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Decision time: Australia's engagement with China's Belt and Road Initiative

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Executive Summary

The Belt and Road Initiative (BRI) was launched as a signature initiative of Chinese President Xi Jinping in 2013. China contends that the aim of the BRI is to enhance regional connectivity across five dimensions – infrastructure, policy, finance, trade and people-to-people links. The BRI was written into the charter of the Chinese Communist Party at the 19th Party Congress in Beijing in October 2017, indicating that it will remain a focal point for China's foreign policy and its international economic outreach beyond the end of Xi's second term in 2022.

The Australian government has yet to formulate a policy on BRI engagement. To date the response has been limited to the signing of a Memorandum of Understanding (MOU) with China on cooperation with Australian companies on BRI projects in third-party countries.

Australia and China are also reportedly currently considering forming a working group to further explore other types of cooperation on the BRI, although the formation of the group is still in the planning stage.

This paper critically reviews the four major points of debate on deepening Australian engagement with the BRI.

1. The geostrategic outcomes of the BRI

The first is that Australia should keep its distance because the BRI has the potential to promote a geostrategic outcome unfavourable to its security ally, the United States. The major driver of

geostrategic shifts in the Asia-Pacific region is China's steadily increasing economic power. Short of the US and its allies, partners and friends adopting an active China containment strategy, this trend is likely to continue, irrespective of the BRI, although the BRI may accelerate it. There is a possibility that the US will lean on Australia to sign up to alternatives to the BRI. Should Australia opt to deepen engagement with the BRI, it could – and should – also participate in other initiatives that have a clear economic justification.

2. The BRI in China's policymaking tradition

Another reported Australian government concern is that the BRI lacks a detailed roadmap outlining a pipeline of projects and this prevents meaningful participation in practice. However, in a Chinese policy-making tradition, at this stage the BRI is chiefly a concept, an invitation to cooperate, and has flexibility deliberately built in. This flexibility provides opportunities for creative Australian diplomacy to advance the national interest. Australian companies participating in BRI projects in third-party countries is only one way that cooperation might proceed. Australia could also use the BRI to pursue greater connectivity with China's rapidly growing economy in areas not covered by the China-Australia Free Trade Agreement (ChAFTA), subject to national interest and national security considerations. For example, Australia could seek to harness the political capital that China is staking on the BRI to upgrade the three decade-old investment treaty that exists between two countries.

3. The BRI's transparency and governance standards

China's mixed track record on transparency, governance and local participation on overseas investments is another reason sometimes provided for why the Australian government should not more actively engage with the BRI. Australia has a clear national interest in supporting initiatives that result in strong development outcomes, pushing for adherence to principles of transparency and the implementation of a strong governance framework. At the same time, as the BRI's main sponsor, China has financial and reputational incentives to promote the BRI's effectiveness and long-term likelihood of success. The BRI will go ahead with or without Australia. More active Australian engagement with the BRI might assist in achieving better governance and development outcomes. For example, the financial resources China is willing to commit to the BRI could be used to leverage Australian funds and project evaluation expertise in a boost for regional aid and development. And Chinese investments in Australia, whether badged as part of the BRI or not, will still need to go through Australia's rigorous foreign investment approvals regime. The Australian Treasurer retains the prerogative to reject bids they deem contrary to the national interest. The BRI does not bind Australia to China to the exclusion of an open, competitive bidding process for greenfield or brownfield investments. It may, however, act to increase Chinese interest and the value of Australian assets, and in some cases, Chinese companies may emerge as the only bidders.

4. The question of how the BRI benefits Australia

Limited economic benefits have also been cited as justification for hesitation on Australia's part. Australia already has extensive trade and investment ties with China and as a high-income country with a solid credit rating attracting funding at competitive interest rates is, in a general sense, not difficult. Exactly how much new money China is putting on the table for the BRI is also not clear. Yet the fact that trade with China was already booming did not stop the Australian government from actively pursuing initiatives such as ChAFTA. And some Australian regions

do struggle to attract the investment needed to support local jobs, as the government's own Northern Development Strategy makes plain. There is also a regional dimension to Australia's national interest with many emerging economies in the Asia-Pacific unable to secure the financing needed for infrastructure upgrading. For its part, Australia's business sector has encouraged the government to take a more proactive stance on BRI engagement.

