addressed these issues? How does Australia as a middle power engage China on human rights in a bilateral context, outside the multilateral framework?

### **Similarities in Substance and Approach between Australia and China on Human Rights**

Even before coming to actual relations between the two countries on human rights, there are both points of similarity and divergences that the two have exhibited on human rights over the years and that need to be enunciated. Elaborating on the similarities first, the first and most striking similarity between the two is that there has never been a consistent approach to human rights by either Australia or China (or for that matter, any other country). Both the countries and their governments have often wavered in their positions between idealism and realism depending on time, their national interests, the very nature of a particular right, and most importantly the 'weight' of other stakeholders involved on a certain human rights subject. Even the relations between China and US in this regard echoes the latter's national interest rather than ethical concerns with the rights of individuals, as advanced by Ming Wan in *Human Rights in Chinese Foreign Relations* (Tamaki 2002: 117). The second similarity that characterised the two countries is that each of them had for a long time kept human rights independent of their broader foreign policy. Since Australia had largely confined itself to a US-drawn post-War world order (notwithstanding the sporadic initiatives in Asia) with the US itself not having granted full-scope civil rights to its coloured community, there had not really been an international outcry much less questioning of Australia's domestic human rights records. China on the other hand had while initially allied with the Soviet camp, soon 'broke free' and charted an independent foreign policy path that had scant reflection of domestic human rights situation. In other words, that both Australia and China had managed



to keep human rights separate from their foreign policies was because other than the context of colonialism and waves of decolonisation, human rights had not attained the centrestage status (of the kind that it enjoys today) in international diplomacy just yet. This was until in a first well-developed theory of human rights in Australian foreign policy since Evatt, Gareth Evans had projected human rights as “an extension into our foreign relations of the basic values of the Australian community: values at the core of our sense of self, which a democratic community expects its government to pursue” (Saul 2011: 429). From the late 1970s and early 1980s till present when there has been an intensified international spotlight on human rights, Australia has employed moral suasion than any real threat of economic and any other political sanctions as opposed to US strategies. The third similarity and that springs from the second is that both Australia and China had themselves been colonial powers and therefore been in partial violation of human rights to that extent. While Australia had been the colonial master of PNG and Nauru in the Pacific, the Chinese can be accused of having colonised (in a howsoever distant past) Tibet, Xinjiang and Mongolia (Saul 2011: 426; Cosmo 1988: 287). Yet it must be quickly clarified that in the classical colonial sense, China post-1949 was not a colonial power. The fourth similarity has been that both countries have had a hand at the initial human rights deliberations in the immediate aftermath of the Second World War setting the foundations for an international human rights regime. At the Paris Peace Conference in August 1946, in a bid at securing the rights of minorities in ceded territories, Foreign Minister Evatt of Australia had even suggested the setting up of a Court of Human Rights to which individuals, groups or states could approach for remedy, though the proposal was not accepted (Kent 2002: 60). A year before at the San Francisco Conference in 1945, Australia had actively taken up the cause of economic and social rights even in the face of resistance from the US and the UK (Ibid: 59). On part of the Chinese, UN’s first director of human rights, John Humphrey credits the Chinese Peng Chun Chang (Vice Chair of the Human Rights Commission) for his intellectual inputs for UN Declaration of Human Rights.<sup>123</sup> Furthermore, it was the Chinese delegate<sup>124</sup> who had introduced the right to food and clothing as basic needs for the Article 25 of the UN declaration of Human Rights (Waltz 2002: 443, 444). The fifth similarity which is related with the fourth is that the course of domestic politics in the two countries had influenced both the countries’ stands on human rights internationally, and precipitated human rights situation domestically. China which had

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<sup>123</sup> Along with a Lebanese Charles Malik

<sup>124</sup> Along with his Philippine Counterpart

suffered immeasurably under Mao's experiments such as Great Leap Forward and cultural revolution, continued to witness human rights infractions with the Tiananmen massacre under Deng being the prime example, continual imprisonment of political dissidents and detractors, and so on. However internationally, China had denounced certain regimes for human rights violations, most notably the South African apartheid. Likewise, Australia under successive liberal governments with an official racist policy in place domestically can be said to have been in a human rights 'spot' until Whitlam's Labour government officially ending the White Australia policy. Then the rise of Pauline Hanson's One Nation Party in the 1990s, however briefly, espousing an extreme rightist position is tantamount to an attack on human rights. Internationally, Australia's position has been selective. Even as it supported the cause of Indonesian independence from the Dutch, Kanak's self-determination against French Caledonia, it did not support East Timor against Indonesian annexation in 1975 (though making amends in the period 1999-2002), and nor did it support Tibet against China which had acquired it by force in 1959 (Saul 2011: 426). The sixth similarity and much congruent with the fifth one is that adopting an impartial lens, both countries can be said to have a weak record on human rights. Even as China has been notorious in this respect owing to its one-party government, personality-driven politics, and a tumultuous history, Australia has been no less violative of human rights. Australia's own position on human rights had been weak for a greater part of its history for mainly two reasons: one, its discrimination against indigenous people; and two, its White Australia policy that restricted immigration to the country on the basis of race (Chesterman 2001: 23). Ben Saul posits that given that there was no constitutional bill of rights in Australia and that the country was deficient in terms of a regional human rights structure being in place (as opposed to its presence in the US, Europe and Africa), this has resulted in human rights not being accorded the due importance in Australian political and foreign policy sphere as elsewhere (Saul 2011: 423-24). Therefore in that respect, neither country can adopt a high moral ground on human rights. The seventh similarity lies in their shared Asia-Pacific geography and the corresponding geopolitical dynamics. Just as Australia was operating in a region that lacked human rights awareness, so was China, as can be extrapolated from Ann Kent's proposition (Kent 2001: 622). In a separate writing, Kent goes on to say that Australia even attempted to signify a stronger Asia-Pacific identity through its regional human rights posture entrenching its declaratory support for economic and social rights (Kent 2002: 65). The eighth similarity between the two has been that despite their inconsistent records and differences in degree of acceptance, both countries have come to accept the overwhelming legitimacy of human rights as a part of

domestic and international political narratives. China's broad acceptance of the international human rights regime flows from two factors: one, its increasingly globalised economy, trade and finance makes it tied down to the other countries particularly the US and the west. And two, as mentioned before, an acquiescence to the norms and standards set by the global institutions on human rights becomes imperative for it to claim the mantle of not only a global power, but also a responsible global power.

And the ninth and the last similarity between the two countries on human rights can be seen in certain specific instances where the respective political positions seemed to converge. For instance, in what could sound strange but familiar to the Chinese, in July 1996 the Foreign Minister, Alexander Downer had marked out its human rights tradition as rooted in economic and social rights and in the concerted right of opposition to racial discrimination and apartheid (Ibid: 68). Subsequently, in a speech in 1996, Downer had specifically underlined the need to establish a linkage between the two classes of rights – civil and political, and economic, social and cultural rights – through the broader 'right to development', a stance closer to China. Downer had also declared that the human rights violations perpetrated upon individuals were a source of concern for Australia itself and that advancing the cause of human rights too supported country's larger security and economic interests, again echoing Chinese position (Downer 1996; Saul 2011: 432). Another instance that can be cited here is that on 24 July 2002, Australia had collaborated with China (along with Cuba and Libya) in casting its vote against the adoption of the text of the Protocol to the Convention against Torture, in the process counteracting against the bolstering of the international human rights system (Kent 2002: 77).

### **Differences in Substance and Approach between Australia and China on Human rights**

Post-enunciation of the broad similarities between Australia and China on human rights, there are significant differences between the two countries that will now be delineated. In this regard, the first and foremost difference that stands out is that notwithstanding Australia's own unenviable and eminently questionable records on aborigines and natives, it commands a higher and more favourable international opinion of its human rights standing as compared to China. This is possibly because of its multi-party liberal democratic political culture. The second difference is that while China links its compliance with international human rights regulations with its global power aspirational status, Australia makes no such linkage.

Australia is content with its middle power status though it does increasingly seek to shape the discourse on human rights within the socio-cultural and political specificities of Asia-Pacific region. Whereas Beijing knows it will not be accepted by international society howsoever much some of the requirements made by the West seem incompatible with the mores and customs of the Middle Kingdom (Tamaki 2002: 122). The third difference pertains to the idea of nationalism. Though the issue of human rights in Australian political discourse is largely bereft of nationalistic undertones, China without doubt and to a greater degree conceives of and evaluates human rights through the prism of nationalism. In fact unlike the past when it was the military element of imperialism that had rallied the Chinese nationalism for human rights and democracy, today it is mostly cultural imperialism that has informed the contemporary nationalistic discourse on human rights in the country (Weatherley 2008: 343). The fourth difference can be attributed to the fact that although China has always had a vast number of ethnic and religious minorities, and the Han majority has indeed periodically discriminated against them, this discrimination never had a legal backing unlike Australia that officially ran a White Australia policy for a long part of its short history. A counter-argument to this explanation could be that China indeed has had 'no law and order' for a legally sanctioned discriminative human rights regime to subsist in the first place. Be that as it may, the difference between the two on that account does exist. The fifth and the last difference between the two can be brought out through particular events and examples where they took a stance opposite to each other. For instance, while Australia vehemently criticised the military regime in Myanmar post-1990 polls (democracy leader Aung San Suu Kyi had emerged victorious), Australia's attempts to mobilise international support for the levying of sanctions on the regime were blocked by states such as China apart from India and the ASEAN grouping (Saul 2011: 430).

Having brought forth principal similarities and differences that suffused Australia and China's positions on human rights, a discussion on actual political relations on the subject between the two countries becomes the next logical step.

As mentioned earlier, just as both the countries' individual human rights policy regimes had never been consistent, their bilateral human rights relations too had demonstrated a somewhat shifting pattern veering between distant indifference to modest engagement to close cooperation. This variation had again been a function of an array of factors ranging from surging importance of economics and trade in international diplomacy, the pre-eminence of human rights as a global concern itself, and the competing dynamics between ideological

proclivity and material interests of the political parties in power. Any assessment of human rights relations between Australia and China usually, and almost by default assumes China to be the deviant and the targeted partner (in terms of monitoring) and Australia to be the veritable rule-abiding and monitoring partner. Donnelly and Howard have identified ten distinct rights that nearly capture all the human rights that one should enjoy by virtue of merely being a human being--The Right to Life, The Right to Food, The Right to Health Care, Family Rights, Nondiscrimination, Right to Habeas Corpus, Independent Judiciary, The Right to Education, Freedom of the Press, Freedom of Association. These ten have been classified broadly under four headings—Survival Rights, Membership Rights, Protection Rights, and Empowerment Rights (Donnelly and Howard 1988: 214-15, 217, 220, 222, 224, 228, 230, 235, 237, 238). When measured roughly against Donnelly and Howard’s delineation of ten human rights, and in the historical backdrop of an entire ‘stolen generation’, Australia emerges with a sufficiently questionable human rights record, particularly in terms of Membership Rights and Protection Rights. Likewise, China too does not appear unblemished and notably fails to stand up to the test on Protection Rights and Empowerment Rights. Furthermore, in terms of commitment to international law, a survey of UN database on Human Rights related treaties indicates that under Chapter IV of Human Rights, Australia does not fare far better than China if not stand almost equivalent to it. Of the 26 Conventions, Protocols and Amendments, whereas Australia has Only Signed on to 1, Ratified/Acceded to 14, Accepted 3 Amendments, and Not Participated in 8 of them; China has Only Signed on to 2, Ratified/Acceded to 10, Accepted 4 Amendments, and Not Participated in 10 of them. The intent is to maintain a semblance of parity and without any pre-conceived notion of one or the other. The following table records the status of both the countries on individual human rights treaties and conventions under Chapter IV of the United Nations (United Nations Chapter IV).<sup>125</sup>

<b>Treaties and Conventions</b>	<b>Australia</b>	<b>China</b>
Convention on the Prevention and Punishment of the Crime of Genocide	Signed 11 <sup>th</sup> Dec 1948 and Ratified 8 <sup>th</sup> July 1949	Signed 20 <sup>th</sup> July 1949 and Ratified 18 <sup>th</sup> April 1983
International Convention on the Elimination of All Forms	Signed 13 <sup>th</sup> Oct 1966 Ratified 30 Sep 1975	Acceded 29 Dec 1981

<sup>125</sup> Chapter IV Human Rights from United Nations Treaty Collection

of Racial Discrimination		
Amendment to article 8 of the International Convention on the Elimination of All Forms of Racial Discrimination	Accepted 15 Oct 1993	Accepted 10 Jul 2002
International Covenant on Economic, Social and Cultural Rights	Signed 18 Dec 1972 Ratified 10 Dec 1975	Signed 27 Oct 1997 Ratified 27 Mar 2001
Optional Protocol to the International Covenant on Economic, Social and Cultural Rights		
International Covenant on Civil and Political Rights	Signed 18 Dec 1972 Ratified 13 Aug 1980	Signed 5 Oct 1998
Optional Protocol to the International Covenant on Civil and Political Rights	Acceded 25 Sep 1991	
Convention on the non-applicability of statutory limitations to war crimes and crimes against humanity		
International Convention on the Suppression and Punishment of the Crime of Apartheid		Acceded 18 Apr 1983
Convention on the Elimination of All Forms of Discrimination against Women	Signed 17 Jul 1980 Ratified 28 Jul 1983	Signed 17 Jul 1980 Ratified 4 Nov 1980
Amendment to article 20, paragraph 1 of the Convention on the Elimination of All Forms of Discrimination	Accepted 4 Jun 1998	Accepted 10 Jul 2002

against Women		
Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women	Acceded 4 Dec 2008	
Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment	Signed 10 Dec 1985 Ratified 8 Aug 1989	Signed 12 Dec 1986 Ratified 4 Oct 1988
Amendments to articles 17 (7) and 18 (5) of the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment	Accepted 15 Oct 1993	Accepted 10 Jul 2002
Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment	Signed 19 May 2009	
International Convention against Apartheid in Sports		Signed 21 Oct 1987
Convention on the Rights of the Child	Signed 22 Aug 1990 Ratified 17 Dec 1990	Signed 29 Aug 1990 Ratified 2 Mar 1992
Amendment to article 43 (2) of the Convention on the Rights of the Child		Accepted 10 Jul 2002
Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in armed conflict	Signed 21 Oct 2002 Ratified 26 Sep 2006	Signed 15 Mar 2001 Ratified 20 Feb 2008
Optional Protocol to the Convention on the Rights of	Signed 18 Dec 2001 Ratified 8 Jan 2007	Signed 6 Sep 2000 Ratified 3 Dec 2002

the Child on the Sale of Children, Child Prostitution and Child Pornography		
Optional Protocol to the Convention on the Rights of the Child on a communications procedure		
Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty	Acceded 2 Oct 1990	
International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families		
Agreement establishing the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean		
Convention on the Rights of Persons with Disabilities	Signed 30 Mar 2007 Ratified 17 Jul 2008	Signed 30 Mar 2007 Ratified 1 Aug 2008
Optional Protocol to the Convention on the Rights of Persons with Disabilities	Acceded 21 Aug 2009	
International Convention for the Protection of All Persons from Enforced Disappearance		

Source: United Nations Chapter IV on Human Rights, UN Treaty Collection



## **Progress of human rights cooperation between Australia and China**

Coming back to actual cooperation, although the Australian government's misgivings about China's human rights were communicated in private conversations as early as 1983, it was only after the Tiananmen crackdown in 1989 backed by the advocacy of multilateral sanctions that Australia had first raised China's human rights policies on a public platform (Kent 2001: 611).

As for the path taken by Australia over China's human rights infractions after Tiananmen, Ann Kent has classified the over-all period spread into three distinct phases—sanctions (only economic sanctions and shaming), active monitoring (exchange of representative delegations) and passive monitoring (bilateral dialogue) (Ibid). First in the immediate aftermath, it adopted a punitive stance of both levying economic sanctions and of morally discrediting or shaming the country. However, the sanctions had been selective in nature intended to keep the broader relations insulated from the fallout of Tiananmen (Kent 2004: 149). In the second phase that lasted through 1991 and 1992, Australia had sent representative delegations to the country and invited return delegations from China thrashing out substantive aspects on human rights. It must also be mentioned that it was not until 1998 that China had accepted Australia's invitation to send return delegations to Australia to assess human rights situation in the country (Kent 2004: 148). In substantive terms, one pivotal purpose for Australia in this phase was to encourage and prod China into acceding fully to International Covenant on Civil and Political Rights (ICCPR) and International Covenant on Economic, Social and Cultural Rights (ICESCR) (Kent 2001: 611-12; Kent 2004: 150). Also, between 1989 and 1996, Australia had co-sponsored draft country situation resolutions on China in the UN Human Rights Sub-Commission and UN Human Rights Commission, two of which were adopted (Kent 2016: 83). And as the second phase entered the third phase since 1996, Australia quit the multilateral route of cosponsoring draft resolutions, and instead took to the bilateral route of monitoring and dialogue. Significantly, this change was at the behest of the Chinese who on the strength of their growing economic and hence diplomatic influence, had not merely brought Australia round to their viewpoint but even effected a broader international reconfiguration in the manner in which human rights issues were to be engaged with and managed. As China emerged as an economic and trading power of eminence, the larger international community too had gradually scaled down its human rights expectations of China, all this precipitating the progress from the second phase of active monitoring to the third phase of passive monitoring. Incidentally, it was Australia's advocacy of de-coupling

economic sanctions from human rights, and pursuit of quiet diplomacy and through multilateral institutions that had inspired the actual de-linkage of human rights from Most Favoured Nation (MFN) status by the US in 1994 (Kent 2001: 616). As China became increasingly impervious to US pressure from 1993 onwards, Australia had in time downgraded human rights as a bilateral matter of interest vis-a-vis its overall political relationship with China, instead of yoking them as intrinsic to its own broader strategic and commercial ties. In 1997, the government chose to refrain from co-sponsoring the annual resolution on China at the session of the UN Commission on Human Rights as 'it was not a constructive way of promoting human rights in China.' (Downer 1997) Significantly, it was the Australian Prime Minister John Howard who had first broached the subject of human rights within a framework of bilateral dialogue which was further discussed and agreed upon between the Chinese Justice Minister Xiao Yang and Alexander Downer in April 1997. However, even more significantly was that by 1997-98, Australians themselves under Howards's Liberal government began to drastically revise their stand vis-à-vis their obligations to international treaties and bodies. By questioning the authority of multilateral bodies such as the UN Committee on the Elimination of Racial Discrimination (CERD) and the UN Human Rights Committee to query its policy toward Australian aboriginals and refugees, Australia was in a way was not only undermining international norms but could also said to be compromising its own negotiating space on human rights with respect to China.

Nonetheless in actual substantive terms, through the delegation and dialogue phases, the two countries had cooperated and exchanged notes including through bilateral visits on a range of areas related to human rights: first-hand appraisal of institutions and procedures in China by Australian experts; financial, legal and policing training; death penalty, prison conditions and cases of individual dissidents and political prisoners, namely, Harry Wu, Ngawang Choephel, Ngawang Sangdrol, ; conditions of Uighurs in Xinjiang and Tibetans in Tibet; the status of leaders of the China Democracy Party and adherents of the Falungong movement; technical cooperation and advice on Chinese accession to ICESCR and ICCPR; greater openness for Australian legal firms to operate in China and HIV/Aids. As the dialogues had proceeded year after year, there were a series of firsts achieved in terms of progress on human rights between the two countries. For instance, during the fourth round of dialogue in 2000, the visit had been very critical because for the first time the Chinese in a meeting with Australians had counter-questioned the latter on their own human rights situation with specific reference to

the hardship and suffering of Aboriginals, the Native Title Act and the proportion of women in labour force. Then during the fifth round in 2001, for the first time, China had provided detailed information on individuals whose cases had been raised by Australia earlier (DFAT Declassified Papers).<sup>126</sup> Marking yet another progress, during the sixth round in 2002, the Chinese had obliged the Australians for the first time ever when they had furnished a completely exhaustive account of all the cases brought forth by Australia. As dialogue became more inclusive and representational and trust built up, during the eighth round in 2004, a posse of Australian NGOs had been officially allowed to meet with the Chinese contingent for the first time.

A comparison between the active monitoring and delegation phase and passive monitoring and dialogue clearly brings out that active monitoring was more transparent and credible than the latter. As Ann Kent writes, “without establishing evaluative benchmarks of China's performance and without imposing some form of public pressure through the issuing of a public report, the dialogue ran the risk of legitimizing, rather than ameliorating, China's current human rights conditions.” (Kent 2001: 619) Most importantly, it had reduced tactical choices for Australia, as it had to accede to China standing firm that continuing bilateral dialogue was conditional upon states desisting from co-sponsoring a China resolution in the UN Human Rights Commission (Ibid). However the reporting mechanism of the first phase too was not without shortcomings as evident from the same recommendations being repeated in the second delegation's report which were there in the first. Yet, it was the active monitoring phase that saw China publishing its first White Paper on human rights in 1991.<sup>127</sup> However, to the credit of the latter phase of passive monitoring, China had signed the International Covenant on Economic, Social and Cultural Rights in October 1997 and ratified in March 2001. Whereas it had only signed the International Covenant on Civil and Political Rights in October 1998, but has not ratified it as yet. One single virtue of the dialogue process Australia claims is that it managed to convey its viewpoint and concerns to senior functionaries within the Chinese government who had the ability to shape policy review in China. It also claims to be “one of the few nations to have successfully engaged the Chinese authorities, at a practical level, on how to improve the legal and police systems to reduce the potential for abuses...without resorting to megaphone diplomacy.” (Downer 2003) On the basis of the widely accepted spiral model of human rights (designed by Thomas Risse,

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<sup>126</sup> DFAT Declassified under the Freedom of Information Act 1982

<sup>127</sup> By 2010, China had published nine White Papers on human rights

Stephen Ropp and Kathryn Sikkink) that sketches out a progressive path to socialisation of international human rights norms and standards through five stages by a country internally, China can said to be under phase three of tactical concessions when it makes temporary compromises (such as releasing of political prisoners) for short-term ends (Fleay 2006: 71, 75, 76). And in terms of Australia, it is precisely the Chinese ability to wield larger diplomatic weight (for reasons such as trade) and Australia's middle power non-influence or restricted influence that has scuttled the Chinese progress to the fourth prescriptive stage.<sup>128</sup> However, this model fails to account for the relapse of Australia's own human rights performance particularly with respect to Howard government's questioning the international human rights institutions on their *locus standi* when it did not suit the government. Then in 2010, the Australian government has rejected the proposal for a statutory charter of rights, something akin to the American Bill of Rights, and something that in various forms through past decades has come to be an intrinsic part of several constitutional and legal systems—India (1950), Canada (1960 and 1982), New Zealand (1990, 1993 and 1998), South Africa (1993 and 1996) and the United Kingdom (1998). This leaves Australia with the dubious distinction of being as one of the only nations without an enforceable statement of basic rights (Kirby 2011: 259-262).

Therefore, Australians themselves have often sent out confusing signals on human rights. At one level, they have vigorously vouched for a legitimately democratic government as a precondition for subsistence of human rights. Particularly in the context of China, the message that comes out is "open business, closed politics" never really works. On "cultural particularities", Alexander Downer the foreign minister had made it quite clear, "Human rights are universal rights—they are not some kind of Western import, with little resonance in other regions." (Downer 1999 a) At another time, the same minister had also said, "Improving the human rights situation in China is a long process—we cannot expect big changes overnight." (Downer 1999) And on yet another occasion, the same minister had said, "Australian jurisdiction stops at our borders and other nations guard their sovereignty very zealously. What we can do is to encourage change in the right direction and provide assistance at a pace and of a kind acceptable to our partner governments, involving them at all stages in the process. That is how progress is made." (Downer 2000 a) Therefore, at best Australian attitude to China on human rights can be summed up as an eclectic mix of gradual

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<sup>128</sup> Prescriptive status is attained when the validity of international human rights norms is no longer contested by the targeted states and is evident from ratification of international human rights conventions and optional protocols

reformism, expeditionary pragmatism, and cautious optimism. China on the other hand has even though occasionally brought up Australia's own domestic record on human rights, there is no evidence to suggest that it has taken a pronouncedly strong stand against any of Australia's internal domestic human rights issues most notably, on a series of refugee matters that came to test the Australian foreign policy in the first few years of the new century. From a strictly realist viewpoint, individual power position of the monitoring state is critical to the success of monitoring. Australia being a middle power as compared to the big power status of the US, carries limited influence in terms of exerting any real impact on China's human rights measures. So, for Australia, moral suasion emerges as a more viable and practicable tool vis-à-vis China than economic sanctions.

## **Environment & Climate Change vis-à-vis Australia-China Political Relations**

Environment subsumes a vast spectrum of intersecting subjects of concern, including among many others, global warming and rising sea levels, air and water pollution, water scarcity, land conversion and degradation, desertification and deforestation, fossil and non-renewable energy based consumption, biodiversity loss, ozone depletion, radioactive waste and genetic modification, and above all the most immediately visible—the manifestly extreme weather patterns such as recurring droughts, floods and storms. Even as any discussion of Australia China relations in terms of environment would to varying degrees embrace many if not all of these aspects; for the purpose of this chapter, climate change as a broad category has been adopted as the discursive framework within which the ties between the two countries on the subject would be dealt with. Furthermore, outside the rigid ambit of environment, climate change also conflates with other disciplines and concerns such as economics and commerce, energy security, agriculture and food security, poverty alleviation, migration, human security, human and community security, ethics, and not least politics (Elliot 2011: 442; Bhagwati 2008/9: 171). As a matter of fact, climate change has even been equated as a threat multiplier in consonance with the subject of national security. Chaturvedi and Doyle citing Paul J Smith's work evoke "climate change emerging as a key security challenge of the 21<sup>st</sup> century"... "To the extent that climate change contributes to natural disasters that promote state weakness, it could indirectly provide a political opening or increased "functional space" for local or global terrorist organizations' (Chaturvedi and Doyle 2010: 109; Moore 2011: 149).

To be sure, since climate change warrants sound policy as well as sustained action with a long-term perspective, the aforementioned other subjects can all be examined under the overarching rubric of politics. It is after all the worldwide politics and political movements on climate change exemplified in the tremendous upsurge of green parties and environmental NGOs (eNGOs) backed by a vast swathe of public opinion in various countries that has catapulted the subject to the ‘high table’ of international diplomacy. “Climate change is the most severe problem that we are facing today: more serious even than the threat of terrorism”, thus said Sir David King, the then UK’s Chief Scientific Advisor to HM Government (BBC 2004; Hulme 2005: 785). Then in 1999, the chairman of Intergovernmental Panel on Climate Change (IPCC) had suggested that it is no longer a “question of whether the earth’s climate will change, but rather when, where and by how much” (Bulkeley 2001: 430).

What is climate change? The United Nations Framework Convention on Climate Change (UNFCCC) defines climate change as “a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.” (UNFCCC 2012) Climate change is both a complex as well as a collective issue in the sense that every country and every region has to contribute their mite in order to obtain a globally sustainable and habitable earth. To that extent, Australia China relations on climate change can be examined in two ways both of which are complementary to each other—One , their strictly bilateral dynamics of climate change interactions and exchange. What have been the points of convergence and divergence on the subject between the two? And two, their individual participation at the multilateral global fora and the corresponding fallout on their bilateral relations. This global participation can also be examined through the lens of North vs South paradigm according to which Australia falls under North and China under South even though this North-South classification itself is open to question today.

### **Environment & Climate Change and Australia**

Coming to Australia first, by virtue of being a resource-rich ‘lucky’ country itself necessitates a sustainable ecosystem that doesn’t compromise with the resource-generating capacity of its land, topography and biodiversity in the long term. Yet, it bears recalling that Australia is the driest inhabited continent on earth with extreme climatic variability due to the size and location; as such, drought of some magnitude is a common occurrence along with floods and

bush fires which have occurred more frequently in recent years (Marangos and Williams 2005: 582). On the potential Australian vulnerability to the adverse impact of environment and climate change, the 2008 White Paper on Carbon Pollution Reduction Scheme had made it disarmingly clear that Australia had not only experienced warmer-than-average mean annual temperatures in 16 of the previous 18 years but had also been witness to eleven of the past twelve years turning out among 12 warmest years. Sounding a note of utmost caution it underscores that “as one of the hottest and driest continents on earth, Australia will be one of the nations hardest and fastest hit by climate change if we don’t act now” (Chaturvedi and Doyle 2010: 107).<sup>129</sup> Furthermore, by the early years of the new century, a 40 per cent drop in precipitation had been observed through western and south-west and Western Australia over the past few years’ (Lightfoot 2006: 464). Australia is also the highest per capita polluter in the world partly because some 80% of the country’s electricity is generated from coal, one of the “dirtiest” or most polluting fuels (Strategic Comments 2011: 1). As the 2008 White Paper has gone on to reveal starkly that the absolute and unqualified climate change had not only formed a major threat to Australia’s economic security, but it also challenged the prosperity and risks for the country, undercutting the sustainability of several littoral, rural and regional communities. Therefore, there was an urgent need for a firm and decisive action on climate change’ (Chaturvedi and Doyle 2010: 107; Australian Government 2008). According to a report by Intergovernmental Panel on Climate Change, the concentration of carbon dioxide should be 90–250 % over preindustrial levels (of 280 parts per million), at 540–970 parts per million by 2100. And if this takes place, the full range of model forecasts envisage surface temperature shooting up by 1.4–5.8<sup>0</sup> C over the century (Gardiner 2004: 562).

In this backdrop with such enormous challenges, borrowing on Robert Putnam’s two level games of negotiations, how has Australia sought to confront the problem of climate change at the domestic as well as at the global level? It was the global movement on environment and climate change in the early 1970s that is said to have inspired and galvanised countries into action on the issue domestically. Broadly, the Australian government’s negotiating approach on the subject internationally can be divided into five distinct phases—first phase (1990-92) of enlightened environmentalism when Hawke government had committed to reduce emissions by 20% below 1988 levels at Toronto; the second phase (1992-97) of initial

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<sup>129</sup> The 2001 Intergovernmental Panel on Climate Change (IPCC) report has concluded that the global average surface temperature has risen by about 0.6<sup>0</sup> C over the 20th century with the temperature rise in the 20th century likely to have been the largest of any century in the last 1,000 years

weakening of policy emphasis evolving into Howard government's aggressive negotiations for a major concession at Kyoto (Chaturvedi and Doyle 2010: 103; Crowley 2007: 127); the third phase (1997-2002) of enhanced recognition of the urgency to arrest the unabating GHG emissions, nudged by corporate entities and general public; the fourth phase (2002-07) of collaboration with other developed countries while strongly linking Kyoto Protocol ratification to its national interest; and the fifth phase (2007 onwards) of accession to power of Rudd's Labour government and the announcement of the ratification of Kyoto protocol (Elliott 2011: 446).

### **Environment & Climate Change and China**

Having dwelt upon Australia's global and domestic positions on climate change at length, the focus will now shift on to China's internal environment and climate change perspective, its evolving stance at international platforms, and the measures it has undertaken to meet domestic challenges as well as to fulfil international obligations.

For China which has the world's largest population, fourth largest landmass and an extremely diverse climate ranging from tropical in south to subarctic in the north, the subject of environment and climate change holds utmost importance. Fraught with the world's largest hydropower potential backed by one of the largest marine ecosystems, and classified as one of the seventeen megadiversity nations (along with Australia) only adds to the sense of responsibility.<sup>130</sup> At the same time, it has also consistently been one of the fastest growing economies over the last three decades, a substantial portion of which has been on account of what can be termed as 'un-clean energy' production and consumption. In the last 50 years, temperature in the country has increased 0.26 and 0.18 degrees per decade in eastern and western China, respectively with the average temperature in China projected to rise 1.3–2.1<sup>0</sup> C by 2020 and 2.3–3.3<sup>0</sup> C by 2050. In tandem with glaciers shrinking, the sea level has gone up 0.1–0.25 cm/year (Liu and Raven 2010: 827). In 2006, China went past the US to become the biggest emitter of carbon dioxide in the world, nearly fifteen years before what much research had forecast. It is the source of one-fourth of global carbon dioxide emissions (the most critical GHG) and, disquietingly enough, individually it contributes to two thirds of the total global rise in those emissions (Gong 2011: 160; Harris 2011: 142; Liu and Raven 2010: 827; Podesta and Ogden 2007-8: 126; Wang and Watson 2008: 579). And alarmingly for

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<sup>130</sup> It is one of the most biodiverse countries in the world, probably surpassed only by Brazil, Columbia and Indonesia (Liu and Raven 2010: 831)



itself, China (along with India) is also to experience the biggest impacts of climate change in absolute terms: liquefying Tibetan glaciers, sinking Shanghai, submerging Hong Kong, devastating south coast typhoons, an expected 5–10% fall in agricultural production, and a fast depleting biodiversity (Gilley 2012: 289). It features among the ten countries in the world most imperilled by climate change in terms of the number of people likely to be affected. A major cause of concern for Australia is that other than China, five are in its neighbouring region: Vietnam, Indonesia, Japan, Thailand and the Philippines (Elliott 2011: 448). Furthermore, China is acutely imperilled by desertification with the UN Framework Convention on Climate Change (UNFCCC) recognising that desertification prone countries are “particularly vulnerable to the adverse effects of climate change.” Also having become the world’s largest emitter of sulphur dioxide, the formation of acid rain has inflicted massive environmental, social, economic and human costs on the country with its neighbours, albeit to a lesser extent, also bearing the brunt (Chan et al 2008: 297). In 2005, 357 cities and counties constituting more than half of the total of the 696 cities were ravaged by acid rain flowing from the pollution of sulphur dioxide. Thomas Schelling has argued that because China is much more tied to agricultural activities, it will face greater consequences from climate change as compared to the developed countries. Under prevailing conditions, Chinese crop production (particularly wheat and corn) could decline by 10 per cent by 2050. In effect, “possible impacts of climate change on Chinese agriculture could be highly disruptive” (Ibid 2005: 48).

In light of such disquieting if not ‘existentially-threatening’ prospects on the horizons, how has China as a nation-state come to negotiate with the threat of climate change internally and to what extent has it registered its contribution to the global endeavours on the issue? According to Harris and Yu, the Chinese have themselves delineated their international climate change participation at UNFCCC into three distinct stages: the first stage (1990 to mid 1992) of highlighting common but differential responsibility as a developing country while adopting a low-profile position; the second stage (1992 Earth Summit to 1997) of adopting a more firm negotiating stance while underlining the need for transfer of cost-effective environmental technologies to developing countries; and the third stage (1997 to present) of a display of a more accommodative streak vis-a-vis global practices such as CDMs.

## **Dissimilarities in Substance and Approach between Australia and China on Environment and Climate change**

Now that a reasonably detailed perspective of both Australia and China's individual climate change initiatives (international as well as domestic) has been set out, a discussion on their bilateral dynamics on climate change merits attention. However, before elaborating on the actual ties on climate change between the two countries, there are certain points of commonalities as well as dissimilarities on account of nature of economy, energy use, political systems and foreign policy orientation informing their respective approaches to the subject of climate change that need to be spelt out.

Dealing with dissimilarities first, the first clear dissimilarity that sharply stands out with regard to climate change is that while Australia is a rich-North country, China is a poor-South country. Even though China's South status today has become more open to contestation, in per capita income terms, as of 2010, Australia was still 10.4 times wealthier than China.<sup>131</sup> Even during the fledgling negotiations on climate change at the Rio Conference in 1992, China had attributed the deterioration in environment to the developed countries and that there was no need for the country to discuss its own liability for the same (Gong 2011: 165). Therefore, any examination of bilateral climate change relations between the two countries must begin with the evidently high development gap premise.

The second dissimilarity is that while Australia is a net energy exporter, China is a net energy importer, even though in actual terms, China is 6.7 times as big a producer of energy as Australia (as of 2009).<sup>132</sup> And related in that context is that in real terms, China is responsible for 17.6 times as much CO<sub>2</sub> emissions as Australia even though in per capita terms, Australia discharges about 3.5 times CO<sub>2</sub> emissions as China (as of 2008).<sup>133</sup> For the period 1990-2005, China's total CO<sub>2</sub> emissions surged by a whopping 135% whereas Australia's CO<sub>2</sub> emissions rose by relatively modest 28 per cent. However, Australia's per capita CO<sub>2</sub>

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<sup>131</sup> At Constant 2000 US\$, Calculation made on basis of World Bank database

<sup>132</sup> Energy refers to forms of primary energy—petroleum (crude oil, natural gas liquids, and oil from non-conventional sources), natural gas, solid fuels (coal, lignite and other derived fuels) and combustible renewables and waste—and primary electricity, all converted into oil equivalents; Calculation made on basis of data from World Bank website

<sup>133</sup> CO<sub>2</sub> emissions are those coming from the burning of fossil fuels and the manufacture of cement. They include CO<sub>2</sub> produced during solid, liquid and gas fuels, and gas flaring; Calculation made on basis of World Bank website data

emissions were 7.64 times that of China in 1990 which had moderated to 4.4 times by 2005, clearly indicating that though China was closing the gap, it was yet quite far behind.<sup>134</sup> In a sector-wise examination, in the energy sector (accounting for nitrous oxide and methane emissions), while China's emissions increased by 76 percent, Australia's rose by 60% for the period 1990-2005. In terms of agriculture, that China's agricultural emissions (both methane and nitrous oxide emissions) which were 6.35 times of Australia's agricultural emissions in 1989 rose to become only 7.27 times by 2005 implies that China had indeed managed a greater production efficiency keeping in view the huge population differential between the two countries, and with the proportion of agricultural land having remained almost unchanged for both over the 1990-2005 period (Australia's 60.5 to 57.9% against China's 57 to 56.9%). As for industry, whereas there was a huge difference in growth in CO<sub>2</sub> emissions over the period on account of manufacturing industries and construction over the period between the two countries (China's 76% rise against Australia's 7%), in terms of industrial nitrous oxide emissions too, China held a considerable lead (194% rise against Australia's 110%). As for CO<sub>2</sub> emissions from transport sector, while Australia's emissions had increased by 30 percent for the period 1990-2005, China's had swelled by 182% for the same period.<sup>135</sup>

The third and closely related to the second dissimilarity is that whereas China is a coal importer, Australia is an exporter of coal. This dissimilarity actually sets the ground for close complementarities between the two countries, though not standing up for the cause of greenhouse emission reduction. "The fact that Australia is the world's largest coal-exporting country, and that China is the world's largest coal-consuming country, presents both of us with a fundamental responsibility to act in this area of critical technology," Prime Minister Kevin Rudd said on his visit to China (ABC 2008; The Australian 2008). China is also the largest producer and consumer of coal (about 25% of the globe's total) (Liu and Raven 2010: 827). This begs the question why would Australia help China with low energy environmental technologies when it would directly hamper its own coal exports to the country? For China, Coal-based energy constitutes 60–70 per cent of its energy architecture. If China were to shift to oil-driven or natural gas-driven energy architecture, there would be a need for investment of billions of dollars. And as Thomas Schelling advances, due to technological underdevelopment and poverty, China has finite capacity to battle climate change, and unless

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<sup>134</sup> All calculations made on basis of data from World Bank database

<sup>135</sup> All calculations made on basis of data from World Bank database

there were economic motivations, it would not be easy for it to shake off its dependence on uneconomical use of coal (Harris and Yu 2005: 51, 55).

The fourth dissimilarity is that unlike Australia which has been mandated under Kyoto to cut down on its emissions (in Australia's case it can increase up to 8%), China is exempted from meeting any benchmark figure or in other words, reducing its greenhouse gas emissions on account of its developmental status, guaranteed under the formula of 'common but differentiated responsibility', which permitted the developing countries time to close the gap with the advanced countries (Chan et al 2008: 295).

The fifth dissimilarity is that both adopt a different interpretation of the term Common But Differentiated Responsibility (CBDR). While Australia insists on operationalising the differentiation founded on forecasted emission trends and variables such as population growth and considerations of trade, China stresses on the historic emissions by developed countries such as Australia and thereby attributing to them a greater share of emission reduction responsibility (Chaturvedi and Doyle 2010: 103; Stevenson 2009: 175). Australia pushes for fixing responsibility for discharge abatement on the basis of projected future emissions particularly on the part of bigger developing countries such as China (on account of fast accelerating rate of discharge stemming from their faster potential growth), while China has repeatedly underlined the need for the developed countries including Australia to first cut down their own domestic GHG discharge stemming from their industrial development head-start. Australia on its part argues that when climate change policy was being formulated in 1990, developing countries were responsible for only 40% of total global GHG emissions, which had however shot up to 54.3% in 2004, and is likely to increase further to 66% by 2030 (Maraseni et al 2009: 591). And therefore from their respective vantage points, whereas China underscores the need for reduction of carbon intensity (reduction of carbon dioxide emission per GDP unit), Australia advocates an over-all reduction of carbon emissions.

The sixth dissimilarity stemming from the previous observation is that while Australia draws attention to the absolute quantum of GHG emissions by bigger developing countries, China trains focus on the per capita aspect of the discharge by low-population, high-discharge countries like Australia and therefore the need for making them more liable. As noted, the per capita GHG emissions of China are much below Australia's which in past years have inclined

to deteriorate with the per capita emissions now surpassing not only the global average but also of those of majority of developing countries (Harris 2011: 142).

