Australia's Engagement of China: 
From Fear to Greed and Back Again

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2017 marks several important anniversaries for Australia’s international policy. It is 75 years since the passing of the Statute of Westminster which made Australia a genuinely independent player in international politics.¹ Up until that point the country had been, in foreign policy terms, subordinate entirely to Britain. The year also marks a full decade since China replaced Japan as the country’s most important two-way trading partner.² This shift, perhaps more than any other, signified a sea change in Australia’s international existence. Ten years have now passed since Australia has had a top trading partner that is not an ally, a partner of an ally, a democracy or a country that is culturally or politically similar to it. Most crucially, during that decade Australia’s economic and strategic interests appear to be headed on separate and potentially conflicting courses. As each year has gone by, with the exception of 2015, two way trade has grown in value and as a share of Australia’s total trade. While at the same time the security and strategic relationship with Washington has become ever closer.³

2017 also marks 45 years of formal diplomatic relations between Australia and the PRC. It is thus a good time to cast a critical eye over Australia’s engagement with China. The aim of this paper is to examine how the country has managed its relationship with China and to draw some preliminary conclusions about what

³ See Nick Bisley ”An ally for all the years to come”: Why Australia is not a conflicted American ally” in Australian Journal of International Affairs in Australian Journal of International Affairs 67.4, 2013, pp. 403-18.
this informs us about how ‘torn’ allies of the US respond to the divergence of economic and strategic interests. In charting the move being fearful of a vast communist power to having a self-styled ‘strategic partnership’ but one tinged with concern, the paper will be in four sections. The first provides an assessment of the broad trends in the relationship with a focus on the first three decades. The second will examine the past ten years and particularly assess the ways in which Australia’s active courtship of China has begun to be tempered by concerns about the destabilising security and strategic consequences of the country’s return to power.

The third section will assess the options Australia faces and the growing polarisation of opinion between security ‘hawks’ and economic ‘doves’ in public debate about Australia’s future. The paper will conclude by explaining why Australia finds taking a nuanced position in relation to its engagement with China currently so difficult.

At the outset it is worth making the case why Australia’s relations with China are of broader significance. First, Australia is a close ally with the US; among the closest allies Washington has in the world. Yet its economic interests seem to be pulling the country in a different direction from its strategic ties. Like many other American allies in Asia, it is potentially torn between Beijing and Washington. Close analysis of the forces shaping its approach are of broader significance. Second, the direction and character of Australia’s approach to China reflect the complex interplay of domestic and international forces, structural and agential, that defy any neat compartmentalization in grand IR theories. Assessment of this relationship can help contribute to debates about the ways in which middle ranking states, particularly one heavily dependent on globalization for its wellbeing, manage their relations with great powers. Finally, engagement with China is the most important development in the 75 years of independent foreign policy. China’s rise is disrupting not only the conventional balance of economic and strategic interests the Commonwealth has enjoyed it is undermining the broader international order. How Australia approaches these
issues will be the defining feature of Australian international policy in the coming decades.

The First Decades of Australian Engagement with China

The world with which a newly independent Australian foreign policy had to cope and manage was one going through convulsive upheaval. Post-war Asia was beset with conflicts, revolutionary movements and dangerous nationalisms as the crumbling of empires and Cold War geopolitics collided. The sense that many Australians had that their region was inherently unstable and conflict prone was prompted by a range of factors but central amongst them was the victory of the communist party in China’s civil war and the creation of the People’s Republic.

When the PRC was proclaimed in October 1949, the then Labor government considered recognizing the new China. However, the election of the Menzies government in December 1949, with its staunchly anti-communist platform, put that issue to bed. Indeed, the prevailing attitude toward ‘communist China’, as it was referred to, was one of hostility and fear. Yet even though politically and diplomatically, Canberra was antagonistic, the two countries did trade with one another to a surprising level given Cold War divisions. For much of that period Australia enjoyed a healthy trade surplus, principally based on wool and wheat exports. Indeed in the mid 1960s China was consuming one-third of Australia’s wheat exports and was the sixth most important export market for that decade. A good example of complementary markets working despite there being no formal political links.

The transformation of the Australia-China relationship began with the normalization of relations in the early 1970s. Famously, as opposition leader Gough Whitlam travelled to China in 1971 to signal his intent not only to be a serious figure on the international stage but also that a Labor government would

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take Australia on a quite different path in its foreign policy. After winning the 1972 election, Whitlam made good on his promise to recognize China and to open the door to a more Asia-centric foreign policy. As Whitlam said during a prime ministerial visit to Beijing in 1973: ‘Australia is moving in an new direction, in its relationship with the world and specifically with the region in which it inevitably belongs...In Peking today we give expression to our new international outlook.’

Developing a relationship with China was about building links to the world’s most populous country, and one which was improving its ties with Canberra’s close ally, the United States, but the move was also about re-orienting Australia’s international engagement away from its historical North Atlantic outlook. Perhaps the most surprising aspect of the ALP’s approach to China was not that it occurred but that after the fall of that short lived government in 1975, that the policy was not only sustained but actively developed by Malcolm Fraser.