Introduction

In September 2013 at Kazakhstan's Nazarbayev University, Chinese President Xi Jinping for the first time outlined a vision for an overland 'Silk Road Economic Belt' connecting Central Asia and China's western provinces. One month later in an address to the Indonesian Parliament President Xi announced the development of a 'New Maritime Silk Road' spanning Southeast Asia. These two initiatives were then linked at a Chinese Communist Party Central Committee conference that same month, with President Xi delivering an address on China's diplomacy with its neighbouring countries and stating that they should cooperate to 'accelerate infrastructure connectivity, to build [the] Silk Road Economic Belt and Maritime Silk Road' (Ministry of Foreign Affairs of the People's Republic of China, 2013). The Chinese government settled on the nomenclature of the 'Belt and Road Initiative' (BRI) in 2016.

China contends that the aim of the BRI is to enhance regional connectivity across five dimensions: infrastructure, policy, finance, trade and people-to-people links (National Development and Reform Commission of the People's Republic of China, 2015). In October 2017 the BRI was written into the charter of the Chinese Communist Party at the 19th Party Congress held in Beijing; 'following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative (Xinhua, 2017a). This is a significant development as it indicates that the BRI will remain a focal point for China's foreign policy and its international outreach beyond the end of President Xi's second term in 2022 (Goh and Ruwitch, 2017).

Australia has yet to formulate a policy on BRI engagement. While Australia is not one of the 65 countries geographically located on the overland Belt and the maritime Road, this does not preclude participation. Indeed, in a speech to the Australian parliament in November 2014, President Xi formally invited Australia to participate in the BRI, stating, 'Oceania is a natural extension of the ancient maritime Silk Road and China welcomes Australia's participation in the 21st century maritime Silk Road' (Hansard, 2014).

The Australian government's response to the BRI to date has been to cautiously welcome it while reserving engagement. The Belt and Road Forum for International Cooperation (BRI Forum) in Beijing in May 2017 hosted 29 heads of state and government leaders, including seven from the ASEAN bloc to Australia's immediate north. Australia's representative, Trade Minister Steven Ciobo said (Ciobo, 2017):

> Australia supports the aims of initiatives such as the Belt and Road that improve infrastructure development and increased opportunities in the Asia-Pacific region… Australian companies have significant expertise in infrastructure construction, so I will be working to identify projects for Australian businesses that address the serious infrastructure shortfalls across our region.

This was followed in September with the reported signing of a Memorandum of Understanding (MOU) with China on cooperating with Australian companies on BRI projects in third-party countries (Tillett, 2017).

Australia and China are also reportedly currently considering forming a working group to further explore other types of cooperation on the BRI. A spokesperson for the Australian Department of

Foreign Affairs and Trade (DFAT) said (Riordan, 2017a):

> [The National Development Reform Commission] and DFAT officials continued these discussions on 28 September, including on how cooperation could occur in practice, such as through establishing an officials' working group to act as a clearing house for information exchange with companies.

Last year Chinese ambassador Cheng Jingye said that one outcome of the 2015 Strategic Economic Dialogue with Australia had been to establish a working group to explore synergies between the BRI and the Australian government's Northern Development Strategy (NDS) (Australia China Business Council, 2016). However, in the lead up to Chinese Premier Li Keqiang's visit earlier this year, the Australian government declined not only to sign a Memorandum of Understanding (MOU) that linked the two proposals, but even one outlining more general cooperation along the lines of those already agreed to by other regional partners, New Zealand and Singapore (Hansard, 2017). Inaction on the BRI has led the opposition Australian Labor Party's Shadow Foreign Minister Penny Wong to remark, 'We [Australia] need a policy that looks at the Belt and Road Initiative with an eye to identifying points of mutual interest and complementarity rather than reflexive negativity' (Wong, 2017). In a speech outlining the Labor Party's Asia strategy, Shadow Treasurer Chris Bowen stated that if the opposition were to win the next federal election, they would have an 'open mind as to how Australia and China can best collaborate on the Belt and Road Initiative' (Bowen, 2017).