The seventh dissimilarity is that China being a high manufacturing economy has a particularly more daunting challenge in cutting down on its emissions as compared to Australia since manufacturing by its nature has a high energy-intensity component. The share of manufacturing, value added as percentage of GDP is 9% for Australia against China's massive 30 percent (as of 2010).<sup>136</sup> The rising high contribution of manufacturing industries and construction to CO<sub>2</sub> emissions in China's case is self-evident in the figures themselves. As mentioned earlier, whereas China's CO<sub>2</sub> emissions on account of manufacturing industries and construction shot up by 76% between 1990 and 2005, Australia's rose by a trifling 7 percent. Moreover, manufacturing is also intimately linked with investment and trade since many developed countries manufacturing multinationals have made China their hub of production and business operations for cheaper production and exports. The difference between the two countries in this regard is evident from the astonishingly high manufacturing export value of China vis-à-vis Australia's manufacturing exports — which is 55 times.<sup>137</sup> Therefore, extending the climate change and emissions argument into the spheres of investment and trade, China also links its domestic emissions with the manufacturing and export of Chinese-made goods to western markets in effect exhorting the western countries to share the burden out of an implied joint responsibility on account of the western countries setting up of high-emission plants (investment) and consumption of Chinese goods (trade) (Gong 2011: 166). As a direct corollary to China's high manufacturing and trading character, Australia itself is a high natural resource exporting country and unremitting exploitation for the sake of economy and trade serves as a long-term threat to the sustainability of the country's ecosystem and thereby economy. There have even been questions raised on the Australian strategy of extensive natural resource export dependency operating under a democratic system which has fostered a political discourse that Leong H Liew has termed as 'rational choice populism'— a culture of anti-intellectualism and belief in a weak form of market fundamentalism without adequate attention to human capital development— to the longer-term detriment of the national economy (Liew 2011: 2).

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<sup>136</sup> Figures taken from World Bank website

<sup>137</sup> Calculation made on basis of data taken from WTO website

The eighth dissimilarity is that Australia has been a firm advocate of market-based instruments instead of regulations to address carbon emissions with emissions trading being a perfect illustration of the former (Lightfoot 2006: 464-5). On the other hand, China has insisted on acquisition of funds on non-commercial and preferential terms while declining the majority of the market-based global instruments for decreasing emissions as promoted by developed countries and their industry groups (Harris and Yu 2005: 52). The near-successful elimination of ozone-depleting substances by China with the help of Multilateral Fund (MLF) made available to it is often invoked by the Chinese as a test case for making funds available by the developed countries for meeting challenges of climate change (Gong 2011: 168-9).

As for the ninth dissimilarity, under Clean Development Mechanism (CDM) of Kyoto Protocol, China is a CDM host country, a Certified Emission Reductions (CER) supplier country, whereas Australia is a CER purchaser country. Therefore for China, funding and technology transfer is utmost important unlike Australia.

The tenth and related dissimilarity is that while Australia is a dispenser of environmental aid, China is a recipient country. China is in fact the biggest beneficiary of environmental aid from the World Bank and gets large amounts of aid related to environment from other global funding entities (Harris and Yu 2005: 51).

The eleventh dissimilarity pertains to some specific contrarian stances at international fora taken by the two countries. At World Summit on Sustainable Development in Johannesburg in 2002, unlike Australia which wanted Kyoto to be off discussion at WSSD, China (along with Russia) made use of the WSSD to declare that it would ratify the Kyoto Protocol (Lightfoot 2006: 465). In another instance, that Australia under the stewardship of Howard's liberal government was even contemplating counter posing Asia-Pacific Partnership on Clean Development and Climate as an alternative to the faltering and seemingly toothless Kyoto process manifesting in both Howard and Bush administrations' retractment from Kyoto commitments, illustrated the divergent path taken by the country as opposed to developing countries such as China and India (Crowley 2007: 129). The latter however had interpreted the Partnership as anything but an alternative and at best complementary to Kyoto.

Drawing on the immediately previous dissimilarity is the twelfth one that portrays the global image differential in terms of climate change activism that has come to characterise the two countries. On one hand, Australian image seems to have been downgraded from 'good international citizen' and global citizen to that of a veto state and a renegade state; or from a

'paragon to pariah' state; or even from a leader to a laggard (Lightfoot 2006: 457, 458, 459; Chaturvedi and Doyle 2010: 103; Christoff 2005: 33; Papadakis 2002: 269; Elliott 2011: 446; Crowley 2007: 127). China on the other hand seems ascendant in that sense--in a study on climate change leadership by Karlsson et al, China has emerged second ranked (55%) behind EU (77%) and ahead of US (43%) and G77 (34%) (Karlsson et al 2011: 96).

The thirteenth dissimilarity is tied to the political character of the environment and climate change movement that has taken shape in the two countries. Broadly, drawing on the distinctive political culture and formations in the two countries, while China can be said to fall under authoritarian environmentalism, Australia as opposed to that concept would fall under democratic environmentalism or civil environmentalism (Gilley 2012: 289; Martens 2006: 214-15). Gilley cites Beeson as defining authoritarian environmentalism as where the individual is inhibited from engaging in unsustainable behaviour and a policy framework that is by a relatively independent central state, according limited or no role for social agencies or their advocates. Democratic environmentalism on the other hand is characterised as an illustration for public policy that envisages the distribution of power through multiple agencies of government such as legislatures as an agent of the public, and that prods the latter coming from a wide spectrum of society to take part directly in the process (Gilley 2012: 288-89). Within Australian political framework, the two major parties have been principally divided in the past decades, with the Australian Labor Party (ALP) taking to more enlightened environmental policies in the 1980s and early 1990s. Keeping in mind of the ideological differences between the principal parties and the historical connection between the Left and environmental advocacy groups, it is likely that the Coalition candidates would be less disposed towards environmentalism than the candidates from ALP. However, it is possible that a bit of common ground has been achieved between candidates following the Coalition's policy modifications on environment in 1996 (Tranter 1999: 335). There is even a perception taken hold that Australian government's policy on environment is episodic and amnesiac, a situation which becomes worse on account of several of the global pacts arrived at by the Commonwealth on environment and sustainable development being under the jurisdiction of states and territories (Lightfoot 2006: 460).

Though the Australian constitution empowers the federal government to intervene on environmental issues, when it came to trade or international commitments, the decision-making lay chiefly with the state governments, with local governments being allowed a lesser role (Bulkeley 2001: 440). Nonetheless, the Australian political system has also thrown up

the Greens Party whose role however remains limited given that the minor parties though may make an inroad into the Senate and introduce legislations, their impact is restricted to instances where the government is under pressure to explore an understanding or when the balance of power lies with the Greens (Crowley 2007: 126). Notwithstanding this, the very presence of Green Party indeed paints a more edifying picture than that of Chinese political landscape on environment. China on its part has essentially remained a 'one-party authoritarian state' and even as it has allowed a greater civil society participation on environment and climate change, wherever environmental issues are closely tied with concerns on human rights, ethnic or strategic economic decision-making, the discussions have been subject to restrictions under censorship by state and its authority. Chinese officials have on many occasions have affirmed in no uncertain terms that the state should exercise the sole right over objectives and policies related to environmental protection (Martens 2006: 212, 226). Furthermore, the Chinese government is even anxious about environment-related NGOs ultimately morphing into a political outfit on the lines of what has eventuated in several other countries, a concern totally divorced from Australian political reality in view of already existing Green Party (Chan et al 2008: 300). In fact the Chinese political system has spawned Government owned NGOs (GONGOs) the actual effects of whose impact is open to question. While the coming about of GONGOs has been considered by some analysts as a transitory process towards the evolution of a more enlightened civil society, some have reckoned them to be illegal and spurious measures subverting the emergence of social forces in the true sense of the term (Martens 2006: 214; Chan et al 2008: 301).

The fourteenth critical dissimilarity in approach is that unlike Australia, China doesn't link climate change with national security. In Australia's case, the extension of climate change into the realm of national security is manifest when Kevin Rudd in making his maiden statement on national security to the parliament had acknowledged the limited attention accorded to climate change as a factor for national security, when weighed against other traditional threats. Furthermore, he had underlined the need for formal inclusion of climate change into the country's policy on national security (Chaturvedi and Doyle 2010: 108). Then the 2009 Defence White paper while conjecturing the onset of new potential causes of conflict stemming from climate change or resource scarcity, had warned that the very old modes of confrontation and war such as stand-offs over resources could still erupt. The paper from the defence planning standpoint had recognised the primacy of the nature of such conflicts and their fallout on defence capabilities instead of their causes per se. It had further



presaged that the ADF would be under increased pressure as the rise in frequency of extreme weather events and natural disasters would impose additional tasks on them for provision of humanitarian and disaster relief aid (Government of Australia 2009). China on the other hand along with a group of developing countries in April 2007, at the UN Security Council debate on whether climate change should be treated as an impending threat to global peace and security, had argued that climate change was a matter of sustainable development with the Security Council neither having the professional proficiency in addressing climate change, nor being the proper decision-making platform for large-scale attendance ensuing in broadly consensual proposals'. The developing countries took the plea that climate change was an issue for the General Assembly, a more democratic and representative body, and for the Economic and Social Council (Chan et al 2008: 305). China Daily, the country's official English-language newspaper had even editorialized that while the call for the global community to address climate change was reasonable, sensationalizing it as a security issue was conspiratorial (Moore 2011: 149).

Nonetheless even if China overtly denies any conflation of climate change with security, it is subtly resonant in the close attention Tibet elicits among the Chinese policy elite. Arising out of the hydrologically sensitive nature of the region with an already-politically sensitive local population, the Chinese government has placed the ecological health of the region at the centre of policy priority as evident in the release of the 2009 Tibet Ecological Protection Screen and Construction Plan by the National Development and Reform Commission (NDRC) (Moore 2011: 152). Likewise, in north-west provinces of China with the prospects of enhanced rainfall, the expediting of settling of Han Chinese into Muslim Uighur areas would worsen frictions which have for many years been witness to low-level clashes. As China has started to exploit the region for natural resources coupled with large-scale migration of Han Chinese, the conflict has escalated. The potential rise in migration of Hans could further fuel violent conflicts which in turn could spur social unrest (Podesta and Ogden 2007-8: 128).

And drawing on the just cited previous example, the last and the fifteenth dissimilarity is the connection between climate change and internal migration. Despite climate change potentially impacting future water availability, population distribution and occupational patterns in both countries, there is little possibility of a dramatic change in population migration internally in Australia even in the medium to long term. Graeme Hugo in a Discussion Paper sponsored by National Climate Change Adaptation Research Facility

(NCCARF) on linkage between population distribution, migration and climate change has brought out that it is not numbers alone but factors such as per capita resource use, technology used in exploiting the environment and the spatial distribution of people that shape the relationship between population and environment impact (Hugo 2011: 7). In the same Paper, it was also deduced that climate change was not likely to precipitate extensive and swift displacement of population and population repositioning. Nevertheless, it does need to be considered in conjunction with a number of contemporary and impending social, economic and demographic trends which are likely to have an impact on population distribution (Ibid: 65, 81). On the other hand, the likelihood of environmental migration in China on a significant scale appears to be a reality. The issue of environmental migration has attracted the immense attention of the Chinese highest authority (Yan & Qian 2004: 615). Part of the migrants' movement is caused by push factors, which are directly environment-induced in west China. In fact, due to the strained relationship between the population and the environment, the issue of excess labour is inherently serious in West China (Ibid: 619).

### **Commonalities in Substance and Approach between Australia and China on Environment & Climate change**

As a logical follow-up to the enunciation of dissimilarities surrounding Australia-China climate change relations interspersed with a wide gamut of related subjects, the focus shifts to the commonalities in approach triggering complementarities that may foster a proximate engagement between the two countries.

The first and unmistakably the most unequivocal commonality is that for both Australia and China, the issue of environment and climate change is inextricably tied with the idea and imperative of their national sovereignty. Both these countries have pronouncedly and repeatedly held on to the principle of sovereignty in their approach towards international climate change deliberations. In Australia, across the political spectrum, even as the liberal coalition has articulated a more loud and visibly nationalist position on the subject stating that it 'would not "sell out" the national interest', the Labour dispensations excepting the Hawke government till 1991-end too has remained subtly nationalist and consistently tethered any reduction commitment to the commitment of bigger developing countries such as China (Bulkeley 2001: 437; Elliott 2011: 448). Equally, China on its part has while stood down from its non-negotiable opposition to flexible mechanisms, it has steadfastly in concert with other developing countries such as India and other groupings such as G77 has rejected any

forcible imposition of emission reduction obligations as suggested by the developed countries. As Chinese Premier Li Peng had described China's view concisely in 1992 that global cooperation should be firmed up on the foundation of valuing national sovereignty.' (Harris and Wu 2005: 54) Emissions were also viewed by the Chinese leadership broadly as an issue of international diplomacy instead of environmental sustainability (Gilley 2012: 295). Neil Carter and Arthur Mol have inferred that the domestic interests and preferences remain the overriding factors driving Chinese decisions and actions, domestically as well as internationally (sovereignty and security bring among the foremost) with not enough proof of the country showing intent to take up international environmental responsibility as a prospective global hegemon (Chan et al 2008: 307).

The second commonality is both the countries have been and would be in future subject to the adverse ramifications of climate change, however uneven and uncertain the impact may be (this aspect has been already dealt with under their respective sections).

The third commonality is that any large-scale environmental disaster internally in both countries is capable of spilling across nearby borders and regions necessitating a cooperative disposition towards their respective neighbours too. The fact that China shares land borders with fourteen countries and shares fifteen rivers with them indicates that China's environmental crises can easily spill over to them, as illustrated by the Songhua Incident, raising the possibility for environmental stand offs (Chan et al 2008: 304). In the same way as Australia borders the waters of five neighbouring nations, any disruption in its marine ecosystem, or the prolonged breaking out of forest fires as a result of rising temperatures leading to extended periods of haze, or the mere rise in temperature culminating into rising sea levels potentially causing existentialist threat to the small low-lying island countries in the immediate and extended neighbourhood—these are serious portents that the country must consider since the consequences of which could well recoil on Australia itself. Equally, the source and origin of adverse climatic phenomenon may flow from the reverse direction too. The Australian media had quoted several Australian scientists on their assertion that climate change could trigger a tide of economic refugees from Southeast Asia and the Pacific to Australia especially due to the climate change-inflicted havoc on the coral triangle. And it was the human activity arising, particularly out of Asia, responsible for rising aerosol particles in the atmosphere which could have contributed to higher summer rainfall in north-west Australia (Chaturvedi and Doyle 2010: 100, 106). Significantly, the author of Garnaut Climate Change Review (first released in 2008), Professor Garnaut apart from reminding that

there was an urgency to act had warned that given that the Australian continent was mostly dry with highly climate-change susceptible developing countries in the neighbourhood, the country would be adversely impacted more than others (Maraseni et al 2009: 592).

The fourth commonality is that both countries recognise the salience of technology improvements towards any effective climate mitigation measure. As the DFAT website says, 'Technology improvements will be a key to delivering large-scale reductions in emissions in a way that protects and promotes Australia's long-term economic prosperity.' (DFAT) And this is one useful point of convergence for both Australia and China. China has adopted the two-fold approach of development of clean and renewable technologies coupled with enhancing the efficiency of existing technologies to tackle the challenge of greenhouse gas discharge (Gong 2011: 163). The Chinese market for environmental technologies is widely considered to be one of the largest potential markets in the world (Foster 2000: 135). China has also appeared as the foremost CDM host country, with around 1.2 billion tons of CO<sub>2</sub> equivalent credits slated to be issued by the end of the first commitment period of Kyoto Protocol's in 2012.'" (Lewis 2008: 165) Also since China offers low-cost efficient CERs, it is an attractive option for Australia. Moreover, China itself is making huge investments in new technologies to reduce the carbon intensity of its GDP growth with some of these investments having succeeded prompting export spin-offs. For instance, Yingli Green Energy, a Chinese firm, has turned out to be one of the world's leading manufacturers of photovoltaic solar panels, exporting half its output to Europe besides the US as another significant market (Liew 2011: 4).

The fifth commonality is concerned with the level of participation by both countries at the regional and international environment and climate change platforms, their membership and commitment to treaties, conventions, protocols, programmes and partnerships.

Under United Nations' Chapter XXVII on Environment, both Australia (ratified in Dec 1992) and China (Jan 1993) have ratified UN Framework Convention on Climate Change (entered into force in March 1994). Both Australia (ratified in Dec 2007) and China (approved in August 2002) have also acceded to the Kyoto Protocol to the UNFCCC (entered into force in Feb 2005) (The following table charts out Australia's and China's participatory position on Environment under Chapter XXVII of the United Nations Treaty Collection). Furthermore, both countries are part of the UN guided United Nations Environment Programme (UNEP) and have periodically served on the Governing Council of the organisation. At this Council,

geographically, China is part of the Asian Group, Australia belongs to Western European and others group. Both have also been members of Global Environmental Facility (GEF), the largest public funder of projects to improve environment--while Australia falls under Donor Constituencies, China comes under the category of Recipient Constituencies. The following table represents the respective positions of both countries on international treaties/conventions/protocols on Environment under Chapter XXVII of the United Nations (United Nations Chapter XVII).

<b>Name of Treaty/Convention/Protocol</b>	<b>Month/Year of Entry into Force</b>	<b>Australia's Position</b>	<b>China's Position</b>
Vienna Convention for the Protection of the Ozone Layer	Sep 1988	Accepted in Sep 1987	Accepted in Sep 1989
Montreal Protocol on Substances that Deplete the Ozone Layer	Jan 1989	Ratified in May 1989	Acceded in June 1991
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	May 1992	Accepted in Feb 1992	Ratified in Dec 1991
Convention on Biological Diversity	Dec 1993	Ratified in June 1993	Ratified in Jan 1993
UN Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa	Dec 1996	Ratified in May 2000	Ratified in Feb 1997
Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade	Feb 2004	Ratified in May 2004	Ratified in March 2005
Stockholm Convention on Persistent Organic Pollutants	May 2004	Ratified in May 2004	Ratified in August 2004

**Source: United Nations Chapter XVII on Environment, UN Treaty Collection)**

<sup>138</sup> Both countries' terms on Governing Council expired on 31<sup>st</sup> December 2013

Then, when the Amsterdam Declaration of Global Change in 2001 had exhorted the international community for bolstering collaboration amongst the global research programmes on environment and development issues, greater synergy across disciplines including both natural and social sciences, both countries had joined that globally integrated research network. This initiative had entailed the joining together of four international research programmes on global environmental change: Diversitas, International Geosphere-Biosphere Programme (IGBP), International Human Dimensions Programme on Global Environmental Change (IHDP), and World Climate Research Programme (WCRP) to forge the Earth System Science Partnership (ESSP) bringing together researchers from diverse spheres, and from around the world, to conduct an integrated study of the Earth System (ESSP 2017). Both countries are also part of the Global Carbon Project (GCP), a related endeavour designed to aid the global science community to create a common, mutually agreed knowledge base augmenting policy debate and action to curtail the rate of increase of greenhouse gases in the atmosphere (GCP 2017). Under GCP, while Australia hosts an International Project Office, China hosts an Affiliated Office. As for IGBP (IGBP), a venture to coordinate international research on global-scale and regional-scale interactions between Earth's biological, chemical and physical processes and their interplay with human systems, both serve together on the Asia-Pacific and the Middle East National Committee under it (IGBP 2017). Then under Diversitas or International Union of Biological Sciences (IUBS), a programme to promote integrative biodiversity science, linking biological, ecological and social disciplines and to provide the scientific basis for the conservation and sustainable use of biodiversity, both Australia and China are Affiliated Members (Diversitas 2017). Both are also members of Diversitas Regional Committee called Diversitas in the Western Pacific and Asia (DIWPA). However on IHDP, an inter-disciplinary science programme aimed at better appreciation of human interaction with natural environment and to facilitate dialogue between science and policy, while China figured through its National Committee under the programme, Australia did not specifically have a National Committee representation for IHDP. In terms of technology, both Australia and China are members of International Partnership for Hydrogen and Fuel Cells in the Economy (IPHE), an institution established in 2003 to accelerate the transition to a hydrogen economy (IPHE 2017).

In light of regional activism, both Australia and China are members of Asia Pacific Partnership on Clean Development and Climate, an initiative that was announced in July 2005 at the 38th ASEAN Ministerial at Vientiane and was formally launched at the inaugural

Ministerial meeting in Sydney in January 2006 (Asia Pacific Partnership on Clean Development and Climate; Stevenson 2009: 177-8) Under APPCDC, while Australia is in the chair, China is the co-chair of Task Force on Cleaner Fossil Energy.<sup>139</sup> Here, it bears mentioning that despite China having strongly committed to the UNFCCC framework to guide the process of climate change mitigation and having been opposed to any alternative mechanism such as APEC Leader's Declaration on Climate Change, Energy Security and Clean Development (the Sydney Declaration) in September 2007, it did eventually join the Asia Pacific Partnership on Clean Development and Climate in January 2006. After meeting with the then Australian Prime Minister John Howard to discuss the Sydney Declaration, Hu Jintao at a press conference publicly expressed the hope that the Sydney Declaration would uphold the UN Framework Convention on Climate Change as the 'main channel' for addressing climate change by the international community (Gong 2011: 165). Furthermore, the "Singapore Declaration" on Climate Change, Energy and the Environment under the ASEAN leadership was signed by both Australia and China in Nov 2007 (Glover and Onn 2012: 2008). Also, both Australia and China are members of Clean Technology Fund Committee (CTF) of the CTF that was launched in 2008—the former as a contributor and the latter as a recipient country.

The sixth commonality relates to the broader environmental context whereupon both Australia and China have significant interests in the Antarctica. While Australia was an original signatory to the Antarctic Treaty in 1959 as a territory claimant, China acceded in June 1983 and obtained consultative status in October 1985. Both the countries had acceded to the Environmental protocol under the Treaty in Jan 1998 when it entered into force (Secretariat of the Antarctic Treaty).

### **Actual Bilateral Cooperation between Australia and China on Environment & Climate change**

Significantly, until early 2000, there had not been any major bilateral government to government initiative on environment and climate change between Australia and China, notwithstanding the odd private sector investment into China on environmentally sustainable

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<sup>139</sup> There are eight Task Forces formed, namely, Task Force on Aluminium; Buildings and Appliances; cement; Cleaner Fossil Energy; Coal Mining; Power Generation and Transmission; Renewable Energy and Distributed Generation; and Steel

energy-efficient technologies by Australian companies for their own business end.<sup>140</sup> This however changed in May 2000 when Federal Environment Minister Robert Hill led a business mission to China in order to provide an export impetus to Australia's environmental capacities; in a first, an Australian environment minister had led a business delegation (Hill 2000). This was followed by a series of initiatives taken by Australian businesses and backed by the government. For instance in May 2001 on the sidelines of Asia Pacific Economic Cooperation (APEC) seminar on human capacity building in Beijing, riding on the image of Sydney Games as *greenest ever*, the government had lent support to an Australian business delegation – which had earlier been involved in construction, recycling and waste management during Sydney 2000. The two countries had also shared knowledge and best practices in environmental management in mining. Then in 2002, Australia-China Energy Partnership Fund was established as part of an historic agreement for Australia to supply LNG to China. This was part of a A\$25 billion deal struck in August 2002 under which Australia was to supply LNG to Guangdong province over a period of twenty-five years starting from 2006. The LNG contract was to bring down China's greenhouse gas emissions by 7 million tonnes a year while augmenting one million tonnes to Australia's total emissions - a noteworthy boost for global greenhouse gas emission (Kemp 2002).

A closer examination of these early visits and the initiatives therein undertaken reveals that in fact it was the proximate staging of Olympics in a span of eight years within the two countries that can be said to have given a sharp impetus to the Australian energy and environment efficient technology businesses and their expanding commercial interests in China. Since Sydney Olympics had just demonstrated the success of these firms, their making inroads into China, a first-time host and an aspiring superpower which would under all circumstances ensure an environmentally sustainable successful games,<sup>141</sup> was the natural order of things. At minimal best, the Olympics would impel the need for generation of cleaner energy, minimisation of construction waste and urban waste management, establishment of sewage treatment plants, designing of energy-efficient buildings, and containing vehicular emissions. Already by 2002, Australian companies were beginning to

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<sup>140</sup> For instance the fast growing Sundiro, a Chinese manufacturer of two-wheelers had announced in 1998 plans to use Australian firm Orbital Engine Corporation's direct injection technology on its 2-stroke scooters; URL: <http://www.orbitalcorp.cn/orbital/investorinformation/news/011199.htm>

<sup>141</sup> Due to increased pressure from International Olympics Committee, China had made intense efforts to clean up the environment in the run up to the Games. Polluting factories along Beijing's rivers were either relocated or closed; Beijing's largest polluter, Capital Iron and Steel, had been shut and relocated to Hebei; Chan et al 2008: 306



enjoy a bit of success with solid waste management and waste water treatment projects in China.

Therefore the flurry of visits by environment minister and his active endorsement for energy and environmental business interests in China can partly be attributed to the upcoming Beijing games and partly to the over-all political climate shaping up on environment and climate change as a bilateral issue between the two countries. In continuation with the momentum on Beijing games, in September 2003, Australia and China in a workshop on climate change at Beijing came to an agreement on examining prospects for synergy between concerned agencies and business groups in the following areas: Experience sharing on policy framing and technology on climate change, forecasting and evaluation; Joint research on land use impacts and adaptation measures; Collaboration on emissions inventory and projections; Exploration of technological cooperation on coal bed methane technologies, carbon sequestration in Soils and agro-forestry; and Capacity Building and Public Awareness through experts and information exchange and joint training programme. The workshop also saw the issuing of a Joint Declaration on Australia-China Bilateral Cooperation on Climate Change at the end (Kemp and Downer 2003).<sup>142</sup> In yet another accomplishment, in August 2004, a MoU on climate change was signed between the two countries in order to create a framework for the execution of projects and activities in critical spheres such as climate change impacts and adaptation, emission curtailment, technology collaboration, renewable energy and energy efficiency, capacity-building and public awareness. Then in September 2004, Australia and China conducted a workshop in Beijing that enabled cooperation on renewable energy and was attended in large numbers by businesses and researchers from both sides (Brown 2004).

In a stocktaking exercise on the bilateral cooperation on environment and climate change, a report titled *Australia-China Climate Change Partnership—Australia-China Climate Change Cooperation Progress and Achievements 2003-2005* was released on 23rd March 2006. While spelling out achievements, the report also outlined seven priority areas for the coming two to three years: Capacity Building; Renewable Energy Technology; Energy Efficiency; Capture and Use of Methane; Climate Change and Agriculture; Land Use Change and Forestry; and Climate Change Science. Besides, a new project on capture and utilisation of

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<sup>142</sup> While the Chinese delegation was spearheaded by Mr. Gao Guangsheng, Director-General, Office of the National Coordination Committee for Climate Change (ONCCCC), Australian delegation was helmed by National Development and Reform Commission for China (NDRC) and Mr Howard Bamsey, Chief Executive, Australian Greenhouse; Office for Australia (AGO)

coal mine methane was to be executed by the CSIRO over a period of three years starting in early 2006 with the Australian Government making a grant (Campbell 2006 b). In October 2006, the two countries undertook eleven new projects, four of which were aimed to reduce the methane escaping from coal mines by capturing it and turning it into electricity while the others were geared towards helping agricultural industries adapt to climate change and that included researching the performance of important crops in the presence of higher levels of CO<sub>2</sub> in the atmosphere, and examining the link between monsoon systems in rainfall and drying trends (Campbell 2006).

In terms of company to company cooperation, several energy-related Australian companies such as CSR Insulation and Maunsell Australia, among others have invested in China with some such as BP Solar Australia and Roaring 40s even getting into joint ventures with Chinese firms such as SunOasis, and Datang Jilin Power Generation Company of China respectively. Then renewable energy company, Energreen was using Australian expertise in energy efficiency to achieve dramatic reductions in the amount of power used by China's industrial sector. Similarly, Comm Energy was applying Australian technology to capture and use dangerous waste methane gas from China's coal mines and in the process making the mines safer while significantly reducing greenhouse gas emissions (Campbell 2006 a). A survey of Clean Energy and Environment Export Directory published by Australian Trade Commission, of the total listed 117 companies, 45 companies have explicitly mentioned China as their current/target market whereas 31 companies can be said to have indirectly covered the Chinese export market by way of classifying their markets as Asia/Asia-Pacific/North Asia/Global (Australian Trade Commission). Yet, very strangely, Australia did not have a single CDM project registered in China (World Bank 2010).<sup>143</sup> This means that Australian clean energy companies while they find China as a lucrative export market, they don't quite consider China as a plausible/profitable enough investment destination, regardless of the few joint ventures mentioned earlier. Or it could mean that particularly under the CDM mechanism, the Australian clean energy firms have not as yet found it feasible to operate projects in China for various reasons. Or Australian companies' proposals have not been found qualified enough by the Chinese authorities to operate under CDM since it is the host country that has the authority to certify a project under CDM.

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<sup>143</sup> Uptil March 2010, China had 751 registered projects representing 205 million tons of expected annual CO<sub>2</sub> emissions reductions. Of that total registered projects, 49% were hydro, 22% wind and 10% energy-efficient projects. However, in terms of amount of CER generated, HFC projects have returned the highest amount of CERs, followed by N<sub>2</sub>O (7%), wind (5%), Hydro (4%), EE own generation (4%); World Bank 2010

Nonetheless, in continuation with the positive aspect on cooperation, in March 2007, the Australian and Chinese Governments signed a declaration of intent committing to working together on what is one of the greatest environmental challenges – water scarcity. Further, in April 2008, an agreement was reached on establishing annual policy dialogues at Ministerial level. At the first Ministerial Dialogue held at Canberra on 18th November 2008, the two sides had decided to maintain cooperation on clean energy and clean technologies. *The two sides also concurred on bolstering the Global Carbon Capture and Storage Initiative as a critical tool to give a fillip to research and development and to expedite global demonstration of CCS technology at commercial levels* (Joint Statement of Australia-China Ministerial Dialogue on Climate Change 2008).

Then in the realm of promotion and development of hydrogen and fuel cell technologies based economy, Australia (along with the US and UK) had made voluntary contribution towards the International Partnership for Hydrogen and Fuel Cells in the Economy-led (IPHE) third Workshop in October 2007 in Shanghai. More specifically, the city of Shanghai had collaborated with Australian cities to learn from the latter's experience with liquefied propane gas (LPG) regulations, codes and standards (RCS) for the Shanghai LPG taxi program. Since production of hydrogen from natural gas is a proven low-cost technology, there are research and production projects in both Australia and China which have been examining the feasibility of coal gasification. China has conceived of programmes to extract 20-100 GW of power from Integrated Gasification Combined Cycle power plants by 2020 (International Energy Agency 2007).

As a further advancement in the relationship particularly with a view to shore up the development of clean energy, in April 2008, Prime Minister Kevin Rudd announced the allocation of \$20 million from the National Low Emissions Coal Initiative to buttress projects under the Australia China Joint Coordination Group on Clean Coal Technology (JCG). As a part of assistance on carbon capture and storage (CCS) technology, Australia also extended help to Chinese Huaneng Group's post-combustion capture (PCC) pilot project that began in June 2008 involving removal of CO<sub>2</sub> after coal combustion. By 2010, this had been upgraded to a feasibility study towards a commercial-scale carbon capture and storage (CCS) project in China. Earlier in 2009, in a related venture, The China Australia Geological Storage (CAGS) project was designed and funded by the Australian Government under the Asia Pacific

Partnership on Clean Development and Climate with a focus on capacity building in the sphere of geological storage of CO<sub>2</sub> in both China and Australia.

Therefore notwithstanding the widening span of subjects constituting environment and climate change relations between Australia and China, the progress can't be termed 'transformational', just as yet. No doubt, from the early Olympics-focused urban environmental management and development and sharing of knowledge and standards on environmental science to a full-fledged emission reduction cooperative framework to collaboration on renewable and advanced energy-efficient technologies even outside the CDM framework, the two countries have shared invaluable experiences at both country as well as corporate level. They even seem to have upgraded their relationship based on a purely business rationale to a broader and global responsibility towards climate change and global warming. Given the wide-ranging dissimilarities between the two in so many respects, as laid out before, the credit goes both to the maturing political climate in both countries as well as to the logic of global climate change discourse that has placed the very survivability of the planet and therefore the mankind under the scanner. By way of acceding to Kyoto Protocol, both have indeed reaffirmed their commitment and sense of purpose to the cause of climate change and the wider sustainability objectives. True, challenges remain and they are by no means small. Australia being an energy-exporting economy has to reconcile its immediate economic interests with its environmental and sustainability obligations. China with its huge population and depleting resources has to find that balance between economic growth and physical infrastructural development on one side and environmental management on the other. China also has to remember that even though it was able to decouple its CO<sub>2</sub> emissions from its rate of economic growth by the end of the 1990s, the country's overall GHG emissions are rising constantly in absolute terms. Its limited cultivatable land (<0.1 ha/person, hardly half of the world's average) has been increasingly reduced and degraded (Liu and Raven 2010: 830). Therefore what China needs is not only a cap on its current greenhouse emissions but also massive investment in alternative (clean energy) technologies in order to sustain its ongoing growth momentum, which is perhaps the most formidable challenge that it faces. According to a World Bank assessment, substituting cleaner-burning, more efficient technology for outdated technology could cut back China's coal consumption by as much as 20% by 2030 (Gong 2011: 164). However, the Chinese demand for technology transfer has not been met because most foreign companies are unwilling to share high-end technology with their counterparts as they fear violations of intellectual property rights.

Could Australia step in to fill in that gap? Also for Australia's own part, its low population does in way attenuate its emission reduction responsibility. In fact its high per capita emission should envisage an added responsibility for itself. The question for Australia particularly vis-à-vis China is: how far can it substitute energy-efficient technologies export for energy exports themselves? The apparent and simple answer is: in the immediate and medium term, very little, particularly in light of fledgling and uncertain state of clean and energy-efficient technologies. But Australia must also be mindful of and brace itself for a not such an improbable scenario wherein world commodity prices might just abruptly take a precipitous plunge given the recurring volatility in world economy in recent years. Nonetheless, assuming Australia does find it financially feasible to replace energy exports by clean energy technologies, would China be able to afford them in the short to medium term? The fact that Australia has not invested in a single CDM project in China clearly raises questions in that regard. One might say that because barely five years have passed since Australia ratified Kyoto in 2007 and two more years for China (which ratified in 2005), it may be too early to write off the CDM cooperation between the two countries. Nonetheless, one also can't ignore that the legitimacy of Kyoto and its legal viability post-2012 is still open-ended and there is no clarity on how the CDM mechanism would play out post-Kyoto. It all depends on how international negotiations on climate change unfold post-Kyoto. The upside however is that the political dispensations in both the countries have found it worthwhile to begin exploratory mechanisms on internal emissions trading, however inadequate that may sound when compared to actual physical reduction in greenhouse gas emissions. And these internal mechanisms may get linked up with external emission trading mechanisms being worked out outside their national frameworks including that of CDM (Jotzo and Betz 2009: 402). Therefore in the short to medium term, even as Australia China relations on climate change and environment may seem to proceed by the logic of investment and business, there is no escaping actual emission reduction in both the countries, as indeed in rest of the world. Because in the long term interest of all, there is simply no alternative to greenhouse emission abatement and invention of green technologies.

### **The unfailing regularity of top-tier engagement: an index of political confidence**

Even as both come from different political systems, when they engage with each other bilaterally, which in effect is an international forum for both; there is a universal language of

conduct and engagement that they both adhere to. This language includes not only a set of protocols and practices governing the meetings of representatives from each country but more importantly, it is the high level of participation or the high ranking at which engagement is done that affirms deep political commitment from both sides. The visits or exchanges could be classified as regular and occasional based on the regularity or the non-regular nature of those processes.

Ever since Gough Whitlam visited China in early 1970s first as Labour Party leader and then as Prime Minister, the relationship through the years has only grown from strength to strength. When Zhao Ziyang became the first Chinese head of government to visit Australia in 1983, the then Australian Prime Minister Bob Hawke had reciprocated within a year in 1984 (Australia-China Relations Institute).<sup>144</sup> Then the visit of General Secretary Hu Yaobang and Secretariat member Hu Qili in 1985 followed by the 1986 Hawke's first time meeting with none other than Deng Xio Ping reinforced that the Chinese opening up to Australia had the unqualified sanction of the Chinese Communist Party, the ultimate arbiter of China's foreign policy (Ibid). This trend had continued with reciprocal visits of each country's parliamentary delegations. At informal levels, this political connection was further underlined when the President of Chinese People's Association for Friendship with Foreign Countries, Zhang Wenjin came to Australia in June 1988. Three years later in Sep. 1991, President Bruce Johnson of Australia-China Friendship Society had led a visit to China (Thomas 2004).

However keeping the periodisation of this thesis largely in mind, at official levels, between 1989 and 2005, the foreign and trade minister of Australia made a visit to China (including Hong Kong and Macau) no less than 16 times in these years. In return, the Chinese foreign ministers have visited Australia only thrice with the vice foreign ministers visiting 5 times during this period.<sup>145</sup> Notably, foreign minister Tang Jiaxuan's visit to Australia in 2002 had been the first by a Chinese foreign minister since 1992 (DFAT 2002).<sup>146</sup> Furthermore, during the period 1989-2002, Australian trade ministers had paid a visit to China 6 times as against China's ministers of foreign economic relations and trade (later minister of commerce) who had come to Australia in official capacity only thrice. But this did not preclude the Chinese

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<sup>144</sup> Available at

[http://www.australiachinarelations.org/sites/default/files/ACRI%20Fact%20Sheet%20Bob%20Hawke\\_1.pdf](http://www.australiachinarelations.org/sites/default/files/ACRI%20Fact%20Sheet%20Bob%20Hawke_1.pdf)

<sup>145</sup> Information compiled from multiple sources: Nicholas Thomas's book in addition to media sources such as The Australian, The Age among others

<sup>146</sup> Available at [https://foreignminister.gov.au/releases/2002/fa037\\_02.htm](https://foreignminister.gov.au/releases/2002/fa037_02.htm)

vice ministers of foreign economic relations and trade from visiting Australia four times in these years (Thomas 2004).<sup>147</sup>

Perhaps this relative balance of leaders' visits at first glance reflects a greater political alacrity if not real commitment on Australia's part vis-à-vis China than any similar sentiment vice versa. However, at the highest level of the leadership and government, the relationship presents a picture of qualified optimism yet without an iota of perfunctoriness to the whole process. While the head of the Chinese government Premier Li Peng had visited Australia as early as in 1988, it took five years for Paul Keating as Prime Minister to visit China in June 1993 (Thomas 2004). However at the same time, Keating had been the prime architect behind bringing China into the fold of the then developing multilateral process such as APEC where he was also the one to get the heads of state/government of major countries in Asia-Pacific to come together on a single platform providing another avenue for Chinese leadership to engage with the Australian leadership at the highest level. Then ironically John Howard the liberal leader -- who is often denounced for taking a broadly 'not-so-friendly' approach towards China -- during his long-term prime ministership had completed 4 visits by 2003 itself (largest by any prime minister until then) and went on to add two more visits by 2007 before he demitted office (Minyue 2005: 134). However from the Chinese side, when premier Wen Jiabao visited Australia in 2006, he had been the first premier to visit in 18 years (Govt. of PRC 2006).<sup>148</sup> In a similar vein, it had taken Jiang Zemin 6 years since he assumed office as President to become the first head of the state to visit Australia in 1999. As opposed to this, the Australian Governor General Bill Hayden, the head of the state<sup>149</sup> had paid a visit to China in 1994 with another visit in 1995 (Thomas 2004). Yet, it had taken ten years for another Australian Governor General to visit China when Michael Jeffery paid a visit in 2005 following up with another one in 2008 (Jeffery 2005<sup>150</sup>; Governor General of the Commonwealth of Australia 2008<sup>151</sup>). Nonetheless, in the very first year of his presidency in 2003 when Hu Jintao visited Australia, his address to joint meeting of Australian Parliament had exhibited strong political symbolism of sorts given that it was preceded by an address by

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<sup>147</sup> Information taken from Nicolas Thomas's Reorienting Australia-China Relations: 1972 to the Present (ed.)

<sup>148</sup> Available at [http://www.gov.cn/misc/2006-04/01/content\\_242673\\_2.htm](http://www.gov.cn/misc/2006-04/01/content_242673_2.htm)

<sup>149</sup> Although Governor General as head of state is disputed given that the reigning British monarch technically carries that title, practically the former is the head of the state

<sup>150</sup> Available at [http://gg.gov.au/sites/default/files/media\\_files/s2005101454\\_0.pdf](http://gg.gov.au/sites/default/files/media_files/s2005101454_0.pdf)

<sup>151</sup> Available at <https://www.gg.gov.au/program/monday-25-august-2008-their-excellencies-governor-general-major-general-michael-jeffery-ac>

the US President George W Bush merely one day before (ABC 2003).<sup>152</sup> Hu Jintao had also followed up with his visit in 2007.