If the recognition of China was motivated by the desire to ensure Australia’s policy reflected the character of its international interests, as they were and were likely to become. Since that time Australian engagement with China was largely driven by the sense of economic opportunity created by Deng Xiaoping’s ‘reform and opening up’ program.

Given space constraints I cannot examine in detail the evolution of the relationship from the late 1970s to the early 2000s in its specifics. Rather I want to draw out the larger ideas driving Australian engagement with China during this period. A central animating idea behind Australia’s pursuit of good relations with Beijing was the desire for Australia to have strong and effective working relationships with all the region’s major powers. As a middle ranking power in a region dominated by a small number of really large countries Australia will

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8 For an excellent discussion of this period see James Curran, ‘‘The World Changes’: Australia’s China Policy in the Wake of Empire’ in James Reilly and Jingdong Yuan (eds) *Australia and China at 40* Sydney: UNSW Press, 2012, pp. 22-43.
always be a ‘price taker’ in the region’s strategic balance. The country has sought to ameliorate this to the extent which it can through a number of means, through multilateral institutions as well as through investment in key bilateral relationships. The turn to China orchestrated by Whitlam and his government and continued by all governments since that time was prompted by the sense of China’s growing importance to the region and of course to Australia.

Although economic interests have now become such a significant part of Australia’s approach to China – of major trading economies Australia is among the most dependent on China in the world\textsuperscript{10} – the ideas driving engagement have been about more than maximising economic benefit. One of the most important of these is the belief that a rising China is compatible with the prevailing liberal international order. Indeed, it has become almost an article of faith among many policy makers and business people that as China has been possibly the greatest collective beneficiary of globalization and the liberal international order it has no interest undercutting or transforming that order.

One can also discern a further liberal belief in Australia’s approach to China: that engaging with China economically would help to bind Beijing to a status quo international outlook. A China that had deeper economic interests in the status quo would, so this logic goes, begin to see its interests and those of the prevailing international order as coterminous. By Canberra advancing stronger economic ties not only was it seeking to benefit from Chinese growth it would help contribute in some small way to the creation of a ‘golden straitjacket’ that would help keep the region stable even as its biggest country become its richest.

This was informed by the country’s profound investment in the maintenance of the prevailing strategic balance and open economic order that had been in place since the end of the Second World War. For the bulk of that period China was either essentially outside that order or such a minor player, both economically and strategically, that its growth – however rapid – would not unsettle those

\textsuperscript{10} Australian Trade Commission, \textit{How Dependent are Australian Exports on China} February 2015 \url{file:///Users/nbisley/Downloads/TIN-How-dependent-are-Australian-exports-to-China.pdf}. 
basic settings. Perhaps the most important task of Australian international policy is to ensure the country is well positioned in terms of the prevailing strategic and economic balance. And the country's approach to China comfortably sat within those parameters. The challenge of the past decade or so is the realization that the speed and scale of China's rise, alongside the ambitions of its leaders, mean that these old assumptions are being challenged in ways few had hitherto imagined.

*The Recent Past: Never Having to Choose*

From the late 1970s until the early 2000s, positive engagement was driven by the sense of economic opportunity and broader foreign policy objectives. There was one brief exception to this which occurred in the months after John Howard's election in 1996. Shortly after being elected in a landslide the conservative leader was presented with his first foreign policy challenge, the Taiwan Straits crisis caused by Chinese attempts to intimate Taiwanese voters in the lead up to that country's presidential election.

The Coalition government was strongly critical of China, supported America's firm military response to the crisis and proceeded to take other steps toward China that were perceived by Beijing as attempts to contain it. In response China banned ministerial visits and, as Allan Gyngell writes 'the Australian ambassador in Beijing was unable to secure access to Chinese officials himself or visiting Australians.'¹¹ Relations eased following a meeting between Howard and Jiang Zemin at APEC and with Howard's March 1997 visit to China Australian policy reverted back to positive engagement pattern established by Howard's predecessors.

The Howard government developed an innovation based on its difficult experiences in 1996 and that would shape its approach for the next decade. The move was to adopt a compartmentalization strategy toward China. Australia

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would focus on shared interests and would bracket out or compartmentalize the issues over which the two had differences, such as human rights, democratization and strategic issues. Rather than confront vexed issues, the two would work collaboratively on areas of common interest and not publically disagree about other matters. This, alongside the warm relationship that developed between Jiang and Howard, as well as the broader contextual circumstances that were conducive to the relationship – China’s growing standing in the region following the Asian financial crisis, the improved Sino-American relationship following 9/11 – led to the culmination of this period of Sino-Australian relations, the addresses to the Australian parliament on two successive days in August 2003 by the American President, George W. Bush and then Chinese leader Hu Jintao. This symbolised not just Australia’s standing in the region and the capacity to develop excellent relationships with the two most important countries but the underlying belief that China’s rise could be incorporated within the prevailing international order.