This paper critically reviews the four major points of debate on deepening Australian engagement with the BRI.

1. The geostrategic outcomes of the BRI

One reason articulated for Australia's keeping its distance from the BRI is its potential to promote a geostrategic outcome unfavourable to its security ally, the United States. To the proposition that Australia should stay away from the BRI due to strategic risks, *The Australian*'s Editor-at-Large, Paul Kelly (2017a) wrote:

> It is absurd to say Australia cannot be involved for strategic reasons and equally absurd to say we should blindly sign any memorandum China wants, regardless of its abuse of economic principles.

China's steadily increasing economic power is the major driver of geostrategic shifts in the Asia-Pacific. Short of the US and its allies adopting an active China containment strategy, this trend is likely to continue, irrespective of the BRI, although the BRI might accelerate it. For example, while China may now spend more on its military than the rest of Asia combined, this still only amounts to 1.9 percent of its GDP, a lower proportion spent than in Australia (2.0 percent) and the US (3.6 percent) (Laurenceson and Collinson, 2017). The US government's Department of Defence 2017 *Annual Report to Congress on Military and Security Developments Involving the People's the People's Republic of China* reported that China's defence budget grew at an average annual rate of 8.5 percent between 2007 and 2016 (US Department of Defence, 2017). But this is actually 0.5 percentage points slower than the average annual rate of GDP growth in China over the same period.

Strategic anxiety over a rising China means that Australia may find itself subject to US pressure to refrain from deepening engagement with the BRI. This was the case in 2014 when Australia was deciding whether to join the China-led Asian Infrastructure Investment Bank (AIIB) (Taylor, 2014). Australia eventually opted to become a founding member of the AIIB, while the US and Japan remain the only two major regional players still not to have signed up. Australia also experienced US pressure in the wake of the decision to allow the lease of Port of Darwin to a Chinese company. This was despite the deal having been examined and approved by Australia's defence and security agencies (Maley, 2017).

The US has thus far sent out mixed signals with respect to its own intentions with the BRI. In May President Donald Trump surprised many by sending the National Security Council's Senior Director for Asian Affairs, Matthew Pottinger, as his representative to the BRI Forum in Beijing, as part of a set of trade deals reached with China the same month. Mr Pottinger subsequently told media present that US companies and its embassy in Beijing had established an American Belt and Road Working Group (Lau, 2017). In June, a Chinese Foreign Ministry statement claimed President Trump had told Chinese State Councillor Yang Jiechi that the US was 'willing to conduct cooperation in relevant projects of the 'Belt and Road'' (Ministry of Foreign Affairs of the People's Republic of China, 2017).

But in October US Secretary of State Rex Tillerson appeared to articulate the beginnings of a new policy intended to lead a push to counter the BRI (Tillerson, 2017):

> So this is not a structure that supports the future growth of these countries. We think it's important that we begin to develop some means of countering that with alternative financing measures, financing structures. And during the East Asia ministerial summit in August, we began a quiet conversation with others about what they were experiencing, what they need. And we're starting a quiet conversation in a multilateral way with how can we create alternative financing mechanisms.

Secretary Tillerson appeared to frame the proposition as zero sum (ibid., 2017):

> We will not be able to compete with the kind of terms that China offers. But countries have to decide, what are they willing to pay to secure their sovereignty and their future control of their economies? And we've had those discussions with them, as well.

In the same month, US Defence Secretary Jim Mattis (Alderson Court Reporting, 2017) said:

> In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road'.

Japan's Foreign Minister, Taro Kono, has also recently mooted a revival of a strategic dialogue between the US, India and Australia one aim of which the *Nikkei Asian Review* (Hayashi and Onchi, 2017) reported as 'counteracting China's expansion under its 'Belt and Road' policy'. Acting Assistant Secretary for South and Central Asian Affairs Alice Wells said the US would look at a 'working-level quadrilateral meeting in the near term' (US Department of State, 2017).

