

CHAPTER 9

Conclusions

Conclusions

China and Australia are natural economic partners. China — already, on one measure, the largest national economy in the world — has relied on Australia for the raw materials it required to industrialise; Australia, a small open economy dependent on trade, has outperformed most of its advanced country peers thanks in no small part to its trade with China. As the next phase of Chinese development proceeds, there is every reason to believe that this relationship can become of even greater importance to China and to Australia. China and Australia also share a profound common interest in the evolution of institutions of regional and global governance and cooperation to reflect the realities of the 21st century. In this sense, the China–Australia relationship has, if stewarded with prudence and foresight by the public and private sectors, the potential to become a powerful force for stability and prosperity beyond the bilateral relationship.

There is no economic or geopolitical future for China, Australia or the world that would not be improved by China's sustained and balanced economic growth. And yet the future direction of Chinese growth will be very different from that over the past four decades. The forces of change that have already unleashed a wave of consumption growth are affecting the relationship with Australia profoundly. Economic reform and liberalisation can intensify the ongoing change in the structure of the Chinese economy and, while these changes imply a less heavy reliance in Australia on the resource sector for economic growth, there are opportunities for growth in agriculture, advanced manufacturing, investment, finance, healthcare, education, tourism and other services. But these opportunities will not materialise automatically; their benefits can only be brought to fruition through concerted reform and action on both sides. It will require substantial repositioning of policy and commercial strategies by both countries and the development of a still closer relationship between the two countries.

The recent history of the growing ties between the two countries shows that the determined pursuit of a deeper relationship yields tangible benefits. The institutions and policy frameworks that have emerged to provide structure for the relationship in recent years provide a strong starting point for the next phase of the China–Australia partnership.

Australia has embraced China's openness and reform as a critical factor in Asian prosperity and stability, and China has embraced the partnership with Australia as a strategic element in its foreign economic policy strategies. Both countries have invested heavily in their partnership. The path-breaking record of the Australia–China partnership in opening the resource trade, foreign investment, regional cooperation initiatives and China's accession to the WTO provides a legacy on which to build new international standards into their bilateral trade, investment and all other dealings. Their high-level Comprehensive Strategic Partnership and the China–Australia Free Trade Agreement (ChAFTA) are major institutional assets, embodying mutual trust and practical commitment, that can be deployed to manage change over the decades ahead. Still closer engagement and institutional arrangements are needed to capitalise on the opportunities that these foundations present.

ChAFTA is a blueprint for initial change, not an end-point in the bilateral relationship. A joint work plan for achieving change will not only define progress in the bilateral trade, investment and commercial relationship over the coming decade; it will also provide the foundation for Australia and China pushing liberalisation and reform in the Asian region and setting out the pathway towards reform and strengthening of the global trade and economic systems.

The scale and significance of developments that are now taking place — especially in China through its advance towards a high-income economy and deeper financial integration with the world — recommend deeper bilateral institutional arrangements between Australia and China. These arrangements would build on existing bilateral frameworks, including in the areas of investment, tourism, people movement, science and educational exchanges, with bold new bi-national initiatives. They will need to be directed at capturing the opportunities in the relationship, and managing the risks and processes that are an inevitable consequence of large-scale economic and social change.

Both countries have a deep intersection of interests in working together to strengthen the established regional economic cooperation arrangements (such as APEC, the ASEAN Plus frameworks and the East Asia Summit) and to secure the framework of political confidence and security within which economic prosperity can be attained. But there are gaps in regional policy strategies that Australia and China must now work more actively with regional partners to fill.

The Australia–China relationship is anchored in global institutional and political arrangements. Australia has a direct and important stake, in partnership with China, in working to ensure China’s success in the assumption of its role of shared leadership in global economic affairs.

Australia and China should aspire to a bilateral relationship of the high level and scope that they established during the foundational period of economic ties in the 1980s, when they agreed on a ‘model relationship’ for cooperation between countries with different social systems and at different economic stages of development. The enormous transformation of China’s economic model and the impact that this is having on the Australian economy calls for the elevation and calibration of their partnership to achieve these goals.

New model for the relationship

- The framework of a new model for economic collaboration requires the Australian and Chinese governments to elevate the Australia–China relationship to a unique, higher level, in a *Comprehensive Strategic Partnership for Change*. This partnership should promote change through the achievement of joint goals in the bilateral relationship and forge common priorities and initiatives on regional and global issues through the Strategic Economic Dialogue and parallel ministerial mechanisms.
- The Australian and Chinese governments should underpin their *Strategic Economic Dialogue* with joint policy taskforces and working groups on policy and institutional change that:
 - develop initiatives on issues flowing from the dialogues and other commitments;
 - work with state and provincial authorities in developing these initiatives;
 - encourage programs of research within and beyond government and higher educational institutions on longer-term aspects of the relationship;
 - engage with the business sectors in both countries in undertaking their work;
 - promote joint training and the development of long-term working associations in key areas among the officials of both countries; and
 - reflect upon community interests and concerns in both countries.