Although it was not evident at the time, those two speeches marked the end of the easy phase of Australian engagement with China. Indeed at the time of the successive speeches one did not hear the phrase that has come to dominate government articulation of its handling of the Sino-Australian relationship: that Australia does not have to choose between Washington and Beijing. But life for Australia was becoming more complex. A first hint of the realization of this came during a doorstop interview held by Alexander Downer in China. He pointed out that a war between the US and China over Taiwan would not automatically trigger ANZUS.\(^\text{12}\) The remark caused considerable consternation and was publically walked back by the PM. Downer’s comments were echoed ten years on when in 2014 then Defence Minister David Johnston said that if there were a conflict in the East China Sea then ANZUS would not automatically be triggered.\(^\text{13}\) Johnston’s intent was the same as Downer’s: to signal that Australia’s alliance


\(^\text{13}\) Comments in \textit{Lateline} transcript ‘Australia supports Japan’s return to “normal defence posture”’ \textit{Lateline} 12 June 2014 ABC Television, \url{www.abc.net.au/lateline/content/2014/s4024426.htm}. 
with the US would not bind it unnecessarily. But ten years on, rather than being publically rebuked by his PM, the comments elicited no formal response from government and little more than a yawn from the commentariat. This change reflected the shifting contextual circumstances and in particular was a reflection of a decade in which Australian policy had travelled under the comfortable if somewhat disingenuous idea that Australia should not have to choose between China and the US. Or as John Howard put it in school yard argot, just because I make a new friend doesn’t mean I have to stop being playing with my old friends.

What lies behind the move to this characterisation of the relationship from simple partnership to the slightly defensive, ‘we don’t have to choose’ characterisation?

The Downer remarks were controversial in part because they reflected a divergence in approaches to China between Washington and Canberra that were beginning to become apparent. Where the Howard government saw complimentary characteristics between China’s rise and the status quo, Washington was beginning to see a potential ‘peer competitor’. American strategic policy in Asia has long been predicated on its broader global strategy of maintaining a favourable balance of power in Western Europe, the Middle East and East Asia. China’s rapid growth presented the nascent possibility of it becoming a country that challenged American power and prestige in Asia. This created a subtle but distinct change in the two countries’ perceptions of China. Particularly as the possibilities of a US-China contest began to become apparent.

Never having to choose became a means of effectively putting off the difficult choices for a future that Canberra hoped (indeed continues to hope) will never come. To be clear, ‘never having to choose’ was always a public slogan. Howard was keen to emphasise to Chinese leaders in private the obvious reality that, in terms of strategy and defence Australia had made a profound choice, to bind

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itself to the US, but that it did not necessarily see this as an anti-China choice. The alliance and its commitments did not preclude close, strong and effective relations with China. Indeed a core piece of diplomatic signalling was to emphasise to China that the alliance was not targeted at anyone. It was equally informed by the belief that while relations between the US and China may be competitive they were not inevitably feted to fight. But the message was also clear: Australia was not open to be picked off in the way some of Asia’s poorer countries might be.

This approach reflected the underlying liberal ideas that had animated policy since the 1970s, that China and the US can both find satisfaction in the prevailing order, indeed that China’s well-being is predicated on the perpetuation of those liberal conditions. But it marked a subtle shift toward a realization that this may not always hold and that a degree of diplomatic careful handling and subtle reworking of the relations to an active compartmentalization of issues that had not been required previously was now necessary. But, as the influential analyst Paul Kelly observed at the end of Howard’s prime ministership, this approach ‘was an effective formula overall for Howard in his time. Its durability is an open issue.’

By the late 2000s the invocation that Australia did not have to choose between Beijing and Washington was increasingly ringing hollow. In less than 18 months in office, Howard’s successor, Kevin Rudd discovered how challenging China could be. Rudd came to office with expectations from many in Australia and beyond that his expertise in China, interest in foreign affairs and fluency in Mandarin would likely usher in a new period of close relations with the PRC. Indeed Japan was concerned that the new PM would move decisively away from the close ties forged between the two US allies by PM Howard. Yet the opposite occurred. Rudd’s first 18 months saw a series of incidents that led some

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16 Kelly, *Howard’s Decade*, p.69.
Commentators to describe 2009 as the ‘annus horribilis’ of Australia-China relations.\textsuperscript{18} This included Rudd perceived to be hectoring China about human rights at a lecture at Peking University, the rejection of Chinalco’s efforts to increase its stake in Rio Tinto, the arrest of Stern Hu, a China-born Australian executive at Rio Tinto, the granting of a visa to Rubiya Kadeer a Uyghur political activist to attend a film festival and the naming of China as a geopolitical risk in the 2009 Defence White Paper.