For its part, China has not suggested that participating in the BRI must be to the exclusion of other initiatives. There would, for example, be nothing preventing Australia from signing an MOU with China on BRI cooperation and another with India and Japan around their proposed Asia-Africa Growth Corridor. Having received high-level endorsement, Australian companies could then confidently proceed with involvement in both initiatives as opportunities arose. The Joint Communiqué issued by the Leaders Roundtable at the BRI Forum in Beijing in May explicitly emphasised the potential opportunities created by communicating and coordinating the BRI with 'other global, regional and national frameworks and initiatives for promoting cooperation in connectivity and sustainable development' (Xinhua, 2017b). Should Australia opt to deepen engagement with the BRI, it could – and should – also participate in other initiatives that have a clear economic justification.

Indeed, Australian Prime Minister Malcolm Turnbull recently articulated support for this proposition in a keynote address to the 2017 Asia Pacific Regional Conference (Turnbull, 2017a):

> Like trade, cross-border infrastructure investment is an unambiguously good thing when it's done right The regional demand is very clear. Now, China's Belt and Road Initiative has a role to play in meeting that demand. It's also spurring healthy competition from Japan, India, the United States and others. Australia

> is not in the business of barracking for one strategic investment agenda over another. We'll judge individual investment proposals by any country on the criteria of transparency, fairness, accountability and market need. We will firmly back Australian companies seeking to engage in international infrastructure projects on that basis.

2. The BRI in China's policymaking tradition

Another concern is that the BRI lacks a detailed roadmap outlining a pipeline of projects and this prevents meaningful participation in practice. Unlike the NDS, for example, the BRI does not have a specific contact point, budget and application process (Riordan, 2017b). In comments following a speech at the Confucius Institute at Adelaide University in October, Frances Adamson, Secretary of DFAT, said of the Australian government's approach to the BRI (Greene, 2017):

> [W]e're not dragging our feet, that's the whole point...what's there to drag your feet about. It's a proposal the Chinese have put, we've welcomed it, Steve Ciobo went to Beijing for the forum. You know a number of other countries want to jump on board, for what though? A lot of it is still being worked through.

In a Chinese policy-making tradition, at this stage the BRI is chiefly a concept, an invitation by China to cooperate, and with flexibility deliberately built in. Precisely what the BRI becomes will in significant part be defined by participating countries' engagement with it. Kerry Brown (2017) Director of the Lau China Institute at King's College, London remarks:

> The question [the BRI] poses for engagement with China domestically is a simple one: What do outside countries, partners, companies and others want from China? How do they best engage with its rising consumption, services and sales market? What sort of partnerships do they want?

Similarly, Jason Young (2017a), Acting Director of the New Zealand Contemporary China Research Centre contends:

> For all participating countries, but especially for advanced economies, there is a 'blank page' clause in the BRI or a reassurance that China will work together with them to develop activities in consideration of each countries' interests. BRI activities therefore flow from the bilateral negotiations following the initial signing of the MoA and require participating countries to present their own vision of how BRI should evolve.

Of course, the details of projects and how they are implemented still matter and such concerns are discussed in the following section, which covers project transparency and governance. But rather than asking whether a detailed blueprint exists at this stage, perhaps a more fundamental question is whether the BRI's focus on improving infrastructure and broader connectivity has a clear economic justification. It is well established that market failure – in particular, a divergence between private and social returns to investment – means that the private market acting alone does a poor job of financing long term infrastructure projects (Dollar, 2017). That is, a project may not be 'commercial' but could generate large social returns and be worthy of funding by government or as part of a public-private partnership. The Asian Development Bank (ADB) estimates that emerging Asian economies are in need of infrastructure investment totalling US$1.7 trillion a year to maintain growth and alleviate poverty (Asian Development Bank, 2017). Yet in 2012, the ADB's lending for infrastructure only totalled US$7.5 billion (Moore and Kerr, 2014).