Therefore although the highest level visits, especially from the Chinese side, may apparently seem modest in frequency, there is no denying that these exchanges were supplemented by several ministerial trips from different departments and agencies of central government as well as provincial and even city-level administration from both countries. At the level of officials, the secretaries and deputy secretaries of Department of Foreign Affairs and Trade between themselves had visited China ten times over these years (Thomas 2004). For the Chinese state run by the Chinese Communist Party, the visits by senior members of the Central Committee, the Politbureau, the Standing committee of the Politbureau and the Standing Committee of the National People's Congress apart from several state councillors and ministers with important portfolios and members of Chinese People's Political Consultative Conference (CPPCC) suggests that both the party and the government of PRC are deeply and directly engaged in cultivating the best relationship possible with Australia. Usually high level meetings are launched at the ministerial levels and then there are carried forward at secretarial and senior officer levels although a reverse process is also not uncommon. In all, aside from annual leaders meetings, there are over 40 government-to-government mechanisms that carry forward the relationship between the two countries (Adams 2017).<sup>153</sup> In 2013, China and Australia decided to launch a prime-ministerial level dialogue between each other thereby honouring each other with each having extended such an arrangement to only a few countries (Gillard 2013).<sup>154</sup>

The following year in 2014 the two countries commenced a 1.5 track leadership forum, i.e., Australia-China High Level Dialogue (HLD) assembling senior government representatives, representatives from business and academia and social leaders on one platform (DFAT China country brief).<sup>155</sup> The incumbent President Xi Jinping's accession to power augurs only too well for the relationship given that he is possibly the only world leader today to have visited every state and territory in Australia. That all seven members of the CCP's Politburo Standing Committee have visited Australia in an official capacity further adds to this positivity.

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<sup>152</sup> Available at <http://www.abc.net.au/news/2003-10-05/us-china-presidents-to-address-parliament/1488248>

<sup>153</sup> Available at <http://dfat.gov.au/news/speeches/Pages/australia-china-45th-anniversary-lunch.aspx>

<sup>154</sup> Available at <https://pmtranscripts.pmc.gov.au/release/transcript-19223>

<sup>155</sup> Available at <http://dfat.gov.au/geo/china/pages/china-country-brief.aspx>



## CONCLUSION

Hence, each of the three subjects of education and democracy, human rights, and environment and climate change throughout the discussion has had one consistently common underlying theme, namely, politics, and more specifically the politics of bilateral ties between two countries. Even as the three are variously linked with a multitude of other issues, it is the analytical framework of politics that holds them together. By and large, the bilateral facet of the relations on the three subjects has remained confined to the traditional paradigm of middle power but economically first world Australia against the emerging superpower but yet economically third world China. Yet, there have been times and issues when both the countries have operated outside the orthodox middle power-superpower framework. Therefore in order to take a comprehensive stock of the three subjects and their individual and collective impact on Australia-China political ties, first a brief individual appraisal of each one is in order. On education and democracy, even as there is no denying the increasingly growing educational partnerships between the two stemming from Australia's trade and China's human capital need perspectives, there are not very strong signs indicating a radical politicization of Chinese students and as such being instrumental in overhauling the political system in their country, merely on account of politico-educational experiences in Australia. Should a democratic transformation come about in China, the Australian education would only be one of the several other factors impinging on the Chinese political system. In fact, the major thrust for democracy has to come from within China. The Australian educational experience (or any westernized experience) can only be a supplemental stimulus and not substitutive in that regard. So far, as pointed out before, the political elite have managed to either co-opt or subdue any potential challenge to their position, though in future the vastly growing educated middle class is likely to have a greater say in the running of their country's government. Turning to human rights, this is one subject which has certainly and increasingly found political congruence between the two countries. As Australia has shifted or almost softened its political approach from one extreme end of Tiananmen-era sanctions to the other of passive monitoring of China's domestic human rights records, a tacit understanding on the issue emerges as a natural outcome. This only gets a further boost when China does not really 'question' Australia on its internal human rights situation. However, given the recent spate of racist attacks on Asians particularly Indian students as well as a few cases of Chinese students in between, the Chinese government could adopt a more hard line stand if there were to be a more high profile incident or a sustained round of recurring attacks

on Chinese-origin people in Australia. Or if there were to be a major ‘boat incident’ involving Chinese people or people of Chinese origin. On its part, Australia itself does not appear above board in view of the 2010 UN Committee on Racial Discrimination’s report (CERD) flagging persisting concerns on indigenous people’s rights in the country. Therefore to the extent that China has managed to *bilateralise* the human rights issue between the two from a multilateral dimension of things with Australia playing along goes to show that human rights has indeed brought the two nations politically more proximate in a mutually ‘conspiratorial’ mode, and much at the peril of human rights as a universal cause. Australia’s middle power status also doesn’t allow it to put pressure on China beyond a point and Chinese superpower aspiration though makes it partially compliant with global norms, China still retains the last word on many aspects of human rights; for instance it hasn’t yet ratified the Convention on Civil and Political Rights despite signing it more than a decade earlier. Moving on from human rights to environment and climate change, this is possibly the most complex political issue between the two countries as compared to the two others discussed above. On surface it might not appear as complex because by the nature of climate change as a subject of utmost urgency, there should not be much of a choice for the two except to cooperate with each other. Yet, it is an extremely complex subject, givsssen the wide web of overlapping issues involved, namely, energy security, food security, trade and investment, migration and national security, among others, with one possibly contravening another. Even though the bilateral cooperation on environment has only been about a decade old with commerce as the underlying rationale forcing the pace so far, that there are no signs as yet to indicate any clear narrowing of differences on the fundamentally opposite positions taken by the two—one being a North and the other being a South country—is illustrative of the limited political impact of environment and climate change on the relations between the two countries. The poor record on CDM underlines the primacy of trade over politics. And in an extended argument, this primacy of trade can be linked to the national interests of each country and they may not find themselves aligned on many issues including that of environment and climate change. Nonetheless, of the three issues outlined, human rights emerge as the strongest binding force between the two countries’ political elites followed by environment and climate change at the second spot with education and democracy as the least binding factor since education and the resultant potential for democracy even in theory strikes at the heart of the current authoritarian system in China upsetting the status-quo, and no Chinese leader with an entrenched power base would be agreeable to that. Yet, the three issues

combined have definitely taken the political relations between the two countries to a different level, not conceivable before.

## Chapter V

### AUSTRALIA-CHINA RELATIONS and REGIONAL GROUPINGS

In the aftermath of the unravelling of the bipolarity that had marked the Cold War world order, regionalism has emerged as an alternative political formula for nation-states to engage with one another on a whole range of subjects—spanning economics and trade to politics and security. Coupled with this demise of political bipolarity were the twin phenomena of a more globalized world economy corresponding with more integrated regional economies underpinned by the common logic of a more liberated capital, labour, product and services market. Equally relevant has been that the traditional State-centric security as a policy challenge has yielded discursive ground to strikingly more complex non-traditional security threats—absolutely open-ended in nature and scope, random in terms of onset and dissolution, and often featuring non-State actors in terms of participation and involvement—in regional or sub-regional settings. As a consequence, there has been a surfeit of institutional arrangements and access points in distinctive regional and sub-regional contexts to address common concerns. This is not to take anything away from the global processes and institutions<sup>156</sup> which too have made substantive headway by way of their contribution towards mitigation/resolution of issues, albeit primarily at a global level. That notwithstanding, against the set of global institutions that have been largely conceived of, crafted, commenced and operationally catalyzed by the West in the post-World War II international order, the regional institutions have also been an expression of sub-global, regional or sub-regional needs, aspirations, dynamics and complexities—in part in complement and in part in conflict with the wider global framework. Therefore in a sense, this regionalism has sought to redefine or advance from what has so far been a US and Europe-led western world presiding over global rule and policy setting, defining agendas, standardizing norms, and in general making the ‘rules of the game’. No doubt that in terms of scope, regionalism may vary from open to closed regionalism, from broad and inclusive to narrow and exclusive regionalism, from consultative to integrative regionalism, or even soft vs hard regionalism, as pointed out by Frankel and Kahler (Katzenstein 1996: 141). The idea nonetheless in whichever form or manifestation, has acquired enduring salience.

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<sup>156</sup> Such as UN agencies or GATT/WTO among others

Against this backdrop, this chapter attempts to examine and explain the role of the regional groupings and institutions and the manner in which they have given stimulus and substance to the ties between Australia and China. Even though the idea of a regional institution at first instance conjures up the image of a collective entity held together by a shared geography drawn solely upon physical proximity, there could be sundry other common threads such as those of history, language, religion, culture, race, ethnicity, stage of economic development, economic and commercial complementarity, occupational and professional fraternity, common ideology and advocacy, and political system and functioning— each bringing together a group of actors that could either be nation-states or sub-national actors and institutions, or a combination of any one of them— bound by common principles and purposes. This study is however limited to regional institutions and groupings forged by sovereign nation-states, broadly for political reasons, even as the formalised nature and the specific structure of the organisation may entail a specific political or an economic or even a security objective, or anything other than the three. In other words, this chapter seeks to understand the bilateral progress and advancement between two sovereign countries through the analytical lens of institutional multilateralism in a regional sphere. In sum, this chapter examines the extent to which both Australia and China have separately and collectively carried the cause of regionalism and how the regional institutions in return have contributed in their own specific ways to the developing bilateral dynamism between the two political actors. For this purpose, two major regional groupings have been dealt with: ASEAN and Allied Institutions; and APEC. Over-all, this chapter has been divided into four separate sections: Evolutionary Pattern of Asian/Asia-Pacific Regionalism; Australia-China Relations vis-à-vis ASEAN & Allied Institutions; Australia-China Relations vis-à-vis APEC; and Conclusion.

Apparently, there is an intrinsic discrepancy if not dichotomy in the idea of regional institutions promoting bilateral relations between two countries. Regional institutions by their very nature largely stand up for multilateralism (purportedly), tend to be centred around the axis of a singularly overarching objective (usually), spawn multi-layered functional structures, sub-structures and processes geared towards solving problems or adding solutions, and above all, offer practicable perspectives that would otherwise be difficult to accomplish in their absence. Admittedly, in many cases (particularly in Asia) even the elaborate functional machinery may not be as rigorously formalised and their mandate may not have the force of international and domestic laws, and therefore, would not carry the legally

binding consequences for their actions. Yet, the elaborate nature of these institutions and the 'regionalised' context signifies an exchange more than merely between two regional actors. Any regional connotation therefore in all probability would embrace more than two players, in effect broadening the canvas to a multilateral one. The question one might ask is whether the multilateral scope of the regional institution necessarily and inevitably dilutes the bilateral prospects between any two countries. Or conversely, whether the expanded base actually serves to reinforce mutuality between two countries. There are no easy and standard answers to these and in most likelihood would depend on the specificities of a certain institution, its broad objectives, the regional (as also global) weight of countries in question, and the other countries' interests and influence. A related question that arises is: why a regional institution or grouping at all? In simple terms, there are two mutually exclusionary premises that underpin the emergence of any regional institution. The first is that the coming about of any regional institution overcomes the inadequacies or shortcomings in the existing politico-administrative format governing relations between/among countries. And the second is that the upcoming institution is designed towards resolution of new and emerging issues confronting the region and in the process adds to the institutional robustness and efficacy in the region. Therefore while the first case entails improvement and improvisation, the second involves innovation and creation. To cite examples, while any regional Free Trade Area (FTA) represents the second premise, measures such as Regional Maritime Security Initiative (RMSI), ASEAN, or NATO created in an earlier era embodies the first premise.

As far as theoretical approaches to the subject are concerned, there is a wide and divergent array of viewpoints and definitions on *regions*, *regionalism* as well as *institutions*. Neo-realists like Waltz view different world regions as manifestations of the distribution of materially defined capabilities in the international system. For Waltz, regionalism is nothing but a return to the multipolar balance of power system (Katzenstein 1996: 129). Then Muthiah Alagappa defines regionalism as

... sustained co-operation, formal or informal, among governments, non-government organisations or the private sector in three or more contiguous countries for mutual gain.

Cantori and Spiegel's inclusive definition of regionalism emphasizes geographic proximity, international interaction, common bonds (ethnic, linguistic, cultural, social and historical) and a sense of identity that is sometimes accentuated by the action and attitudes of states external

to the region— even as they admit that this list does not lend itself to the clear-cut identification of regional sub-systems. Similarly Bruce Russett's five criteria (social and cultural homogeneity, political attitudes or external behaviour, political institutions, economic interdependence and geographical proximity) also illustrate the ambiguity of region as an organizing concept. Moreover, as products of culture and economics, history and politics, geographically defined regions change over time (Katzenstein 1996: 125, 129). Strictly speaking, regional subsystems need not be geographical regions per se. Rather, the subsystems consist of the interactions of national elites, not the physical entities of physical units, of which the interactions are known to have more or less regional boundaries. In this sense, it should only be necessary to employ the minimal regional criterion—namely, general proximity (Thompson 1973: 96). Thomson has explained regional subsystems as a territorially intermediate level of analysis between global and national layers which helps exert a limited focus and therefore a more subtle analysis (Ibid: 91). Thompson's composite definition lists twenty-one commonly cited attributes which he condenses into a list of three necessary and sufficient conditions for defining a regional sub-system— general geographic proximity, regularity and intensity of interactions, and shared perceptions of the regional sub-system as a distinctive theatre of operations (Katzenstein 1996: 129). On a different note, Albert Fishlow and Stephen Haggard in their study have sharply distinguished between regionalization, which refers to regional concentration of economic flows, and regionalism, which they define as a political process characterised by economic policy cooperation and coordination among countries (Mansfield and Milner 1999: 591). Continuing on to institutions from regionalism, the theory of institutionalism has grown and evolved as a distinct and standalone perspective within the overarching discipline of International relations. Oran Young defines institutions as “social practices consisting of easily recognized roles coupled with clusters of rules and conventions governing relations among the occupants of these roles.” (Onuf 2002: 225) To that extent an institution is different from an organization in the sense that an institution may or may not entail organization which is understood as a “material entity having physical location, offices, equipment, budget...” (Jonsson and Tallberg 2007). In a different explanatory context, institutions themselves are 'fundamentally cognitive entities that do not exist apart from actors' ideas about how the world works'. In other words, the form institutions ultimately take is not determined exogenously but bound up with the beliefs, values and intellectual traditions of the participants (Beeson 1999: 3). Jonsson and Tallberg have identified three distinct variants of institutionalism: Rational choice institutionalism, Historical institutionalism and Normative

institutionalism. While the first tracing a realist foundation emphasizes the utility maximizing goal of states centered around the idea of reducing transaction costs (in economic terms), the second and third signify a cultural approach with the second placing accent on the historical contingencies and path dependency, and the third positing the “logic of appropriateness” as opposed to the “logic of instrumentality” (Jonsson and Tallberg 2007; Beeson 1999: 4).

As a follow up to the brief definitions and the theories encapsulating regionalism and institutions as given above, a literal understanding of the terms Asia and the Asia-Pacific, the region closely germane to the Australia-China bilateral dynamic, becomes timely. It would be fair to begin with that there has as yet been no single universally accepted definition of Asia, and nor of Asia-Pacific. Asia has had a profoundly contested as well as confused identity not only in terms of its geography but also sovereign nationality, civilization, culture, climate, race, ethnicity and language among others. In fact, the term Asia has nearly been a semantic oversimplification of all the differences and the diversity that the term purportedly portrays through a narrow unifocal lens. Edward Said had observed, ‘Asia is in reality a vast array of cultures, nations and states grouped together by a particular Euro-centric view of the world’. Furthermore, Stephen Fitzgerald, the first Australian Ambassador to China and a leading Asia-China scholar, argues that there is no such thing as ‘Asia’ and that there are no such people as ‘Asian people’. He states that the word ‘Asia’ is European as well as the categories and definitions generally held to be ‘Asian’. Interestingly, FitzGerald has argued since the early 1990s that Asia is ‘developing a common consciousness as a region apart from Europe and European-derived civilisations’. FitzGerald’s contention is that the Asian identity is ‘a consequence of *economic dynamism*, of cultural self-discovery and affirmation, and of a final repudiation of colonialism’ (Sommer 2003). And perhaps it was in this context of economic dynamism that the Garnaut Report in 1989 had argued that to take advantage of the Asian economic engagement, Australia must undertake a policy of improving its Asian literacy and that too through the understanding of Asian languages to begin with. Australia must become more Asia-literate prompting the Keating government to launch a programme funding Asian language education in Secondary schools (Wesley 2007). Coming back to Asia as a political unit, Muthiah Alagappa has made the following observations. First, despite the considerable economic and cultural interactions among a few countries and the substantive sub-regional cooperation, there has never been a sustained pattern of all-round interaction comprising all the Asian countries as it is understood today as a regional entity. Second, while structurally speaking, relations among nations in Asia seemed anarchic; there was hierarchy in terms of



actual engagement. Third, power politics formed the central underpinning when it came to dynamics of ties among different countries in the continent. And fourth, the shared colonial legacy had shaped and moulded the erstwhile ambiguously defined political entities into new and sovereign independent nation-states now holding the principles of sovereignty, territorial integrity and non-interference in internal matters as absolutely sacrosanct (Alagappa 1998: 109-11).

Advancing on to Asia-Pacific and the allied terminologies such as Pacific Rim and Pacific Basin, Arif Dirlik writes, 'In a fundamental sense, there is no Pacific region that is an "objective given", but only a competing set of ideational constructs that project upon a certain location of the globe the imperatives of interest, power or vision of these historically produced relationships' (Dirlik 1992: 56). While some consider Asia-Pacific as a single region, others consider it as an amalgamation of two regions, and still others consider it a combination of more than two regions (Mansfield and Milner 1999: 590). Even though the idea of a Pacific community was initially limited to the advanced countries such as Japan, Australia, US and Canada, that the idea eventually had to incorporate the 'locally significant others' means that the locational dimensions of any emerging regional community or architecture could not have been overlooked. This would also assist in bolstering the much-needed legitimacy to the upcoming institution (Acharya 2012: 11). Yet it cannot be overlooked that the Pacific island states many of which technically are sovereign nation-states in their own right and undeniably belong to the physical geography of the region, have been kept outside the pale of any regional political configuration other than own sub-regional arrangements such as the Pacific Islands Forum. Regardless, in a rough sort of description, Pacific region covers an area that stretches from the Bering Strait to Antarctica, from California to Korea and China, from Alaska to Tasmania, from Tasmania to Southeast Asia, and from Kamchatka to Chile; whereas Pacific Rim focuses too much on the edges of the region (Dirlik 1992: 59).

### **Evolutionary Pattern of Asian/Asia-Pacific Regionalism**

As much as there is a contested and diffused Asian identity as indicated before, the notion of Asian regionalism in the post-War modern context too has shown as much a weak and tentative evolutionary pattern. Unlike the western way of closed regionalism the high watermark of which has been set by the EU, the open Asian regionalism has exemplified gradualism, informalism and symbolism— not (or partially) given to *institutionalization* in

the strictest sense of the term. By most accounts, compared with the process of regional integration in Europe and the Americas, any attempts to integrate politically or economically or security-wise in Asia has remained shy of an institutionalised and formalised binding framework. To elaborate, there are mainly three reasons why Asian regionalism has been less institutionalised as compared to Europe and elsewhere: the first is that precisely by way of its open and inclusive nature, a certain degree of sustained informality has found acceptance by all regional stakeholders chiefly represented by the narrow socio-political and economic elite which is only too circumspect and little obliging when it comes to committing to a legally enforcing rule based regional order. That these states in Asia have for long inherited the colonial traditions of the rule *by* law than the rule *of* law besides having been witness to a prolonged dynastic history of empires further illustrates this point (Katzenstein 1996: 146; Haas 1997: 329-30). This informalised institutional setting however had ensured that Asia with its formal hierarchy and informal equality among nations had stood out as an example for peace unlike Europe which with its formal equality and informal hierarchy had been through near-constant inter-state conflicts (Kang 2003: 67). Here, the difference between formal institutions in a regional sense and formal (and informal) hierarchy among nation-states in the region must be underlined and pointed out in order to avert the apparent contradiction. The second reason is that the regional powers in Asia have at no stage desisted from joining hands (and indeed signing security treaties) with outside powers particularly for strategic, security and in many instances for trade, capital and market purposes. This underlines that even as the countries in the region have been on a steady drive towards informal regionalism, between themselves or for at least some among them, strategic distrust of one another has persisted making them cultivate outside regional powers for economic and security guarantees. This parallel and almost insidious process of alliance or relationship building with outside players somewhat undermines the cause of strictly institutionalised regionalism within the Asian region. The third takes a cue from Katzenstein who posits that it was the US' strategic network of bilateral alliances in Asia unlike the multilateral arrangements in Europe that had prepared the region less for a culture of multilateralism and therefore less for an institutional tradition grounded in formal and legally enforceable regulatory and interactive norms. To add, it was also the 'informalised' functioning of the domestic state institutions penetrated by the post-colonial social forces with multiple political connections marked by intricate network structures that had also been responsible for this lack of multilateralised institutional regionalism (Katzenstein 1996: 142, 146).

Amitabh Acharya has broadly separated the course of Asian regionalism into three phases: The first Asian Relations Conference (1947) to the creation of ASEAN (1967); ASEAN's formation to the Pacific community idea; and the post-Cold War period (Acharya 2012: 5-7). However, even before the said first phase, a rudimentary campaign of Asian regionalism had been underway in the late nineteenth and early twentieth century when Japan had sought to rally all Asian states together anointing itself as the solely capable architect of pan-Asianism— building on from the Meiji restoration and drawing further legitimacy and strength from the denouement in the Russo-Japanese war of 1905. In doing so, Japan had projected itself as the consummate embodiment of the synthesis of civilization of the East and the modernity of the West (Duara 2001: 110-11). The post-Second World War then saw a flurry of initiatives on regionalism by newly independent sovereign-nations such as India, China, Indonesia, Burma and Ceylon. The first of such was the New Delhi Asian Relations Conference held in 1947 which while seemed to herald the birth of a Pan-Asian movement, the over-all theme had been anti-imperialism and economic nationalism at best, and not necessitated by the fundamental rationale of creating cohesive Asian regional institutions (Thompson and Adloff 1947: 98; Soares 2011: 501; Acharya 2012: 5). For Australia, it was important enough that it had been invited as an observer along with Great Britain, the United States and the United Nations (McCallum 1947: 13; Soares 2011: 498-99). Of all the topics discussed what most turned out to be interesting for Australia was "Racial Problems and Inter-Asian Migration" the discussion of which incidentally was moderated by the Chinese delegate Mr. Wen Yuan Ning as Chairman (with the Vice Chairman being Sardar K. M. Panikkar from India), and who had discharged his role most deftly (McCallum 1947: 16). Even more interesting to note is that Australia's immigration was mentioned only once and was not contested, which can be roughly attributed to the positive bilateral Australia-China dynamic (even though it was the nationalist China), not to deny other variables such as the stronger resonance of Southeast Asian/Ceylonese opposition to Chinese/Indian immigration, as well as the very multilateral nature of the forum (Soares 2011: 501). The strong opposition to Chinese and Indian immigration by countries in Southeast Asia and Ceylon at the Conference had almost inadvertently placed Australia and those countries on the same side of the fence against the line taken by China and India. As for China, which had been reeling under a civil war, was represented by the nationalists with their delegation having been more experienced than the others in attending international conferences, and who intervened rarely, but always with effect. For China however, the most important part of this Conference had been the decision to hold a similar conference in two years' time in that country, though it

couldn't take place there as it turned out eventually (Inter Asian Relations Conference 1947: 240, 241).

Followed by the first Asian Relations Conference, the New Delhi Conference on Indonesia in 1949 had been an effort by the Asian countries to propose regional remedies for a problem which though had international imperialist dimensions, was essentially local in character. Significantly, Australia had attended the New Delhi Conference on Indonesia in 1949 as a participant and not as an observer, the only government outside Asia sending a delegation, underlining the commitment of the Chifley Labour government to Asia (Suarez 2011: 505). This diplomatic upgrading of Australia's attendance from observership at the 1947 Conference to a full-scope official participation in 1949 was a strong demonstration of the Australian government's commitment to heightened engagement with Asia. Curiously, at this Conference unlike the first one, China had participated as an observer, and not as a full-fledged delegation, perhaps owing to its own civil war at home or, perhaps a deliberate approach to keep off disputed matters in that particular period when matters didn't concern it directly.<sup>157</sup> Nonetheless, although the second Conference can be said to have exerted concerted Asian influence as a mark of solidarity from regional entities, there was again no evidence of any intent on development of any regional institutions.

The declaration of holding an Afro-Asian Conference at Bandung by the Colombo powers had sent the colonial powers into a diplomatic overdrive as to how best to either prevent or stall the Conference, and if that was not possible, how best to steer it into a safer direction away from any anti-colonial sentiments, and more onto an anti-Communist trajectory. The Western powers were clearly unsettled by any likelihood of anti-colonialism rant taking over as the overriding theme of discussion and more so, by the possible mitigation of suspicions of communism, especially since the PRC was to attend the Conference. The role and attendance of Australia at the Conference can be contextualised in that regard. On China's participation at Bandung, the Bandung meeting had presented a forum through which China could state its peaceful intentions and overcome a sense of isolation within the international community (Lee 2009: 85). From the Conference standpoint as such, in fact, this ushering of China on to "a peaceful course," had become the "major objective of the Bandung Conference." (Huei 2009: 70) For Australia, in the end, there was very little criticism of it at the conference,

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<sup>157</sup> It's a different matter altogether that the September 30 movement pulled off in 1965 by the PKI in Indonesia, an event which went on to change the political course of the country had been allegedly orchestrated with the connivance and patronage of the Chinese Communist Party

indeed little mention of it at all, although in his closing statement to the conference Nehru did appeal to Australia and New Zealand to draw closer to Asia (Waters 2001: 170). Where it somewhat felt undermined was that Indonesia's claim to New Guinea was supported by the Conference (Ibid: 169). All the same, Bandung spirit had probably confirmed that no new Asian members of SEATO would be forthcoming and the communique included the principle that all nations should abstain from the use of collective defence arrangements which only served the interests of the big powers as well as exhorting a ban on nuclear weapons. Then Non-aligned Movement (NAM), the ideational and philosophical roots of which had been embedded in Bandung Conference, was another instance of regional actors collaborating as a third force (although not united in all respects) in an undertaking to project an alternative to the rigid political bipolarity of the Cold War. Yet, neither Australia, and more crucially, nor even China<sup>158</sup> was a part of this movement.

Earlier, in 1950, Australia for its part in a bid to closely cultivate Asian people had been in the forefront of what soon came to be known as Colombo Plan for Cooperative Economic Development.<sup>159</sup> In the hope that development aid could contribute to security, the then Australian Foreign Minister Percy Spender is largely credited with initiating the idea of the Colombo Plan, which had been conceived at the Commonwealth Foreign Ministers' meeting in Colombo in January 1950 (Terada 2000: 177; Bryant 1961: 7). But, China has never been a part of Colombo Plan even when the name had been changed to Asia and the Pacific and organisation had included non-Commonwealth countries.

Besides the above discussed initiatives spearheaded by regional players, there had also been efforts by outside powers to raise regional groupings such as South East Asia Treaty Organisation (SEATO) and South East Asia Development Association (SEADA) neither of which however could survive the test of regional legitimacy (Acharya 2012: 7, 8). For Australia however, SEATO in some ways had even superseded ANZUS in terms of relevance— by virtue of the inherent “American guarantee” clause, and the extension of American Southwest Pacific commitment further than what had been in ANZUS (Modelski 1960: 431). Southeast Asian Development Association (SEADA) on the other hand, a brainchild of the Johnson administration, had been an endeavour to involve the countries in

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<sup>158</sup> China joined as an Observer at the tenth summit in Jakarta in 1992

<sup>159</sup> The original members were Australia, New Zealand, UK and Canada as donor countries; India, Pakistan and Ceylon as recipient countries— who were later joined by the US and Japan as donor countries; and Burma, Cambodia, Indonesia, Laos, Federation of Malaya, Nepal, North Borneo, Sarawak, Singapore, Vietnam, Thailand and Philippines, as recipient nations (the last two as observers and not full members)

the region in an economic grouping, a rough precursor to two of the most enduring regional institutions— Asian Development Bank (ADB) and ASEAN (Frey et al 2003: 252; Guyen 1999: 103). In 1966 again, Japan, along with Australia had also been a major force behind another regional organisation — Asia-Pacific Council (ASPAC).<sup>160</sup> The composition of the grouping and the profile of its members however had clearly betrayed anti-Soviet or rather anti-communist proclivities and in less than a decade the grouping had succumbed to the post-Vietnam geopolitical reconfiguration demonstrated in the Sino-US rapprochement. Not surprisingly, it was the admission of the PRC into ASPAC and eviction of ROC from it that is said to have led to the collapse of ASPAC (Khoman 1992, Sutton 2005: 120-1). Not deterred, and buoyed by its post-War economic reconstruction and recovery, Japan (in concert with Australia) had gone on to sponsor a series of regional economic cooperative bodies and institutions, which as just indicated, it had started since the early 1960s, albeit mainly through several epistemic communities. Some of these bodies were Pacific Basin Economic Council (PBEC), Pacific Trade and Development Conference (PAFTAD), Organisation for Pacific Trade and Development (OPTAD) and Pacific Economic Cooperation Council (PECC). To Australia's credit, it had been Australian academic Peter Drysdale who along with Japanese Kiyoshi Kojima had first advocated for OPTAD at the 1968 PAFTAD meeting (Terada 2000: 181). Incidentally, Pacific Economic Cooperation Council (PECC) which actually gave shape to the institutionalisation of the idea of a Pacific Community, was thrown up at Pacific Community seminar held in Canberra in September 1980 (Acharya 2012: 12). To Australia's credit again, it had been Prime Minister Malcolm Fraser along with Japanese counterpart Ohira who had encouraged this Pacific Community Seminar (Nicholas 1981: 1200; Drysdale 1985: 104).

Therefore, the over-all picture that emerges until the 1980s is that howsoever their eventual fate may have turned out, most of these ventures were economic in their origins and essentially non-governmental in their operationalisation that had emphasized personal networking and the exchange of information rather than political negotiations and binding decisions (Katzenstein 1996: 138). In that sense, APEC can be described as the logical culmination of the previous five decades of desultory regional multilateral economic endeavours, notwithstanding the recent growing debates on its perceived utility or diminished utility or even outright obsolescence. This trajectory of economic regionalism in due course

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<sup>160</sup> Its original members had included Australia, Republic of China (ROC), Japan, Republic of Korea, Malaysia, Philippines, Thailand and Republic of Vietnam with Laos opting for Observer status

of time also took a political (in the form of ASEAN) and security (in the form of ARF) turn the over-all relevance and implications of which on the cause of regional institutionalization has been subject to extensive scholarly enquiries and debates. However, as the nineties progressed and an economically resurgent China increasingly began to displace Japan at the core of a regional trading architecture as well as sub-regional formations, economic regionalism once again came to occupy the centrestage of regional political economy, a subject accentuated further by the Asian Financial Crisis. The Crisis which had momentarily put a question mark on the sustainability of the east Asian economies had also played the other critical role of reigniting the debate on the narrower and exclusivist ambit of the process of regionalism, a sentiment carried by some of the regional players and a sentiment that had become starkly manifest seven years earlier in 1990 when Malaysian Prime Minister Mahathir Mohammad had proposed the establishment of East Asian Economic Grouping (EAEG) as an alternative to APEC. According to Mahathir's formulation, this grouping was to consist of only 11 Asian members of APEC and more notably, to the exclusion of the US, Canada, Australia and New Zealand— a proposition which soon however had to be downgraded thereafter to East Asian Economic Caucus (EAEC) — in the face of stiff US opposition, Japan's ambivalence and tepid response from other Asian states (Katzenstein 1996: 140; Stubbs 2002: 441; He 2004: 112). To Australia's acclaim, this downgrading of Grouping to a Caucus as an informal group within the framework of APEC had been the singular diplomatic achievement for a country, which had been in the vanguard defending APEC as a wider and more acceptable regional institution in light of the imminent competition from the EAEG (Wesley 2007). Incidentally, China had stood out as the only major power that had explicitly supported EAEC and in 1993, Chinese Foreign Minister Qian Qichen had described the Caucus as an appropriate vehicle to spur economic cooperation among East Asian countries. This support was however qualified by that US should not be kept outside this regional process since US was also directly linked with China's economic development (He 2004: 114-15; Haas 1997: 331). Therefore on EAEC, both Australia and China apparently appeared to find themselves on the opposite sides. But, that China was not willing to go the whole distance in keeping US out; there was a subtle coincidence of viewpoint on this matter. Australian government has steadfastly remained committed as an active participant in the process of regionalism as evident by its eventual joining of the East Asian Summit even reversing its earlier stand of not signing the Treaty of Amity and Cooperation (TAC) in 2005, a necessary pre-condition for accession to EAS; by signing up the AANZFTA (ASEAN-Australia New Zealand Free Trade Area) in February 2009; and by

formally clinching a seat at ASEM in October 2010—a favourable trend no less helped by the emergence of a post-Mahathir Malaysia, and ASEAN’s continued uneasiness on account of China’s rise.

Therefore quite self-evidently, in almost half a century since the end of the Second World War, unlike China, Australia had been somewhat more vigorous by way of its contribution to forging of regional institutions, albeit within the limited framework of the progress of regionalisation itself. China on its part despite having successfully registered its presence at Bandung, had subsequently turned ‘regionally inert’ arising out of its domestic socio-political circumstances, worsening relations with the USSR to a point of no return, self-imposed economic isolationism and its over-all credibility deficit in the region as well as the wider world. This more of a self-imposed inertness had been more pronounced until the late 1970s when it purposefully crafted a strategic reorientation in its ties with the US, repaired relations with other countries in the region, made a clear renunciation of the long alleged ‘export communism’ policy, and most of all, progressively liberalised its economy marking a departure from doctrinaire and State-driven policy environment to a more market-based political economy. Beginning in the 1980s even as China had officially shifted to a more positive attitude towards Asia-Pacific multilateral regimes portrayed in its admission into PECC as an Observer in 1984 and a full-fledged member in 1986, yet there had been no radical overhaul of its regionalism policy. At best, its approach in fact to regionalism had been halting and incremental, tinged with abundant caution. It joined APEC two years after it was formed. Prior to 1984, China had openly opposed multilateral regimes with the plea that they would compromise its sovereignty and wouldn’t prove to be anything more than a tool for US hegemony (Ibid: 1069-70). Around the same time, China was also faced with the dilemma of having to reconcile between— a Japan-led economic regionalism courtesy the prevailing regional industrial product cycle predicated on the flying geese economic architecture wherein China would fit in as a second or third tier participant— and its own aspirations for regional leadership. Alternatively, China had also sought to exploit the underlying US-Japan economic and commercial divide in the region in an attempt to contemplate a joint regional leadership along with Japan and thereby keeping US on the sidelines. On a visit to Tokyo in 1992, Jiang Zemin had even stated that China accepted Japan as a regional political power, the first time a Chinese leader had done so (Ibid: 1079). In the interim, as the process of Asian regionalism (mainly South east Asian led by ASEAN and derivative groupings followed by APEC as a distant second gained a certain momentum and



an inevitability of sorts, China buoyed by its economic self-confidence along with the renewed need for opening up of fresh channels of communication with its neighbours could not remain immune to these cross-currents of regional institutionalisation. In the over-all regional context however, landmark events such as the Asian financial crisis soon followed by the separatist East Timor-Indonesian contingency had also brought to surface the imperfections of existing regional institutional arrangements such as APEC and ASEAN as well as the ARF. It was this perceived failure on its part that ASEAN had begun to reinvent itself as ASEAN Plus 3 (APT), a supposed alter ego of Mahathir's East Asian vision, graduating further into East Asia Summit (EAS) by 2005, all this coterminous with the Chiang Mai Initiative (CMI), a series of bilateral currency swap arrangements within ASEAN as well as between ASEAN and Plus 3 countries— fructifying into Chiang Mai Initiative Multilateralisation (CMIM), a regional multilateral effort underwritten by a common contract— all precipitated by the Asian financial crisis. Important from the Chinese viewpoint is that the rising profile of APT has raised its stakes as well as individual standing in the regional scheme of things. For Australia too, the expansion of APT into EAS was a significant political boost though the very recent incorporation of US and Russia into the EAS fold has only lent an air of open-endedness and uncertainty to the over-all viability of ASEAN-driven regionalism.

## **Australia-China Relations vis-à-vis ASEAN & Allied Institutions**

### **Australia and ASEAN & Allied Institutions**

Association of Southeast Asian Nations or ASEAN founded in 1967 has been variously cited as the culmination of an interplay of multiple regional and global factors— the inexorable Cold War dynamic playing on the political and economic culture of the five original members with their persisting apprehensions of communism, the long seething Indo-China, the impending scaling down of the Western military presence in the region— the need for a coordinated economic and commercial forum inspired by the Newly Industrialised Countries' (NICs) and Japan's successes— and most importantly, the concerted move on part of the regional actors to articulate and build a distinct regional identity helped on by individual leadership initiatives.

For Australia, being the first dialogue partner in 1974 and showing itself to be a part of the ASEAN process in the organisation's nascent stages was as much a demonstration of its

politico-diplomatic commitment to ASEAN the organisation as it was about expressing a sense of socio-cultural affinity with the Southeast Asian region. Indeed Australia had been the first country to have accorded formal recognition to ASEAN as a multilateral organisation.<sup>161</sup> In another step forward, Australia was also the first country with which ASEAN established a formal consultative structure on trade matters in 1978. This was even as the idea of an Asia-Pacific Forum embracing all of ASEAN in a January 1973 speech by Gough Whitlam was killed by ASEAN on the pretext that it would be a threat to its own importance (Ravenhill 1997: 10-11). Yet, within a few years, in 1980, the Department of Foreign Affairs (DFA) in its submission to the Senate enquiry into Australia-ASEAN relations in 1980 had stressed that ASEAN was “at the core of Australian foreign policy”. The response and perception from the other side however, of Australia had been limited to being somewhat a “non-image” (Nicholas 1983: 155, 162). The uneasy if not discordant state of affairs between the two entities was compounded by a clutch of issues including trade differences over Australia’s protection of its textile, clothing and footwear industries and the ASEAN countries incurring balance of payments deficits on that account; Australia’s aborted international civil aviation policy (ICAP); Australia’s de-recognition of Democratic Kampuchia regime in Cambodia; and adverse Australian media coverage of human rights in Southeast Asia, especially of Indonesian annexation of East Timor (Ibid: 153-4). An anonymous Indonesian official had even expressed exasperation with the Australian press’ attitude of criticizing of problems for which Australians themselves stayed on the fringes while not taking any responsibility on an issue, as quoted by Peter Hastings in Sydney Morning Herald of 11<sup>th</sup> August 1978 (Lim 1980: 37). Regardless of all this negativity, in a major act of political bipartisanship and consensus, the Whitlam Labour government’s dismantling of the White Australia policy had been followed upon by Fraser’s Liberal government accepting tens of thousands of political refugees from Vietnam, Cambodia and Laos for settlement in Australia thereby reinforcing a partly Asian identity (Firth 2005: 41). As a matter of fact and to Australia’s credit, on a per capita basis, Australia had allowed more number of Indo-Chinese refugees than any other industrialised country (Ravenhill1997: 14). Around the same time, Australian foreign policy establishment had begun to fundamentally recast the country’s security doctrines and foundations orientated towards a more self-reliant

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<sup>161</sup>In more recent times, Prime Minister Rudd visited the ASEAN Secretariat in June 2008, the first head of government of an ASEAN dialogue partner to do so.

and enhanced near-geography defence posture as evident by the publication of the defence White Paper in 1976 titled *Australian Defense*. This was also the period when within a few years of the decisive defeat of the US in Vietnam, the outbreak of the Vietnam-Cambodia crisis in the region had put to severe test the ASEAN grouping's capacity for conflict management/resolution. In the prolonged instability that had ensued eventuating in the long-drawn peace process, notwithstanding ASEAN momentarily taking exception to Foreign Minister Bill Hayden's proposed *mediator's* role between Vietnam and Cambodia, Australia had played an invaluable role towards the amelioration of the Cambodian crisis, in tandem with ASEAN. So, it goes without saying that the crisis had aptly illustrated Australia's capacity to work with ASEAN on a subject of quintessentially regional nature.