Rudd had attempted to deviate from the broader trajectory of Australia-China relations established by Howard. He sought to bring contentious issues to the surface, most obviously human rights and China’s growing military power, in the belief that his government could manage the fall out. This was a miscalculation. After attempting to spin the story as Australia standing up to China, the government reverted to the pragmatic compartmentalization developed by Howard. However, even only two years on from Howard’s departure from office, Canberra and indeed the region sensed that the ability to manage relations in this way could not be the basis of a long-term strategy. Even though publically Rudd walked back from his more confident tone in his early months, in private he remained concerned about the potential challenge a rising China presented.\textsuperscript{19}

Rudd lost the prime ministership after a successful leadership challenge made Julia Gillard Australia’s first female prime minister in June 2010. In contrast to Rudd she brought little prior experience or interest in foreign affairs. Yet it was during her time in office that a key structural feature of the Australia-China relationship was created. After 24 months of discussion and negotiation, in 2013 the two countries announced the creation of a formal strategic partnership.\textsuperscript{20} This entailed annual meetings of the Australian Prime Minister and the Chinese premier as well as regular cabinet level meetings on politics and economic

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\item \textsuperscript{18} Michael Sainsbury, ‘Kevin Rudd breached Chinese trust says Geoff Raby’ in \textit{The Australian} 4 June 2012.
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issues. The aim was have a mechanism for structured communication to build trust and have an institutionalised means for managing relations. At the leaders’ level there was now a mechanism to try to draw together the political and the economic dimensions of the relationship.

Following a sound defeat at the federal election held in September 2013, the centre-left ALP was replaced by the conservative Liberal-National Coalition led by Prime Minister Tony Abbott. The government was notable for an inept domestic political agenda – leading to Abbott’s overthrow less than two years into his first term – but on foreign policy it had a much surer hand. The government took many of its cues from the Howard term in office; a number of key players in the government had held ministerial posts under Howard, while Abbott’s senior adviser in foreign affairs, Andrew Shearer, had held the same role toward the end of Howard’s premiership.

The government’s core aim was to develop strong political relationships with all of the region’s major powers, China, Japan, India and the US. It also put a clear priority on strategic concerns ahead of economic issues; economic policy would be used to advance strategic goals. Taking its cues from the Howard period, it sought to signal more clearly to Beijing that the alliance with the US was fundamental to Australian policy and that it would more clearly articulate positions in relation to regional issues that reflected this American affiliation. Taken together this meant that at the same time that the government concluded an economically sub-optimal FTA and led the biggest trade delegation to China in the country’s history to signal its good intention, it also publically took positions, in relation to the ADIZ announcement in 2013 and the South China Sea disputes that made plain where Australia stood. Abbott’s team believed that the ALP’s handling of the compartmentalization strategy had led to a muddying of the waters about Australia’s regional posture. Abbott’s government did not follow the early Rudd period of open criticism over contentious issues, but did stand more firmly in relation to moves China made in regional affairs that it perceived were out of step with the prevailing order. Abbott famously said to Angela
Merkel that Australian policy was driven by fear and greed. Hitherto greed, if that is quite the right term, had predominated, by the mid 2010s the approach had now became an admixture of alarm and opportunism.

This sentiment was reinforced by the increasingly assertive approach China had begun to take from 2009 or so. The approach was evident in many different forms. While China had long sought to divide ASEAN interests over the South China Sea, in 2010 at an ASEAN meeting Yang Jiechi openly declared that big states interests’ mattered more than those of small states. The country continued an extensive military modernisation program and was beginning to take a more assertive approach to its regional interests. This included a wide range of steps from the high profile island building program in the disputed features of the South China Sea, the country’s military modernisation program and a significant increase in risky activity around the disputed islands in the East China Sea.

While some scholars have contested the idea that China became more assertive at this time, pointing out that the basic aims of Chinese policy had not significantly changed, China’s shift in tone was pronounced and the ambitious indeed provocative ways in which it was advancing these issues was unsettling the region. As Linda Jakobson, among others, has pointed out China’s core interests have not changed much since 1949, rather it has been the capacity and

will of the PRC leadership to act on those interests that have changed and they have done so very dramatically.\textsuperscript{25}

\textit{Debating Australia’s China Policy}

China’s new confidence, alongside the pushback to Rudd and its consequences prompted what was, in hindsight, a late-coming public debate about how Australia should approach its relations with China.\textsuperscript{26} How should Australia manage a future in which its economic interest seemed to be ever more closely aligned to China while its strategic and security interests were tied to the US? While in government circles ‘not having to choose’ prevailed, debate was joined about the country’s options.

The debate coalesced around four main approaches. The first, what might be described as an optimistic liberal account essentially argued that ultimately the belief that Australia wouldn’t have to choose would be vindicated by Beijing and Washington’s shared economic interests.\textsuperscript{27} They may brush up against one another but the golden straitjacket of economic interdependence would ensure that the US and China would learn to live with one another. And of course as a key partner of both this world would suit Australia fine. There would be no need for any shift in policy settings.