The reality is that the funding of many large-scale infrastructure projects, particularly in developing countries, are not on what would normally be regarded as commercial terms. In September, Japan and India announced a deal for a high-speed rail connection between Ahmedabad and Mumbai. The Japanese government agreed to finance 81 percent of the project cost, to be repaid over a 50-year period, with no repayments in the first 15 years, and at an interest rate of just 0.1 percent (Kotoky and Matsuda, 2017).

And while tariff rates in the Asia-Pacific have seen substantial reduction over the past two decades, non-tariff trade barriers such as transport costs, customs procedures, and behind-the-border trade and investment restrictions have remained stubbornly high (UN ESCAP, 2017).

In this sense, the focus of the BRI is complementary to that usually found in traditional bilateral and multilateral trade agreements. This notion was captured in remarks in June by Singapore's Deputy Prime Minister, Teo Chee Hean (Ministry of Foreign Affairs Singapore, 2017):

> In its grand sweep, the overarching concept of the Belt and Road is, above all, about 'connectivity'. Going beyond the individual projects, to how they connect together in a network. Going beyond just physical linkages, to include digital and human networks too. Going beyond funding just from China's own financial resources, to leveraging on funding by multiple stakeholders. Going beyond being driven principally by China, to being fully inclusive, co-owned by partners, and supported by the people from countries all along the Belt and Road.

The BRI's flexibility and economic rationale provide opportunities for creative Australian diplomacy to advance Australia's national interest. For example, Australia could seek to use the BRI to pursue greater connectivity with China's rapidly growing economy in areas not covered by ChAFTA. One possibility might be to harness the political capital that China is staking on the BRI to upgrade the three decade-old investment treaty between the two countries.

3. Transparency and governance standards

Another reason given for not more actively supporting the BRI is that the Australian government should not lend its credibility, and perhaps capital, to an initiative potentially comprised of projects suffering from poor transparency and governance standards. On the BRI, Rolland (2017) writes:

> Politically motivated lending will inevitably produce 'roads to nowhere' and 'white elephants' that yield little value and may also create unmanageable debt burdens for developing countries.

Continuing her comments noted in the previous section, DFAT Secretary Adamson remarked (Greene, 2017):

> [W]hat we're saying is as everyone gets enthusiastic about this let's look at the financing arrangements, let's look at the governance arrangements because we know from our neighbours in the South Pacific in particular that infrastructure projects can come with very heavy price tags and the repayment of those often loans can be absolutely crippling and that's why you'd expect Australia has an interest in governance arrangements.

Australian Foreign Minister Julie Bishop has also emphasised that Australia's national interest is best served by supporting projects that deliver strong development outcomes (Bishop, 2017).

China's track record of overseas investments raises concerns. Several projects underway before the advent of the BRI have suffered major setbacks. The US$3.6 billion Myitsone Dam project in Myanmar is among the most prominent of these (Reuters, 2017). The experience of Tonga is also frequently cited as concerning. By 2014, Tonga owed US$114 million to China's Export-Import Bank reflecting debts incurred on several infrastructure projects. This equated to 64 percent of Tonga's total foreign debt and 26 percent of GDP (Radio New Zealand, 2015).

At the same time, similar concerns could be cited regarding the effectiveness of credit extended by other countries from both government and commercial sources. Another example is that of Bhutan to India for three major hydropower projects: Mangdechhu, and Punatsangchhu 1 and

2. As at July 2017 these accounted for 77 percent of the country's total debt, and 87 percent of its GDP (Haidar, 2017). The cost of the Mangdechhu project has nearly doubled in the past two years of construction, and both Punatsangchhu 1 and 2 have trebled in cost and been delayed more than five years (ibid.).

As the BRI's main sponsor, China has financial and reputational incentives to take steps that promote the BRI's effectiveness and long-term likelihood of success. Critics of the AIIB also argued that it would not adhere to established global transparency and governance norms. However, Jeffrey Wilson of Murdoch University notes that China in fact compromised on many aspects of its original proposal in order to attract membership (Wilson, 2017):

> [T]he early indicators all suggest that China wants to contribute a transparent and legitimate institution to the Asian economic architecture.