In the early 1990s, when ASEAN chose to institutionalise its security mandate through the newly formed ASEAN Security Forum (ARF), Australia had been a key aide to the process as well as a founding member. In fact, the ideational impetus of ARF had come from Australia itself (along with Canada) with the then foreign minister Gareth Evans making a seminal contribution in that regard (Evans 1995: 103; Acharya 2009: 498; Haas: 1997: 338). However, Evans' initial idea for a more legalistic security institution in Asia on the lines of Conference on Security and Cooperation in Europe (CSCE) had to be eventually diluted and dovetailed to regional norms and preferences for a non-legalistic and gradualistic organisation, in the face of resistance from ASEAN as well as the US.<sup>162</sup> Therefore, the formation of the ARF was not only ASEAN's way of trying to stay at the centrestage of regional security dialogue, but was also an attempt to retain its discretion on the nature, pace and direction of that security dialogue. But more importantly, ASEAN intended to hold its ground as the hub of regional institutionalisation if not the leader, given the subsequent engendering of an array of ASEAN-centred regional institutions such as APT and EAS. Ironically, that imperative to retain institutional pre-eminence had become more acute after it was Australia that had taken the lead in forming APEC in Canberra in 1989. A further Australian initiative had led to the first annual meeting of APEC heads of government in Seattle in November 1993. Clearly, the ASEAN states were worried that membership of APEC could undercut ASEAN's importance<sup>163</sup>, and had hesitated about joining it, and instead offered Post-Ministerial Conferences as a platform for discussing regional security issues. In

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<sup>162</sup> US Secretary of State James Baker in a classified letter to Gareth Evans that was later leaked had strongly advised against Helsinki-type processes for Asia

<sup>163</sup> Curiously, each of the ASEAN-6 had been founder members of APEC. APEC would be discussed and analyzed separately

the end, it was this Post-Ministerial Conference that graduated to becoming the ARF by virtue of the 26<sup>th</sup> ASEAN Ministerial Meeting and Post-Ministerial Conference (held at Singapore in July 1993) decision to establish this organisation the inaugural meeting of which was held in Bangkok on 25<sup>th</sup> July 1994. In July 1994, Australian Prime Minister Paul Keating had proposed a merger between ASEAN Free Trade Area (AFTA) and the Closer Economic Relations (CER) trade agreement, the free trade agreement between Australia and New Zealand. This was positively received only by Philippines with the others being less enthusiastic. Yet in 1996, AFTA and CER signed an agreement on standards harmonization, the first tangible step towards economic integration of the two communities (Haas 1997: 333). In early 1996, Singapore Prime Minister Goh Chok Tong had echoed Philippines president Ramos' suggestion that Australia (along with New Zealand) might eventually join ASEAN. And although both countries were keen on the idea, Malaysia had discouraged it (Ibid: 335).

Regardless, along with Australia's ARF membership in the interim, the relation between Australia and ASEAN has steadily advanced from that of dialogue partnership to that of the Summit level with the advent of the East Asian Summit (EAS) which Australia duly joined in 2005. As a matter of fact, at the Summit level, informally though, Australia had met with ASEAN way back in August 1977 in Kuala Lumpur resulting in the issue of a Joint Press Statement which had particularly noted the progress made by then with regard to the protein projects aimed at improving protein food in the ASEAN countries, the food handling projects, and initiatives related to improvement of quality of development assistance involving raising of funds for joint development projects, contribution to regional industrial projects, raising of bilateral aid and untying of aid to procurement conditions, Scientific and Technical cooperation, sponsorship of an ASEAN/Australia Investment seminar, and Sponsorship of Joint Research Project among others. By the third meeting of ASEAN and Australian officials in Solo, Indonesia in May 1977, the ASEAN Australia Forum had been established. Then in celebration of their 30-year bilateral relationship, at the Commemorative Summit held in Vientiane in Nov. 2004, Australia had pledged its support for the establishment of the ASEAN Community comprising the ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community as well as the Vientiane Action Program (VAP) aimed at further integrating ASEAN and narrowing the development gaps within ASEAN countries (Chairman's Statement of the ASEAN-Australia

& New Zealand Commemorative Summit 2004).<sup>164</sup> At the same Summit, the two had also launched negotiations on Free Trade Area, Initiative for ASEAN Integration (IAI) for bridging development gaps, promotion of cooperation in human resource and education sectors as well as in prevention and combating of communicable diseases such as HIV/AIDS, SARS and Avian Flu. Australia had also agreed to support the early accession of Laos and Vietnam to WTO (Ibid). In August 2007, Australia and ASEAN signed the Joint Declaration on the ASEAN-Australia Comprehensive Partnership entailing Political and Security Cooperation, Economic Cooperation and Socio-Cultural Cooperation. According to the Plan of Action of this Joint Declaration, among the chief objectives under the Political and Security cooperation had included— promotion of deeper understanding of political systems; strengthening of democracy, rule of law and human rights; promotion of security through the newly launched ASEAN Defence Ministers' Meeting (ADMM); supporting of implementation of ASEAN Convention on Counter Terrorism; providing technical assistance and capacity building activities through ASEAN regional institutions such as Jakarta Centre for Law Enforcement Cooperation (JCLEC), the Southeast Asia Regional Centre for Counter Terrorism (SEARCCT) in Kuala Lumpur and the International Law Enforcement Academy (ILEA) in Bangkok; and strengthening of cooperation in human trafficking and illegal drugs in pursuit of a Drug Free ASEAN 2015 (Plan of Action to Implement the Joint Declaration on ASEAN-Australia Comprehensive Partnership).<sup>165</sup> Under Economic Cooperation, enhancement of Australia-ASEAN Development Cooperation Programme (AADCP) entailing assistance to ASEAN countries with their trade and liberalisation efforts consistent with their WTO, APEC, and bilateral and regional FTA commitments; encouragement of greater communication towards an ASEAN Australia and New Zealand Free Trade Area (AANZFTA); continuation of technical support especially to the CLMV countries towards realization of an ASEAN Economic Community (AEC); and promotion of energy diversification through information exchange and research were some of the key objectives (Ibid). And the Socio-Cultural Cooperation part had included— strengthening of cooperation towards achievement of Millennium Development Goals (MDGs); assisting ASEAN in implementation of ASEAN Agreement on Disaster Management and Emergency Response, and operationalization of ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (AHA Centre); besides cooperating on a wide number of other socio-

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<sup>164</sup>[https://dfat.gov.au/international-relations/regional-architecture/asean/Documents/ASEAN-Australia-New\\_Zealand\\_Com\\_Sum\\_2004\\_Chair\\_Statement.pdf](https://dfat.gov.au/international-relations/regional-architecture/asean/Documents/ASEAN-Australia-New_Zealand_Com_Sum_2004_Chair_Statement.pdf)

<sup>165</sup> Available at [http://asean.org/?static\\_post=plan-of-action-to-implement-the-joint-declaration-on-asean-australia-comprehensive-partnership](http://asean.org/?static_post=plan-of-action-to-implement-the-joint-declaration-on-asean-australia-comprehensive-partnership)

humanitarian issues concerning public health, communicable diseases, education, science and technology, water resource management, and environment and sustainable development (Ibid).

### **CHINA and ASEAN & Allied Institutions**

Even when China had begun to forge formal diplomatic relations with the ASEAN countries on an individual basis intermittently from the mid-1970s through the two decades until 1991, albeit subject to the relative reciprocity and ‘comfort factor’ exhibited by the other side, it did in limited ways verbally engage the organisation as a collectivity from time to time, much before 1992 when it officially became a consultative partner. In the immediate period post-Vietnam war, ASEAN countries’ interests in neutralising Southeast Asia and “nationalizing” Malacca Straits had been supported only by China, of all the big powers (Funnell 1975: 301). China also had been the sole country among the Big Powers to have given unqualified backing to the Zone of Peace Freedom and Neutrality of ASEAN (Hoon 1979: 65). Yet, it wouldn’t in fact be off the mark to say that it were the ASEAN countries themselves who cultivated formal diplomatic representation with China in their own chosen and opportune periods instead of the other way round. This has to be contextualised in the explicit Chinese renunciation of their ‘export communism’ policy by severing linkages with the regional communist parties combined with the reassurance to ASEAN countries on account of any perceptible threat from the substantive ethnic Chinese population spread across the region, and above all, in the consistently growing regional and global economic profile of the country accompanied by a progressively liberalising climate for trade and investment. From Chinese perspective, that an organisation such as ASEAN which at its formation in 1967 had been a military alliance aimed at China itself— compounded by the constituent members’ bilateral defence treaties with the West and the presence of western military bases in the region (with the initial impetus for the organisation being political and military security and not economic prosperity) — it had been a naturally inhospitable situation by all means (Katzenstein 1996: 144). However, a dramatic reassessment was prompted originally by the post-Vietnam US withdrawal concurrent with the spectre of a more intensified Soviet politico-military activism in Asia through their proposal for an Asian collective security system, barely three months after the Sino-Soviet Ussuri clashes in 1969. In fact, the threat from USSR had come to constitute a bigger one than the US as Deng Xio Ping had described USSR as an “offensive” and “intolerable” superpower and the US as “defensive” and “tolerable” (Hoon 1979: 63, 65, 67). This politico-security imperative over the years had to be aligned with the emerging

expediency of trade and economics as ASEAN countries began to show exemplary signs of economic success, though largely individually and within the framework of extra-ASEAN arrangements since it wasn't until 1992 when ASEAN countries had formalised a Free Trade Agreement among themselves. In view of ASEAN the organisation's impressive economic development and increasing regional and international influence, an expert of the Chinese Academy of Social Sciences in 1997 had described the regional grouping as "one of the poles in the multipolar power transfiguration in the Asia-Pacific region"(Cheng 1999: 177). During his visit to Thailand in November 1988, Premier Li Peng had summarized four principles of the China-ASEAN relationship. They were: "to strictly follow the Five Principles of Peaceful Co-existence in state-to-state relations; to uphold the principle of opposing hegemonism under all circumstances; to uphold, in economic relations, the principles of equality and mutual benefit as well as joint development; and in international affairs, to follow the principles of independence and self-reliance, mutual respect, close co-operation and mutual support" (Ibid: 179). Furthermore, the intense condemnation and consequent sanctions mainly by the Western countries over the 1989 Tiananmen incident had been in sharp contrast to the softer reactions from ASEAN countries holding fast to their core principle of non-interference which was extolled by China as a model way of interaction among sovereign nations. Also notable had been Beijing's move to involve itself in ASEAN activities since the early 1990s as part of country's "good neighbourliness" policy (*mulingzhengce*) with a view to strengthen its relations with neighbouring countries in the aftermath of Tiananmen (Cheng–Chwee 2005: 103). Therefore it was no surprise that as a follow-up to the ASEAN countries' milder reaction to Tiananmen, on August 1990, China normalized relations with Indonesia, and, as expected, just two months later it established diplomatic relations with Singapore, which was then followed by establishment of relations with Brunei in September 1991. Then, the normalization of Sino-Vietnamese relations was achieved in 1991, and also after 1992, it began a constructive role in the settlement of the Cambodian question (Cheng 1999: 179).<sup>166</sup> It is also noteworthy that for many long years, ASEAN wasn't quite ASEAN in composition as it is known today. ASEAN-10 has evolved and grown from the original ASEAN-5 to including Brunei in 1984 to the incorporation of formerly communist Indo-Chinese countries and the isolationist Myanmar in the mid and late 1990s. ASEAN's admission of Myanmar against the objections of the West had been keenly noted by China. Therefore in a certain way, the successful expansion of ASEAN-5 to

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<sup>166</sup> Of the ASEAN-6, China had established diplomatic ties with Malaysia in 1974 and with Philippines in 1975

ASEAN-10 itself has a lot to do with normalisation of ASEAN-5's relations with China. In consequence, just as ASEAN was 'growing' from within the region, its relations with China also grew simultaneously.

As ASEAN the politico-economic regional institution matured and sought to broaden its mandate and influence to include security issues on its agenda, the result was the 1994 ASEAN Regional Forum (ARF). Initially China had taken ARF to be a US-inspired security architecture with the insidious objective of containing China itself with the ulterior and unsavoury prospects of the forum being used for raising of Taiwan issue, South China Sea claims, emphasis on military transparency; and as such had deep misgivings about the impending organisation (Bisley 2012: 29). But when it was clarified that ARF's operational processes and design were to remain committed to the ASEAN's non-negotiable and core principles of non-interference and upholding of national sovereignty, it had relented. As a matter of fact, China had become a founder member (observer) of ARF in 1994 even before it became a full dialogue partner of ASEAN in 1996.

Coming back to the wider ASEAN, China-ASEAN Joint Committee on Trade and Cooperation (ACJCC) was formed in July 1994 in order to advance trade and investment cooperation. At the same time, China-ASEAN Joint Committee on Science and Technology (ACJCST) was formed. In 1997, ASEAN-China Joint Cooperation Committee was constituted with the objective of fostering the coordination and advancement of bilateral cooperation in several spheres with particular focus on human resources development, personnel and cultural exchanges. In the same year, China had also taken part at the first informal ASEAN Plus Three (APT) Summit as well as the first informal ASEAN-China Summit (Cheng-Chwee 2005: 108). In an act of further consolidating their engagement, in 2002, China and ASEAN had initialled the ASEAN-China Free Trade Area (ACFTA). This relation was placed on an even stronger footing when they signed the Joint Declaration on Strategic Partnership on Peace and Prosperity in 2003. With a view to continue to strengthen the ASEAN-China Strategic Partnership for Peace and Prosperity, a new Plan of Action for the period of 2011-2015 was adopted at the 13th ASEAN-China Summit in October 2010 in Ha Noi. Over the years, China has been increasingly acknowledged by ASEAN as an active participant in regional institution-building process when the former signed on to a raft of the regional grouping's principle-driven instruments, namely, Bali Declaration, Treaty of Amity and Cooperation (TAC), Zone of Peace, Freedom and Neutrality (ZOPFAN) besides the Declaration on the Conduct (DOC) of Parties in the South China Sea. To its credit, China was



the first dialogue partner of ASEAN to accede to the TAC in October 2003 in Bali. China's accession to the TAC has raised the stature of the TAC as the code of conduct for inter-state relations in the region. China was also the first Nuclear Weapon State (NWS) which had displayed its intention to accede to the Protocol to the SEANWFZ.<sup>167</sup>

Against the above appraisal of Australia and China's relations with ASEAN and others individually, how have ASEAN and allied institutions fared when it comes to facilitating bilateral relations between Australia and China? Or, how has the regional multilateralism of ASEAN and allied organisations impinged on the mutual relations between Australia and China?

There are mainly two ways, both inter-linked, to address the above questions. Given the close and active participation by both Australia and China in the ASEAN processes and indeed its several institutions, one tangible way of assessing the impact of ASEAN's collective leadership on Australia-China ties is by examining some of the leading issues surrounding ASEAN and allied institutions on which both have adopted or could adopt a non-opposite common stance. And the other related way is to identify and list out some of the organisational platforms and avenues vis-à-vis ASEAN where both shared common spaces and sought to advance common themes and objectives (Broadly, both have been part of ARF, East Asia Summit, ASEAN Defence Ministers Plus (ADMM Plus)). Combining the two ways and drawing on the assumption that political-economic relationships are typically more institutionalised than military-security ones as Charles Lipson has observed (Keohane and Martin 1995: 43), there are two major issues that stand out and that reflect on bilateral equation between Australia and China vis-à-vis ASEAN and its allied institutions: Trade and Investment and Non-traditional Security.

### **Trade & Investment vis-à-vis ASEAN/Allied Institutions and Australia-China Relations**

Trade and investment is one subject that sufficiently binds Australia and China around ASEAN. In his address to the Seventh Forum ASEAN in Jakarta in Dec 2005 organised by the French government and the French industry, Ong Keng Yong, then ASEAN Secretary General had said, "Seeing itself as a launch pad and hub for shared prosperity in the region, ASEAN has embarked on free trade agreements with China, India, Japan, Korea and

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<sup>167</sup>ASEAN-China Center, Available at [http://www.asean-china-center.org/english/2010-07/09/c\\_13392099.htm](http://www.asean-china-center.org/english/2010-07/09/c_13392099.htm)

Australia and New Zealand. *These trading partners, whilst generally seen as competitors, recognise that there are synergies of mutual interest that could be realised with ASEAN...*" (Yong 2005) In addition to the obvious political imperative of adhering to the idea of regionalism for both Australia and China to cultivate ASEAN, the market forces released by a more liberalising ASEAN economy further impel Australia and China to gravitate towards the regional entity as well as to each other. Between themselves, Australia and China have registered phenomenal progress insofar as bilateral trade and investment is concerned. Australia's resource driven trading activity has been a major boon for China's developing economy and over the years has contributed extraordinarily to the latter, an economy in perpetual need of natural resources and materials. To cite a case, of the total raw material exports that Australia made to the world, China's share was a modest 3% in 1989, a figure which by 2005 had risen to an impressive 40% underscoring the robust commercial complementarities between the two economies. And when ASEAN joins this matrix, the relational dynamics among the three throw up new opportunities as well as challenges, not least building a more complex trilateral politico-economic landscape. ASEAN is a strong 600 million plus market that has grown almost double since 1989. Over the years, its middle class has expanded hugely from around 31 million in 1988 to about 95 million in 2010 and is estimated to grow to 145 million by 2015 (Hughes and Woldekidan 1994: 146; Inman 2012). The contribution of trade to its economy has seen a steady upsurge, particularly ASEAN 6 — from 95% (trade as share of GDP) in 1990 to about 140% in 2000, which has risen nearly to 163% by 2005 and stayed around the same level by 2010.<sup>168</sup> Quite notably, in the late 1990s, even when the Australian government had rejected overtures from countries like Canada, Chile and the US for a Preferential Trade Agreement (PTA), it had been more interested in pursuing an agreement between the Australia-New Zealand Closer Economic Trade Relations Agreements (CER) and the ASEAN Free Trade Area (AFTA), and was rebuffed by some of the more protectionist members of ASEAN (Capling 2008: 234). Significantly, it was ASEAN which had suggested the upgrading of Comprehensive Economic Partnership (CEP signed in 2002) between the two arrangements in 2004 (DFAT 2009). Nonetheless, both Australia and China have maintained active engagement with ASEAN in respect of trade and investment. Australia's total trade with ASEAN-6 has expanded from US\$ 6.3 billion in 1989 to over US\$ 52.5 billion in 2010 against China's trade with ASEAN-6 which has grown extraordinarily

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<sup>168</sup> Calculations have been made based on figures from World Bank database

from US\$ 6.6 billion to over US\$ 208 billion.<sup>169</sup> Moreover, both Australia and China have signed FTAs with ASEAN, namely, ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and ASEAN-China Free Trade Agreement (ACFTA). AANZFTA announced finally in 2009 is the largest FTA Australia has concluded and is set to eliminate tariffs on 96% of Australia's exports to ASEAN from 67% at present by 2020, a considerable commercial opportunity (DFAT 2009). Likewise, China's FTA with ASEAN, which is the largest FTA among developing countries covering a population of about 2 billion, confers on itself not only the benefit of commercial access to enlarged markets for goods (particularly for textile and apparel through lowered tariffs), services and investment capital, but more importantly, raises its own political stock among ASEAN countries, given the lingering apprehensions of China's rise and intent. And to add, an FTA with ASEAN means so much for China that it is the first free trade area agreement it signed which would provide zero tariffs on 90 percent of products traded between the two entities. Incidentally, ASEAN's both FTAs, with Australia as well as China entered into force on a common date: 1<sup>st</sup> January 2010. Nonetheless, with broadly dual growth patterns characterizing ASEAN with ASEAN 6 being relatively lesser growth oriented and CLMV fraught with higher growth potential flowing from their extremely low base, there should be sufficient import demand for both Australian and Chinese goods and services, not to mention ASEAN countries' (particularly ASEAN 6) prospects in the reverse direction. Therefore, as regional growth continues and consumption levels upgrade, the prospect of an even more liberal trading and investment climate in ASEAN becomes the common rallying point for both Australia and China. This is more so given ASEAN's often questionable records on political freedom and democracy. To cite an instance, among many other factors, it was also the foreign investor's perception of increased political risk and economic instability in the region that caused a decline in foreign investment in the ASEAN countries from mid to late 1990s (Cheng 2003: 226). According to Freedom House, an independent watchdog committed to the cause of world freedom, of the ten ASEAN countries, five have been consistently designated "not free", two as "partly free" and three varying between "partly free" and "free" over the years. While both Philippines and Thailand have declined to "partly free" since 2006 despite being "free" over the years, the redeeming fact about over-all ASEAN has been that Indonesia, the largest ASEAN member by population, which for many years had been "partly free" has been adjudged as "free" since 2006 (Freedom House). This without doubt has to be a welcome development for both

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<sup>169</sup> Calculations made on basis of figures from World Bank and ASEAN Secretariat

Australia and China. In terms of investment, Indonesia, which had recorded negative FDI inflows from 2000 to 2003, had shown improvement with a positive FDI inflow of \$ 7453 million in 2005, and has remained consistent with an annual average FDI of over US\$ 5600 million until 2010. Austrade estimates that more than 250 Australian companies have a presence in Indonesia. For ASEAN as a whole, between 1995 and 2003, Australia had made a cumulative investment of a measly US \$226.9 million which for the years 2005-10 had become US\$ 5.49 billion, a staggering 24-fold increase. China too on its part had made a cumulative investment of over US\$ 12.27 billion between 2005 and 2010, a full 19-fold rise from a modest US\$ 631.3 million during the period 1995-2003.<sup>170</sup> For a comparative perspective, FDI by USA which traditionally had been the biggest investor for ASEAN had slipped to 30.7 billion for the period of 2005-10 from a cumulative figure of US\$ 35.7 billion for 1995-2003. In effect, even if the US stays as the number one investor in real terms and that too by huge margins, the proportional leap in investment by Australia and China in recent years has been nothing short of spectacular for the aggregated ASEAN market. In view of such impressive figures, that ASEAN as an investment destination holds increasingly more importance for both Australia and China is a certainty. And even as both countries might compete<sup>171</sup> with each other for investment and profits, what is surely likely to bind them in a common cause on the ASEAN politico-business landscape is a desire for non-discriminatory and equitable treatment, more relaxed equity restrictions, enhanced legislative and regulatory transparency and consistency, adequate investment and property protection safeguards in law without the fear of unfair expropriation, only minimum (reasonable) restrictions on profit repatriation and transfers, and over-all a suitable investment climate for complete investor confidence. Further, the diversity of resource endowments, production structures and levels of economic development, and not least the specific requirements of individual local economies— all this means that each economy would have their own specific investment need and therefore leaves enough business space for both Australian and Chinese companies to operate. Among the ASEAN 6, while the more advanced economy of Singapore seeks high value added manufacturing and service activities related FDI, their largest economy Indonesia places premium on mining and quarrying. Then whereas Malaysia encourages FDI in manufacturing and financial and insurance activities, Philippines gives priority to real estate, finance and insurance as well as information and communications. Thailand too has

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<sup>170</sup> Calculations made on basis of UNCTAD figures

<sup>171</sup> Since the signing of the ASEAN-China free trade agreement, Australian vegetable exports to ASEAN countries had plummeted. Securing a PTA with ASEAN was seen by the Australian horticultural industry as crucial to restoring Australia's competitiveness in that market (Capling 2008: 236).

been keen on FDI in financial and insurance sectors along with automotive industry and computer, electronics and electrical equipment. Speaking of the CLMV economies, Vietnam, the most developed of them, values foreign investment in manufacturing and industry above all else besides real estate with Cambodia preferring FDI in garment industry and agriculture, Laos in mining, electricity and agriculture, and Myanmar in power, oil and gas sectors. In such a varied FDI terrain with such wide-ranging sectoral needs, both Australia and China have only to play to their respective strengths to tap the ASEAN investment market to the maximum. As a matter of fact, each of the two has had traditionally a stronger investment base in their respective markets. Australia has had a consistently stronger presence in Singapore, Indonesia, Malaysia, Thailand and even Brunei. China on the other hand, regardless of the level of investment has maintained a dominant investment position in Vietnam; and even in terms of actual level of investment is fast catching up with Australia in Malaysia. China is also edging ahead in not only economies such as Myanmar, Cambodia and Laos but also Indonesia in recent years. The larger implication of all this is that regardless of the two countries' investment positions vis-à-vis individual ASEAN economies', limited or otherwise, ASEAN as a whole promises to be a wholesome investment destination for both Australia and China. That average annual FDI between 2005 and 2010 has crossed over US\$ 900 million for Australia against China's US\$ 2 billion and upwards in the ASEAN market is a strong motive for both Australia and China to repose their trust in the 'ASEAN process' which thereby becomes an indirect agency of constructive (as well as competitive) cooperation between the two countries themselves. And it is this ASEAN process through its growing 'regional institutionalism' that inevitably also fosters a culture of political stability and order, a near essential pre-requisite for commerce and trade, a common concern for both Australia and China.

### **Non-Traditional Security vis-à-vis ASEAN/Allied Institutions and Australia-China Relations**

In recent years, non-traditional security has come to attract increased attention by governments, policy makers, scholars and analysts. Even as traditional security discourse concentrating on state-centric (mostly) hardcore military component can never be wished away completely continuing to occupy military theorists, strategists as well as practitioners, non-traditional security has become an established discipline in its own right opening up new vistas for nation-states to cooperate (or even confront) with one another. For ASEAN to offer

itself as the potential intermediary between Australia and China where the subject of non-traditional security drives the communication forward, it is important that it must first recognise its own non-traditional security concerns, appreciate and understand the similar concerns of Australia as well as China, and then project mechanisms within the tenets of ‘ASEAN way’ that would serve the cause of a stronger Australia-China relationship. To be sure, each of the three, namely, ASEAN, Australia and China would have their own conception of non-traditional security issues with each prioritising their own sets of non-traditional security concerns. Or even more complicating perhaps would be varied policy preferences within the ranks of ten-member ASEAN itself in terms of non-traditional security. Yet, there would certainly be a few non-traditional security matters that might very well overlap among the three for them to come to an understanding on extra-urgency, super-priority basis. This is helped by the fact that the non-traditional security threats often have an innate trans-border dimension, and as such by this very nature have the ability to inspire joint and cooperative endeavours. However, the aim is not to focus on the subject of non-traditional security itself. Instead, the purpose is to identify and discuss issues that exist on ASEAN’s own roster as well as those on Australia’s and China’s that enable the ASEAN process to serve as a mediating factor between Australia and China. Over the many years since its inception, even though ASEAN has emerged as the foremost exemplar for regional cooperation (at least in the Asian context), it has unarguably found itself lacking on some of the long-festering intra-ASEAN territorial disputes, an inextricable aspect of traditional security matters. ASEAN has also not really had any discernible impact on some of the other persisting state-centric regional security concerns, namely, North Korean nuclear issue, Taiwan, Tibet, Sino-Japanese rivalry and South Korea-Japan mistrust— all of which also directly or indirectly involve China. Even so, on various counts of non-traditional security, ASEAN and related institutions have exhibited signs of activity and enterprise. For illustration, since its very inception in 1967, ASEAN has embraced non-traditional security as an embedded part of its over-all doctrinal and ideological make-up. The Declaration of ASEAN Concord (1976) had used the term “resilience” to mean security in a more holistic and comprehensive sense than military security. Resilience represented the ability to manage the many military and non military problems that ASEAN’s fragile post-colonial states faced during nation-building. Resilience was first articulated in Indonesia to explain why external and internal security and stability missions were equally important in army doctrine. The Indonesian army’s “dual function” (*dwifungsi*) doctrine originating in the late 1950s had referenced external defense and “social development,” with the latter denoting things like

domestic order, counterinsurgency, public works, and disaster assistance— most of which represent non-traditional security (Arase 2010: 812-3). However, as opposed to Indonesia (and most other ASEAN members) representing ASEAN, Australian modern and majoritarian political history had either been largely devoid of the socio-political and economic disorder and churning that had followed the departure of the colonial powers in the Southeast Asian region, or had borne them in a distant past. In another sense, the enterprise of internal nation-building had had a comparable head-start in Australia in relation to the countries in Southeast Asia. As a consequence, the idea of internal security or more specifically non-traditional security as an intellectual and discursive subject within the Australian policy circles as well as the public at large was near-absent unlike some of the Southeast Asian countries. Yet, the long-running debate within the Australian defence circles chiefly centred around the continental vs. expeditionary dialectic and demonstrated by the periodic release of series of defence policy reviews and White Papers on security through the 1970s and 80s had foreshadowed aspects of non-traditional security (howsoever rudimentarily and amorphously). This was further consolidated particularly as a practical security imperative through the defence documents released in the 1990s and in the new century even as the fundamental continental-expeditionary divide remained relevant as before. The expeditionary line of the argument which was even though directed towards action away from Australian continent had manifest elements of non-traditional security. For instance, the 1976 defence White Paper in anticipation of an impending international legal framework on oceans had in no uncertain terms underlined the need for maritime security in a separate subsection under the heading *Laws of the Seas*—“...Our defence interests are affected. There will be an increase in requirements for the surveillance, patrolling and the policing of our national waters and maritime resources zone, and for demonstration for our sovereignty in conjunction with civil agencies...”The same paper had also cited that 80% of Australian oil imports transited the Indian Ocean. In another portion of the same paper that laid out *Current Requirements for Defence Capability*, it was said, “...the force-in-being should be capable of performing current and foreseeable tasks and dealing with selected short term contingencies—for example, maintenance and expansion of the training base; sea control in areas of Australia’s maritime jurisdiction; quick detection of and response to any maritime or costal harassment; aid to the civil power in counter-terrorist operations, as requested and appropriately authorized; exercising with allies and regional defence associates; maritime surveillance and display in areas of Australian interest; support for defence cooperation programmes; and contributing to UN peacekeeping;...”(Government of Australia 1976)

Similarly, the 1987 defence White Paper which explicitly set out to achieve self-reliance had contained elements of non-traditional security by way of inclusion of subjects such as contribution to peacekeeping, sustained low-level conflict scenarios involving remote settlements, offshore territories and resource assets, and shipping in proximate areas in terms of threats to Australian trade. The 1994 defence White Paper titled *Defending Australia* with the mandate to prepare Australian defence forces for the coming new century too had included non-traditional security issues of disaster relief, civil defence, search and rescue, counter-terrorism, customs, immigration and fishing zone surveillance—all under the rubric Defence and the Australian Community (Government of Australia 1994). Furthermore, the Defence White Paper of 2000, the most comprehensive document until then while acknowledging that the world had witnessed an upsurge of intra-state conflicts in the post-Cold War era and that *the military operations other than conventional war are becoming more common*, explicitly avers “...Australia also faces many non-military threats to our national life, such as cyber attack, organised crime, terrorism, illegal immigration, the drug trade, illegal fishing, piracy and quarantine infringement. The ADF will continue to have a major part to play in coastal surveillance and enforcement activities...”(Government of Australia 2000 a) During the community consultation exercise in the run-up to this paper, many participants had argued that the most immediate threats were non-military, namely illegal immigration, drug smuggling, attacks on information systems and terrorism. As a matter of fact, the Defence Update of 2003 was prompted mainly by the emergence of terrorism as an overriding security concern especially in the wake of the September 2001 attacks along with proliferation of weapons of mass destruction— both characteristically non-traditional security concerns. In the Foreword to a report published by the Australian Ministry of Defence entitled *Winning in Peace, Winning in War* in 2004 — “During the last few years, Australia’s strategic environment has fundamentally changed. New threats have emerged from non-state sources. Terrorism and threats associated with the proliferation of weapons of mass destruction have placed greater demands on the Australian Defence Forces...” (Government of Australia 2003)

So far as China’s experience with non-traditional security is concerned, just as Australia has put forth its view through its official documents and presentations, China too has recognized and spelled out several non-traditional security concerns against the specific backdrop of its own socio-political and economic evolution. That their first Defence White Paper published in 1995 was completely devoted to Arms Control and Disarmament not only speaks of the



priorities that the Chinese then held but also served as a reassuring proclamation to the world about being a sincere and responsible power. More specifically, it was in fulfillment of a promise made by their Foreign Minister Qian Qichen at an ARF meet in 1995 (Foot 1998: 429). Their next White Paper in 1998 declares, "...local conflicts caused by ethnic, religious, territorial, natural resources and other factors arise now and then, and questions left over by history among countries remain unsolved; terrorism, arms proliferation, smuggling and trafficking in narcotics, environmental pollution, waves of refugees, and other transnational issues also pose new threats to international security..." (Government of PRC 1998) The reference to these issues has more or less been repeated through successive defence White Papers that came every two years with unflinching regularity, albeit with occasional variations in terms of emphases. For example, while terrorism had a limited mention in the 2000 White Paper, it found more space in the 2002 paper presumably in light of the Sep 11 events of which it seems to have taken due note — "In recent years, terrorist activities have notably increased, and constitute a real threat to world peace and development. The "September 11" terrorist attack, which caused a great loss of lives and property, has aroused the universal concern of the international community." (Government of PRC 2002) Interestingly, the term non-traditional security was only used in the fourth defence White Paper in 2002 and was missing in the earlier 1995, 1998 and 2000 versions. More importantly, it is the 2006 White Paper that underlined the shift in weight from traditional to non-traditional emphatically driving home the point—"Hegemonism and power politics remain key factors undermining international security. Non-traditional security threats present **greater danger** (emphasis added)..." Aside from the White Papers, there have also been efforts by individuals and experts to identify and enumerate non-traditional security issues for China (Government of PRC 2006). David Arase cites one major Chinese survey of non-traditional security containing chapters on the following: economic security, financial stability, energy security, environmental security, freshwater security, ethnic minority problems, religious extremism, terrorism, cultural integrity, small arms proliferation, information security, spread of disease, population stability, drug smuggling, illegal immigration, piracy, and money laundering. (Arase 2010: 809). Another list contained in a report to the Foreign Ministry included money trafficking, piracy, extreme poverty, refugees and immigrants, AIDS, and environmental security (Arase 2010: 809-10). According to a CNA (an organization called the Center for Naval Analysis before it was privatized) China analyst, leaders want "a military that is capable of handling overseas non-traditional security issues, such as terrorism, transnational crime, and natural disasters. In other words, Beijing desires a military that is capable of

conducting military operations other than war (MOOTW) . . . both domestic and abroad.”(Arase 2010: 827) Even China’s PLA General Xiong Guang Kai had said: “While such traditional security threats as hegemonism and local wars are still casting a shadow on world peace and stability, events such as the 11 September [2001] terror incident, the atypical pneumonia epidemic, and the Indian Ocean tsunami have indicated that nontraditional security threats are becoming ever more prominent and are becoming interwoven with traditional security threats in threatening human survival and development. How to deal with such threats and challenges originating from non-traditional security areas has become a major issue of common concern to countries.” (Craig 2007: 101) One unique aspect of China’s vision of non-traditional security is the innovative New Security Concept (NSC), a comprehensive approach highlighting development as an integral facet of security matrix, in order to synchronise with and promote non-traditional security (NTS) cooperation. The political fallout of the Asian financial crisis in the region resonant in the fall of the Thai government as well as of the long-reigning Suharto regime in Indonesia followed by the implacably separatist sentiments in East Timor had vindicated Chinese linkage of economic development with security through the NSC. The development of Non-Traditional Security (NTS) theme was a further refinement of the NSC. At the Eighth ARF Foreign Ministers' Conference, held in 2001, China declared its readiness to support the ARF's efforts to gradually develop dialogue and cooperation in non-traditional security fields (Government of China 2002). Then on the occasion of the ARF foreign ministers' meeting in 2002, Chinese Foreign Minister Tang Jiaxuan had stated that China wished to develop Non-Traditional Security (NTS) cooperation and base its policies on the NSC. That same year, China had issued a position paper explaining NTS at the China-ASEAN summit which was preceded by a paper on the subject issued by the Chinese Ministry of Foreign Affairs. For China, NSC was also a means to exercise leadership in NTS, which it saw as a key part of its security strategy and also to implicitly criticize the U.S. for maintaining military bases and alliance agreements in the region (Arase 2010: 817-8). In 2002 in Phnom Penh, ASEAN and China had issued a Joint Declaration on Non-Traditional Security Issues. China had also hosted the ARF Seminar on Enhancing Cooperation in the field of Non-traditional Security issues in Sanya in March 2005.

Therefore, the preceding part establishes in clear terms that non-traditional security has been a concern for each of the three entities, namely, ASEAN, Australia and China. Without doubt, there is a distinct difference in context, preferences, and approach that each adopts vis-

à-vis non-traditional security. To cite an example, China would place a higher value on economic security derived from its New Security Concept as part of the overarching non-traditional security than Australia. Or some of the ASEAN countries might rank terrorism as a lesser concern as compared to Australia. On the other hand, natural disaster would certainly be a high priority for all the three actors. So, apart from differences in their preferences for one or the other, there may also be differences in their motives with respect to the same non-traditional security concern. For example, China's early emphasis on arms control and disarmament seemed more as a confidence building exercise propelled by the catch-phrase of *peace and development* which was aimed at securing regional and global goodwill for it to pursue the programme of economic development and military modernization uninterrupted. On the ground, China has also attempted to buttress its sincerity by acceding to several of the protocols and conventions related to the multiple regimes governing an assortment of weapons, small weapons, and not least WMDs. Australia on the other hand had started off predominantly focusing on the nuclear weapons part of the wider arms control discourse to the exclusion of others such as biological and chemical weapons(as reflected in the 1976 White Paper) which was mainly driven by the strategic necessity to preempt any actual nuclear conflict scenario between the two rival superpowers. Therefore, strictly speaking, nuclear weapons arms control was understood more as a state-centric subject of concern than non-state and thereby a matter of traditional security than non-traditional security. It was only when global terrorism gained renewed potency and assumed terrifying proportions in the post-Cold war period with non-state actors' infinitely more enhanced access to state-of-the-art defence technologies apart from nuclear technology (even before Sep 2001) that arms control and non-proliferation had truly transformed into a non-traditional security concern for Australia. This coupled with the Bali incident in 2002 and many similar incidents in the following years had inevitably elevated arms control, non-proliferation and terrorism to the top of Australia's security agenda. In such a complex backdrop, in what ways do ASEAN and allied institutions employ these non-traditional security concerns to promote closer relations between Australia and China?

First, neither Australia nor China has remained insulated from the intense regionalization processes that ASEAN and its associate organizations have come to generate with a view to address common regional concerns, non-traditional security issues being one of them. For an institution such as ASEAN which virtually holds respect for sovereignty and non-intrusive mode of cooperation as a non-negotiable normative touchstone, dealing with non-traditional

security issues becomes somewhat easier as compared to traditional security. Chinese General Xiong describes non-traditional security as possessing four natural attributes: transcendence beyond national boundaries; eruption being sudden and unexpected; being interwoven with traditional security; and most importantly, spanning beyond military security (Craig 2007: 102). Notwithstanding the relevance of the first three attributes, it is the fourth attribute of going beyond military security sphere that perhaps makes ASEAN and allied institutions (read ARF) as eminently suitable for resolution of non-traditional security issues; this is more so, in the context of bilateral relations between Australia and China. In response to a flurry of events such as the 2001 and 2002 Bali terrorist bombings, the 2003 SARS outbreak and the 2004 Indian Ocean Tsunami, as ARF reoriented itself more towards humanitarian and transnational issues, Australia and China found further impetus for bilateral cooperation, discovering common cause on a host of non-traditional security issues. Moreover, China's New Security Concept (NSC) underpinning non-traditional security is itself based on economic development as one of its key pillars and that is where its relations with Australia becomes extremely significant given the close economic and commercial ties between the two countries. Quite appropriately, NSC had first made an appearance when Foreign Minister Qian Qichen introduced it at the ARF in 1996. Over the years, ASEAN itself has matured from an incipient standalone regional organization to a formidable "regionalism-building institution" spawning multiple sub-structures and collective entities. In fact, it has even acquired a semblance of legal personality by virtue of the 2007 Charter and is on course to become a *community*. The ASEAN Political and Security Community as envisaged in the 2007 Charter has encompassed comprehensive security going beyond traditional security to include aspects of non-traditional such as trans-national crimes and trans-boundary challenges with a view to extend the reference point from State to individuals and civil society. The increasing inclusion of local as well as distant non-State actors, agencies and organisations along with established NGOs into ASEAN-sponsored non-traditional security works softens up any misgivings between two countries and facilitates greater cooperation. Therefore, by their sheer regional standing and vigorous endeavours on non-traditional security subjects, ASEAN and its offshoot organizations exert tremendous pressure on both Australia and China to forge a healthy working relationship with each other, at least for the sake of the wider public (read regional) good that is purported to be served in relation to non-traditional security. That both Australia and China have acquiesced to signing the Treaty of Amity and Cooperation (TAC) under ASEAN's exhortation and influence is a case in point.

Second, both Australia and China (along with others) have co-chaired (not necessarily always together with each other), made briefings and representations to multiple processes and bodies under the aegis of ASEAN Regional Forum on a multiplicity of non-traditional issues including *inter alia* maritime security, nuclear safety, humanitarian assistance and disaster relief, counter-terrorism and trans-national crime, non-proliferation and disarmament, disease detection and surveillance, cyber security, etc. With the passage of years and the onset (read urgency) of newer challenges, the functioning levels at which issues have been dealt with may have undergone incremental upgrading besides addition of newer issues themselves. For instance, for the first four-five years of the organisation, subjects such as peacekeeping, search and rescue and disaster relief had been ARF's core priorities; on the eve of the new century, newer subjects including counter-terrorism, transnational crime and maritime security had sought to engage its attention. And yet again in more recent years, cyber security, energy security and climate security seem to have surfaced as key focus areas for the organisation. This is not to say that an earlier issue has lost relevance (for example, disaster relief has retained its prominence and has only grown in sophistication and reach in the manner that it is tackled). This is only to underline the institutional flexibility and maturity that the organisation has shown over the years. And this flexibility has been accepted by both Australia and China as evident from their acknowledgement of and participation on virtually every all non-traditional subject with the same degree of urgency at a point in time as and when broached by ASEAN and related institutions. Furthermore as mentioned above, with civil society and non-government bodies increasingly being given due recognition by way of their co-option into the deliberative processes of the ARF, most notable being the formalized inclusion of Expert and Eminent Persons Group (EEG), the organisation is likely to further broaden its deliberative and decision-making sphere. Therefore a more galvanized track two process would only lend more force and legitimacy to the cause of bilateral relations between Australia and China.