The second group, while sharing some confidence in the power of markets to draw the two countries together, drew a more pessimistic set of conclusions arguing that the power of shared economic interests would take the two great powers only so far and that there remained risks, particularly relating to questions of prestige and identity that posed low-probability but high-risk challenges. To see that off Australia along with others needed to bind China into

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\textsuperscript{26}Carlyle Thayer, ‘China’s Rise and the Passing of US Primacy: Australia Debates its Future’ in \textit{Asia Policy} No. 12, 2011, pp. 20-28.

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rules, institutions and practices that would reduce the prospects of those events occurring. The third group, an optimistic realist school of thought saw that, notwithstanding Sino-American economic interdependence, conflict and contestation of some kind as distinct possibility and there was ultimately little Australia could do to prevent that from occurring. Consequently, the country needed to better equip itself to manage its international interests and in particular its alliance obligations in a world in which great power rivalry was a likely occurrence and in which conflict could not be ruled out.28

The final and most high profile contribution to the debate was what can be described as the pessimistic realist approach. This view sees the basic setting of Asia’s regional order as unsustainable in the face of Chinese power and that unless the order is reconstructed conflict between China and the US is a likely proposition. ANU’s Hugh White, a former senior defence official, has made the most influential articulation of this assessment.29 Based on this scenario Australian policy must to develop a significantly greater military capacity to better navigate a world that is going to become radically different from that which has preceded.

Yet while the debate was vibrant, it has largely not penetrated Australia’s policy thinking. Or at least it has had no impact on Australia’s approach to China or nor can it be discerned in any of the major policy set-pieces, such as Defence White Papers, National Security Strategy documents and the like. Given the ostensibly seismic shift in the country’s strategic and economic futures why has this been the case?

There are a number of reasons why to date, Australian policy has not deviated largely from the formula established by Howard in the late 1990s. One often neglected reason is that the economic relationship with the US is also very significant. Indeed unlike China, which remains a relatively small source of

inbound investment, the US is Australia’s largest source of inward FDI.\textsuperscript{30} Equally, the US is the most important outbound market for Australian investors. Two-way trade is also very significant ranking second or third for most years over the past decade.\textsuperscript{31} The argument that Australia’s economic and strategic futures are on separate tracks is not borne out by the facts. Australia and China have a very strong trading relationship but it remains largely one dimensional. Until two-way investment becomes a much greater component of the economic relationship then the divergence amongst the country’s interests are not as profound as some think.

Second, there is a high level of what might be described as path dependence in Australian strategic and defence policy. By this I refer to two main attributes. The first is material. Australian defence and strategic policy has been structured around the US alliance for so long that any substantive shift in the part it plays would have extraordinarily complex and expensive consequences. From access to intelligence, the organization of core strategy to force acquisition and doctrine, any move to distance Australia from the US would be extremely difficult. The other relates to the country’s strategic culture.\textsuperscript{32} The form and function of strategic culture is firmly set and options of the kind advocated by the likes of Hugh White are not commensurable with that culture. The third relates to the domestic politics of foreign and defence policy. At present not only is there a strong electoral consensus around the alliance and the country’s broader international disposition. The perception is that any deviation from that position, particularly from the left of centre ALP with whom such a move would be a more natural fit, would be electoral suicide. So between, economic interests, path dependence and domestic politics, the current direction of Australian international policy in general and its approach to China in particular is set in what appears to be concrete.

\textsuperscript{30}In 2015, the US accounted for 28.4% of investment, nearly double the next ranked country, the UK. PR. China accounts for around 2.5%. DFAT, \textit{Which Countries Invest in Australia} October 2016, \url{http://dfat.gov.au/trade/topics/investment/Pages/which-countries-invest-in-australia.aspx}.
\textsuperscript{31}DFAT, United States Economic Fact Sheet, \url{https://dfat.gov.au/trade/resources/Documents/usa.pdf} June 2017,
\textsuperscript{32}See Nick Bisley, \textit{Australia’s Strategic Culture and Asia’s Changing Regional Order} National Bureau of Asian Research Special Report No. 60 December 2016, \url{https://t.co/3jVIxF3iMK}. 
It is also not quite right to describe the competing ideas about Australian policy toward China and indeed the region as a public debate. While it has been vigorous, and at times personalised, it has not engaged the public imagination. In part this relates to the elite nature of strategic and foreign policy debate and the relatively limited numbers of people engaged in this exchange. But discussion about China more broadly is not limited to narrow strategic policy elites. The role of China in the Australian economy, whether in exports, property investment or education, means that many people have a considerable interest in the PRC and the tenor and tone of its relationship with Australia. And one of the most striking features of this broader discussion is its increasingly polarised nature. The principal cleavage is between those focused on the security and strategic consequences of China’s rise and those who pay attention to its economic ramifications. The former group sees China as a growing security challenge to the region.