Similarly, Callaghan and Hubbard (2016) observe that it was in China's own interests to promote the highest transparency and governance standards possible for the AIIB:

> Given that the AIIB will be under intense scrutiny and the international tolerance for missteps is likely to be low, China would be wise to tread carefully with the establishment of the bank… China would gain significantly if there is no question that the AIIB is a multilateral institution which compares more than favourably with the other MDBs [Multilateral Development Banks].

Of course, the BRI is different to the AIIB. Kaura (2017) points out:

> We need to understand that OBOR [One Belt One Road] is unlike the AIIB, the NDB [New Development Bank] or the SCO [Shanghai Cooperation Organisation]. Not conceived as a multilateral project, OBOR involves a series of projects to be undertaken through bilateral agreements between China and the partner countries. There is no institutional framework or decision-making mechanism through which participating countries are connected with one another.

But in the context of improving connectivity, bilateral initiatives could also have a useful role to play. For example, for some countries, the greatest barriers to connectivity may be inadequate or non-existent physical infrastructure. For others it might be the behind-the-border trade barriers their businesses face. The BRI allows countries to pursue engagement with China in ways that prioritise their own national interests.

And while promoting the BRI, China is also actively involved in pushing for the completion of multilateral initiatives such as the Regional Comprehensive Economic Partnership (RCEP). Yet a high quality RCEP has proven difficult with reports suggesting that Japan has lost some interest (Salna, 2017) and India has been unwilling to match the offers of liberalisation made by other countries (Dancel, 2017). Meanwhile, the Trans-Pacific Partnership (TPP), the region's other big multilateral trade liberalisation initiative, hit a major stumbling block when President Trump issued an executive order for US withdrawal on his first day in office.

The BRI will go ahead with or without Australia. Some suggest that abstaining is the only sensible approach. Rolland (2017) contends:

> Foreign governments should cultivate no illusion that by participating in the BRI, they will somehow be able to shape its direction from within.

However, other regional partners such as Singapore and New Zealand have reached a different conclusion. Singapore was represented at the BRI Forum in Beijing by Lawrence Wong, the Minister for National Development. He stated, 'Singapore supports the Belt and Road, and we stand ready to work with China and other countries to help build the Belt and Road' (Koh, 2017).

New Zealand has taken the proactive approach of specifying the desired principles underpinning BRI cooperation in a formal, high-level agreement. The Memorandum of Arrangement (MoA) that New Zealand signed with China included a section on 'cooperation principles', in particular, 'international good practice, market orientation and professional principles' (Government of the People's Republic of China and Government of New Zealand, 2017). Although an MOU or MoA is a non-binding document, it nonetheless publicly records a commitment by both parties to agreed-upon principles. Australia could consider following suit and specify the cooperation principles it valued most highly. And even more importantly, the MoA that New Zealand signed committed both countries to 'formulate a more detailed work plan of bilateral cooperation' within 18 months. Government officials and Track II participants are currently engaged in this process. Exactly what comes out of this process remains to be seen, but it is likely that New Zealand will use the opportunity to build on an upgraded Free Trade Agreement and pitch its expertise to coordinate and facilitate regional development projects (Young, 2017b).

Australia could take the same approach and allow creative Australian diplomacy to flesh out some specifics. For example, if Australia's Pacific Island neighbours or developing countries in Southeast Asia are of particular interest, the financial resources China is willing to commit to the BRI could be used to leverage Australian funds and project evaluation expertise in a boost to regional aid and development. Australia and China already operate a flagship and 'ground breaking' bilateral aid cooperation project focused on alleviating malaria in Papua New Guinea (Bishop, 2015). This project developed following the signing of an MOU on Development Cooperation in 2013. Such cooperation could potentially be scaled up through the BRI.

Chinese investments in Australia, whether badged as part of the BRI or not, will all still need to go through the same rigorous foreign investment approvals regime. The Treasurer retains the prerogative to reject bids they deem contrary to the national interest. The BRI does not bind Australia to China to the exclusion of an open, competitive bidding process for greenfield or brownfield investments. It may, however, act to increase Chinese interest and the value of Australian assets, and in some cases, Chinese companies may emerge as the only bidders.