Thirdly, specifically on the subject of arms control, non-proliferation and terrorism, ASEAN's living by example in the form of Southeast Asia Nuclear Weapon Free Zone (SEANWFZ) signed in 1995 and entered into force two years later is a model for both Australia and China to emulate. Given that both Australia and China have been victims of terrorist violence, ASEAN has signed Joint Declarations in the fight against international terrorism with both these countries. ASEAN (particularly ARF) has also occasioned plenty of instances through inter-sessional meetings, conventions, and seminars where both Australia

and China have participated together and shared valuable perspectives on these issues. For example, at the ARF Inter-Sessional Support Meeting on Counter Terrorism and Transnational Crimes held in Malaysia in March 2003, Australia had made a presentation on “Counter-terrorism-Border Security: Document Security”. Notably, at the same venue, China (as well as Australia) had made a presentation on topics such as “Update on Terrorist Organisations, Recent Terrorist Activities and Counter-terrorism Measures” and “Counter-terrorism-Border Security: Movement of People”. (ARF2003 a) Then, Australia along with others had shared its experiences and best experiences on counter-terrorism emergency plan at the fourth ASEAN Inter-Sessional Meeting on Counter-terrorism and Transnational Crime co-chaired by Brunei and held in Beijing in April 2006 where China was one of the lead speakers on Recent Regional Developments of Terrorism (ARF 2006c). In a related theme, at the ARF Export Licensing Experts Meeting held in Singapore in Nov 2005, Australia made a presentation on the administration of control lists from the Wassenaar Arrangement, the Nuclear Suppliers Group and the Australia Group where China too (along with Philippines) made a briefing on challenges and experiences in licensing export controls (ARF 2005 b). Then, the ARF Seminar on Non-proliferation of Weapons of Mass Destruction was co-chaired by China along with Singapore and US in Singapore in March 2006 where China made a presentation on the Nuclear Non-Proliferation Treaty and the International Atomic Energy Agency with Australia making a presentation on the Four Multilateral Export Control Regimes in a session, which was chaired by China (ARF 2006b). Furthermore, at the 10<sup>th</sup> ARF Heads of Defence Universities/Colleges/Institutions Meeting held in Sep 2006 in Kuala Lumpur, while Australia sponsored a paper on “Enhancing Cooperation To Counter Terrorism Threats”, China sponsored a paper on “Regional Co-operation Against Terrorism” (ARF 2006). Furthermore, at the ARF Workshop on Implementation of UN Security Council Resolution 1540 (promulgated to make it obligatory for states to prevent any proliferation of nuclear, biological and chemical weapons) held in San Francisco in Feb 2007, Australia along with others offered a formal report on its experience in implementing the Resolution domestically, as well as in assisting in the provision of capacity-building to others. At the same venue, China provided a report on a Seminar on UNSCR 1540 held in Beijing in July 2006, co-hosted by the United Nations and the People’s Republic of China (ARF 2007 c). Similarly, this activism was also extended to small arms and light weapons when at the ARF Seminar on Stockpile Security of Man-Portable Air Defence Systems and Other Small Arms and Light Weapons held at Bangkok in Oct 2006 co-chaired by Australia (along with Thailand), in the session on *Perspectives & impact of illicit proliferation of SALW and*

*unauthorized use of MANPADS*, Australia made a briefing on the security threat posed by unauthorised acquisition and use of MANPADS by non-state actors, including terrorists, and on international efforts to combat this threat, including the 2004 APEC Guidelines on Controls and Security of MANPADS. At the same venue in another session on *Stockpile Management Safety and Security*, both Australia and China had made respective presentations along with others (ARF 2007 b). Therefore the preceding instances among many others bear standing testimony to Australia and China jointly seeking to address non-traditional concerns of arms control, non-proliferation and terrorism through ASEAN and ARF.

Fourthly, in terms of maritime security, safe passage of energy and resource containers across oceans has been a perennial concern for both China and Australia with the former mainly being a recipient country and the latter as a supplier country (Maritime security concerns of both Australia and China have been spelt out at length in Chapter II of this thesis). Where and how ASEAN and related institutions make their intervention is the focus in this part of the chapter. To begin with, the subject of maritime security has increasingly acquired a higher degree of institutionalization attracting sharper focus as ARF sought to advance from CBM stage to the level of Preventive Diplomacy, even as the subject has always been an underlying concern for most countries. However earlier on, there were initiatives directly related with maritime security such as Search and Rescue (SAR) that had led to Australia and China sharing a common platform as early as 1997— at the ARF ISM on Search and rescue held in Honolulu in March 1996, where Australia had made the introductory remarks on Benefits of Regional Search and Rescue Coordination and Cooperation while China had delivered a presentation on the subject (ARF 1996). This was followed by the Second ISM on Search and Rescue held in Singapore in March 1997 where both Australia and China (along with Singapore) had indicated their willingness on a proposal to designate their respective existing national SAR training institutions as ARF SAR Training Centres (ARF SARTCs), which could form a basis for the continued sharing of information and pooling of regional resources, and contribute to tangible confidence building (ARF 1997). Then, at the ARF Workshop on Maritime Security held in Kuala Lumpur in Sep 2004, Australia along with others had presented a paper on Managing Maritime Security Challenges and Threats. Australia had also facilitated a session on Optimising Maritime Technologies for Maritime Security in combination with Singapore. At the same venue, China presented a paper on Overview on Maritime Security Environment: Challenges and Threat (ARF 2004 a). Furthermore, at the

ARF CBM on Regional Cooperation in Maritime Security in Singapore in March 2005, both China and Australia among others had shared national experiences on *operational solutions to maritime security threats*. This meeting had also noted Strengthening of legal system and structure in China to safeguard the security of its waters, ports and ships (ARF 2005). This entailed a clear element of positive reciprocity as China would need to develop legal framework in consonance with international norms not only to affirm its position as a responsible international citizen, but more importantly for its own security, which is a powerful means of socializing a country for its own interests and not for anyone else. Then at the ARF Workshop on Capacity Building of Maritime Security in Tokyo in December 2005 attended by both Australia and China, it was decided to set up a database for all maritime security cooperation measures until then and identify relevant maritime agencies and focal points. Mr John Kilner, Acting Executive Director from the Australian Office of Transport Security made a presentation under the agenda item *National Capacity Building for Maritime Security* wherein he circulated a paper outlining the coastwatch model of a civil contracted aerial surveillance regime that might be an appropriate, cost-effective model for other countries or groups of countries. At the same Workshop, Mr Ning Bo of China Maritime Safety Administration made a presentation under the agenda *Future Cooperation and Prospective Support for Maritime Security* (ARF 2005 a). Following this, it was the ARF Round table discussion on Maritime Security Issues held at Bali in Aug 2007 when it was decided that ARF should move ahead of discussions to implementation of concrete and practical measures. In concrete terms, as part of upgrading the ARF from CBMs to preventive diplomacy, the first ever Maritime Security Shore Exercise was held in Singapore in January 2007 which provided an opportunity for ARF participants to exchange operational experiences through table top and scenario based maritime security exercises (ARF 2007). This was a landmark event for ARF as a regional organization since this was the first time that the ARF members came together to participate in an operational activity, an event which was attended by both Australia and China, along with the United States among others. Under its theme Professional Exchanges, Australia delivered a presentation on Border Protection Command highlighting the effectiveness of the integration and rationalisation of civil/military activities under a single command structure. China for its part too delivered a presentation on “Coordinating Mechanisms of Offshore Search and Rescue Operations”, covering China’s maritime search and rescue system, the role of the PLA in Search and Rescue (SAR) and Joint SAR exercises between PLA Navy and foreign navies (ARF 2007 a). In addition, the enlargement of ASEAN Maritime Forum into Expanded ASEAN Maritime Forum (EAMF)



that raised the level of participation by way of invitation to the East Asian Summit members meant that the participation level of both Australia and China along with others were in sync with the growing institutionalization of the issue under the leadership of ASEAN. Then the ADMM's expansion into ADMM Plus also brought both Australia and China<sup>172</sup> (by virtue of being dialogue partners) onto a platform where their defence ministers could directly interact. Incidentally, at the inaugural ADMM Plus, convened in Ha Noi, Viet Nam, in October 2010, maritime security was one of the five areas of practical cooperation to pursue under the new mechanism. Moreover, Australia co-chaired (with Malaysia) the 'ADMM Plus Maritime Security Experts Group' which examined areas of further multilateral maritime cooperation. Most recently, under Australian chairmanship, in Sep-Oct 2013, Maritime Security Field Training Exercise was conducted in and around Jervis Bay and the East Australian Exercise Area where forces from China also participated (Australian Department of Defence 2013).

Between themselves, Australia and China have no maritime dispute whatsoever. And while Australia takes no position on any of the competing claims in the South China Sea where China (along with few ASEAN members) is a principal claimant, it has repeatedly stressed on the need for a peaceful resolution of all claims and counter-claims. ASEAN on its part has managed to extract the ASEAN China Declaration on Conduct of Parties in the South China Sea from China in 2002 according to which pending settlement of disputes, the parties concerned may undertake cooperative activities in safety of navigation and communication at sea, search and rescue cooperation, and combating transnational crime including trafficking in arms, illicit drugs, piracy and armed robbery at sea. Therefore ASEAN is not only serving as unifying glue for Australia and China, the organization is setting in processes that would alleviate misunderstandings and anxieties between itself and China with particular reference to maritime disputes. It signed the ASEAN-China Maritime Transport Agreement (ACMTA) in 2007 aimed at further advancing cooperation and facilitation of international maritime passenger and cargo transportation in support of the increasing trade and economic relations brought about by the ASEAN-China Free Trade Area agreement. This complements Australia's growing trading relations with both China and ASEAN with the former being the largest trading partner and three of the latter (Singapore at 5th, Thailand at 8th and Malaysia at 9th) figuring among its top-ten trading partners. Therefore, ASEAN's maritime security

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<sup>172</sup> Though it must also be pointed out that at the ADMM Plus level, China is only prepared to discuss the non-traditional issues.

concerns can in a number of positive ways impact the bilateral equation between Australia and China.

Fifthly, natural disasters are another non-traditional security concern the concerted and collaborative handling of which by ASEAN and its offshoots draws in both Australia and China thereby influencing the relations between the two. Even though Australia and China are distant and distinct in terms of geography, weather patterns and topography, natural disasters have been in frequent occurrence in both the countries. While Australia has been subjected more to droughts and bushfires, China has been a victim of droughts, floods, typhoons and earthquakes ravaging the country almost with alarming regularity in recent years.<sup>173</sup> And similar to China, Southeast Asian region too has been at the receiving end of a series of natural disasters in the form of volcanic eruptions, typhoons, floods, earthquakes and most disturbingly, tsunamis, leaving such trail of destruction of life and property across the region with such ominous periodicity in the past few years that ASEAN has had to revisit its entire approach to disaster management. Even though ASEAN countries had signed the ASEAN Declaration on Mutual Assistance on Natural Disasters back in 1976 in order to provide for a basic cooperative framework among themselves in the event of a major natural disaster, perhaps it wasn't enough. Most certainly, it was the unprecedented nature of the Indian Ocean tsunami in 2004 when ASEAN was forced to call a Special Leaders' Meeting where it passed a Declaration<sup>174</sup> appealing for help on an unprecedented global scale to the world community. The Meeting had also announced the installation of a regional early warning system for tsunamis thereby putting the focus squarely on prevention along with mitigation. Then the ASEAN Regional Programme on Disaster Management (ARPD) put in place to provide a framework for cooperation for the period of 2004-2010— apart from outlining ASEAN's regional strategy on disaster management and identifying priority areas and activities for disaster reduction— was also to be used as a platform for cooperation and collaboration with ASEAN Dialogue Partners and relevant international organizations. And given that both Australia and China have been prominent Dialogue Partners, it becomes natural for them to further liaise, collaborate and network with each other under the auspices of ASEAN and associated institutions like the ARF. In addition to ARF, newly evolving

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<sup>173</sup> According to a Reuter's news report, natural disasters cost China \$ 69 billion in 2013, almost double of the previous year. Australia on an average spends about \$ 6.3 billion a year which is set to rise to \$ 23 billion in 2050 as per a White Paper released by the Australian Business Roundtable for Disaster Resilience and Safer Communities in 2013

<sup>174</sup> Declaration on Action to Strengthen Emergency Relief, Rehabilitation, Reconstruction and Prevention on the Aftermath of Earthquake and Tsunami Disaster of 26 December 2004

allied institutions such as ASEAN Defence Ministers' Meeting Plus (ADMM Plus) and the East Asian Summit (EAS) have also illustrated themselves as effective conduits of multilateral cooperation of which both Australia and China have been integral participants. At the inaugural ADMM-Plus that included Dialogue Partners in 2010, the Defence Ministers had agreed on five areas of practical cooperation to pursue under this new mechanism and disaster management was one of them.<sup>175</sup> The ASEAN Defence Ministers have also adopted concept papers to advance the cooperation in this area, namely the Concept Paper on the Use of ASEAN Military Assets and Capacities in Humanitarian Assistance and Disaster Relief (HADR) and the Concept Paper on Defence Establishments and Civil Society Organisations (CSOs) Cooperation on Non-Traditional Security (Joint Declaration of the ASEAN Defence Ministers).<sup>176</sup> Quite clearly, the elevation of the subject of disaster management onto the forum of defence ministers attests not only to the acknowledgement of the rising enormity of the issue as such but also to the enormous confidence and trust-building that has characterized the relationship between ASEAN and its several partners in the last decade. This trust-building can also be transplanted to the bilateral dynamics of Australia-China relations wherein the former has often veered between its past association with the US and the current growing inter-dependence and bonhomie with China. That the defence ministers of both the countries share common platform (as well as with the US) even for an "innocuous" non-traditional defence subject such as disaster management is a healthy sign for Australia-China relations. Furthermore, the extension of mandate on disaster management also to the East Asia Summit with the identification of disaster risk reduction as one of the priority areas of cooperation at the 2<sup>nd</sup> EAS in January 2007 provides another opportunity for Australia and China to cultivate each other, given that both have been founding members of the EAS (EAS 2007). For Australia, a country more than 75% of whose exports are destined to the East Asian countries, the inclusion of disaster management on EAS' agenda driven by ASEAN was a positive development. At the 2011 East Asia Summit, Australia along with Indonesia had made a proposal for simplifying and improving existing disaster response and management arrangements which was endorsed by the Leaders. The East Asia Summit was also to establish a new committee to oversee activities on information sharing, overcoming bottlenecks, and capacity building where Emergency Management Australia would represent Australia on the committee. Moreover, Australia would also support a secretariat to the committee. For China, a country directly situated in the East Asian geography, the

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<sup>175</sup> The other four being maritime security, counter-terrorism, peacekeeping operations and military medicine

<sup>176</sup> Available at <http://asean.org/storage/2017/10/11th-ADMM-Joint-Declaration-as-of-23-Oct-20172.pdf>

entrustment of disaster management to East Asia Summit under the aegis of ASEAN was critical from the point of view of its own natural disaster concerns (especially in view of recently increased frequency and magnitude) as well as the commercial imperatives stemming from the region. With Japan ranking as 3<sup>rd</sup> and South Korea as 4<sup>th</sup> largest trading partner for China, the importance of East Asian region can never be underestimated, not to miss the politico-strategic ties with North Korea. Incidentally, Australia too has maintained diplomatic relations with North Korea. Therefore, China has been a long-standing supporter and a key participant in multiple ASEAN-led initiatives on natural disasters. In January 2005, it had hosted a Workshop on Earthquake-Generated Tsunami Early Warning Action Plan where it had articulated the need to strengthen early warning capacities of ASEAN in the immediate aftermath of the devastating December 2004 tsunami and earthquake that had impacted the region (ASEAN 2005). This workshop had been attended by Australia also among others. Then, the 6<sup>th</sup> ARF ISM on Disaster Relief held in Qingdao in Sep 2006 was chaired by China where it had briefed the Meeting on the general practices of Chinese People's Liberation Army in participating in the domestic emergency rescue and disaster relief operations, and the principles, laws and regulations that the military operation needed to observe. The Chinese delegate had also suggested that the ARF disaster relief cooperation modality should be open, specific, and evolutionary and that such a modality could be shaped by the following three steps: (i) the formulation of a framework that includes norms, rules, and procedures for disaster relief cooperation; (ii) the establishment of the regional database of disaster relief resources and capacities with *Survey Forms of Domestic and Overseas Disaster Relief Resources and Capacities*; (iii) the clear identification of cooperation directions by following the framework and database in the fields suggested by the *ARF Statement on Disaster Management and Emergency Response*. The same Meeting had also seen a proposal for ARF disaster relief desk-top exercise by Australia and Indonesia (Co-Chair's Summary Report of the 6<sup>th</sup> ARF ISM on Disaster Relief).<sup>177</sup> The Australian delegate had introduced civil and military capabilities and tabled an inventory of assets for disaster relief. The Australian delegation had also suggested that the ARF could fill a niche role in promoting civil-military cooperation in emergency response (ARF 2006 d). In another instance, at the Inter-Sessional Support Group Meeting on CBMs and Preventive Diplomacy held in Batam in Nov 2006, Australia had announced that it would engage the participation of technical experts in the conduct of ARF Desk Top Exercise on the Disaster Relief (co-

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<sup>177</sup>Available at

[http://aseanregionalforum.asean.org/files/Archive/14th/ARF\\_Senior\\_Officials\\_Meeting/annex7.pdf](http://aseanregionalforum.asean.org/files/Archive/14th/ARF_Senior_Officials_Meeting/annex7.pdf)

sponsored with Indonesia), and would also develop an inventory of assets. At the same Meeting, China gave a briefing that it would take a lead in establishment of ARF General Guidelines on Disaster Relief Cooperation (ARF2006 a). Furthermore, the 13<sup>th</sup> ARF Chairman's Statement clearly notes that both Australia and China in tandem with Indonesia, Malaysia and the United States had volunteered to serve as shepherds to coordinate interim efforts to further the work of the ARF in the sphere of disaster relief. Therefore, disaster management as a non-traditional security subject has thrown up numerous opportunities under ASEAN and its offshoots when Australia and China found a common participatory platform to work closely together. Given that the physical presence of foreign personnel (civilian or military) during a disaster rescue and rehabilitation exercise sometimes raises national security issues for the beneficiary country, it is fairly encouraging to note that ASEAN and its associate bodies bring together Australia and China and even the United States for the cause of humanity and regional cooperation. It might be instructive to remember that by many accounts Myanmar junta had turned down or delayed aid extended by several countries in the aftermath of cyclone Nargis in 2008. Therefore in the context of the increasingly heightened frequency, intensity and the spread of natural disasters which invariably entail external agencies' offering assistance, often in cases prompts a linkage of humanitarian assistance with national security—and ASEAN's mediatory role in this connection has been exemplary for Australia China relationship. In addition, the promotion of a more expanded network, sharing of best practices and experiences, formulation of standard operating procedures and devising of collective strategies for larger humanitarian assistance and disaster management are some of the common outcomes that have come to benefit Australia and china alike as well as ASEAN and allied institutions.

Therefore Trade and Investment and Non-traditional Security are two of the most practicable adhesives in the context of ASEAN and allied institutions that serve to strengthen relations between Australia and China. As ASEAN's process of institutionalization grows steadily and its functional sphere expands in the wider cause of regional multilateralism, neither Australia nor China can afford to stay out of its ambit. The twin imperatives of trade and investment and non-traditional security only make the interaction easier.

## **Australia-China Relations vis-à-vis APEC**

Asia Pacific Economic Cooperation or more popularly known as APEC is another regional grouping that can be said to have in many distinct ways impacted the bilateral relations between Australia and China. Formed against the backdrop of the unyielding rise of Asian economies— first Japan and then the Newly Industrializing Economies, or the NIEs of East Asia and the resultant shift in balance of economic power— it was the first comprehensive regional grouping mandated and tasked to deal with subjects of economy and trade, as the name suitably suggests. With uncertainty hobbling the ongoing GATT Uruguay round talks, exclusionary arrangements such as NAFTA and EU making their appearance elsewhere, and most of all, the complexities arising out of the growing economic inter-dependence of the region – the advent of APEC was a near inevitability. Regardless, while it was all very well to say that the arrangement was for addressing economic issues, what was not certain however was the shape and direction that this new arrangement was to take in terms of organizational structure, membership<sup>178</sup>, principles and processes, priorities and programmes, given the multitude of identities and aspirations that the Asia-Pacific region embraced. Maintaining an amorphous and undifferentiated definition, Asia-Pacific as a politico-geographic nomenclature embraces an incredibly wide spectrum of identities— of nationalities, histories, civilizations, cultures, religions, race, ethnicities, political systems, economic structures and geographies. Yet, to bring together peoples and governments as diverse as from the United States, Canada and Australia to Japan to Indonesia and Malaysia and later to include China, Chile and Peru among others was no less a stupendous achievement. Indeed, the formation of APEC followed by Mahathir's EAEG has even been called as an exercise in identity-building conditioned as much by historical, cultural and political self-conceptions and interactions as the hard neo-liberal logic of 'market-led integration and open regionalism' (Acharya 1997: 338). Nonetheless, at first glance, embodying the concept of 'open regionalism' against the closed regionalism of NAFTA and EU, APEC had all the imprints of the unique Asian way of regionalism as echoed in Canada's international trade minister comment after Osaka meeting in 1995: 'the important point to understand is that this isn't the GATT; it's not the World Trade Organization and it isn't even the free trade of the Americas . . . This is to a degree, an Asian approach ...' (Ibid: 334). However what is important is not the question whether APEC was about Asian approach or a

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<sup>178</sup> It is interesting to note that when invitations were sent out for the first APEC meeting in Canberra, United States was not even on the list and was included only later at the instance of Secretary of State James Baker

non-Asian approach. What is important from the perspective of this thesis is that Australia had been a key player in this supposedly Asian approach to regionalism. And China joining subsequently further adds fuel to the weight and legitimacy of this Asian approach.

In what ways has APEC influenced the bilateral relations between Australia and China? Without pre-judging APEC the organization, any discussion of APEC promoting bilateral relations between Australia and China must be qualified and hence circumscribed by the relatively modest progress (by many accounts) made by APEC itself over the twenty years or more that it has been in existence. This analysis must also be placed against the dramatic almost transformational events that have followed towards the end of the twentieth century and the beginning of the twenty-first century, namely, Asian financial crisis and the September 11 twin tower attacks among others. In the new century, there has also been an increased tendency to link economics and trade with security in a causal relationship (both ways) and APEC has not remained entirely immune to this trend. This has led to Annual Declarations devoting a small portion to human security, counter-terrorism and proliferation of WMDs, along with deepening focus on energy security, trade and transport security, and public health challenges such as SARS, avian flu, pandemic influenza and AIDS. However, despite the emergence of pressing security issues or indeed the nature of security itself having undergone transformation – theoretical as well as practical – the organization has retained its economy and trade-promoting character for all intents and purposes. For instance, counter-terrorism and the focus on its financing aspect reinforces technical orientation than making any sharp break in a new direction (MacDuff 2002: 452). Yet, it is fitting to mention here that back in 1995 when US Secretary of State William Perry had contemplated the possible expansion of APEC to an organization that could take up security problems, it was Australian Gareth Evans who had said that a security component would be 'an extreme complication at this stage' and that 'Once you start mixing the agenda with political and security issues, you run into all sorts of difficulties in keeping the organizational coherence maintained.' (Ibid: 446) Therefore, firming up of the transparent multilateral trading system, achieving free and open trade and investment by a process of facilitation and liberalization, and intensifying development cooperation or economic and technical cooperation are the three pillars that have remained at the core of APEC's priorities (McKay 2002: 45; MacDuff 2002: 440). Founded against the backdrop of uncertain Uruguay rounds of GATT and envisaged as a possible alternative back then, it has over the years cultivated an image of a facilitator or even of a testing ground for negotiations at the WTO, the post-GATT regulatory institution. Since

APEC itself accounts for 40 percent of world population; 44 percent of global trade and 53 percent of world real GDP in purchasing power parity (PPP) terms, it commands enough weight and influence to bear upon WTO negotiations. It was as far back in late 1993 when APEC Trade Ministers had made a joint offer to help move the GATT Uruguay Round towards a successful conclusion (Acharya 1997: 335). And after the Uruguay Round, APEC initiatives such as trade facilitation and against non-tariff barriers (NTBs) continued its role as a "laboratory" for the WTO (Wesley 2001: 188). Australia and China alike are members of WTO just as they have been members of APEC. Therefore, APEC's bearing upon Australia-China relationship would necessarily include a WTO component, as shall be seen later. But before actually examining the impact on bilateral relations, a brief overview of the two countries' interactions with APEC individually is in order.

### **APEC and Australia**

Without doubt, Australia has been a key architect, organizer, ideologue and founding member of APEC. In his submission to Australian Senate Foreign Affairs, Defence and Trade References Committee on an inquiry on Australia's relations with APEC, economist and Professor Rodney Maddock had regarded APEC's ability to ease tensions between trading partners in the Asia Pacific area as of fundamental significance to Australia's interests. He had observed that APEC creates a group that meets all of Australia's basic needs in terms of trade and perceived interest. According to him, "The formation of APEC is thus good politics for Australia. It ties us more closely to our major trading partners and also develops a framework to keep the three big powers of the region talking about reducing the barriers between them. If they continue to move cooperatively to closer economic integration, the chance of economic or military confrontation between them, which would be catastrophic for Australia, is lessened. The push for free trade by the year 2020 has metaphoric rather than practical interest. It is more a symbol of what the group stands for than an explicit goal. The APEC strategy has the effect of deepening Australian relations with Japan and *China*, without necessarily creating political difficulties within Australia." (emphasis added)

Internally, Australia had been grappling with serious questions over the path that the domestic economy was to adopt and the broader macro-economic reform framework that was to steer the resource-rich economy in a period of severe uncertainty and daunting policy challenges. Around the beginning of the 1980s, the economy had experienced the worst recession on the back of a recurring high inflation and unemployment of the 70s, and was just



about recovering ground towards the end of the decade. However, this recovery was not about short-term measures; it was about the longer-term structural changes and relatively radical macro-economic reforms that were to change the way Australia conducted its economy. As veteran journalist and political commentator Paul Kelly says, “1980s saw the globalisation of the Australian economy; the 1990s saw this globalisation being contested in a new political struggle between globalists and anti-globalists” (Kelly 2000: 222). As a resource-endowed but until then a largely protectionist economy, the policy-making elite spiritedly debated the pros and cons of having freer trade, smaller government, deregulation of markets, lower tax rates, flexible labour market, low inflation, and in effect opting for a more market-orientated economy. In 1989, when Ross Garnaut submitted to the government his well-received report titled *Australia and the Northeast Asian Ascendancy* recommending a strong case for Australia to limit protection, slash tariffs, and remove business assistance for Australian industry for it to evolve as a more efficient and a competitive export-oriented economy ready to reap the potential benefits coming from Northeast Asia, it could not have been more timely. As Australia’s relative terms of trade were on a decline owing to the consistent fall in commodity and resource prices, there was a dire need for the economy to cut down on domestic inefficiencies particularly in industry, foster higher-grade manufacturing, improve export competitiveness in order to shore up exports and diversify export basket as well as markets. Therefore in a way the prescriptions by Garnaut almost had presaged or paralleled what APEC came to be standing for, namely, advance trade and investment through market liberalisation and trade facilitation. In that sense, the APEC initiative can also be taken as a reaffirmation of Australia’s political resolve with the pursuit of domestic openness and liberalization being somehow tied to the desire for an expanded export market share, albeit through a multilateral regional platform. Therefore it could well have been an economic strategy driven by commerce. All said, Australia’s vigorous leadership for APEC can safely be attributed to its domestic political economy. And this was only made easier by the bipartisan support that the organisation received, as the opposition had acknowledged that the strengthening of Australia’s ties with the open economies of the Pacific Basin was of great importance to Australia’s future and it had publicly endorsed Mr Hawke’s initiative (Senate of Australia 2000). In a related vein, Australia’s ardent support for APEC had also stemmed from the perception of an increasing economic isolation on account of emergence of regional economic organisations such as NAFTA and EU. In the early 1990s, the Australian Prime Minister Bob Hawke had even exhorted the Americans to pause and rethink their economic and trade strategies when the US was contemplating the advocacy

and expansion of the NAFTA underpinned by the exclusionary and discriminatory logic (Hawke 1992: 347). Not only that, for Australia, opening up to free trade vis-à-vis institutions such as APEC was also a means to display its Asian identity with a view to cement its solidarity with the 'original' Asian countries. Equally, it was a consummate way of keeping the big powers formally and diplomatically engaged in the region through a multilateral framework.

Insofar as Australia's leadership and role on APEC is concerned, it has been at the forefront of the organisation's initiatives— from formulating goals and strategies, to delineation of policy agendas and work plans, to canvassing for and facilitating the role of private sector, to pushing for practicable cooperative mechanisms— Australia has been a key driver of APEC all along. It was part of the Chairman Group that prepared the Consolidated Report on the work program for APEC along with US, Singapore, Thailand and Korea. At 1992 Bangkok meet, Australia had proposed that arrangements be considered for the regular circulation among APEC members of key economic statistics with the aim of fostering a culture of transparency and regular information exchange. Then Australia has been an integral participant in APEC's programme for Small and Medium Enterprises (SMEs), one of the priorities for the organisation given the export potential that they possess for the APEC economies. According to a report put out by Australia and Mexico together on Small Business and Trade in APEC at the 2002 APEC Ministerial Meet, on average in APEC, small and micro businesses constituted over 98% of all enterprises, accounted for 30% of direct exports, 10% of foreign direct investment by value and 60% of private employment (APEC 2002d). Earlier in September 1995, Australia had hosted the second Small and Medium Enterprises Ministerial Meeting in Adelaide, which approved the Action Program prepared by the ad hoc SME Policy Level Group. Then in 2003, Australia had conducted a string of self-financed seminars in 2003 on "Growing the APEC SME Exporter Community", which presented a chance for member economies to get opinions from APEC small businesses, small business associations and industry groups on how APEC could address the subject of clarifying and removing obstacles to trade for regional small businesses. At the 2003 APEC Small and Medium Enterprises Ministerial Meeting held in Chiang Mai, Australia had also proposed a research project to explore alternatives for the more productive outlining and tracking of barriers to SME exports which was well appreciated (APEC 2003). Then at the Oct 2004 APEC Small and Medium Enterprises Ministerial Meeting held in Santiago, Australia's SME Impediments Monitoring System, was welcomed as a step to ease barriers to

SMEs in international trade(APEC 2004 a). In March 2007 at Hobart, Australia was to host a workshop on capacity building for SMEs for sharing best practices in order to ensure a more conducive business environment in member economies (APEC 2006). Australian Trade Commission or Austrade also contributes by providing information, market research, opportunity assessment, business matching/partnering/networking and funding to SMEs looking for export opportunities or overseas investments.

Energy security is another subject that APEC holds as top priority and on which Australia has shown consistent leadership and initiative. Mindful of the region's potential population and economic growth in the coming future, and appropriate to Australia's energy activism, it was in Sydney where the first meeting of APEC Energy Ministers was held thrashing out proposals with a view to accomplish energy security in the region through measures such as promotion of investment in energy infrastructure and technologies, working out common energy standards, conducting energy research and exploration of renewable energy as a viable option, and maintaining balance between energy consumption and environmental sustainability (APEC 1996). Then at the July 2002 APEC Energy Ministerial Meeting, Australia was lauded for the considerable devotion of its time, assets and effort towards setting up of a Secretariat for the Energy Working Group and it was hoped that Australia could continue to provide this outstanding support (APEC 2002 a). In the same year, Australia was entrusted along with Mexico to present the report *Energy for Sustainable Development: The Contribution and Role of the APEC Energy Working Group* to the upcoming World Summit on Sustainable Development. In 2007, Australia hosted the APEC Energy Ministerial Meeting at Darwin where Darwin Declaration was made - *Achieving Energy Security and Sustainable Development Through Efficiency, Conservation and Diversity*.

APEC envisages an inextricable linkage between food security and improvements in agricultural technologies. The APEC Business Advisory Council (ABAC) has been active in the realm of food security since 1999 when APEC Leaders had sanctioned a plan for a unified APEC Food System to strive for a synergy between food production, processing and consumption in order to meet the food requirements of people as an endeavour towards accomplishing sustainable growth, equitable development and stability in the APEC region. Australia has contributed considerably in this sphere too given also that it itself is a high

food-exporting economy.<sup>179</sup> From advocating sustainable agriculture and highlighting relevant environment issues as a priority area to comprehensive promotion of food safety, Australia has made a multifarious contribution to APEC in this regard. Some of the chief initiatives include fostering of agricultural biotechnology; exploration of post-harvest technology; animal and plant quarantine cooperation and pest management; conducting workshops on containing trans-border movement of plant pests, phytosanitary risks, and animal health related risk assessment; evolution of diagnostic standards; development of integrated online information repository such as Bionet; and adoption of electronic transmission of sanitary and phytosanitary certificates among others. Australia had also served as the co-chair (with Japan) on Economic Committee Task Force on Food (TFF) which was formed in the early years to examine regional food issues and to mount concerted initiative to tackle regional food issues that could emerge in the future (Summary Report of First meeting of APEC Agricultural Technical Cooperation Working Group Experts Group 1997).<sup>180</sup> At the 7<sup>th</sup> Meeting of APEC ATC Working Group in June 2003 in Vancouver, Australia delivered a presentation on E-CERT, a web-based system for electronic health certification of agricultural exports, which was built in cooperation with New Zealand. It offers a medium for electronic access to SPS certificate data, affording an extraordinary level of food supply chain security. E-CERT brings critical gains to both government and industry, including a secure “paper trail” and pared transaction costs. Later, when Australia noted that E-cert was mainly being used for meat trade, it suggested its expansion to include other products, such as seafood and plant products (Summary Report of APEC Agriculture Training Cooperation Working Group 2003).<sup>181</sup> In addition, Australia also assisted in managing the implementation of FTAs involving trade in agricultural products (Summary Report of APEC Agriculture Training Cooperation Working Group 2005).<sup>182</sup>

In the wake of the Asian financial crisis, Australia had also extended guidance and cooperation to fellow APEC economies underlining the need for them to bring in domestic financial sector reforms in order to help them tide over the crisis as well as to avert any future recurrence. At the 1998 APEC Finance Ministerial Meeting held in Kananakis in Canada,

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<sup>179</sup> Even though today food exports (% of merchandise exports) for Australia have decreased in recent years in the range between 11 and 15%, earlier on, food had constituted over 20% of country's merchandise exports consistently

<sup>180</sup> Available at [http://mddb.apec.org/documents/1997/ATCWG/ATCWG/97\\_atcwg\\_summary.pdf](http://mddb.apec.org/documents/1997/ATCWG/ATCWG/97_atcwg_summary.pdf)

<sup>181</sup> Available at [mddb.apec.org/Documents/2003/ATCWG/ATCWG/03\\_atcwg\\_summary.doc](http://mddb.apec.org/Documents/2003/ATCWG/ATCWG/03_atcwg_summary.doc)

<sup>182</sup> Available at [mddb.apec.org/Documents/2005/ATCWG/ATCWG/05\\_atcwg1\\_summary.doc](http://mddb.apec.org/Documents/2005/ATCWG/ATCWG/05_atcwg1_summary.doc)

Australia had proposed to host a seminar to bring together senior business people from APEC economies to identify priorities for reform with respect to corporate governance in particular and the wider financial sector (APEC 1998). Then at the 1999 APEC Finance Ministerial Meeting held in Langkawi (Malaysia), it had provided for a directory on its corporate governance training installations that would also be available to participants from the APEC region. In the same year, as the Asian financial crisis had flagged poor enforcement and implementation of the prevailing laws on insolvency, Australia, in tandem with the OECD and the World Bank, hosted a symposium on “Insolvency Systems in Asia – an Efficiency Perspective”. The idea was that robust insolvency laws would leader to greater certainty from investors’ standpoint further fostering the process of investment liberalization and free trade (APEC 2000). At the 2000 APEC Finance Ministerial Meeting, Australia had also volunteered to spearhead a three-year project on managing changes vis-a-vis life insurance and pensions and for tightening financial systems through training (APEC 2000 a). Similarly, before the financial crisis in 1996, Australia had also hosted a Symposium on International Business Taxation in Sydney which audited upcoming tax issues in a globalized economy. It was conceded that the changes in the upcoming electronic payments systems allowing financial transactions on internet apart from fast-paced financial innovations entailed fiscal ramifications and therefore needed to be addressed (APEC 1997). More importantly, looking ahead into the future, at the 11th APEC Finance Ministers Technical Working Group Meeting in Beijing in December 2000, Australia had initiated APEC Future Economic Leaders Think Tank in order to foster networking and sharing of ideas among the economic policy makers and decision-makers of the next generation (APEC 2006 b).

APEC considers trade, business mobility and transport security as intrinsically having overlapping dimensions. Particularly in the post-9/11 context, the security of transport routes, goods and commodities in transit and business travel have all become more vulnerable to acts of violence from non-state actors hence gaining added political urgency. Though not strictly guided by security concerns, Australia (along with Korea and Philippines) had taken the lead in proceeding with a trial of an APEC Business Travel Card in 1997 in an endeavour towards better facilitating the movement of business persons in the APEC region. Then as a consequence of September 11 attacks, taking the Pathfinder route, Australia had been at the forefront of APEC’s counter-terrorism measures with the announcement of the implementation of an Advance Passenger Information System (API) to develop electronic movement record systems that would enhance border security without disrupting the

movement of legitimate travellers. At the 2003 APEC Ministerial Meeting, Australia had been lauded along with five others for operationalising or announcing their commitment to implement the advance passenger information systems. Building further on the API was the launching of the Regional Movement Alert List (RMAL) — an integrated system for sharing passport alerts, sharing data on lost, stolen or invalid passports — in 2005 on a pilot basis in collaboration with the United States later including New Zealand with the eventual aim of embracing the whole APEC region. At the 2005 APEC Ministerial Meeting, Australia and the United States had been thanked by the Ministers for the report on the pilot Regional Movement Alert List (RMAL), reckoned a crucial measure towards tackling terrorism in the region. Further in terms of transport security, Australia had hosted the Experts Group on Maritime Safety's (EGMS) International Symposium on Safer Shipping in the APEC Region in Sydney in 2001 (APEC 2002b). In 2007, it also hosted the Fifth Secure Trade in the APEC Region (STAR V) Conference with the theme being "Mitigating Risks: Containing Costs". It was noted that since bolstering safety and security for people and cargo between APEC economies brought higher costs, it was imperative for governments to coordinate with industry in public-private partnerships in order to further identify and harmonize supply chain security measures across APEC economies. In 2007 itself, Australia also hosted 5<sup>th</sup> APEC Transportation Ministerial Meeting at Adelaide where three broad themes were discussed: the role of transportation systems in trade liberalisation and facilitation; transport safety; and transport security (APEC 2007 a).

In addition to the above, Australia has actively contributed to multiple other APEC activities. For instance, Australia was one of the leading drafting groups for identifying key policy issues for the 2003 APEC Science Ministers' the core focus of which had been on capacity building and reinforcement of science, technology and innovation which could ensure continuously viable growth through the geography spanning APEC countries. In addition, Australia's National Science and Technology Centre had also proposed to initiate and execute a project that would involve distilling out and imparting of best practices drawn from an examination of various programmes of science centres (APEC 2004). In fact much earlier in the 1990s, Australia along with Japan and Korea had assisted in the development of APEC Science and Technology website through practical demonstrations (APEC 1996b). Then in June 2006, it led the simulated Pandemic Response Exercise to test regional responses and communication networks in the event of an outbreak, a first-time activity for APEC. However, the most important contribution of Australia can be said to have been its periodic

tracking and review of the organisation's performance through publication and submission of reports. In 2000, Australia prepared and submitted the report titled *Open Economies Delivering to People: APEC's Decade of Progress* to the APEC Economic Leaders Meeting which was a stock-take of the organization's decade-long performance and record in meeting with trade promotion-facilitation and economic-technical cooperation objectives thus far (APEC 2000 b). Then in 2002, Australia had submitted a report titled *APEC Economies: Realizing the Benefits of Trade Facilitation* with a view to demonstrate the favourable impact of trade facilitation on APEC economies (APEC 2002 d).