But it is not just that the country is unsettling an established status quo and prompting a dangerous period of strategic competition, China’s political qualities are also troubling. As a one party authoritarian dictatorship that rests its domestic legitimacy on a victimised nationalism, China’s new military power and ambition is especially worrying to this group. Further complicating things is the way in which political and economic entities are deeply intwined in China. Because virtually all major organizations have some links to the CCP they are all cast in a pall of suspicion. Thus a Chinese firm investing in infrastructure like the Darwin port prompts security concerns that a sovereign wealth fund from Singapore or Norway would not. This perspective also sees the Belt and Road Initiative as a security concern because of its geostrategic dimensions. This view ultimately sees China as presenting a fundamental challenge to the

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prevailing strategic order and that the country needs to be clear-eyed about that challenge and where the economic and strategic do not align neatly, the strategic should be given greater importance.

At the other end of the spectrum, many believe that the primary consideration in Australian policy must be the remarkable opportunities and benefits that can accrue because of the PRC’s economic transformation From this perspective China is the engine of world economic growth, a vast source of investment and increasingly a home to world class research and development. That it is a one party authoritarian dictatorship whose military policies are unsettling a stable strategic order is not as important as the prospect of those markets. Proponents of this view, largely from the business community, look only to the economic aspects of China’s behaviour. The country’s behaviour in the South China Sea is seen as unproblematic because the country is unlikely to impede commercial shipping as it would not be in China’s economic interest to do so. While the Belt and Road Initiative is looked at as the greatest infrastructure investment in the world that provides Australian firms with tremendous opportunities.

The problem presented by the two poles is that the two sides seem to inhabit entirely different realms. They rarely communicate and when they do seem utterly bewildered by the other side’s perspective. Each side seems to describe a set of circumstances the other does not recognize. It seems difficult in Australia to conceptualise and articulate the complexities that China presents and not to revert to simplistic black and white images. The Belt and Rd Initiative is a typical example. It is simultaneously an effort to build economic connectivity, increase China’s strategic influence and find some useful return for the country’s surplus capital. No one dimension is more important than the other, yet discussion of what is without question the most important element of China’s international policy is, in Australia, divided between those who see only security risk and those who only see economic potential. Polarisation has become more
entrenched over time and is also, by accounts, evident in the bureaucracy.\textsuperscript{35} Increasingly it is unusual to find any voices in the wide spectrum between those two poles.

\textit{Australian Policy 45 Years After Recognition}

To this point I have described Australian policy to China as entailing a kind of compartmentalization of economic and political interest. But it is important to provide a more detailed account of Australia’s position toward the PRC as it presently stands. Since the 1990s, US policy toward China has been described as a form of ‘congagement’.\textsuperscript{36} The US engages actively with China both to maximise the benefits of ties to it growing markets and producers as well as to bind it into the prevailing international order. But this engagement was matched with an effort to contain Chinese military influence as it became more powerful. While Australia plainly lacks both the markets and military to have the carrot and stick effect of great power ‘congagement’, that basic sentiment has defined the substance of Australia’s policy toward China since the 1990s.

Australia’s version of congagement is best described as an ‘engage but hedge’ approach.\textsuperscript{37} The engagement aspect has a number of strands. Canberra most obviously wants to maximise the prospects of what has been a very beneficial economic relationship. Trade complementarities are good and the PRC’s excess capital is of great interest to a country that has long depended on attracting inward investment. Like the US, Australia believes that engagement is also key to binding China into the status quo and for the country to have its interests aligned with the prevailing international economic and strategic order. Equally, Australia seeks to shape Chinese policy. Australia is going to have little chance to influence the grand sweep of China’s international posture – few can – but it does have

\textsuperscript{35} There have been efforts to overcome this, most notably by the China Matters a think tank established by Linda Jakobson. See Bates Gill and Linda Jakobson, \textit{China Matters: Getting it Right for Australia} Melbourne: La Trobe University Press, 2017.

\textsuperscript{36} For a good discussion and critique of this approach see Aaron L. Friedberg, \textit{A Contest for Supremacy: America, China and the Struggle for Mastery in Asia} New York: Norton 2011.

\textsuperscript{37} Some describe it as ‘soft balancing’ however, this doesn’t quite capture the intertwined economic and strategic components of Australian policy. See McDougal, ‘Australian Strategies in Response to China’s Rise’.
good prospects of influencing not only how it approaches the Canberra but also aspects of its regional policy such as regional institutions. It is for those ends that the government not only has a very substantial diplomatic footprint (relatively speaking) in China, that it has a wide range of government to government and military to military links as well as strongly promoting civil society linkages most clearly in the substantial sums doled out by the Australia China Council. The most high profile of these the Australia-China strategic partnership. However, having been rolled out to great fanfare in 2013 it has not met with the regularity one might have anticipated. Nonetheless, there is a strong and active effort on behalf of governments of both major parties to actively engage with the People’s republic.