4. The question of how the BRI benefits Australia

It has also been reported that Australia's hesitation to engage with the BRI reflects that, having been briefed by the Foreign Minister, a majority of ministers in the National Security Committee of Cabinet were of the view that signing an MOU would not bring any additional tangible benefits (Kelly, 2017b). In October, when asked whether the BRI could be good for Australian jobs and whether national security concerns were legitimate, Prime Minister Turnbull said (Turnbull, 2017b):

> The reality is we have a very constructive investment relationship with China. There is massive Chinese investment in Australia and considerable Australian investment in China too, I might add.

Over the past decade Australia has been second only to the US as a recipient of large-scale Chinese overseas direct investment (KPMG and the University of Sydney, 2017). Moreover, for a high-income country such as Australia with a solid credit rating, attracting funding at competitive interest rates is, in a general sense, not difficult. And while China is putting some new money on the table, exactly how much is not clear. Fitch Ratings (2017) estimates that US$900 billion in BRI projects are already underway. However, this is juxtaposed to comments by the Director of China's National Development and Reform Commission, He Lifeng, that China has only invested around US$50 billion in BRI countries since 2013 (State Council of the People's Republic of China, 2017).

Yet the fact that trade with China was already booming did not stop the Australian government from actively pursuing other policy initiatives such as ChAFTA. And while the scale of benefits is open to question, there are several counter-arguments to be considered.

First, some Australian regions do struggle to attract the capital needed to support local development and jobs. The fact that in 2016 the Australian Government established the AU$5 billion Northern Australia Infrastructure Facility is plain recognition of this reality.

Second, for its part the Australian business community has urged the government to take a more proactive stance (Cripps, 2017). While many Australian companies are no doubt waiting to see more details, for some the BRI is already worthy of serious consideration. Burgess (2017) reported that Australian engineering company WorleyParsons Ltd is actively seeking out 'more than US$10 billion in contracts related to China's Belt and Road spending plan, leveraging its technical expertise from existing relationships with Chinese construction firms in Asia and Africa.' In June, BHP Chief Commercial Officer Arnoud Balhuizen told an audience in Melbourne that the BRI promises 'huge demand for resources, services and technology' and is 'an opportunity like no other' (Stringer, 2017).

Third, even if signing an MOU with China on BRI cooperation might appear a mostly symbolic gesture, the possible indirect benefits should not be discounted. For example, Australian businesses have reported that the most positive outcome of ChAFTA has not so much been the tariff reductions that made bilateral trade less costly, but rather that it served as a clear endorsement of both countries' governments to deeper engagement and this prompted Chinese companies and consumers to take a fresh look at Australia (The ACRI Podcast, 2017). The BRI is many times more significant to China than ChAFTA. As former Australian ambassador to China Geoff Raby (2017) has observed, the BRI has 'now become the organising principle and narrative for China's foreign policy'.

Fourth, there is a regional dimension to Australia's national interest. Australia was unlikely to ever be the recipient of loans made by the ADB or the AIIB. Yet the Australian government still made the decision to join and commit capital to these initiatives, with the understanding that Australia would indirectly benefit from a region with less poverty and better infrastructure to promote trade. As this paper has discussed, many regional economies require substantial investment in infrastructure and obtaining project financing can be challenging.

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About ACRI

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 850 million more middle class Chinese than today.

In 2014 the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.

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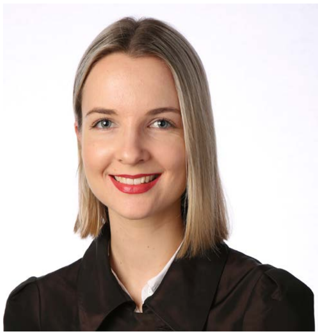

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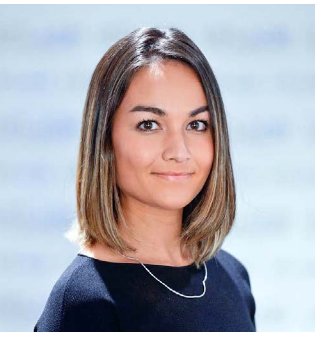

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