## **CHINA & APEC**

For China, the advent of APEC and its membership thereof was fraught with serious complexities involving both risks and rewards. Until then, maintaining a fiercely independent orientation in its domestic and foreign economic policy alike, it had viewed any regional or extra-regional attempts at multilateral economic and commercial collaboration solely through the prism of power politics and 'predatory' market capitalism. While the risks lay in getting enmeshed in an organisation where it might have had to reconcile with a downgrade in its economic decision-making, formerly a non-negotiable sovereignty issue, the rewards entailed larger markets or more importantly, avoiding potential loss of access to markets; higher foreign investment inflows and enhanced infusion of technology and related technical cooperation.

In addition, China was also faced with the prospect of sharing a regional platform with big powers such as US and Japan who would in most likelihood dictate their own version of rules and terms of engagement for the organisation, an unpalatable scenario for the Chinese. Yet, given that Japan and US had their own bilateral differences over multiple issues— starting incidentally with US-China detente in 1970s with their respective positions ironically having reversed post-Tiananmen over China's APEC membership with now US opposing it; and then over exchange rates and other related commercial discords in the 1980s notwithstanding the Plaza Accord— beckoned solid political opportunity for China. In fact, China had once even considered drawing Soviet Russia into a regional cooperative mechanism along with newly industrialising economies and ASEAN to counter the nichibei (Japan-US) economic dominance. Regardless, the Chinese dilemma had also emanated from the prevailing flying geese regional economic theoretical model outlining the regional export-led production structure that had anointed Japan as a developed economy at the lead with NIEs following in

the middle and ASEAN countries (except Singapore) at the bottom. And if China was to join this regional production cycle network, it had to settle for a place alongside the ASEAN countries or at best, between ASEAN and NIEs, a proposition patently inconsistent with the Chinese desire for a joint hegemony with Japan, and entirely incompatible with its 'Middle Kingdom' aspirations (Christoffersen 1996: 1070). A book published in 1988 by Ma Chaoxu and Duan Jianfan had asserted that China was an Asia-Pacific country, the first Chinese book to link explicitly the economic reforms in the coastal region with the Asia-Pacific. Elaborating on the flying geese pattern of economic inter-dependence with Japan's role in it, this book had even placed China at the bottom of the pattern in trade competition with ASEAN. Therefore China's claims to be a part of Asia-Pacific were linked to its economic strategy of tying the nascent export-driven coastal trade with wider division of labour in the Asia-Pacific (Ibid: 1072). And politically speaking, the task that lay with China was to reduce if not remove the gap that supposedly existed between its subordinate economic status to Japan and its political aspiration for regional power status and simultaneously to bring a subtle counter-balancing perspective to possible US hegemony. To be sure, it wasn't as if the Chinese had completely insulated themselves from any regional engagements whatsoever. As early as 1980, the Chinese government had invited an Australian team to brief senior officials in Beijing on the results of the first PECC meeting in Canberra. In 1986, China even joined the grouping and took on commitments to promote economic cooperation and interaction, collaborate on various matters of common interest in a range of fields, and jointly develop resources "so as to realize the economic potential of the Pacific Basin [and] make it a prosperous, progressive and peaceful region." (Wang 2000: 481). Incidentally in 1986 itself, China had also joined the Asian Development Bank. Therefore, as China had been contemplating a revision of its political assessment in favour of joining government-led regional organisations, Tiananmen had intervened untimely and China was not invited to the ministerial meeting in Canberra in November 1989. However, given the size of its economy and market, location and earlier track record of contributing 'productively and effectively in the PECC process', it couldn't be kept outside for long (Klintworth 1995: 489-90). In fact, the potential Chinese contribution to the wider economy was so compelling that in their determination to bring China onboard, under the 1991 Seoul Memorandum of Understanding (MoU), APEC members had acquiesced to China's insistence on Taiwan being included as a Chinese Taipei member economy and not as a sovereign country whose foreign minister or even vice foreign minister was not to attend APEC meetings, and which was kept out of rotation for hosting APEC as a member economy. For APEC as a whole, the admission of the



three Chinese economies at Seoul in 1991 had increased its economic significance substantially with APEC now accounting for half of the world's GDP and 40 per cent of world trade (Senate of Australia 2000). Expectedly also for the other regional players such as Singapore, by way of inclusion of China, APEC as the emerging regional architecture was to create a balanced triangular Sino-Japanese-American relationship for the cause of peace in the Pacific region even though the unstated goal of accessing potential huge market in China can't be disputed (Christoffersen 1996: 1075).

Even though China became a member of APEC two years after it was founded, it had already developed sufficient commercial interdependence with the Asia-Pacific region, a region as defined by John Wong. In Wong's definition, Asia-Pacific as a geographical entity comprised Japan, China, East Asia represented by the four newly industrialising countries, and Southeast Asia portrayed by ASEAN, all on the Western rim of the Pacific.<sup>183</sup> In 1984, for example, 56% of Chinese exports were dispatched to the Asia-Pacific markets which had been 20% in case of Japan, 30% in case of newly industrializing countries and 48% in case of ASEAN members. As for imports, China sourced 45% of its imports from the Asia-Pacific geography with similar figure for Japan, newly industrializing countries and ASEAN being 23%, 45% and 44% respectively (Wong 1988: 332).

However, allowing for the difference between Asia-Pacific the region and APEC the organisation, within a year of joining APEC, in 1992, 81% of China's exports had recorded for APEC and 72% of its imports had come from the regional grouping.<sup>184</sup> Between 1991 and 1994, 80% of China's foreign investment came from APEC economies, particularly the overseas Chinese community and it was this investment that had played a major role in expansion of China's trade (Klintworth 1995: 494-5). In an interview to People's Daily, according to Shi Guangsheng, Minister of Foreign Trade and Economic Cooperation and the co-chair of the 13<sup>th</sup> APEC Ministerial Meeting, in the year 2000, China's trade with APEC members had stood at 72.6% of its total trade while recording 73.8% of the total volume of foreign capital absorbed in the country. Moreover, nine out of China's top-ten trading partners were APEC members except EU (People's Daily 2001). Therefore for the first decade, at least trade and investment-wise, this had been by all means an impressive start between China and APEC.

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<sup>183</sup> Singapore though is an ASEAN member and situated in Southeast Asia, economically and socially it resembled more closely the newly industrializing economies of South Korea, Taiwan, Hong Kong in East Asia

<sup>184</sup> Calculated on basis of data taken from APEC website

Consistent with China's initial purpose, once China joined the organisation, APEC also afforded an opening to pursue larger politico-diplomatic objectives. In the aftermath of the world-wide backlash and the resultant diplomatic isolation (howsoever momentary) that China underwent on account of Tiananmen incident, a membership on an influential emerging regional grouping was a timely way to reclaim its credibility and standing. For instance, the meeting between Jiang Zemin and Bill Clinton at the 1993 APEC Seattle Summit effectively ended the U.S. policy of no high-level contacts that had been imposed since Tiananmen. Then it was Chinese Foreign Minister Qian Qichen's clarification that "China's clear-cut stand is that there should be no nuclear weapons on the Korean peninsula" at a press conference in Seoul in 1991 that had laid the groundwork for the resumption of China-South Korea diplomatic relations that fructified a year later (Moore and Yang 1999: 391). On the sidelines, China had also engaged with ASEAN co-claimants over the South China Sea islands. Furthermore, China had even used APEC to reach constituencies in the United States beyond the confines of Washington. In Seattle in 1993, for example, where the summit was attended by 2,000 journalists, Jiang Zemin had directly interfaced with the American people with a news conference and an address to the American business community broadcast on major United States television networks whereby he showcased the size of the Chinese market for automobiles, aircraft, and grain and of China's need for capital equipment in such areas as agriculture, transportation, energy, infrastructure, and technical renewal, essentially building a win-win case for both countries (Klintworth 1995: 510). As stated before, APEC had also served as a counter-balancing forum for China, especially with regards to the US. In other words, China had with a certain degree of success "multilateralized" the bilateral Sino-American dynamics within APEC. One specific example was when China sought to achieve multilaterally a policy objective—permanent MFN status from the United States—it had not been able to achieve bilaterally (Moore and Yang 1999: 394; Klintworth 1995: 508). More generally, Chinese officials had sought to use APEC as a means to limit the effectiveness of U.S. leverage in the Sino American bilateral relationship on issues ranging from human rights to market access, though the strategy had not always been successful (Moore and Yang 1999: 395).

If APEC was the testing ground for WTO, China had tapped this ground to the maximum to enlist support for its candidature at the WTO. In fact in 1993 APEC had helped push the Uruguay Round of trade negotiations over the line to a successful conclusion (Howard 2007: 168). Before its accession to WTO in 2001, China had periodically leveraged its APEC

membership and vigorously lobbied the organisation for a seat at the GATT/WTO. Advancing the argument that all APEC members should directly become a member of GATT/WTO, it had pressed forward its case both at the foreign ministerial level and at the leadership level. Before the Bogor Summit, US had indicated its opposition to China's GATT/WTO membership unless China took the membership as a developed country and not as a developing country. As a result during the Bogor meet, China had actively mobilised support from APEC members on its GATT/WTO membership. Foreign Minister Qian Qichen, in particular, discussed the GATT/WTO issue with many of his counterparts, most notably, Australian Foreign Minister Gareth Evans arguing to him that "all APEC members should become GATT members.", besides the U.S. Secretary of State Warren Christopher and Japanese Foreign Minister Yohei Kono. Essentially, China had advocated that the US should apply the same principles to WTO that had underpinned China's membership and profile in APEC, namely as a developing economy whereby an exception had been made allowing China as a developing economy a timeframe till 2020 for trade and investment liberalisation unlike the developed economies' deadline of 2010. As a matter of fact, China had made its acceptance of APEC's proposed timeframe even conditional on it being accorded membership in the GATT/WTO, albeit implicitly, yoking operationalising of the Uruguay round agreements and APEC's agenda of trade liberalisation to its GATT/WTO membership (Moore and Yang 1999: 394-5). Furthermore at the 1997 Vancouver summit, Chinese President Jiang Zemin had again discussed the question of China's WTO accession with President Clinton. In the aftermath of the Asian financial crisis when China witnessed an investment slump, it had further energised its WTO membership seeking drive with a view to refurbish its image as a modern trade and investment-friendly economy and thereby boost investor confidence. According to Long Yongtu, the Director General for International Affairs in the Ministry of Foreign Trade and Economic Co-operation, China regarded non-discriminatory, most-favoured-nation (MFN) treatment as the cornerstone of APEC which provided rules and order in the regional economy fostering a predictable trade regime for China to plan its own economic development (Klintworth 1995: 491).

It is a widely accepted wisdom that APEC had been unable to rise to the occasion for its crisis-hit members during the Asian financial crisis that had severely battered the East and Southeast Asian economies. Although China had not been directly impacted on account of its financial regulation and controls such as absence of capital account convertibility and firm currency controls, it did experience a slowdown in exports and diminished investment eventually. Until the crisis that broke out, China had been veering to a more positive outlook

towards APEC's role in economic regionalism. However, towards the end of the century, a series of events outside APEC too had influenced China's perceptions of APEC. For instance, NATO's Kosovo intervention, bombing of Chinese embassy in Belgrade and fortifying US-Japan security relationship began to convince China that American hegemony was on the upswing and that would be reflected in APEC too making China APEC-sceptic. The apparent failure on APEC's part with respect to the financial crisis had further compounded this scepticism even as few Chinese analysts made the case that instead of downgrading APEC's primacy on its scale of priorities, there was a need for reinvigorated multilateralism vis-à-vis the organisation.

Hence, despite the ebb and flow of the early APEC years, China has both contributed and benefitted from the organisation in several ways. Among the three chief aims of trade liberalisation, trade facilitation, and economic and technical cooperation that APEC sought to accomplish, China's primary focus has been on the third and second in that order even as it has displayed signs of accommodation on the first to the extent that the others reciprocated and in keeping with the core principles of consensus and concerted unilateralism. China took the position rooted in the premise that there was an inherent difference in levels of development among APEC members. Chinese foreign minister Qian Qichen had argued in 1994 that the most urgent task for APEC was "to try to narrow the gap between developing and developed economies," insisting that common prosperity should be one of APEC's top goals. Moreover, Chinese officials have long insisted that economic and technical cooperation should receive equal priority with trade and investment liberalization on APEC's agenda, often referring to these dual objectives as "the two wheels that move APEC forward." (Moore and Yang 1999: 388)

In light of such strenuous emphasis on technical and economic cooperation, science and technology naturally turned out to be one of the most pressing priorities for the Chinese government to pursue under the auspices of APEC. At China's insistence, ministerial level meetings began to be held on a regular basis under the aegis of the Industrial Science and Technology Working Group with Beijing hosting the first meeting in 1995. Some of the priority areas that were identified for further cooperation included, *inter alia*, improvement in flow of information and science and technology, improvement in researcher exchange and human resource development to enhance technological and industrial innovation, facilitation of collaborative research projects, and improvement in transparency of regulatory frameworks (APEC1995). In a related act, earlier in 1992, at the APEC Technical Expert

Group Meeting on Investment and Technology Transfer Information Network held in Yogyakarta in December 1992, China had proposed establishing APEC satellite Information Network (an ISDN system) in which each APEC member and its enterprises would be able to access each other's database (Summary Report of the APEC Technical Expert Group Meeting on Investment and Technology Transfer Information Network 1992). Then in May 1994, China hosted the second Special Meeting on Industrial Science and Technology where China's holding of seminar on Development Strategies for S&T Industrial Parks was greatly appreciated. At the 10th APEC Working Group Meeting on Industrial Science and Technology in Jakarta in 1996, China had proposed the APEC Symposium on High and New Technology and Economy in the 21<sup>st</sup> century. At the same Meeting, China also made a briefing on a series of related subjects: the APEC Clean Coal Technology Information Network; Compilation of Technology and High-tech Product Catalogue in APEC Region; and Study on the Utilization of EDI in all APEC Trading Area. In 1997, China initiated and hosted the inaugural meeting for an APEC Science and Technology Parks Network. In light of the financial crisis, at the 14<sup>th</sup> APEC ISTWG in 1998, China proposed a new project "Role of S&T in Averting Future Financial Crisis". At the same venue, China had also proposed a new project "Networking for Capturing the Benefits of Innovation across APEC: Best Practices and Issues of Selected Economies" for the upcoming 3<sup>rd</sup> APEC Ministers' Conference on Regional S&T Cooperation in 1998. The same year, Jiang Zemin announced the establishment of a \$10 million APEC Science and Technology Industry Cooperation Fund to finance S&T cooperation between China and other APEC members. Then at the 16<sup>th</sup> APEC ISTWG in 1999, China also made a briefing on its coordination of APEC activities related to the theme "Harnessing Technologies for the Future", one of the six priority themes of Ecotech cooperation under APEC. In May 2001 China hosted the APEC Technomart IV in Suzhou which the previous year was hosted by Australia. At 23<sup>rd</sup> ISTWG in Sep 2002, China had submitted an evaluation report on APEC Forum on Venture Capital's Role in Science Parks and Business Incubators. More importantly in 2002, China even set up an APEC Center for Technology Transfer in Suzhou (Jiangsu) to promote the transfer and adoption of the advanced common technology, social sustainable development technology and SMEs practical technology for APEC economies (Summary Statements of various Industrial Science and Technology Working Groups). At the 2006 Meeting of APEC Ministers Responsible for Trade, Ministers emphasised that APEC should endeavour towards fostering international trade for SMEs and MEs with high export potential but that fall short on channels and capacity to carry out export. In this context, Ministers appreciated the

productive results of the 4th APEC Small and Medium Enterprises Technology Conferences and Fair held in Qingdao, China in May 2006 (APEC 2006 a). Further realizing the potential impact of science and technology on SMEs and their businesses, at 32<sup>nd</sup> ISTWG in 2007, China had presented a proposal on “APEC Sci-Tech Innovation and Small and Medium Sized Enterprises Development Forum” designed to harness science-technology based innovation for SMEs. APEC for China has also been a tremendous source of capacity building or human resource upgrading as well as knowledge expansion in terms of contemporary trends and needs indispensable for a newly emerging stakeholder in the regional or indeed global commercial environment. In any scenario where a developing economy aspires to join other more developed economies or even equally developed economies in a more integrated commercial and investment relationship, improvement of quality of labour market becomes an essential pre-requisite for a strong and mutually productive partnership for all. Keeping this in mind, China’s hosting of APEC High Level Meeting on Human Capacity Building at Beijing in May 2001 was exemplar of the tripartite partnership among government, business and education and training institutions. At the 2002 APEC Ministerial Meet, APEC Ministers had lauded China’s efforts in the implementation of the Human Capacity Building Promotion Programme while acknowledging the criticality of capacity building as an essential medium of empowering the Asia Pacific community and in countering the complexities arising out of globalization (APEC 2002d). China’s efforts in this regard covered several areas cutting across sectors and processes from trade and investment negotiations, to intricacies of relationship between finance and development, to intellectual property rights, to e-commerce, among many others. For capacity building in trade and investment, China has conducted and participated in several seminars, conferences, workshops and projects, notably among them being seminar on the implementation of TRIMS; Academic Conference on Competition Policy and Economic Development; Workshop on negotiating free trade agreements, Workshop on WTO Rules Negotiation in Services; Workshop on non-discriminatory treatment in investment agreements; project to review literature on cross-border mergers and acquisitions to help better comprehension of its development on investment flows; and project on Capacity Building for Investment Liberalisation and Facilitation. In the field of finance too, even though China was opposed to financial liberalisation under APEC, it did undertake studies and programmes to promote capacity building with a view to introduce financial system reforms and thereby achieve financial stability and development. With the World Bank as Co-chair, it had proposed APEC Finance and Development Program to intensify capacity building among APEC members in matters relating to finance and

development. In 2005, it set up the Asia-Pacific Finance and Development Centre (AFDC) in Shanghai, appreciated by APEC as a crucial step forward for promoting financial stability and development (APEC 2005). Then in July 2005, it hosted the APEC Conference on Better Environment for Financing, Stronger Development of SMEs. In terms of intellectual property rights (IPR), China hosted a high-level symposium on IPR held in Xiamen in September 2005 in accordance with the guidelines of the APEC Comprehensive Strategy on intellectual property rights worked out in 2003. As for e-commerce, China hosted a series of meetings: APEC High-Level Symposium on Electronic Commerce and Paperless Trading in February 2001 in Beijing; the APEC E-Commerce Fair in June 2004 in Yantai; and the APEC Symposium on Assessment and Benchmark of Paperless Trading in Beijing in September 2005 (Ibid).

### **APEC Ecotech and Australia-China Relations**

In her submission to Australian Senate Foreign Affairs, Defence and Trade References Committee on an inquiry on Australia's relations with APEC, Dr Rikki Kirsten had felt it was important for Australia to build on its contribution to APEC's development. She told the Committee: "Australia can showcase its expertise in a lot of areas in APEC. It can be technology transfer, our expertise in services, intellectual property and IT. Our capacity to train, to make a contribution to human resources development is constantly highlighted and called upon in the APEC forum. APEC opens doors for Australia that policy makers ought to walk through and activate to the greatest extent possible. For all those reasons, Australia has to date been able to have a disproportionate influence in APEC as a middle power that is Asia literate." (Senate of Australia 2000)

In light of this statement and the plethora of human resource building initiatives by China cited just before this statement — APEC is projected as a unique interface where need based complementarities between partners are allowed to play out at their maximum. Therefore, there is no denying that APEC as the multilateral grouping has exerted a considerable degree of influence among bilateral pairs within the organisation with Australia-China relations not remaining impervious to the positive spillover effects of the cooperative dynamics of the organisation. To be sure, economic and technical cooperation, in short Ecotech, has been the conceptual pivotal around which most of the development-related cooperative activities have been organised in the grouping. By no means antithetical to the trade liberalisation and facilitation (TILF) mandate of APEC, "Economic and technical cooperation is at the heart of

the APEC process, rather than a distraction from the drive towards free and open trade and investment,” as Andrew Elek and Hadi Soesastro write (Hadi and Soesastro2012: 158). And Australia as part of almost all the subsidiary working groups, task forces and drafting groups under the SOM Steering Committee on Economic and Technical Cooperation, has been a key contributor as well as a valued participant. Equally, China has been an energetic participant which has often enunciated the inexorably intersecting nature of TILF and Ecotech. Quite significantly, Australia’s endeavours under Ecotech have benefited China in great measure making a positive impact on the bilateral dynamics of the two countries both within and outside APEC. Between 2006 and 2014, Australia has been the proposing economy of fifty projects under APEC.

Food and agriculture technology cooperation between Australia and China under the auspices of APEC has been one of the most prominent areas of cooperation. In view of the fact that agriculture has been the mainstay of many of APEC economies including those of Australia and China, the organisation has been a central driver of cooperation in the region through programmes such as APEC Food System linking together food production, food processing and consumption, and bodies such as Agriculture Technical Cooperation Working Group in order to promote technical cooperation via information and experience sharing in the areas of agriculture, biotechnology, and animal and biogenetic resource management. Under Agricultural Technical Cooperation Group, an arm directly under Ecotech framework, Australia’s contribution has involved a wide array of workshops and training and exchange programmes on multiple related subjects including among others, agricultural biotechnology, animal and plant quarantine and health issues, commercialisation of genetically modified organisms, phytosanitary risk assessment and diagnostics and management of trans-border movement of plant pests. Moreover, it has also contributed to the E-CERT, a web-based system for electronic health certification of agricultural exports as well as “BioNet” website which has been located on the ATC homepage maintained by Australia itself. China having attended and participated in most of these activities has been a direct beneficiary of these measures. Australian researchers have had a record of world-class scientific results in fields such as low-carbon farming, sustainable agriculture, genetic resources, and plant and animal health (Joint Australia China Report 2012). China too on its part has been a vigorous votary of capitalising on the agricultural science and technology into improving both quality and quantity of production. It has developed advanced agricultural technology in spheres such as crop breeding and prevention and control technologies for plant diseases, insect pests and



animal diseases. It is starting to focus more on issues such as monitoring the environmental effects of food production, raising food safety standards and improving quality assurance systems (Ibid). Within the APEC framework, China's participation became conspicuous when it hosted the 5<sup>th</sup> Plenary Meeting of the APEC Agricultural Technical Cooperation Working Group in May 2001. Among its many contributions to APEC in this sphere include: conducting workshop on Sustainable Agricultural Development and Technical Training; training Course on Sustainable Agriculture Technologies and Applications; and seminar on food safety in areas such as the application of Hazard Analysis and Critical Control Point principles. At the June 2005 Meeting of APEC Ministers Responsible for Trade at Jeju in Korea, Ministers had appreciated the initiative of China and Australia (along with Thailand and Vietnam) to further food cooperation in APEC. China hosted the Nov 2011 APEC Agricultural Technology Transfer Forum where Assistant Minister of Foreign Affairs Le Yucheng spelled out China's potential role in terms of APEC's collaboration on agriculture in three ways. First, it would intensify agricultural commerce and technology partnership within APEC themselves. Second, it would synergise current resources, revive relevant processes and bodies while enabling wider sharing and collaboration. Third, it would galvanise the industrial and commercial space while working more with private players (Information Office of Chinese Ministry of Agriculture 2011). Between the two, as co-chairs, Australia and China have closely worked on food safety under APEC Food Safety Cooperation Forum (FSCF) established in April 2007 that is aimed at building potent food safety systems in the Asia-Pacific region that are compatible with the Agreements on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) of the WTO and are aligned with global standards. As Co-Chairs, Australia and China are also entrusted with the task of steering the Food and Safety Cooperation Forum (FSCF) and the FSCF Partnership Training Institute Network (PTIN); providing the FSCF Secretariat; facilitating FSCF meets and related events; auditing the work and future path of the FSCF; and updating on the work of the FSCF to APEC through the Sub Committee on Standards and Conformance (SCSC). The Food Standards Australia New Zealand (FSANZ) which calibrates general food standards, food product standards, food safety standards, and primary production standards coordinates with China to evolve capacity-building functions inclusive of instructional programmes, to assist China meet its commitments under the SPS Agreement of the WTO (Food Standards Australia New Zealand).<sup>185</sup>

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<sup>185</sup> An independent statutory agency which is part of Australian government's health portfolio

Outside of APEC, in fact in terms of agriculture and related technologies, Australia and China had officially cooperated with each other through a series of agreements since as early as early 1980s. Some of these agreements had included: Agreement on Enhancing Development and Technical Cooperation in 1981, the Protocol on Promoting Cooperation in Agricultural Research for Development, and Australia-China Agricultural Cooperation Agreement (ACACA), both in 1984. While the first two signified cooperation in terms of actual exchange of substantive technologies as they evolved, the ACACA was more about institutionalising those series of agreements into a more formalised bilateral mechanism for regular high level dialogue between the Department of Agriculture, Fisheries and Forestry and the Ministry of Agriculture of China. More recently in 2012, the publication of a joint report titled *Feeding the Future*, a report on Strengthening Investment and Technological Cooperation in Agriculture to Enhance Food Security had sought to communicate that both the countries have graduated from agricultural development assistance projects of the past towards mutually beneficial cooperation in advanced agricultural technology. Between 2002 and 2010, Australia–China co-authorship of agricultural sciences publications increased about eightfold making China now Australia’s second-highest national source of collaboration in agricultural science (Australia and China Joint Report 2012).

Another subject under APEC’s Ecotech that provides a strong stimulus to the bilateral relationship between Australia and China is telecommunications and information sector. Australia had attended the first meeting of the APEC Economic Cooperation Working Group on Telecommunications in July 1990 in Singapore even before China became a member of the organisation. Right from start, Australia has played the role of a leader, facilitator, trainer, financier and propagator on most aspects of telecommunications and information within the organisation. It has been active on a series of projects such as Electronic data Interchange (EDI), electronic commerce, international telecommunications standards, equipment procedures and certification, efficient spectrum management, R&D in advanced networking applications and services, mutual recognition of telecommunications test data, protection of national information infrastructure and electronic security among many others. From the Chinese point of view, along with the aforementioned, Australia’s contribution towards human resource training on telecommunications and information exchange, vocational education and training framework for telecommunications, distance learning, skill enhancement, training on Java based technology, E-Commerce Skill Standards Project, Interactive Medical Curriculum (IMC) project, APEC Interconnection Training Project, e-

commerce law, guidelines for ISPs, attending to electronic security/cyber security through mechanisms such as Computer Emergency Response Teams (CERT), SPAM Workshops, SME Internet Safety Training Programme — have all been measures that directly address China's concerns and needs. In fact, some of Australia's initiatives that have particularly received China's interest and attention included the IMC project, SME Internet Safety Training Programme, APEC MRA-HRD Project Training Programme, E-Commerce Skill Standards Project under HRDSG and the internet security programmes such as CERT with China establishing a CERT as part of its strategy to protect Internet systems. Australia had also hosted the APEC Ministerial Meeting on Telecommunications and Information Industry at Gold Coast in Sep 1996 towards a liberated telecom and information service sector with the eventual objective of crafting a Asia Pacific Information Infrastructure (APII) — noting the mutually reinforcing character of trade and investment liberalisation and facilitation, and economic and technical cooperation in the telecommunications and information infrastructure (APEC 1996 a). By circulating the discussion paper "Paths to Liberalisation" at TEL 1996 and serving on the Liberalisation Steering Group of the Telecommunication and Information Working Group (TEL), Australia also played a critical role in liberalisation of trade in information and telecommunication products and services. In fact, the successful negotiations towards achieving liberalisation of information and technology sector under APEC and the subsequent emulation at WTO has been one of the milestones in the organisation's history. As for China, its involvement had ranged from articulating concerns on network security to promotion of the concept of e-university for e-government, bridging of digital divide, training in MRA, establishment of constructive linkage between Next generation Networks (NGN) and broadband. Since joining APEC in 1991, China has been a keen participant in TEL. At the 12<sup>th</sup> APEC TEL hosted by Shanghai in 1995, MPT Minister Wu Jichuan had noted that TEL can help to close the gap between economies through technology transfer, while also respecting intellectual property rights. In keeping with its priorities, it had hosted the APEC TEL HRD International Symposium in 1997 which had focussed on effective promotion of distance-learning based advanced information technologies, role of APEC Education Foundation, exchange of HRD experts, and the construction of Asia-Pacific Economic Infrastructure (APII) (APEC TEL 1997). In 2002, China hosted the 5<sup>th</sup> Ministerial Meeting on Telecommunications and Information Industry the theme of which was Leveraging Digital Opportunities to Promote Common Development. The meeting had further reinforced "the importance of Economic and Technical Cooperation (Ecotech) in achieving equitable growth and sustainable development" while "setting the goal of building APEC towards a digital

society.” (APEC 2002 c: Shanghai Declaration on Telecommunications and Information Industry 2002)

In course of their participation at APEC forums on telecommunications and information sector, Australia and China have together worked on a number of occasions collaborating on a number of projects and undertakings. Both were part of the task group under TEL HRD Steering Group that would identify the prime training and professional development requirements of APEC member economies in the telecommunications sector which could be addressed by the proposed Center of Excellence. Both were also Vice Chairs (along with Thailand) of Electronic Commerce Steering Group under TEL. For benefit of China, when there was a separate Telecommunications Training Project initiated by the US, it was AITEC Pty of Australia that was selected as the preferred contractor (Chairman’s Report TEL 1998). In a related development though not directly under Telecommunications and Information Working Group but held under the APEC Transportation Working Group, China had hosted the APEC High-Level Symposium on Electronic Commerce and Paperless Trading in Beijing in 2001 with Australia serving as a co-sponsor. Both the countries had been applauded on the success of the Symposium at the subsequent June 2001 Meeting of APEC Ministers Responsible for Trade held in Shanghai with ministers appreciating the suggestions stemming from it. In particular, Ministers approved the initiative of developing APEC Individual Action Plans on Paperless Trading and welcomed Australia's offer to prepare a mock-up version as reference. Ministers had also welcomed Chinese initiative to establish a business-government dialogue and appealed to the Electronic Commerce Steering Group to further test the initiative (APEC 2001). Then, at the APEC Working Group on Telecommunications and Information meeting in 2001 in Canberra, both Australia and China (along with four others) were part of the small oversight group within the Internet Issues Task Group to discuss possible ways in which a “Virtual forum” could be established (Chair’s Report 23<sup>rd</sup> TEL Working Group 2001). Another instance was when both Australia and China were involved in Flow-based Internet Traffic Measurement and Analysis Project under the Development Cooperation Steering Group (DCSG) of the TEL as a result of which Systems were installed in many sites in China as well as Korea. When China had chaired the e-APEC Strategy Task Force to help APEC embrace the ICT revolution and prepare for the New Economy, Australia was a Co-Vice chair (along with US). During the discussions on internet service costing, China had suggested that internet service pricing arrangements should not only be on the basis of market costs but also governments should be involved for a fair and sustainable

outcome. Subsequently China had proposed some principles for assessing shares of total cost of bilateral traffic exchange in proportion to the attributable benefit of particular traffic streams. In addition, both countries were also members of the committee formed tentatively to oversee the Asia-Pacific Grid Implementation Project. Under TEL's HRD Steering Group on the Distance Learning Strategic Needs Analysis project, both Australia and China among others had displayed interest in online learning sub-committee to help telecommunications professionals access courses that already existed and to identify new course development. Both Australia and China were also on the temporary drafting group (along with 4 others) on APEC Strategy to Ensure Trusted, Secure and Sustainable Online Environments in 2005. Moreover, both countries had showed inclination for similar projects such as Australia's *Universal service strategies, and the shape of the emerging market* whereas China's was *Universal service with consideration of new and emerging technologies* at the 35<sup>th</sup> TEL in 2007. At the same venue, both had co-sponsored (with Korea) the proposed workshop on "Hand-held Mobile Device Security" under the Security and Prosperity Steering Group of TEL. Then At the 2007 APEC Ministerial Meet, both the countries along with others had agreed to participate in the Data Privacy Pathfinder initiative which would assist relevant stakeholders (officialdom, regulatory authorities, industry and consumers) to achieve a more efficient protection of privacy while reinforcing credibility of electronic commerce. The Pathfinder would not only help the businesses cut down their costs of compliance, it would also offer end-consumers an outlet to redressal while enabling regulators to function efficiently with least regulatory constraints (APEC 2007).

### **APEC Trade Liberalization& Facilitation and Australia-China Relations**

So far, there has been an attempt to highlight APEC's impact on Australia-China ties in terms of economic and technical cooperation objectives of the organisation. Turning towards the trade liberalisation and facilitation aspect of APEC and the resultant impact on the bilateral dimensions of the two countries, it bears recalling at the outset that both Australia and China in principle have been in agreement on the merits of the larger objectives of liberalisation and facilitation, although they may have disagreed on the pace, sectoral choices for opening, or even methods of achieving those objectives. That China went on to join WTO eventually in the face of stiff resistance and rigorous scrutiny by none other than the US in the process subjecting its domestic economy to a relatively thorough reformist overhaul in accord with global standards, demonstrates its commitment towards trade liberalisation and facilitation notwithstanding the residual weaknesses. It is apt to mention that it was an Australian foreign

minister Gareth Evans who had interceded on behalf of China with the US, patently canvassing for China's WTO membership when the latter had taken the position of linking China's MFN status to its human rights record. For whatever doubts that had remained, Andrew Elek of the Australian National University wrote even as late as 2000, "The time has come for Australia to address China's inclusion in the WTO in a strategic way, rather than looking for tactical negotiating opportunities, while hiding behind the United States on this matter." (Elek 2012: 70) This aspect also brings in question the relationship between APEC and WTO even as trade liberalisation and facilitation constituted the end-goals of both the organisations. And apparently since the objectives are same, the manner in which they would impact bilateral relations should also be the same. However, what set the two organisations apart were the methods and the functioning principles that served to achieve those end-goals as well as the operational scope in terms of regional vs. global dynamic. APEC upheld non-legalistic, non-discriminatory open regionalism as opposed to WTO's legalistic, discriminatory closed system. Ironically, while APEC's 'open regionalism' was advocated in a regional ambit, WTO's closed FTA-based system had a world-wide applicability. However, since the subject of the study is APEC and not WTO, the focus shall remain on the former.

Suffice it to say at this juncture that the eventual progress of China from APEC to WTO had definite undercurrents of Australia's positive role towards that end. Since China became a member of APEC in 1991, it did signal intent on trade liberalisation with a series of announcements on tariff cuts. In 1991 itself, it had announced lowering of tariffs on 43 commodities followed by a succession of selective tariff reduction in phases in the following years. At the Osaka APEC Summit in 1995, President Jiang Zemin had announced that China would slash its over-all tariff level from 36 per cent to 23 per cent. In conforming to these commitments, China lowered its tariff rate for over 4,900 items on 1 April 1996 and the simple average tariff rate was brought down from 36 per cent to 23 per cent. According to China's Individual Action Plan (IAP) submitted to the Manila meeting in 1996, the average tariff rate was to be reduced to 15 per cent by 2000, 10 per cent by 2010 and 5 per cent by 2020. But in keeping with the spirit of the flexibility provision of the IAP process and the liberalisation momentum attained by the country, in 1997, China even advanced its tariff reduction schedule by committing to reduce its tariff rate to 10 per cent by 2005 itself, rather than by 2010 as planned in its IAP presented in Manila in 1996 (Yunling 2012: 11-12). Also, on 1 October 1997, China further reduced its average tariff rate to 17 per cent, another significant drop of 26 per cent. In the same year, non-tariff measures on 17 items of products

were eliminated (Yang and Huang 1999: 330). As for Australia, under APEC's Manila IAP, it had pledged to bring down all tariffs to between 0 and 5 per cent by 1997 and a review was to be exercised in 2000 or before. However, exceptions to this rule were retained in the form of continuance of special treatment of passenger motor vehicles (PMV) and textile clothing and footwear (TCF) sectors whose tariff rates were to come down from 22.5% in 1997 to 10% in 2005 in case of the former and from 34% to 17.5% for the latter (Findlay and Chunlai 2012: 46). As a matter of fact, Australia had continued to protect these select industries even when protection of manufacturing sector as a whole had begun to be dismantled since the 1970s. A year before the founding of APEC, in 1988, Hawke government had announced that all tariffs above 15% had to be lowered to 15% in 1992 and those between 10 and 15 per cent had to be brought down to 10 per cent with exceptions remaining for PMV and TCF sectors, even as quantitative restrictions on cars were abolished. Another comprehensive tariff reduction was announced by Australia in 1991 when for the first time quantitative restrictions on TCF were abolished and tariffs on general manufacturing goods had to be pared to 5% in 1996. Furthermore, in consequence of unilateral reductions (on 1 January 2005) in tariffs applied to textiles, clothing, and footwear (TCF) as well as to passenger motor vehicles (PMVs), the overall simple average applied MFN tariff rate fell from 4.5% in 2002 to 3.8% in 2006 (World Trade Organisation).

In light of above tariff reduction measures undertaken by both Australia and China under APEC mechanisms such as IAP and EVSL as well as outside of APEC, compared to their past records, both countries seemed well influenced by the trade liberalisation objectives of APEC. Alternatively, it may well be argued that the liberalising measures had been embraced in spite of and not necessarily because of APEC. Yet, one can't overlook Australia's energetic leadership in the very founding of the organisation suggesting that trade liberalisation at least in principle had been an accepted wisdom for the country right from start. And for China to follow up with the membership of WTO after joining APEC in 1991 is a clear indicator of its increasing confidence in trade liberalisation. The question that really must be answered is how trade liberalisation under APEC has strengthened Australia-China relations. And to answer this, one has to make a reference to several studies that were conducted particularly in the late 1990s and early 2000s reflecting the positive influence of APEC on both countries individually as well as on their bilateral relations.

In the context of proposed tariff reduction due to EVSL, using a GTAP model simulating the effect of APEC trade liberalisation on Sino-Australian bilateral trade, Sheng et al in a study

conclude that a rise in economic cooperation among APEC countries would spur trade between Australia and China, particularly in Agriculture and textiles. By advancing actual figures, they have inferred that there would be a substantive rise in China's exports to Australia across all sectors including textiles and clothing (16.4%), crops (19.4%) and machinery and electronics (8.36%), among others. Similarly, Australian export would grow with specific mention of textiles and clothing (arise of 36.6%), non-crop agriculture (19.4%), metallic products and other manufactures (26.7%) and wood and wood products (7.6%). In the long run too, both countries as a result of tariff reduction under APEC's EVSL would continue to improve their export performances. However, in terms of actual output growth in the long run, while Australian GDP was expected to grow 1.31%, Chinese GDP was actually expected to drop by a significant 1.87% thereby reducing the stakes that China should theoretically invest in a relationship with Australia as opposed to the latter's politico-economic investment and stakes in a relation with the former. Also notably, Chinese output was expected to grow only in niche sectors whereas Australia's was estimated to grow in all sectors except crops and services once again raising the stakes more for Australia than China in a relationship between the two (Sheng 2002: 9-11).