Yet even though there is no shortage of efforts to build stronger, better and more effective relations, Australia remains unsettled by China’s return to power and what it might mean for regional security. Canberra has a set of core security interests at the centre of which sits the country’s territorial integrity and ongoing existence. While the PRC obviously does not challenge that central component a second core interest, a stable and favourable regional security setting, has already been destabilised by China and the region is becoming more unstable. Even though this concern is not articulated publically very often, it does come to the surface from time to time. This occurred most famously in the 2009 Defence White Paper when the finger was pointed at China as a potential security risk. In more recent years senior officials have taken the unusual step of articulating different aspects of that risk, then DFAT Secretary Peter Varghese observed that China has a right to seek greater strategic influence to match its economic weight, but that the extent to which this can be peacefully accommodated will depend on China’s international behaviour and the extent to which the existing order ‘intelligently' finds more space for China. He also

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38 For full details of these processes as described by the government see [http://dfat.gov.au/geo/china/Pages/china-country-brief.aspx](http://dfat.gov.au/geo/china/Pages/china-country-brief.aspx).
40 Peter Varghese, ‘An Australian World View: A Practitioner’s Perspective’ speech to the Lowy Institute for International Policy, 20 August 2015.
suggested that Australia should be ‘alert to the need better to spread our economic risk’. Defence Secretary Dennis Richardson expressed concern at the unprecedented speed and scale of China’s land reclamation activities in the South China Sea.\footnote{Michelle Grattan, ‘Defence secretary warns of China’s “unprecedented” land reclamation activity in South China Sea’ in \textit{The Conversation} 27 May 2015.} The Department of Prime Minister and Cabinet’s secretary, Michael Thawley, said that China was ‘not ready or willing’ to lead a new global order. He said Australia was in a ‘long-term struggle’ for influence in the region and that it should have the capability to play a larger military role.\footnote{John Garnaut and David Wroe, ‘China not fit for global leadership says top Canberra official Michael Thawley’ in John Garnaut and David Wroe, ‘China not fit for global leadership says top Canberra official Michael Thawley’ in \textit{Sydney Morning Herald} 30 June 2015.} Most recently PM Turnbull gave the most open criticism of Chinese regional behaviour. While still oblique in its phrasing, the message was clear that Canberra feels China’s behaviour is troubling and destabilising a regional order that has worked to everyone’s advantage.\footnote{Malcolm Turnbull, ‘Keynote Address to the Shangri-La Dialogue’ Singapore, 2 June 2017, https://www.iiss.org/en/events/shangri-la-dialogue/archive/shangri-la-dialogue-2017-4f77/opening-remarks-and-keynote-address-fc1a/keynote-address---malcolm-turnbull-4bbe.}

But more than this, probably the most obvious way in which one can discern Australia’s increasingly unsettled outlook is in its defence planning and acquisition program. The country has set out on a military modernization program unprecedented in its history outside of wartime. It will acquire 72 F-35s, twelve new long range submarines (doubling the current fleet size and considerably enhancing its range), anti-submarine warfare equipment and has recently launched two LHDs, the largest vessels ever commissioned in the Australian navy. The broad structure of the force is laid out in the 2016 Defence White Paper\footnote{Department of Defence, \textit{2016 Defence White Paper} Commonwealth of Australia, 2016, http://www.defence.gov.au/whitepaper/docs/2016-defence-white-paper.pdf.} and while the capacity to fund these ambitions, politically, is in some doubt, the underlying trajectory of the ADF laid out in the Paper – the be able to project more force further from home – has strong bipartisan support.\footnote{E.g. Senator Stephen Conroy ‘Speech to the ASPI Conference’ 7 April 2016, https://www.aspistrategist.org.au/wp-content/uploads/2016/04/Senator-Conroy-speech-to-ASPI-DWP-conference.pdf.} Canberra is preparing for a more uncertain strategic environment in which the
prospects of it needing to use the ADF in some kind of contingency have increased markedly. As it spends considerable effort engaging with China it is also spending significant amounts of money and effort hedging its bets by preparing for a more dangerous future.

Australia’s approach to China, while a significant component in its international policy, should be seen as part of the country’s broader regional engagement, indeed that context is crucial to its ‘engage but hedge’ strategy. Like most American allies, Australia is profoundly invested not only in its security relationship with the US but also in the broader international order which US primacy has underpinned for at least four decades. And while Australia and American interests in the region, and in China for that matter, are not always identical the two share an interest in sustaining the regional order in the face of considerable shifts in power and influence. The approach to China is a core part of this aim and has three components. The first is to strengthen the alliance relationship with Washington politically and also invest in Australia’s capacity to service its alliance commitments. The rise of China as well as other emerging powers plus the fluidity of the security threat environment caused by globalization means that allies need to be able to do more as well as have a higher level of capacity to operate in a wide theatre of operations. Australia’s defence modernisation program is a core component of this move.