In another study conducted by Christopher Findlay and Chen Chunlai, the tariff reduction commitments made by Australia under the Individual Action Plans (IAPs), a component of the Manila Action Plans of the APEC (MAPA), between 1997 and 2005, the average tariff applied by Australia to imports from China was to come down from 12.2% (over 2.5 times the APEC average) to 7.4% (about twice the APEC average) (Findlay and Chunlai 2012: 47). Evidently, there had been an inherent trade policy bias against China with Australia having the highest import-weighted average tariff rate against China among all the APEC partners except Brunei. Therefore, trade promotion through APEC was all the more crucial and therefore the potential gains were also substantial. However, one should also bear in mind that the high tariffs on imports from China was mainly on account of high import concentration of textiles, clothing and footwear (TCF), an explicitly protected industry in Australia. In addition, China was also to gain from phasing out of bounties on ship building, removal of investment restrictions in the hotels, restaurants, travel agencies, tour operators and tourist guide services which was correspondingly also to boost the Australian service exports. Then commitment to removal of export licensing arrangements on exports such as natural gas, coal, mineral sands, bauxite and alumina would add to the supply security of China (Ibid: 49). In addition, under the APEC EVSL wherein Australia had nominated food



along with energy products and chemicals was to benefit China in considerable measure. Particularly food sector is a critical binding force between Australia and China where Australia typically has had high net export ratio for not only meat products but also for animal feed, wine, beer, sugar products, dairy products and fish product whereas China has become a large net exporter to Australia of processed fruit and vegetables, bakery products and spirits (Ibid: 49). As a matter of fact, according to Yongzheng Yang and Yiping Huang, APEC trade liberalisation without agriculture is a less desirable option for China than comprehensive trade liberalisation and only under a scenario of comprehensive APEC trade liberalisation can there be a positive impact on China's real GDP growth. It is often argued that China needs to feed itself by using earnings from labour-intensive manufacturing such as TCF which happens to be a relatively protected industry in Australia. Therefore, APEC mandated commitment to relaxation in tariff rates was all the more important for Australia-China relationship. The implication of this easing of tariffs is evident in the favourable trading patterns between the two in the subsequent years. Whereas Australian textile exports to China have actually declined between 2000 and 2010, textile fibre exports have shot up giving a fillip to the Chinese textile and clothing industry with China's textile and clothing exports to Australia having increased 3.8-fold and 3.1-fold respectively for the same period. To get a perspective, China's textile and clothing exports to the world also grew 3.76-fold and 2.6-fold for the same period which earlier between 1992 and 2000 had gained relatively much less — 0.8 times for textiles and 1.16 times for clothing.<sup>186</sup> China has also raised its footwear exports to Australia over 4-times even as Australia too has increased its footwear exports to China about four times. However a caution must be exercised in reading these figures because the share of textiles and clothing has actually declined in the over-all Chinese export basket implying that any impediment between Australia and China in this sector is automatically on the wane. Consistent with the logic that consequent to joining WTO and based on its resource endowments and comparative advantage, China's agricultural profile would undergo a shift from a land-intensive farming to a more labour-intensive horticulture, animal husbandry and processed agricultural product, Chinese agricultural export patterns have indeed shown a change. Of food<sup>187</sup>, food and live animals have dominated Australia's export to China. What is noteworthy is that while food and live animals exports from

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<sup>186</sup> Figures arrived at on basis of calculations made from the data from COMTRADE database using SIGCI+ interface of UN Economic Commission for Latin America and the Caribbean (ECLAC)

<sup>187</sup> According to Revision 3 of the Standard International Trade Classification (SITC), Food includes food and live animals; beverages and tobacco; animal and vegetable oils, fats and waxes; oilseeds and oleaginous fruit (SITC sections 0, 1, 4 and division 22

Australia to China have grown only over 3-times for the period 2000-10, China's exports of food and live animals to Australia have surged over 8-times indicating China's fast catching up on that count even though the actual value of Australia's food and live animals exports still outstrip that of China. The theory of Chinese shift from land-intensive farming to labour-intensive animal husbandry and horticulture gets further reinforced by the fact that between 2000 and 2010, dairy product exports from China to Australia grew a phenomenal 91-times whereas vegetables and fruit exports rose 4.6-times though in absolute terms, the latter have remained far more dominant. At the same time, China's land-intensive products such as oilseeds and oleaginous food exports to Australia have come down. In keeping with changing consumption patterns of China, Australian dairy product exports have grown over 5.5 times (much more than China's to Australia in absolute value terms) with beverages and tobacco exports having swelled a mindboggling 185-fold for the period 2000-10.<sup>188</sup> Another highly protected sector in Australia has been passenger motor vehicles (PMV) an exception for which was retained under Australia's IAP proposal to APEC with concessions coming on a far more gradual basis. Even this sector has seen China's export value to Australia shoot up from virtual non-existence in 1992 to \$ 0.01 million to an astonishing \$ 62 million by 2010 indicating the inexorable logic of trade liberalisation initiated by APEC and carried forward by WTO that has come to pervade Australia-China commercial ties.<sup>189</sup>

According to a study based on combination of GTAP and a CGE model of China by Adams et al, from the proposed trade liberalisation within APEC, most of the sectors in China seemed to benefit and the specific sectors that seemed to gain the most were clothing and shoes, textiles and electronic and communications equipment. But there were also sectors that showed a decline in output with transport equipment experiencing the largest decline. Overall, tariff-cutting generates an increase in the capital stock and hence real GDP for China (Adams et al 2000: 39, 41, 46).

Abraham and Hove in a study to assess the trade creating potential of China's joining RTAs with ASEAN and APEC found out that in case of APEC, most trading partners' export potential to China exceeded China's estimated export growth even as China's export to most

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<sup>188</sup> Calculations made from the data from COMTRADE database using SIGCI+ interface of UN Economic Commission for Latin America and the Caribbean (ECLAC)

<sup>189</sup> Calculations made from the data from COMTRADE database using SIGCI+ interface of UN Economic Commission for Latin America and the Caribbean (ECLAC)

partners increased. Australia's export potential to China increased by 216 percent as against China's export potential to Australia, estimated at an increase of 176 percent. However, compared to the APEC results, the trade potentials from China's integration into ASEAN are even much larger. Clearly ASEAN membership would bring about a very large increase in Chinese export. However, export potentials for the ASEAN trading partners are smaller than for China, except for Indonesia, even though large export opportunities to China are expected for all ASEAN countries (Abraham and Hove 2005: 505-6).

Trade liberalisation is closely linked with trade facilitation with the latter often enabling the former. Trade facilitation is also intricately linked with economic and technical cooperation. For trade facilitation to show results, upgrading of human skill base and building of physical infrastructure alike are critical. Under APEC's IAP, Australia had made a number of commitments on standards and conformance which could remove some impediments to Australia-China trade — for example, in automotive parts, food and food products, electrical and electronic equipment, and telecommunications equipment, all of which were likely to become increasingly important export items for China (Findlay and Chunlai 2012: 53). Then the management of raw material component of wool imported by China from Australia through efficient delivery systems for further processing was critical to China's competitiveness in international market including that of Australia. Therefore, trade facilitation measures such as harmonising customs and administrative procedures and rules, transparency and conformation of standards through mutual recognition arrangements, electronic recording of tariffs and transactions besides financial innovations such as import credit or redistribution of risks by way of emergence of trading institutions as well as the role of the private sector in that regard were to further stimulate Australia-China trade vis-à-vis APEC. In a report titled *APEC Economies: Realizing the Benefits of Trade Facilitation*, submitted by Australia at the 2002 APEC Ministerial Meet, the impact of trade facilitation on APEC economies was highlighted. Providing two sets of trade facilitation reforms, one at the border and the other behind-the border, the report cites a host of case studies including one from China as well as Australia itself— advancing the case of trade facilitation as a means of improvement on various scores such as real income, market access, efficiency and reduced costs of business transactions along with bottlenecks to innovation and competition. Taking the case of port services in Australia and insurance service in China, the report illustrates how the former through trade facilitation measures made estimated annual gains of about US\$ 1.6 billion whereas the latter on making investment reforms in insurance sector benefitted to the

tune of US\$ 6.2 billion. The report also discovered that rise in real income of over US\$17 billion per annum had been on account of trade facilitation reforms already operationalised in APEC (Commonwealth of Australia 2002). At the 2005 APEC Ministerial Meet, ministers had welcomed the Australian initiative (as well as Vietnam's) on the headway made by economies towards meeting the target established under the 2001 Trade Facilitation Action Plan (TFAP) (China hosted APEC meets in 2001) of a five percent reduction in trade facilitation costs by 2006 and set a target for a further five percent reduction by 2010.

Therefore based on the foregoing studies analysing tariff reduction and liberalisation scenarios for both Australia and China under the influence and auspices of APEC, the majority demonstrate that APEC can and indeed has exercised a positive impact on the bilateral relations between the two countries. Apparently while the trading and commercial openings vis-à-vis APEC between the two looks to be more prominent, the non-commercial component exemplified in the Ecotech programme of the organisation has had no less bearing on the bilateral dynamics between Australia and China. Given that APEC has consistently maintained a close nexus between trade liberalisation and facilitation objectives and development goals; it has always had something to offer even individually to both the countries. And this individual contribution has generated and sustained a cooperative reciprocity between the two countries. For China, a relatively new market economy embarked on the path of trade-driven economic growth model, membership of APEC had been a veritable stepping stone for the membership of the upcoming WTO the failure of which could have put paid to its hopes of commercially engaging the larger world on a non-discriminatory equitable basis. For, it was APEC as the first regional multilateral grouping where China was allowed an opportunity to project its liberal and accommodative strains. By way of APEC's development cooperation dimension, which China holds as foremost of APEC's goals and closest to its interests, Australia's vigorous leadership and participation prepares a naturally complementary setting for a mutually reinforcing relationship. A dimension by no means a conventional one-way transfer of funds in a donor-recipient dyad, there have been a wide assortment of projects such as human resources development, energy, health, agriculture and food technology, small and medium enterprises, information technology, emergency preparedness, to name a few which Australia has spearheaded as a pioneer, disseminator and trainer and where China has suitably benefited. As China pushed ahead with its endeavours to make structural adjustments in its domestic economic policy framework in order to align with the global benchmarks of a market economy, APEC's flurry of workshops, symposiums and

training programmes on several inter-related subjects such as negotiating free-trade agreements, WTO rules negotiation in services, capacity building for investment liberalisation and facilitation, trade and supply chain management, non-discriminatory treatment in investment agreements, implementation of TRIMS, cross-border mergers and acquisitions, competition policy; intellectual property rights, e-commerce and paperless trading— most of which saw intense Australian involvement— cultivated a healthy working relationship between the two countries. For Australia’s resource-intensive economy, APEC’s capacity to ‘shape’ and incentivise China into ceding ground on tariff liberalisation and collaborating on trade facilitation was highly significant, given the market size of the Chinese economy as well as being the potential source for investment into much-needed Australia’s resource-based industries. Critics might argue that since China under Deng had already taken the path of market reforms, APEC’s role and impact on China was minimal or at best incidental and China would have embraced liberalisation and greater market opening regardless of APEC. True but only partially, for it was APEC as a dominant trading block, virtually a microcosm of the upcoming WTO (in a limited sense) stemming from the wide diversity of its membership that had really tested China on its resolve on liberalisation and opening programmes in a multilateral forum as well as driven home the advantages of freer trade and investment regime co-incident with a more de-regulated domestic economy. And as China stayed the course eventually joining the WTO, APEC’s influence can’t be overlooked and within which Australia’s role has been nothing short of exemplary, as advanced earlier in many instances. With the non-state security concerns consolidating and overwhelmingly occupying the over-all security landscape in the early twenty-first century, the costs of trade and commerce have risen enormously. APEC’s flagship Secure Trade in the APEC Region (STAR) initiative besides several others further set the tone for closer Australia-China relations, particularly in light of the fact that China has become Australia’s largest trading partner— more than 85% of China’s imported oil comes by sea along with bulk of minerals and metals; and more than 75% of Australia’s exports and imports by value and over 99.9% by weight travel by sea (Erickson and Collins 2007: 54; Royal Australian Navy 2010). In an ironical way however, the rise of new security concerns in the new century has put a question mark on the relevance of APEC itself among several quarters exhorting it to move from “announceables” to “deliverables” (Hu 2009: 5). Certainly these questions are more to do with APEC’s inability to secure regional integration in the form of a free trade and investment area at least for the developed economies with their deadline having lapsed in 2010, as envisaged at Bogor, and less for any failings on addressing new security concerns.

This perceived failure on the part of APEC has resulted in significant politico-economic fallout with a flurry of alternative free trade pacts springing up at various negotiating stages chief among them being ASEAN-led Regional Comprehensive Economic Partnership (RCEP) and US-led Trans-Pacific Partnership (TPP) with China emerging as a significant absentee in the latter. Considering that it is yet too early to establish definitively whether the TPP and RCEP are individually any substitutes for APEC or whether all three might co-exist with APEC retaining its original pre-eminence, or in what ways they would eventually reconcile to usher in the Free Trade Areas of the Asia Pacific (FTAAP), what is more relevant is that Australia has been a part of both TPP and RCEP processes with then Prime Minister Julia Gillard describing the two separate negotiations as “two paths to the same destination.” (Hiebert and Hanlon 2012) What is also relevant is that early signs indicate TPP to be a high-quality, wider-scope, rule-driven pact aiming for hard outcomes unlike RCEP which is likely to be a lesser-quality, narrower-scope, consensus-driven arrangement directed towards slow and soft outcomes. Yet, the fact that both Australia and China have forged ahead engaging with the upcoming regional trading pacts based on their individual policy objectives and interests curiously reinforces the strength of APEC and its influence on their bilateral relations. After all, any supposed diminishing of a grouping, if at all it is in a state of decline, does not and should not devalue the culture of commercial bonding and cooperation that it has nurtured between two countries as well as among others over the years. For that matter and arguably, even WTO’s fate seems to be hanging in a balance. APEC is still the only trans-Pacific forum that involves the US, Australia, China as well as Hong Kong and Taiwan and should be credited for substantial tariff reduction and non-tariff barrier rationalisation across-the-board in the region. According to APEC Bogor Goals Progress Report published in 2012, APEC’s MFN average tariff had come down to 5.8% by 2010 from almost 17% in 1989 with tariffs on agriculture remaining high along with persistence of sectoral and national treatment restrictions on services and investment as well as residual non-tariff barriers. While the report raises concerns on Australia’s strict sanitary and phytosanitary (SPS) standards, it also credits Australia for having cut down MFN tariffs on passenger motor vehicles and components, footwear, carpets and certain fabrics and textiles from 10 percent to five percent and to zero on passenger motor vehicles imported from partners to the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). In case of China, the report while pointing out downsides such as export regime distortions not falling at same pace as imports; persisting lengthy and high-cost process for sale of certain products in Chinese market and prevailing local buying clauses in parts of government

procurement— also appreciates a series of measures such as reduced restrictions in service sectors even further than its WTO commitments; the alignment of 68% of China’s standards with international norms, improvement of regulations in areas such as government procurement, intellectual property rights and competition policy and over-all increased transparency (APEC Policy Support Unit 2012). In consequence of these APEC-driven measures (by no means the only measures), in addition to the fact that China has become largest trading partner, bilateral investment relations have received a major impetus with Australia’s FDI stocks in China having grown ten-fold from a measly \$ 59.8 million in 1994 to over \$ 620 million in 2005 which since has again grown ten-fold to over \$ 6.8 billion. At the same time, Australia’s inward stocks from China have been even more impressive registering an eleven-fold increase between 1989 and 2006 to a staggering 30-fold leap between 2006 and 2010 valued at \$ 13.16 billion.<sup>190</sup>

Lastly, some of the very core principles and institutional mechanisms of APEC further reinforce relations between Australia and China. For instance, notwithstanding the limited successes of IAPs and EVSL, the idea of concerted unilateralism that allows for trade liberalization not through time-bound formal treaties, but through 'collective peer pressure of action plans implemented by each economy at its own pace', suggests that both Australia and China have an 'institutional alibi' in form of APEC that sanctions developments at their preferred pace. Because it is a consultative mechanism rather than an economic community, APEC allows for that negotiating space between Australia and China on any trade and investment related issue. While APEC operates in a multilateral cooperative framework, its unique character lies in its fostering of bilateral linkages as well illustrated in its facilitation of bilateral meetings between countries on the sidelines of regular annual meets. The close working with the private sector through bodies such as APEC Business Advisory Council (ABAC) as well as independent institutions such as Pacific Economic Cooperation Council (PECC), a tripartite partnership of senior individuals from business and industry, government and academia further expand Australia’s and China’s avenues for bilateral engagement within the APEC structure. While the immediate rationale underlying the principle of open regionalism flowed from APEC countries’ interests beyond the Asia-Pacific region, the flexibility inhering in this principle has enabled Australia as well as China to pursue their individual self-interests separately as they are doing in case of TPP and RCP, clearly a legacy of APEC, while keeping their bilateral relations intact. It is this idea of 'institutional

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<sup>190</sup> Calculations based on figures from APEC database and UNCTAD

minimalism' that reduces the role of the institution while projecting the roles of the individual countries in their bilateral or even multilateral frameworks. The principle of consensus further strengthens this bilateral partnership within a multilateral setting.

## **CONCLUSION**

The above discussion so far details how ASEAN and allied institutions as well as APEC, two of the key regional groupings have impacted the bilateral relations between Australia and China. While the role of ASEAN has been examined vis-à-vis twin issues of trade and investment and non-traditional security, APEC's contribution has been assessed in terms of the organization's core objectives of trade liberalization and facilitation as well as technical and development cooperation. The singular thread that continues throughout this discussion is how relations between two individual countries can be subjected to the analytical framework of regional multilateral groupings or regional multilateralism. Towards this end, the objectives behind the founding of the multilateral grouping become as much important as the principles that drive the accomplishment of these objectives. These objectives and principles provide an intersecting framework within which contours of bilateralism reside, in this case that of Australia and China. Founded with an interval of over two decades, even though both ASEAN and APEC have had distinctly different contexts of origin promoted and sponsored by different sets of actors and have charted a separate course over the years in terms of purpose and evolution, fostering of regional cooperation has been the common overarching objective for both. ASEAN can even said to be a partial subset of APEC given that all ASEAN 6 members had constituted the original APEC. Indeed within APEC, ASEAN doesn't command the same centralized authority and the agency that it exercises in ASEAN and ASEAN-driven organizations. Yet, both ASEAN-led institutions and APEC officially promote bilateralism within the larger multilateral framework. Advancement of bilateralism is an official policy of ASEAN and suitably ingrained in the APEC's economic philosophy by way of open regionalism. Just as ASEAN allows a contentious issue to be resolved bilaterally between two members, APEC allows member countries to form bilateral trade and investment agreements without any prejudice. However, this is not exclusive bilateralism and is practised in a collective framework satisfying multilateral norms and standards. Even though open regionalism has been a professed principle of APEC, by creating new institutions and embracing members from outside, ASEAN too has followed that path. The near equivalent of APEC's principle of concerted unilateralism has been found in ASEAN's



Minus X formula and 2+X formula that allow members to postpone accession to agreements and even allows two or more than two to establish a sub-regional arrangement independent of ASEAN. Also, under ASEAN+X formula, while ASEAN is forming arrangements with individual countries, there are bilateral arrangements between countries being forged simultaneously. The upshot is that both the regional groupings provide a supportive institutional framework for bilateral relations between two countries to grow and flourish.

In view of economic and commercial interests becoming increasingly conditional on security externalities (mostly non-traditional)—for Australia and China alike—ASEAN-led ARF's accent on non-traditional security cooperation has been a unifying diplomatic asset for both the countries. As has been the more liberal and integrated intra-ASEAN market (howsoever modest but more integrated in comparison to its past) as well as the ASEAN Plus One FTAs that both countries have signed and enforced prompting a common interest in the political and economic stability of the region. Likewise, APEC's liberalization and facilitation agenda has aided the increased prospects of trade and investment between the two. But more particularly, development and technical cooperation part of APEC's mission seems to have weighed in a greater measure in terms of influencing relations between Australia and China. Critics might very well be dismissive of the efficacy of Asian value-driven regional groupings to have any serious impact on regional questions first much less bilateral relations between Australia and China. But consider a scenario where there was no APEC and there had never been any ASEAN-led regional multilateral endeavours. Like most countries, Australia and China would have former bilateral diplomatic channels and the relationship would mostly be driven by expediency and commerce. Australia would not have the opportunity to pursue a wholesome engagement with the region and would remain an isolated White outpost. China would not have the exposure to multiple development and training initiatives under APEC where Australia played a prominent role, and its prospects for WTO membership would also look dim. In the absence of APEC, there would be no forum for China and Taiwan to participate together given that Australia has substantial economic relations with Taiwan too. In the absence of ARF, Australia would have absolutely no avenue of understanding Chinese military mindsets and no forum for resolving a regional crisis should one arise, particularly in light of the fact that Australia has deep commercial relations with East Asia as a region including that of a full-fledged diplomatic relation with North Korea, a perpetual trouble-spot in the region. Even if ARF is not a security agreement, it serves as a sounding board and review mechanism for all ongoing events and conflicts in the

region on a collective and continuous basis. Therefore, there is adequate rationale and explanation on the importance of APEC and ASEAN-led regional processes vis-à-vis Australia-China relations. Psycho-sociologically speaking, regular participation in a joint environment (read regional grouping) fosters new attitudes and preferences shaping shared identity or leading to modification of self-identity. Direct communication and personal networking by leaders, officials, businesspeople and experts at both track one and track two levels removes prejudices, clears stereotypes and opens the way to cooperative understanding. This in turn can lead to joint development of norms and rules of behaviour. Moreover, publishing of defence white papers, issuing defence policy statements, exchange of military officials, registration of arms and weapons, and prior notification on defence exercises are all examples of transparency and confidence building leading to narrowing of perception gaps. This in turn reduces transaction costs between two actors as it removes the need for extensive and elaborate monitoring and cross confirmation. Critics might also argue that that APEC and ASEAN-led groupings being a patchwork of disparate interests can further complicate Australia-China relations since not all ASEAN members would have the same degree of appreciation for effective Australia-China relations. However, the counter-point is that these regional groupings as a collective formation have precisely the ability to blunt any internal reservations or resistance to the growing bilateralism between Australia and China.

To be sure, there have been differences between Australia and China on the approach to the nature of regional multilateralism itself. Australia has often advocated a higher degree of institutionalization drawing on Western norms such as proposing in 1993 for APEC to be renamed as Asia Pacific Economic Community and arguing in 1990 for the upcoming ASEAN-led security organisation (ARF) to be patterned after Organisation for Security Community (OSCE). Yet it has reconciled with the diluted forms of both the organisations. China for its part has directly impacted the nature and process of institution building in the region when it successfully persuaded in having the third ARF goal of *conflict resolution* changed to *elaboration of approaches to conflict*. It had also adopted a rigid and uncompromising approach on the subject of ARF's progression from Confidence Building Measures (CBMs) to Preventive Diplomacy and has largely sided with ASEAN members who were themselves keen on a slower pace of ARF's institutionalization. It has also asserted that at the ADMM Plus level, it is only prepared to discuss the non-traditional security issues. In essence, Australia as a middle power is more likely to pursue regionalism than a big power

such as China which would prefer bilateralism or if it did support regionalism, it would do so in a limited manner. Another principal difference between Australia and China towards regionalism of any sorts would be that while Australia would advocate more for economic regionalism, China would endeavour to draw in regional countries into both an economic and security regionalism with the latter being the more pressing and ultimate objective. Yet, one common theme underlying any Asian regionalism that cuts across both Australia and China is that both for different reasons have begun with a negative perception in the eye of the others in the region. China for its communist ideology and propensity to propagate and export instability through its massive network of ethnic Chinese and Australia for a largely pro-Western foreign policy and White supremacist domestic policy.

Regardless, while Australia was a principal sponsor behind APEC and an early dialogue partner of ASEAN, China made a late entry into APEC as well as the ASEAN process of regionalism even as it has possibly succeeded in surpassing Australia when it comes to possessing and exercising influence in the working of the ASEAN-led forums. The advent of APT seems to have further strengthened China's hand, although the materialization of East Asia Summit (EAS) embracing Australia and subsequently US and even Russia has altered the balance if not created an anomalous situation. From China's standpoint, bearing in mind its earlier support to Mahathir's EAEC, it was at the APT summit in Manila in 1999 when Prime Minister Zhu Rongji had proposed the idea of launching the ASEAN-China FTA with an unilateral offer to open its market to ASEAN countries for an initial period of five years, during which no reciprocal market liberalization was expected from ASEAN countries (Hund 2003: 403). The APT's Track-II think tank network called NEAT is based in the PRC with China also leading the study into an APT-wide preferential trading arrangement, the East Asia Free Trade Agreement (EFTA) (Cook 2008: 302). Indeed, Chinese attitudes towards multilateralism are quite instrumental, as indicated by the official discourse. For instance, in a July 1999 speech, China's chief negotiator on the matter of its WTO membership told an audience of Chinese officials and researchers not to "take international organizations that seriously.... When our country joins an international organization, our top priority remains our sovereignty and our national interest. . . . We will not do anything contradictory to our national interest." (Wang 2000: 485) This approach applies to security too. For its part, Australian approach to multilateralism has been no less instrumental. According to the liberal Alexander Downer, 'For us, regionalism is always going to be practical regionalism looking at ways that we can work with our region to secure our own economic and security

objectives. Practical regionalism' was not about regionalism at all – in the sense of building collaborative mechanisms and a feeling of belonging among certain states – but about doing pragmatic things with countries close to Australia on issues where their interests coincided with Canberra's' (Wesley 2007). In 2008, the Labour Prime Minister Kevin Rudd's proposal for an Asia Pacific Community in 2008 envisaging a comprehensive body spanning Asia Pacific region to address both economic and strategic issues on a single platform had a mixed reception in the region and beyond-- some cautiously optimistic, some partly in favour, some expecting more clarity and some downright dismissive. The Liberal Party for one had been utterly dismissive whereas China had displayed a positive response.

In August 2009, a spokesperson for China's Ambassador to Australia (Zhang Junsai) said that Beijing was open-minded about Australia's proposal. He had commented that it was China's hope that significant Asia-Pacific countries could collaborate effectively through more exchanges in order to establish mutual political trust, intensify cooperation for mutual benefit, foster common development and benefit together from win-win progress. China's keenness on the proposed Asia Pacific Community was further evident when it volunteered to host the first conference. (Frost 2009: 21). But this Chinese enthusiasm was later tempered due to Stern Hu trial. As opposed to Asia-Pacific regionalism, East Asian regionalism appears to be both driven as well as held hostage to the long-standing and enduring rivalry between China and Japan. While Japan wouldn't be very keen on any regional enterprise independent of the US, the fear of China seizing the initiative and thereafter the leadership makes the Japanese 'join the bandwagon' with lesser resistance (Pan 2008: 24). The same can also be said of China which would also be wary of Japan appropriating the leadership in the region with the tacit backing of distant powers such as the US. Yet, South Korea's role on East Asian regionalism and Japan's role on monetary regionalism is important in that both leaders attempted to create a strategic space for Asian states to move away from total dependence on their alliances with the US. Notwithstanding its eventual failure, Japanese Prime Minister Hatoyama's conception of an East Asian Community to the exclusion of the US has a subliminal message. And that is: US can't take the region for granted including its close allies. Incidentally, Australia (in addition to New Zealand) has been a member of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), an important venue of central bank cooperation in the region and which notably excludes the US (Dieter 2008: 502). It is a different matter altogether though that the failure of the Hatoyama and Rudd

initiatives also underscores the problems of legitimacy that Japan and Australia face, in regional institution-building (Acharya 2012: 15).

Regardless of such competitive regionalisms in an intensely complex political landscape, nothing diminishes the contribution of APEC and ASEAN-led institutions towards Australia-China bilateral relations. Borrowing on Vinod Aggarwal's differentiation between regimes and meta-regimes, both ASEAN and APEC have adhered to the meta-regime of free trade and regional cooperation while pursuing them through different regimes—APEC's open regionalism and ASEAN's closed regionalism. In another instance, ASEAN and APEC drew on the meta-regime of regional cooperation to achieve the regime of CBMs and Preventive Diplomacy in case of ASEAN-led ARF, and trade and investment promotion and technical and development cooperation in case of APEC. Extending this analogy, the meta-regime of informal and consensual regional multilateralism of APEC and ASEAN alike has paved the way for the regime of a stronger Australia-China bilateral relationship. At the very least, they have provided a foundation of familiarity for the two countries to reinforce mutual trust and even share positive norm-building processes and institutions.

## Chapter VI

### CONCLUSION

Any concluding analysis of relations between Australia and China perforce merits an assessment drawn on material evidences and experiences in the given period 1989 to 2005, as well as afterwards. Coupled with the substantive cooperative accomplishments, both in economic and security spheres marking their bilateral relations landscape, these material evidences also include the evolving nature and disposition of respective political regimes including that of the US (a major variable) and Taiwan (a critical issue-area between the two), individual leaderships, and instances of policy measures or intent, favourable or even contrarian if any, to their long-established positions. The emerging pulse of the public opinion—perceptions of lay people through opinion polls in conjunction with assorted views of policy intellectuals, commentators and analysts and sundry interest groups—on the subject of relationship with the other country and even the third intervening variable country, namely, the US in this case, is also accounted for, regardless of their impact value, robust or restrictive.

At the beginning of this thesis, there were five research questions that were sought to be tested through the study of relations between Australia and China. They were as follows. First, while Australia is a middle level power and will remain so in the foreseeable future, China is an emerging superpower that is only likely to get more powerful. Second, at the foreign policymaking level, there is a reasonable degree of convergence in the Australian establishment, whereas in China there is near unanimity on foreign policy matters. Third, both Australia and China will not always deal with each other from a relative position of strength. Fourth, Australia's engagement with China is also an endeavour towards seeking a larger regional identity for itself. Fifth, in the short to middle term, while trading and economic strength would determine the degree of influence a country would wield, in the long term, headstart in defence technology and science would be the key. The validation of these hypotheses has been incorporated in the following analysis which has proceeded on a thematic basis.

Based on this study in the earlier chapters, it has emerged as a near axiom that the rapidly developing economic and commercial inter-linkages between Australia and China have

served as key agents of acceleration in broader bilateral cooperation between the two countries. That China became Australia's second largest goods and services, and merchandise partner by 2005 from being 10<sup>th</sup> largest goods and services partner and 11<sup>th</sup> largest merchandise partner in 1989, testifies to the enormous commercial value that China has held for Australia. Around 40% of Australia's total raw material exports went to China in 2005 which was a modest 3.7% in 1989 with share of agricultural exports rising from 3.7% in 1989 to 9.87% by 2005. Indeed, China has been the largest market for Australian resource sector. Services-wise, even as China stood lower down the order in 1989 as 16<sup>th</sup> largest partner for Australia, it has recovered since to being in the 6<sup>th</sup> position by 2005 and 3<sup>rd</sup> by 2009. In 2010, China became Australia's biggest services export market. Education and travel services have been hallmarks of Australia-China service trade. And given that China surpassed Japan to become the largest merchandise trading partner in 2007 and indeed the largest trading partner (goods and services combined) in 2009 reinforces the consistency in this commercial relationship. Amid this intensifying relationship, the US has been notably disadvantaged as it steadily, albeit arguably, relinquishes politico-economic leverage to China vis-à-vis Australia. In 2008-09, China has gone on to overtake the United States to become Australia's largest import source. Particularly in terms of import of high technology manufactures, China has again closed the gap with the US. In 1989, the US was the largest source constituting 40% of Australia's high-technology manufactures imports as against China's measly 0.42%. By 2005, US' share had slumped to 18.5% against China's 16.5% and China was only second to US. Eventually in 2007, China supplanted US as the largest source of high technology manufactures imports for Australia. Notwithstanding the preceding figures indicating an apparent Australian commercial tilt from US towards China, US still continues to be the largest source of foreign investment in Australia just as it is also the largest recipient of outgoing Australian investment. For the sake of comparative perspective, US-origin FDI stocks constitute 26.7% of total inward stocks in Australia against an abysmal 1.3% of China-origin. Equally, of total Australian out-bound investment stocks, the US has received an overwhelming 28.9% against China's 1.8 percent underscoring the US dominance and inter-dependence of production structures and markets between Australia and the US. Moreover, Australia has also signed and implemented a Free Trade Agreement with US, a striking provision of which is that investments in Australia are to be reviewed by the FIRB only if they are above A\$ 800 million instead of A\$ 50 million for the other countries. However, coterminous with the Australia-China and Australia-US dynamics, there is another bilateral economic linkage that has a bearing on the Australia-China relationship: US-China trade

relations. Further to China displacing Japan as the largest foreign holder of U.S. debt in September 2008, by 2018 for US, China is the largest merchandise trading partner, 3<sup>rd</sup> largest goods export market and largest supplier of goods imports. From Chinese perspective, the United States is its largest overseas market and second largest source of foreign direct investment on a cumulative basis. Therefore, US itself is locked in a complex inter-dependent commercial relationship with China.

Unlike the US and Australia, an FTA for long had eluded Australia–China dyad although the negotiations had commenced as early as May 2005 and Australia had even granted a market economy status to China as a pre-condition to FTA talks, alleviating Chinese concerns over anti-dumping implications stemming from a non-market economy status. Nonetheless, after over twenty rounds of negotiations through nearly a decade with a spirited pursuit by the Liberal government of Tony Abbot in the last stages, the FTA finally entered into force in December 2015, within months of the coming in of the Malcolm Turnbull government. It must be said that whether the ongoing differences, especially over Chinese SOEs' vigorous demand for a more liberal investment-entry regime in Australia, has been resolved is far from clear. However in actual terms, thanks to the FTA, more than 85% of Australia's goods exports to China (by value) enter the country duty-free which is set to rise to 93% by January 2019 and 97.9% by 1st January 2019 (the date for full implementation). The accomplishment of the FTA had acquired added urgency in light of Australia having signed an FTA with South Korea in April 2014 and an Economic Partnership Agreement with Japan in July 2014, two of China's competing giants in Northeast Asia. Therefore, by way of Australia-China FTA entering into force, China would offset that disadvantage that it has vis-à-vis US in its relationship with Australia setting in course for an even closer Australia-China relationship, perhaps at the expense of the US. Nonetheless, just as Howard government's pursuit of Australia-US Free Trade Area (AUSFTA) was perceived to be serving broader foreign policy and strategic objectives for Australia more than any commercial purpose, Australia's attempt to secure Preferential Trade Agreements (PTAs) with China and Japan can also be read in the context of broader foreign policy and strategic objectives. This line of argument while serves to subordinate economic and commercial imperatives to the larger strategic objectives, simultaneously also lends strength and parity to Australia-China ties when contrasted against Australia-US ties.

In a larger regional context considering Asia or more specifically East Asia as an economic unit, from the early twenty-first century, the US has been steadily supplanted by China as the



predominant trading and investment partner of the countries in the East Asian region. By taking over the US' position of being the largest trading partner of most of the East Asian countries including that of Japan and South Korea and by sourcing most of the investment capital from within the region itself, China has powered itself into the centre of the regional production network within a very short span of time, a fact that has not gone unnoticed in Canberra. Australia has also actively cultivated regional economies, bilaterally as well as in a multilateral framework. To cite an example, between 1989 and 2005, Australia's total trade in goods and services with ASEAN has grown over 5-times, a figure that goes up substantially when only ASEAN 6 is accounted for. In 2004, Australia signed its first multi-country FTA with ASEAN which entered into force in 2010, the same year China's FTA with ASEAN entered into force. Australia has also implemented a series of bilateral FTAs in the region: with Singapore (2003), Thailand (2005), Malaysia (2013), and negotiations are underway with Indonesia. In terms of investment too, the extraordinary rise in investment by both Australia and China in the region is steadily undercutting US' presence. Expanding this East Asian perspective onto the larger Asian spectrum, Asia attracted 56% of total Australian goods exports in 1989 which increased to 66% by 2005 which has further escalated to an astonishing 78% by 2016 underlining Asia's primacy for Australian commerce. In another estimate, Asia accounted for over 70 per cent of Australia's total exports in 2010-11 up from 50.7 per cent in 1990-91. In respect of import sources also, there was a shift from Europe and the Americas towards Asia, though the shift has not been as strong as that recorded for Australia's exports.

Against the foregoing analysis laying down the rationale for stronger Australia-China relations through the prism of economy and commerce, security and defence in their relations as a mediating factor merits no less examination. Unlike trade and economy which is a relatively more straightforward indicator of bilateral ties between two countries, defence and security by its very nature presupposes a more complex and multi-dimensional study. As such for Australia and China also, bilateral security ties inevitably get yoked to an array of extraneous variables: prevailing regional and global environment, relevant 'non-bilateral' security issues, the emerging theoretical differentiation and yet sustained operational linkage between security and non-security, the role of multilateral security institutions and above all, the intervening influence of other regional actors most particularly, the US. And all this in combination with the substantive and almost quantifiable security collaborative arrangements between the two complete the picture.

There is no doubt that as regards tangible defence cooperation, Australia's ties with the US are far deeper and broader than any plausible defence relations between Australia and China that can be, at least in the short to medium term. Yet, the manifest advancement that has characterised Australia-China security relations with reference to its own past can't be easily overlooked. Since 1989 when Tiananmen incident had temporarily arrested their already gathering bilateral momentum, concerted defence and security cooperation from a near-negligible status has attained reasonable shape and substance. From expansion of annual bilateral disarmament discussions to include regional security issues in 1996, to formalisation of a regular dialogue between the defence agencies of the two countries in 1997 after its establishment in 1994, the two countries have made incremental progress. In addition, the visits and exchange of defence personnel at the highest level, to military educational exchanges, to making of port calls by respective warships, to conducting joint military exercises (lately for humanitarian assistance and disaster relief)— all this has given further impetus to this dynamic. In the wake of Sep 11 attacks, the standard theory of the arc of instability in its north and north-east gets disputed by way of a new 'arc of terrorism stretching from Southeast Asia into Pakistan and Central Asia and maybe even further afield', thereby sharpening the doctrinal divide between near-geography vs. far-off expeditionary force exponents within Australian defence policy circles. Paradoxically, this domestic division enables Australia attaining more perceptible security congruence with China given that non-traditional security issues come to the centre of security policy spectrum in consequence, a subject dealt with at length in chapters II and V of this thesis. In 2008, Australia upgraded its bilateral Defence Strategic Dialogue to talks at the Secretary of Defence and Chief of Defence Force level. In 2013, the Julia Gillard government has even elevated the bilateral equation to a strategic partnership paving the way for a meeting of Australian prime minister and the Chinese premier on an annual basis. Admittedly, when contrasted with robust Australia-US defence ties, such developments seem rather modest and can at best be described as *defence diplomacy* as a part of larger 'strategic hedging' strategy. However, this assessment needs to be placed against the fact that neither Australia nor China harbours any territorial or maritime or any resource disputes between themselves. It is only outside their bilateral realm that any policy divergence in their defence outlook can be discerned. But this divergence also occurs in a mutually conceived convergent environment. That Australia and China alike have been active participants in regional multilateral security institutions, primarily ARF, and APEC to a limited extent, illustrates their cooperative defence engagement in a multilateral setting. But the difference in outlook relates to the pace

and scope of these regional security institutions in which they jointly participate. For instance, as the ARF began to be operationalised through the three-stages of Confidence Building Measures (CBMs), Preventive Diplomacy and the Development of Conflict Resolution mechanisms, Australia and China increasingly found themselves ranged against each other. Particularly the manner in which Australia, notably along with Japan and the US, was keen on forcing the pace of the ARF institutionalisation by way of measures such as an enhanced mandate for the Chair as to utilising the good offices, the development of a Register of Experts/Eminent Persons (EEPs) among ARF participants, production of an Annual Security Outlook (ASO), and voluntary background briefing (by each participating country) on regional security issues— there was a clear difference in regional defence outlook between the two countries. At the same time, there is no denying the fact that both the countries (along with others) have co-chaired (not necessarily always together with each other), made briefings and representations to multiple processes and bodies under the aegis of ARF on a multiplicity of security issues including *inter alia* maritime security, nuclear safety, humanitarian assistance and disaster relief, counter-terrorism and trans-national crime, non-proliferation and disarmament, disease detection and surveillance, cyber security, etc. Likewise in APEC, an organisation whose security aspects are predicated on the overlapping dimensions of trade, business mobility and transport and transit security, Australia and China have cooperated under the flagship Secure Trade in the APEC Region (STAR) initiative in a multilateral framework. As trading nations and by virtue of being critical trading partners, Australia and China have mutual interests in security of vital international sea lanes of transport and communication and stability of world markets. However, within the multilateral security framework, the critics could argue that US has cooperated with China as vigorously as Australia, as indeed have done several other players including Japan, South Korea and others. Most importantly, none of these bilateral or multilateral modes of security cooperation between Australia and China can discount or match the intensity of close and independent defence relationship between Australia and the US. So, how do the trilateral US-Australia-China dynamics play on Australia-China equation?

During his September 2007 visit to Australia, Pacific Commander Admiral Timothy Keating stated, “Every war we fought for the last century, the Australians have been with us, and we have been with them ...they are members of the coalition of the committed, nor just the coalition of the willing.” Not surprisingly, Australia has often been called the staunchest military and indeed all-purpose ally of the US in the Asia-Pacific. A Major Non-NATO Ally

(MNNA) tied by the security treaty ANZUS, it has possibly been the strongest spoke in the 'hub-and-spoke' security strategy of the US and participated in nearly all the military campaigns in the region under the leadership of the US. However, according to Desmond Ball, a leading defence and security analyst and academic: "The fundamental bases of the US–Australian alliance are not the ANZUS Treaty or the many dozen other defence cooperation agreements between Australia and the United States, but the UKUSA Agreement of 1947–48 concerning SIGINT cooperation and exchange, and the maintenance of the 'joint facilities' in Australia. It is really these which comprise 'the ties that bind'." These joint facilities, in particular the Pine Gap has been intricately linked to the research and development of National Missile Defence (NMD) and Theatre Missile Defence (TMD) systems, which has been underway for over two decades. Australia is likely to be an eventual beneficiary if these technological systems do bear fruition. At the politico-administrative level, since 1985, Australia has conducted Australia US Ministerial (AUSMIN) dialogue with US, a forum where the foreign and defence ministers of the two countries engage in a comprehensive discussion on major global and regional issues in order to deepen bilateral foreign policy and defence cooperation. Over the years, their defence relationship has only strengthened further as evident from a series of joint declarations and joint statements laying the basis for greater bilateral military collaboration in the form of joint exercises and training under several simulated conditions, joint operations in multiple theatres and substantive defence hardware and technology sharing. Particularly from China's point of view, the US-Australia Joint Security Declaration or Sydney Statement of 1998 in the wake of Trans-Straits crisis and US-Japan coalescing had been directed towards its containment. Furthermore, the US-Australia Treaty on Defence Trade Cooperation in Sep 2007 and approved by the US Senate in 2010 has even gone to the extent of easing licensing and defence transfer regulations restrictions associated with International Traffic in Arms Regulations (ITAR) further consolidating an already enduring strategic inter-operability between the two militaries. With the 'pivot to Asia' and 'rebalancing towards Asia' as parts of the larger regional strategy of Obama administration, the Nov 2011 announcement of rotational deployment of US marines in Darwin seeks to resurrect the American presence in the region with Australia as a key partner and stakeholder. While the official Chinese response to this development was restrained, the unofficial media had come down heavily with some denouncing both Australia and China for triggering a naval arms race. Adopting a moderate tone, the Chinese foreign ministry spokesman Liu Weimin had reacted, "It may not be quite appropriate to intensify and expand military alliances and may not be in the interests

of countries within this region.” But Global Times, a state-run newspaper had squarely ticked off Australia saying that Australia should be cautious as it risked getting “caught in the cross fire”. Nonetheless, on top of the Defence Trade Cooperation Treaty between US and Australia in 2013, the 25-year force posture agreement in Aug 2014 between the two allowing the rotation of US marines and air force personnel through Northern Australia and setting up a bilateral working group to examine options for potential Australian contributions to ballistic missile defence in the region underlines the continuity in the robustness of their security relationship. Although the advent of the Trump government has caused a bit of concern, more especially in the context of the widely reported telephonic exchange between Trump and Turnbull on a refugee agreement by the previous Obama dispensation, it is unlikely that there would be long-term fallout given the depth and the historical closeness between US and Australia.

Therefore based on the overwhelming material evidence in favour of Australia-US security relations against Australia-China security relations as laid out above, one is inclined to privilege the former over the latter. Yet, as pointed out before, security relations between two countries are not a perfect sum of defence treaties and political-strategic opportunities in a perfect situation. Instead it is a far more complex dynamic that hinges on a wide range of other factors: net cost-benefit assessment of the benefactor power in a given emergency scenario, both political and economic; the financial strength to absorb costs without impacting the domestic economy; the political ideology and leanings of the ruling party; the psycho-political make-up of the leader in power; the overwhelming mood of the general public; and most importantly, the perceived justness and reasonableness of the issue for which a crisis-situation between two countries arose in the first place. If history is any guide, Nazi Germany went on to attack Soviet Russia even after having signed a security treaty. Critics would rightly argue that Hitler led a despotic government and a democratic government is not or less likely to do so. But closer to our times, the invasion of Iraq under the pretext of WMDs had been presided over by a democratically elected Bush government. Then the rapidly growing acceptance of Responsibility to Protect (R2P) as a legitimate force of international politico-military diplomacy further complicates the security relations between two countries. In another scenario which relates to Taiwan, a subject that directly bears upon Australia-China security relations, in a situation where a democratic China uses force to incorporate Taiwan would be responded to in a drastically different manner by the international community than in one where an authoritarian China attempts to do the same. In

the latter situation, the security treaty between Australia and China may not be tested as much but certainly in the former, strains would clearly appear between the two.

Speaking of Taiwan, the question of Australia's policy position on Taiwan Strait makes it the fourth vital leg in addition to the established triumvirate of PRC, Republic of China (ROC) and the US. Undeniably and in large measure for Australia, the road to Taipei goes through Beijing— going by the DFAT website proclaiming "Australian Government policy towards Taiwan is based on the Joint Communiqué with the People's Republic of China (PRC) of 21 December 1972." And just like the US, Australia endorses and follows the 'One China' policy. Yet, unlike US, but like Australia, Taiwan is an important middle power, with a population almost equal to Australia. More importantly, Taiwan's transformation into a successful democracy elevating its diplomatic standing among the international community, though highly desirable, has nonetheless further compounded the policy dilemma for Australia. Within Taiwan, while democratisation has strengthened the constituencies for independence and sovereignty on the one hand, democratisation and the implicit Taiwanisation of politics also assumes a default renunciation of the original Taiwanese claim of being the legitimate government of both PRC and Taiwan.

There is a subtle difference between what can be termed 'bilateral equation' between Australia and Taiwan and Australia's stand on cross-Strait affairs. First of all, it had been primarily an economic rationale driven by the desire to harvest the benefits arising out of the National Six Year Development Plan (1991-96) announced by the Taiwanese government that was behind Australia-ROC rapprochement. In terms of trade, Taiwan was Australia's sixth largest merchandise export (3.7% of total exports) as well as import market (3.8% of total imports) in 1989. At first glance, over the years, Taiwan's economic importance for Australia seems to have more or less stayed the same if not diminished (import dependence has gone down). By 2005 for Australia, Taiwan became the 8th largest merchandise export market (3.86% of total exports) and 15th largest source of merchandise imports (2.3%) in 2005. However on a closer look, in real terms, Australian exports to Taiwan have grown considerably aside from the fact that Australia has consistently run a trade surplus with Taiwan underlining the latter's economic value for the former to some extent. Yet, in terms of investment, Taiwan didn't figure among the top ten countries investing in Australia nor did it find a place among top outward investment destinations from Australia in 2005-6, even though there has been an improvement in recent years. As for China, Taiwan's total trading value vis-a-vis PRC had leaped from a mere \$15 million in 1989 to \$5673 million by 2005 as against US (from \$2850

million to \$3986 million) and Australia (from \$242 million to \$586 million). It must also be noted that for all the years between 1989 and 2001, Taiwan had recorded a trade surplus with the US—as against trade deficit with both China and Australia. It was only in 2002 when Taiwan registered its first trade surplus with China and had continued to do so until 2010 indicating its rising dependency on Chinese economy; alternately its trade deficit with Australia has persisted though, as has its trade surplus with the US. Does running a trade deficit with Taiwan for both China and US imply a diminished political importance of Taiwan from their standpoint? Not necessarily. On the contrary, building a close commercial relationship with the island-economy despite incurring loss of foreign exchange suggests the unstinting political commitment to the sustenance of Taiwan as a *de facto* state on the part of the US. This however must also be qualified with Taiwan serving as the ‘unsinkable aircraft carrier’ for US’ strategic self-interests. For China, maintaining a normal commercial relationship with an economy that it considers as inseparable part of ‘One China’ serves two crucial purposes. One, by construction of commercial networks and links, it steadily gains and nurtures constituencies that it could employ as a political leverage in future for a peaceful reunification under PRC. And two, it demonstrates its intent for ‘peaceful development’ to the larger international community. All this implies that economically by way of comparison with the PRC and the US, Taiwan remains far behind yet not completely irrelevant from Australian standpoint.

Economic complexities notwithstanding, Australian stance on cross-Strait relations would inexorably differ from Australia-Taiwan bilateral relations for one fundamental reason, i.e., any cross-Strait dynamic necessarily assumes a predominantly political dimension not least because it also directly brings into play the stakes and roles of ‘significant others’, namely, the PRC and the US; whereas Australian Taiwanese policy in the bilateral realm is chiefly driven by economics, and that too in a limited way when compared against China and the US. As noted above, since China and the US are more closely linked with Taiwanese economy compared to Australia, the value of Taiwan for Australia from a strict political economy perspective becomes relatively modest. However, that the bilateral economic relationship with Taiwan is perforce situated in a multilateral political milieu, it is the politico-military dimensions of Taiwan that perforce assume more relevance for Australia. The 2003 White Paper *Advancing the National Interest* noted that conflict between the United States and China was possible, stating ‘Taiwan will continue to be a potential source of serious tension between the United States and China. The possibility of miscalculation leading to conflict is

real, although small'. In a follow-up, *Defence Update 2003* had predicted continuing strategic competition between the United States and China, especially concerning Taiwan: 'strategic competition between the United States and China will continue over the next decade, and the possibility of miscalculation over Taiwan persists'. Therefore any military conflict across the Taiwan Straits would have profound consequences on Australia, given that Northeast Asia provides up to 35% of Australia's trade according to an observation by Flood Report on the quality of Australian national intelligence capabilities. Therefore, even as Taiwan as an independent economy may not be relatively as significant as compared to China and the US, Taiwan's geopolitical location and the potential in generating disastrous region-wide spillover effects from a conflict with China implies Australia's immense stakes in trans-Straits stability. At the same time, the fact that Australia consented to supply uranium to Taiwan, an issue on which it strongly backs a complementary and bilateral safeguards agreement as a core pre-condition for transfer, a clause that does/can not apply to Taiwan since Australia doesn't consider Taiwan as a sovereign nation-state as bound by its one-China commitment— means that Australia has been mindful of Taiwan's need for peaceful uses of nuclear energy, and correspondingly somewhat sought to keep its China-Taiwan dynamics on an even keel. Australia even went so far as to conclude a safeguards agreement with the US, which would enrich Australian uranium for Taiwan and thereafter pass it on to Taiwan. Far from Taiwan Straits but involving Taiwan, it has already been observed how Australia and China have cooperated in South Pacific one of the highlights being when Howard government had virtually engineered the ouster of Vohor government in Vanuatu because of its recognition of Taiwan as a nation-state—in effect subscribing and adhering to the Chinese regional strategic perspective. That China leveraged its economic clout with Australia to extract an explicit position in its favour essentially on a security issue validates the hypothesis that China is an emerging superpower in its own right.

In the wake of passage of an 'anti-secession law' in March 2005 laying down a legal basis for China's use of force against Taiwan should it decide to unilaterally proclaim independence, the Chinese Foreign Ministry's Director-General of North American and Oceanian Affairs, He Yafei, warned Australia to adopt a highly measured view of the scope of ANZUS' in a way as to exclude a Taiwan contingency. This is very crucial because it also implicitly signifies Chinese taking a realistic view of Australia-US defence relations, given that the statement doesn't criticise ANZUS *per se*. Not surprisingly, on Howard's visit to China immediately after the passage of anti-secession law, when asked to give his reaction he



stated, "...I don't believe that I was asked to give support for it and I did not. I in fact did not express a view on the anti-secession law. I wasn't asked to and I saw no point in doing so". This reflects the strategic ambiguity that Australia seeks to maintain over Taiwan allowing it to carry out day-to-day economic and political affairs with Taiwan and China alike. More notably, that the Chinese restrained themselves from gauging Howard's opinion signifies a subtle understanding for Australia's policy constraints on Taiwan. This is an improvement from 1997 when Foreign Minister Downer had to explicitly declare it in so many words, "...Just as Australia through its one China Policy—continues to appreciate and understand China's sensitivities on Taiwan, it is important China understands that many Australian jobs and family incomes depend on our important economic and trade relationship with Taiwan..." It must be admitted though that the focus of the anti-Secession law was however not forceful unification but to prevent independence of Taiwan. Therefore, China has essentially taken recourse to a two-pronged policy—repeated and strong assertions of not renouncing the option of force on Taiwan, bolstering offensive missile and weapon systems targeted at Taiwan and orchestrating public sentiments within Taiwan in favour of reunification on the one hand, and at the same time, introducing a subtle element of moderation in its Taiwan posture especially in light of the failed and dishonourable military adventure in 1996 on the other. By the end of the century, Chinese presented formulations advancing a step further than "one-country two systems", renouncing the emphasis of "One-China *under PRC*" with even the name, national flag and anthem being open to negotiations. Yet, even as this new formulation has not been further elucidated, China has indeed gone ahead with its military 'fortification' in relation to Taiwan through a 'sea-denial strategy' in tandem with its air force and other networked systems to neutralize any possible US military intervention. US for its part has decided to maintain 'strategic status quo' on the Straits periodically pre-empting Taiwanese political class from any explicit and unilateral attempts to alter the status quo. Significantly, as far back as May 1996, President Clinton had publicly stated "we recently reached an agreement with Taiwan that will provide them with a theater missile defense capability" while also placing limitations on ranks and purpose of military officials visiting Taiwan. Yet these limitations did not prevent Taiwan from retaining the rank of the top Asian arms buyer from the US in the subsequent years. Taiwan had been the leading Asian purchaser of US defense articles and services for the periods 2002-05 (\$ 4 billion) and 2006-09 (\$ 3.5 billion), and was only second best to Japan in 2009 (\$ 790 million against Japan's \$ 1.2 billion) (in terms of deliveries concluded). Continuing with the trend,

between 2010 and 2015, Taiwan has remained among the top arms importing markets from the US.

Therefore, any Australian involvement in a Trans-Straits face-off would be contingent on how and why the conflict was triggered in the first place. Indeed, Australia (along with Singapore) has stated categorically that it wouldn't come to Taiwan's aid should it provoke Beijing into starting a war. As Taiwan as a democratic polity matures and a greater number of Taiwanese get increasingly veered towards independence as opposed to reunification, as multiple polls over the years have revealed<sup>191</sup>; and if PRC resorts to a unilateral military expedition, Australia would have an intensified policy dilemma on its hands. However, in light of Alexander Downer's pronouncements as to the possible exclusion of Taiwan from ANZUS' purview, a fact duly noted by the September 2005 US-China Economic and Security Review Commission's report commenting 'regrettably, the Downer statement is not an isolated case', it becomes significant from Australia-China bilateral point of view. Even though Downer was made to retract and Prime Minister Howard himself sought to set the record straight reiterating Australia-US special relationship, the message is not lost on the international community. That Downer represented the Liberal government further adds to the ambiguity. The election of Tsai Ing-wen in 2016 of the DPP, an avowedly pro-independence outfit, may pose fresh challenge to Australia-China relations.

Just as the Trans-Straits relations was subject to the nature and ideology of Taiwanese political party that occupied office, can it be analogised that the Australia-China relations in the end has depended on the political character and the policy preferences of the party that is in power? In other words, is there a bipartisan political consensus in Australia on the country's relationship with China or is the Australian polity divided down the middle on China? Apparently and a casual reading of the foreign policy trajectory of Australia indicates that the Labour Party's overwhelming foreign policy prioritisation towards China came at the expense of long and deeply-embedded links with the US. However, a closer examination suggests otherwise. To start with, irrespective of the political party coming to power, and in spite of the establishment of formal diplomatic relations with China and its subsequent impressive growth, an intensely close defence ties with the US have remained unscathed, and if anything have grown even stronger. Although the Labour government of Gough Whitlam had officially sowed the seeds for closer Australia-China relations, the successor Liberal

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<sup>191</sup> In polls conducted by United Daily in Oct 2013, respondents when asked to choose between only two options independence and reunification, 71% voted for independence and only 18% supported reunification

government of Malcolm Fraser belying expectations had continued overtures towards China from where his Labour predecessor had left. On his warmly-received China visit, Fraser had made suggestions with the implication that Australia, China, Japan and US had common interests against Soviet Russia, a proposition that China had accepted. So much so that Moscow thought that Fraser was pursuing a double alignment with US and China separately against Soviet Russia. Afterwards, the accession to power of Hawke's Labour government did not in any way fundamentally recast Australia's foreign policy vis-à-vis the US or China. For one, Hawke had continued with Fraser's policy of allowing logistical back up in the monitoring of MX missile tests by the US in Tasman Sea. But more prominently, Hawke government's standing steadfast on its security commitments with the US in the face of neighbouring ally New Zealand's repudiation and eventual forsaking of ANZUS on a cause as sensitive as nuclear powered and armed vessels docking on its ports, a cause which was equally pressing for a wide section of Australian labour – emphatically illustrates the politics behind Australian foreign policy remaining broadly bipartisan in nature. In another instance that showed Hawke's Labour government's according precedence to US presence in a regional architecture, namely, APEC, contrary to many accounts that hinted at Australia's initial disinclination to invite the US, Hawke's memoir's make it explicit that he always wanted the US in. Then the Australian participation in the first Gulf War under the US' leadership is another demonstration of Hawke's Labour government's security commitment to the US. The advent of Paul Keating's Labour government while heralding a more independent national identity with a pronounced 'Asianised' bias did not allow an intensified regional economic and security engagement to override its security alliance with the US. Indeed Keating had repeatedly argued in favour of continued US military engagement in East Asia and Asia-Pacific. The 1994 Defence White Paper had reaffirmed the ANZUS alliance with the US as a "key element of our defence policy." Simultaneously on China, there was a subtle alarmist undertone as the White Paper while acknowledging China's rise, almost cautioned that its economic growth "...will affect global power relationships and become a dominant factor in the strategic framework in Asia and the Pacific." Coming from the stable of a political party that had formally laid the foundations for diplomatic ties with China, it was at best a 'realistically measured' view, but nonetheless denoting bipartisanship in their political culture. With Liberal-Coalition Howard government's coming to power and its virtually skewed foreign policy leanings extraordinarily in favour of the US, the hypothesis of Australian political bipartisanship is contested most strongly. Howard's unequivocal support of US against China during 1996 Taiwan Straits stand-off resulting in termination of

Development Import Finance Facility for China, stand on EP-3 surveillance aircraft, first-time invocation of ANZUS in the immediate aftermath of September 11, the decision to dispatch troops to Iraq without the UN sanction and overriding domestic opposition and further fortification of Australia-US defence ties – all conform to the standard premise of an excessively close Australia-US relations. However, this manifest pro-US policy position did not preclude a series of China-friendly pronouncements and measures. From ‘central feature of Australian foreign policy’ to ‘economic strategic partnership’, to ‘strategic economic relationship’ to independent ‘strategic relationship’, there were sufficient statements and gestures emanating from the Liberal-Coalition party to signal an equally pro-China policy disposition. Admittedly, as Michael Wesley explains, this frequent usage of the word ‘strategic’ is to maintain a sense of ambiguity and does not necessarily mean a long term security relationship. Nonetheless, in addition to these positive statements, there have been policy actions that lend credence to the China-friendly thesis. Besides Howard choosing to eschew condemnation of China’s human rights record at UN bodies in defiance of US, the bilateral human rights dialogue initiated in 1997 decidedly represented a softening of Australia’s position on China in deference to the latter’s preferences as compared to the earlier more intrusive form of dispatch of delegations and monitoring. Moreover, Howard’s declining to support US in obtaining EU’s extension of arms embargo against China and actively canvassing for China’s WTO membership were again pro-China policy stances. That an overtly US-disposed Howard government made these concessions vis-à-vis China in addition to supporting the bipartisan hypothesis also supports the hypothesis that Australia would not always deal with China from a relative position of strength. This means that Australia is willing to lower expectations, make compromises and not ‘coerce’ China into coming round to its own principles and world-view. This is especially evident with respect to human rights. When Labour government of Kevin Rudd in its 2009 White Paper called China’s military modernization ‘a cause for concern if not carefully explained’, the successor Julia Gillard’s Labour government attempted to tone down the alarmist view of China in the *Australia in the Asian Century* White Paper. However, the stationing of US marines in 2011 again underscores the centrality of US in Australian defence policymaking confirming the hypothesis that political bipartisanship runs right through Australia’s policy approach on China.

Similar to political consensus or the lack of it, the larger public opinion forms a sizable component of any bilateral relationship matrix between two countries. Given the sensitivity

and growing salience, Australia's relations with China with the US as an intermediary factor have been frequently subjected to the test of public opinion through various mass media over the years.

In a Morgan Gallup Poll in May and June 1989 when respondents were asked whether there was any threat to Australia from any country, 52% in May and 51% in June had said that there was an external threat to the country. However when asked which countries constituted a threat, while in May only 7% had called China a threat, the June poll had 16% dubbing China as a threat to Australia. However, this 'threatening picture' had changed substantially by 2005. In a 2005 Lowy poll, 69% of Australians had positive feelings for China against 58% for the US. 68% of Australians even thought Australia took unduly high notice of the views of the United States in its foreign policy. In fact, US foreign policy as a worrying factor was perceived equivalent to Islamic fundamentalism by 57% of Australians. By comparison, China's growing power worried only 35% of Australians. When asked if Australia should support the US in a war with China over Taiwan, 57% opposed and only 21% agreed. This was even as 72% Australians thought that alliance with US was 'very important' or 'fairly important'. In terms of trade, whereas 83% of respondents thought that an FTA with US was bad for Australia, 51% thought that an FTA with China would be good for Australia.

According to 2013 Lowy poll, 87% of Australians think that it's possible to have a good relation with China and the US at the same time. Only 12% think it is 'not possible for Australia to have a good relationship with China and a good relationship with the United States at the same time'. Most Australians (76%) see China as the most important economy to Australia at the moment, far more than the 16% who say the United States economy is the most important. However, despite the Chinese importance to Australian economy, more Australians place a higher value in a relationship with the US (48%) than China (37%) while 10% think both are equally important. Fifty-seven per cent of Australians consider that the Australian Government is allowing too much investment from China, and a significant minority (41%) think it likely that China will become a military threat to Australia in the next 20 years. Support for the alliance with the US remains extremely strong at 82%, and a majority of Australians (54%) regard the alliance as 'very important' to Australia's security. Basing US forces in Australia is an increasingly popular policy, with 61% of Australians saying they are in favour. However, 76% believe Australia should only support US military action if it is authorised by the United Nations. Only 38% say Australia should support US

military action in Asia. Western Australians, whose state has close economic ties with China, are far less wary of China's military intentions. Twenty-six per cent of Western Australians think it likely that China will become a military threat in the next 20 years.

The aforesaid numbers though clearly indicate Australian people placing higher premium on relations with the US than China, the margin is not too large. Public poll results are more often than not a reflection of the prevailing mood driven by a contemporarily dominant issue occupying respondents' mindspaces. The poor opinion of the US in 2005 was possibly fueled by the Bush government's unpopular Iraq war. The higher alliance emphasis with the US by 2013 was in consequence of two major developing trends in terms of public perception. First, the widespread view of an increasingly powerful China and its recent aggressive behaviour particularly in South China Sea. And second, an all-around feeling of insecurity as a result of newer and multiple threat perceptions to the individual such as terrorism, transport and transit insecurity, economic insecurity and natural disasters, among others. One notable inference that can be discerned from the polls is that the areas or provinces that have greater economic ties perceive the other actor less in military or threat terms. Therefore, if Western Australians tend to perceive China less of a threat stemming from their close economic connections, all Australia needs to do is to diversify its economic centres of activities fostering a wider spread of geographical centres of economic stakeholders within Australia with intersecting interests in China. But at the same time, despite the overwhelming economic importance of China compared to the US, that the larger number of Australians privilege the security alliance with US as well as their over-all relationship over China suggests two inferences. One, while the economic relations have their own place, in the end it is the military or security aspect that guarantees the survival of a nation-state and therefore the population. Australians who have been historically conditioned to 'fear their geography' are more likely to choose military over economy. Their already-existing extremely close defence relations with the US, only increases this likelihood. This inference also confirms the hypothesis that in the short to middle term, while trading and economic strength would determine the degree of influence a country would wield and thereby the course of a relationship, in the long term, headstart in defence technology and science would be the key. The second inference that emerges from this behaviour is that Australians make a judgment based on the simple premise of what suits best where. So, if China serves their economic purpose, they strike a close economic relation with it. Likewise, if US serves as a capable and reliable security guarantor, they choose US over everyone else, thus keeping the economic and security aspects separate. Another crucial

point about public opinion is that it exercises limited influence over actual military policy design and implementation, though not negligible, even in a liberal democracy such as Australia. An adverse public opinion didn't deter US invasion of Vietnam and more recently Iraq in which Australia had participated. Therefore in a military situation involving Taiwan, the probability of an Australian government respecting public opinion would hinge on how strong the government is electorally in terms of votes polled, seats in the Senate and the House and the general confidence that it enjoys among the people. Much would also depend on how public opinion in Australia throws its weight behind Australian army joining forces with the US on Taiwan. As noted, public opinions have not had a decisive bearing on a major military campaign initiated by a country though they have certainly prompted governments to put an end to a military stand-off. In this respect, how far militarily China would go to secure Taiwan also becomes important.

Taking the thread from the all-round climate of public opinion as well as the stance of the political class, any bilateral relationship is inevitable placed in a larger regional setting. As such, Australia's relations with China and the US are not immune to the evolving regional dynamics exerted by other regional actors and institutions. In chapter V, we have already seen how Australia's extensive interactions with regional groupings such as APEC ASEAN, ARF, EAS, among others indicate pronounced middle power diplomacy whereby it strives to achieve a congruence between securing its individual self-interests and facilitating the collective interests of the region by way of essaying the role of a 'good international citizen'. Australia's fervent and constructivist approach towards some of the leading regional and global issues including, inter alia, arms control, disarmament, non-proliferation, human rights, environment and climate change and trade promotion through initiatives bearing distinctly Australian stamp with names such as Australia Group, Canberra Commission on the elimination of Nuclear Weapons and Cairns Group – and some others such as G20, MIKTA<sup>192</sup> in recent years – bear resounding testimonies to its middle-power contribution.

Former foreign minister Gareth Evans defines middle power in terms of "their tendency to pursue multilateral solutions to international problems, their tendency to embrace compromise positions in international disputes, and their tendency to embrace notions of 'good international citizenship' to guide their diplomacy". International relations literature generally defines "middle powers" as countries which have sufficient material resources and

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<sup>192</sup> An acronym based on first names of five middle power countries Mexico, Indonesia, South Korea, Turkey and Australia whose foreign ministers met first time in Sep 2013 on the sidelines of UN General Assembly meet

diplomatic standing within the international community to exercise leadership on key issues relating to international rule-building and rule-adherence, but are not "great powers". While China constitutes the material resources aspect of Australia's middle power status, its diplomatic standing (at least so far) perhaps has to do with close political and civilizational linkages with the Anglo-American countries that have repeatedly shaped and reshaped the larger world order. No less also has been the prominent role played by leading Australians such as HV Evatt in designing the institutional architecture of UN in its formative years – earning for Australia a middle power appellation. However even as the material basis of the sustainability of Australia's middle power status is contingent on China, middle power approach itself has provided the necessary force and rationale behind closer Australia-China relations as evident in numerous regional groupings and platforms where they have cooperated. Therefore middle power diplomacy is not divorced from pursuit of national interests, as Bruce Grant writes, "But it does not mean abandoning normal prudence on issues of national security and economic benefit. It means rather an additional effort on issues of interest to others as well as to Australia that we judge are ready for action." Drawing on this argument, while Australia can pursue its commercial interests with China independently without any baggage, as a middle power it can also serve as an effective mediator and agent of communication between its foremost security ally and leading commercial partner advocating strategic restraint premised on the potency of collective security. Even Howard government which had been by majority accounts inclined distinctively and disproportionately towards the US had projected middle power posture by way of keenly seeking membership of regional organisations such as EAS. Then Kevin Rudd's reinvigoration of G20 as a congregation of leaders from a meeting of finance ministers and central bankers in response to the 2008 financial crisis was a remarkable illustration of middle power leadership. However Kevin Rudd's another middle power initiative for an Asia Pacific Community (APC) had received qualified acceptance by China and eventually foundered for a variety of reasons: being over-ambitious in scope, abrupt presentation not backed by concrete programmes, and strategic indifference on part of regional players. This however has to be viewed in context of the larger regional and indeed global debate which has been underway for last few years, at least since the Great Recession of 2008-9. And that is: whether the post-World War II *Pax Americana* underwritten by the preponderant US military and economic power is financially sustainable any more? And whether the prevailing deterrence guarantees afforded by US' strategic primacy in East Asia and Asia-Pacific can withstand a challenge from China's rapidly bolstering of military assets stemming from near-



consistent delivery of high growth rates over the years as compared to the US? The answer to the latter question partly lies in the affirmative springing from the almost insurmountable gap that the US has managed to create between itself and the rest and therefore at least in the short to medium term, China can't match the US in terms of real firepower. But to neutralize the US' formidable firepower, China is indeed gearing itself with asymmetrical war strategies involving Revolution in Military Affairs (RMA) technologies built around a combination of network-centric information warfare, sea and air denial, and precision warfare, among others. More important however is the answer to the first question. Scholars like Christopher Layne from University of Texas A&M have already written the epitaph for the US-led unipolar world order, and according to whom, the Great Recession of 2008-9 has officially delivered the coup de grace culminating in the irretrievable 'demise of the US unipolarity'. In the end the demise was precipitated by the inevitable collapse of the US economy—an ultra-consumption driven debt-economy subsisting on outside credit resulting in mounting budgetary, trade and current account deficits, and more importantly, spiralling foreign debt—repeatedly delivering negligible growth rates. In contrast, China's extraordinary spell of growth rates, even when relatively modest in some years, has been substantive enough to increasingly contribute to a larger share of World GDP, and is rapidly closing the gap with the US. By some estimates, China has already overtaken the US economy in purchasing power parity terms. Nonetheless, the upshot is that China's growing economic power would inexorably translate into a stronger military might which can offer credible resistance to the US. And in order to redress its economic problems, US would have to eventually scale down its over-stretched military forces in East Asia and Asia-Pacific (and elsewhere), with the concomitant upsurge of Chinese military power in the region. However, as noted earlier, in a measure reminiscent of traditional great power politics, Obama administration's pivot to Asia and strategic rebalancing is an unequivocal policy signal that the declining superpower is not about to cede military ground in the region despite the pressures on retrenchment and retreat. In fact, it has even reinforced its alliance partnerships in the region raising the spectre of a revitalized containment strategy from the Chinese point of view. Although the precise foreign policy nuances of the relatively new Trump administration are far from clear, the new President's pronounced *America first* with an aggressively transactional policy disposition are merely indicative at this point in time. The coming to power of Democratic Party of Japan's (DPJ) Hatoyama government in 2009 had momentarily portended a radical revision of long-standing US-centric foreign policy which was however stalled due to the government's premature fall. The advent of the Liberal Democratic Party's Shinzo Abe government though has

reaffirmed close relations with the US, Abe's propensity to revisit the post-War pacifist constitution and the resultant militant nationalism with its sensitive implications for the other key ally such as South Korea has created foreign policy predicament for the US. This is however likely to be taken more kindly by Trump administration. Regardless, the close and substantive defence ties with the US have stood undiminished. The massive Lower House win for Abe's party in Oct. 2017 should only be a boost for Trump's US. Then South Korea, a Major Non NATO Ally (MNNA) and a missile defence beneficiary – until the ascension to power of the new President Moon Jae-in – too had intensified defence relations with the US notwithstanding the soft undercurrents of differences over previous President Park Geun Hye's "trustpolitik" with North Korea with a view to achieve reunification, transfer of wartime operational control (OPCON), and right to nuclear enrichment technology and reprocessing of spent fuels. Even post-coming to power of the new Moon government, South Korea has continued to display signs of moderation towards China especially through a pledge to support the latter's Belt and Road Initiative (BRI) possibly in a conciliatory gesture towards the emerging superpower in the backdrop of the deployment of THAAD. Similar to Australia, South Korea too is considered as a middle power increasingly likely to question its security dynamics with the US and this must be viewed in light of the fact that any US military response outside the peninsula in an East Asian conflict is subject to consent by South Korea. However, the new South Korean President's soft approach towards North Korea despite the latter's unrelenting and almost 'normalized missile launch policy' is unlikely to go well with President Trump. At the same time, the recent appreciation of Trump by Moon for nudging North Korea towards talks with the South may well be a tactic by the latter to maintain an approximate balance of perception between two unpredictable leaders. Hence the over-all picture that emerges in North-east Asia including Taiwan is one of undoubtedly fortified US security alliances in the region concurrent with the slight though subtle impulse on part of allies to strike an independent policy stance if not totally deviate from US' strategic standpoint. For Trump on his part, during his Asia visit towards the end of 2017, he repeatedly invoked the term Indo-Pacific demonstrating the continued US commitment to the emerging Quad of US, Australia, India and Japan particularly keeping in mind the Chinese displaying an overtly belligerent stance vis-a-vis the South China Sea, the One Belt One Road (OBOR) and so on lately. So, although Trump has abandoned the economic component of the pivot, namely the Trans Pacific Partnership (TPP), the politico-military component apparently remains intact.

South-east Asia for the US on the other hand is a more complex political landscape with myriad dimensions derived from historical stereotypes, competing economic and commercial imperatives, recurrent political instability, new security challenges, and above all, conflicting narratives for regionalism. With two former treaty allies in the form of Thailand and Philippines, a close security partnership with Singapore and Brunei, a steady but selective defence cooperation with Malaysia, a developing security relation with Vietnam and incipient security engagement with Indonesia, the US has embarked on a region-wide security relationship building programme. Through the Lower Mekong Initiative (LMI), it is also reaching out to Cambodia, Laos and Myanmar, an assortment of communist and military authoritarian strongholds, in general closer to China compared to US. But since they also fall under Vietnam's considerable influence – especially Cambodia and Laos – US' revamping its relations with Vietnam holds out significant potential strategic dividends for it. The new President's overtures to so-called illiberal regimes of Thailand, Philippines and Malaysia also appears to be a more 'realist' approach roughly derived from the maxim *if you can't beat them join them*. Or in other words, if you can't change them, accept them for what they are.

But China on its part too is carefully and systematically crafting partnerships and arrangements to meet this challenge. Now that Chinese polity gets more authoritarian with power getting increasingly concentrated in Xi Jinping's hands, the Chinese would be even more resolute than ever on foreign policy. It would also imply a greater foreign policy challenge for Australia. Besides China's growing economic leverage over the countries of East Asia including that of Japan and South Korea as noted earlier, it is also astutely cultivating US alliance partners such as Thailand tapping into the sharp socio-political polarization in consequence of the coup. China has also vastly improved its relations with Indonesia – a critical player from Australia's point of view – nearly overcoming seemingly irreconcilable historical sensitivities. Moreover, countries like Indonesia, Malaysia and Singapore are employing savvy understated hedging strategies and are unlikely to cast their lot indiscriminately with the US in a real conflict scenario with China. As a matter of fact, not one country is openly balancing, external or internal, against either the US or China. Neither is anyone explicitly bandwagoning with any of the two. At best, most of them seem to be practicing hedging which involves engaging enough with both US and China based on merit in a way that doesn't antagonize either of the two. Therefore, it is far from decided how each individual actor would respond in a real conflict scenario involving US and China. The non-participation of Thailand and Philippines, US treaty allies, and Indonesia in the Trans-Pacific

Partnership (TPP) – a trading bloc widely projected as rivalling the Regional Comprehensive Economic Partnership (RCEP) but now a defunct body thanks to the withdrawal of Trump government – further lends a sense of uncertainty to the US diplomatic-security position in the East Asian/Southeast Asian region. However, US in concert with Australia has sought to counter this by enlarging the East Asian sphere of competition to include the Indian Ocean, resonant in the increasing usage of the term Indo-Pacific as a part of their strategic vocabulary. From the rotational deployment of marines in Darwin to the growing prospects of US registering heightened military presence in Australia’s north and west, Cocos Islands being one of them – in tandem with Australian forces themselves repositioning in north and west – the strategic focus on the Indian Ocean and its far reaches to the west has certainly magnified. Apart from the nurturing of Quad as mentioned before, the incorporation of India in this regard is a part of that larger strategy. After the Indo-US civil nuclear deal in 2008, the Abbot government’s signing of a similar deal with India, a non-signatory to the NPT, is in further pursuit of that objective. However, mere embracing of India into a cooperative arrangement serves no iron-clad guarantee of an unqualified Indian support in all circumstances. India is known and has strong foundations in strategic autonomy in its foreign policy and despite its deep-seated suspicions of China, a situation both China and India are endeavouring to redress, the presumption of a default Indian support would be misplaced if not erroneous.

What does it all mean for Australia? In light of other regional actors’ open-ended positions and the inexorable drawdown of the US military presence, howsoever belated, how does Australia weigh its options and calibrate its resources and strategies? Mindful of a possible recourse to “alternative strategies” by even as close regional allies as Japan and South Korea (at par with Australia) in the event of a real conflict between US and China, Australia has to make a comprehensive assessment of its national interests before it takes a decision one way or another. Neither security alone nor commercial dependence solely should be the criterion for decision-making. In a force posture review by former Australian defence secretaries Allan Hawke and Ric Smith in 2012, one of the key strategic judgments arrived at was: “the margin of US strategic primacy in the Asia-Pacific is reducing as China rises, even more quickly than anticipated in the 2009 Defence White Paper on account of shifting of distribution of power”. In view of US’ diminishing financial commitment to regional defence expenditure, the likelihood of it to expect local allies such as Australia to make a greater contribution increases, which only adds to the dilemmas for the latter given its own increasingly stretched

defence budget. Australia also has to remember that it can not in any way impact the material outcome of a military confrontation between the US and China and therefore the question whether it should participate at all in such an eventuality becomes more worthwhile. In his book *Dangerous Allies*, former Liberal Prime Minister Malcolm Fraser has strongly advised against Australia's close military alliance with the US. Arguing that hosting defence installations for an ally such as US could dangerously land Australia in a crossfire between US and China and could end up in a war not of its own making and over which it had no choice. Elsewhere, Fraser has also cited lack of Australian control over some of the defence installations. Also as discussed in detail in chapter II, maintenance of an absolute security reliance on US is fraught with risks as historically, US is known to have joined theatres of war only for its own sake and not really for any alliance commitment. Offering a slightly different perspective, Hugh White, former senior advisor to Defence Minister Kim Beazley and Prime Minister Bob Hawke in his 2010 Quarterly Essay, *Power Shift*, has advocated sharing of power between US and China as equals in a regional concert of powers arrangement in which Australia should disengage from the US and accommodate China. The strongest argument against this line of reasoning is that what is the assurance that if Taiwan was allowed to be incorporated into China, it would look no further, reminiscent of the failed appeasement of the World War era? And would US simply let Australia "off the hook"? Moreover, the very presumption that there is *inevitability* of a conflict between US and China is not entirely convincing. It is true that nation-states have to prepare for full-spectrum scenarios, starting from best to the worst. But to think that the worst case scenario is inevitable is to overlook the promising side. For, China has in fact benefited from a US-led and underwritten regional order developing sufficient inter-dependencies for it to overturn the 'system'. Admittedly in recent years, it has resorted to a more coercive diplomacy in establishing its claims over the South China Sea islands. But a distinction has to be made between physically laying a claim to slivers of islands and annexing an independently functioning democratic territory such as Taiwan. The passage of 2006 anti-secession law was more aimed at prevention of Taiwan's unilateral declaration of independence instead of undertaking a forcible incorporation of it.

Australia has four options which are mutually non-exclusive: influence and mould US strategic opinion on China in the direction of a favourable outlook; shape China's military and diplomatic worldviews in ways that anticipate a more conciliatory posture towards the US besides projecting a more rule-abiding image; strike out a truly independent posture

derived from its own objective self-interests, short, medium and long term; and lastly in keeping with the spirit of a middle power, build effective regional and global “coalitions of the unwilling” among the international community against any possible major military adventurism both on the part of the US and China. The immediate goal must be conflict avoidance with the long-term goal being sustained stability and peace in the region. While the third and fourth options may appear to be contradicting the first two, a closer examination indicates otherwise. Prodding both US and China onto a cooperative trajectory and independent weighing of its self-interests can be pursued in unison with fulfilling the middle power responsibility of preparing the “coalitions of the unwilling”. Though it is not easy, it is not too difficult also, particularly in light of both US and China facing their own individual domestic problems. China’s inevitable rise has not been without its own domestic daunting challenges some of which include growth-induced rising class as well as urban-rural disparity, rising prices, food safety, corruption in business and governance, ageing population and healthcare finance, environmental degradation, human rights, among others. Similarly, Australia has its own share of problems and the aforementioned third option of adopting an independent course can also be a method to address those problems. The excessive dependence of Australian exports on commodities and less on manufactures in the long run is always fraught with risk because the terms of trade for commodities would always be less than the terms of trade for manufacturing. Therefore, one indirect but potent way of putting in place a framework for long-term independent course in foreign policy would be by diversifying its export baskets to include those goods and services that have relatively higher terms of trade in the international market. To be sure, this has to be based on partial restructuring of the domestic economy, suitable resource allocation, and right policy adoption directed towards creating greater domestic wealth only which then can translate into a powerful military capability thus paving the way for a truly independent foreign policy – in the same way as it has worked for China and lately faltered for the US. But since that remains a task for the future, Australia’s military inter-dependence with the US steeped in realist traditions, at least in the short to medium term should outweigh its growing economic dependence on China if there is an either-or situation between the US and China. The Wikileaks revelations involving former Deputy Prime Minister and then Australian Ambassador Kim Beazley’s comments to US Ambassador Robert McCallum is a stark and unambiguous pointer towards where Australia’s strategic priorities really (read dependence) lie. Wikileaks had summarised the comments as follows: “In the event of a war between the United States and China, Australia would have absolutely no alternative but to line up

militarily beside the US. Otherwise the alliance would be effectively dead and buried, something that Australia could never afford to see happen.” Furthermore, the 2010 Wikileaks revelations on former Prime Minister and then Foreign Minister Kevin Rudd’s (a Sinophile at that) conversation with the US Secretary of State Hillary Clinton in which the former described himself as “a brutal realist on China” advocating “preparing to deploy force if everything goes wrong” only confirms Australia’s strategic outlook. Even so, this can’t undervalue the immense progress in relationship that has been made between Australia and China between 1989 and 2005 and even afterwards. Australia’s clear departure from US on human rights, support for China’s membership of global bodies such as WTO and enhanced position at IMF, the common regional security and non-traditional security concerns, overwhelming number of Chinese students and tourists in Australia, close people to people and cities-to-cities links – all provide the underpinnings of a special relations of its own kind between the two countries. Therefore, Australian foreign policy does not have to make a structural shift from one of US-centric to China-centric one. Australia can manage both relations independently and successfully despite the inter-linking dynamics. In the end, it is a matter of how a relationship is viewed – whether by taking a maximalist interpretation or a minimalist interpretation. Needless to say, the former interpretation defines the bilateral relations between Australia and China.

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