The second aspect is to develop strong and effective bilateral relationships with all key countries in the region. This means not just working to strengthen traditional partners, such as Japan and Singapore – both relationships have been upgraded to substantive strategic partnerships in recent years – but also countries that are not part of the family of American allies. Here China is the centrepiece but it has also come to include India with whom Australian governments of both hues have worked hard to develop better relationships over the past ten years or so. The third element is investment in a functioning multilateral institutional framework to build trust, enhance integration and buttress the prevailing regional order. Australia has long been an active player in multilateralism due to its middle ranking status but its particular focus in recent
years involving various forms of multilateral entrepreneurship derives from a desire to strengthen an uncertain order during times of change. At its more ambitious this involved trying to forge a new mechanism; PM Rudd’s doomed campaign to create an Asia Pacific Community in 2008-10. While more recently it has entailed a low key but nonetheless concerted effort to strengthen the East Asia Summit to help make it the peak institutional mechanism in Asia’s regional architecture.

**Conclusion: Nuanced China Policy Remains Elusive**

Even though there have been some innovations in Australian policy toward China, it remains bound up in the compartmentalization approach established by Howard and travelling more recently under the ‘never having to choose’ rubric. Increasingly, as new issues emerge, the limitations of that approach is becoming evident. Perhaps the clearest example of this was the country’s response to the creation of the AIIB. Australia did not join the Bank when it was first established in November 2014. Cabinet was divided along the economic-security dividing lines in which the PM, Defence and Foreign Ministers were opposed while the Treasurer and Trade ministers supported it. While in public the language to defend the initial decision related to concerns about governance standards and other technical issues it was plain that the Bank illustrated the limits of old ways of thinking about China. When an issue does not fall neatly into either an economic or political-security compartment, the ‘compartmentalization’ strategy comes up short. Ultimately, Australia joined but only after Britain and a range of other developed allies of the US signed on.46

The Belt and Road Initiative seems similarly to befuddle political leaders. As with AIIB, the government seems divided about whether or not to embrace the idea. It is keeping some distance, rhetorically and in formal terms, from developments so far, but did send the Trade Minister to the Belt and Road Forum in May 2017 but he left before the event started. As former Australian Ambassador to Beijing

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Geoff Raby puts it Australia is ‘again, as with the AIIB, having the worst of all worlds – neither in with influence, nor out with our principles.’ Government seems torn between those who want to engage China and those who see any kind of such activity as necessarily supporting China’s influence and undermining American influence. It as if a compartmentalized ‘engage but hedge’ policy drives zero-sum thinking in which Australian activity either increases or decreases the ledger in the contest for influence between Washington and Beijing. The combination of the sense of zero sum risk and the fact that initiatives like the BRI or AIIB defy the formulations of compartmentalization has caused policy toward China to remain stuck and seemingly unable to show flexibility and nuance. BRI has great potential upside to Australia economically, while also posing clear geostrategic risks. Engaging with it need not mean capitulation to Beijing. Yet there seems little capacity to take such steps under existing policy formulations.

Why is Australian policy so stuck? There appear to be a range of reasons why this is the case. Most obviously the polarisation of public debate, the weight of institutional inertia and the misplaced perception that ‘engage but hedge’ is mostly working well go some of the way to explain it but there are some other less obvious factors. One reason relates to the alliance with the United States and in particular the place it has come to hold in domestic politics. Any choices by political leaders that could be perceived by their electoral opponents as damaging to the alliance are seized on. This seems to have created the situation in which rather than having confidence that the strength of the relationship with Washington would allow a greater scope of action or nuance in policy position, the reverse has occurred in which insecurity about a dependent relationship currently freezes policy creativity.

A second reason relates to the mechanics of managing a more nuanced approach to China, particularly as it relates to influencing Beijing. On its own Australia will always find it hard to shape Chinese thinking, the multilateral mechanisms which

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the country has invested in have little purchase on state behaviour. To develop a more sophisticated approach to the country, one that reflects the multiple dimensions of Chinese policy, its scale and impact requires working out how to advance interests with an increasingly powerful and confident China. The seeming sparseness of the options available appears to perpetuate the status quo. The final reason relates to values. Australian policy is deeply vexed by the place of values in its foreign policy. Compartmentalization allowed this to be managed in the short run but it is not viable in the longer run. The problem for policy thinking is how practically to reconcile the values and principles of Australia with a nuanced engagement with a polity like China. Thus far government seems unable to manage to pull values out of its compartment for fear of its consequences.

In many ways Australia’s relationship with China is a microcosm of the fundamental challenge Australia and other Asian countries are facing. The liberal international order that prevailed for many decades is coming to an end, contestation about the new order has begun and China is a key player in that contest. But competition for influence is and will be overlaid with complex networks of trade and investment that will bind the states and societies of this emerging order together. And it should not be surprising that a country that has only ever known one international order – created by a country very much like itself – finds adjusting to a changing environment in which its values and its interest pull it in very different directions.