- Both governments should work, in the decade ahead, to develop their new partnership into a *comprehensive bilateral framework treaty* that embeds frequent high-level government dialogue; institutionalises and enfolds official bilateral exchanges and technical cooperation programs between economic and foreign affairs ministries, including branches of the military; pools approaches between federal–state governments in Australia and central–provincial governments in China; and provides for the comprehensive setting of strategic bilateral objectives in a forward agenda. There is precedent for moving towards a comprehensive bilateral treaty in the 1976 *Basic Treaty of Friendship and Cooperation between Australia and Japan*.
- The high-level capacities necessary to this engagement should be promoted through the establishment by both governments of an independent and well-resourced bi-national *Australia–China (Ao–Zhong) Commission* to boost the level and range of political, scientific, official, business and community exchanges between the two countries. Its nearest parallel in Australian experience would be the treaty arrangement between Australia and the United States that established the Australian–American Fulbright Commission. The Australian–American Fulbright Commission is an independent bi-national non-profit organisation, established by a treaty between the Australian and US governments, that promotes education and cultural exchange between Australia and the US through managing a bilateral exchange program students, researchers and scholars.

Partners for change

In the next decade, the Australia–China relationship will be re-shaped by the large-scale transformations now underway in each economy. In China, the economic structure is shifting towards the services sector and high-technology manufacturing, while consumer spending is becoming a larger part of the economy as household incomes rise.

China finds itself at a point in its economic trajectory that has in some other countries proved challenging. Some middle-income countries, especially in Latin America, have seen relatively weak growth rates and productivity stagnation. Other countries, like Japan and the ‘Tiger’ economies of East Asia, adapted their institutions and policies to the challenges of middle-income status and consequently ‘graduated’ to high-income status relatively quickly (Kharas and Gill 2016). China, Australia and the world at large would all gain immeasurably from China’s rapid progression from middle-income to high-income status. But the path through middle-income status will need to be supported by reforms to lift China up the manufacturing value chain and increase productivity across the economy (Huang 2016). These productivity-enhancing reforms will support China’s efforts to move from a model of growth centred on imitating ideas from advanced economies towards a model of growth based on domestic innovation.

To lift productivity, as foreshadowed under the 13th Five Year Plan, China must improve the efficiency of investment, in part through pushing ahead with financial market reforms. Greater private sector involvement in a number of industries still dominated by state-owned enterprises — such as banking, utilities and transport — could unlock productivity gains in these sectors. For Australia, the relative decline in its productivity performance over the past decade can be addressed through domestic-led initiatives, such as improving labour market regulation, strengthening and extending national competition policy, and facilitating the efficient allocation and management of investment in social and physical infrastructure.

China's transformation and deeper financial integration with the world will have a profound impact on the international economy, including Australia.

China's large and growing middle class will demand an increasingly broad range of goods and services, providing vast opportunities for exporters in areas from financial services to food, while a more open capital account could fundamentally reshape the global investment landscape. Chinese spending on education, medical services, cultural activities and tourism will grow steeply. Overall retail sales are expected to increase by two-thirds between now and 2020. While Australia benefited more than most from China's commodity-intensive growth of the last decade, Australia will need a renewed focus on productivity enhancing reforms to capture these emerging export markets and maintain prosperity. Particularly given these changes occurring in China, Australia must also adjust its policy strategies to help facilitate innovation and support the up-take of new production technologies and consumer services. Increasing competition in sheltered industries will be crucial in driving productivity and innovation, as will remaining open to foreign investment and skills.

- To support the economic transformation underway in each economy will require a continuing commitment to market reforms to those parts of the economy that remain sheltered from competition, overly-regulated or where the degree of public sector involvement is unwarranted. The *Australia–China Comprehensive Strategic Partnership for Change* should be shaped and evolve as a close working partnership that *advances the reform agendas in both countries to promote economic transformation*.
- The *innovation in bilateral architecture* that is proposed can be aligned under the Australian government's National Innovation and Science Agenda and with the Chinese government's prioritisation of innovation in its 13th Five Year Plan. This would see the prioritisation of bilateral cooperation in future opportunities such as research and development, capital sourcing, STEM collaboration, research commercialisation, tech landing pads, the digital economy, and people-to-people entrepreneurial exchanges.

Transforming trade and investment

Australia and China have a strong, established trade and investment relationship, built on the deep complementarity between their economies and their closeness, which is in part a legacy from the high-level commitment to the relationship on both sides. That relationship is based generally on the exchange of Australian raw materials for Chinese manufactured goods. Australia will continue to be a key and reliable source of raw materials to China, supplying more than half of China's iron ore needs and a major proportion of other minerals and energy products. Resource security is provided through the functioning of global commodity markets to which both countries are committed.

In less than three decades the geographical orientation of the Chinese economy has changed fundamentally, from being continentally self-contained to being the largest maritime economy in the world. Resource dependence has grown as commodity prices have fallen and high-cost domestic suppliers have become less attractive sources of industrial inputs. This development has naturally and steadily drawn China into the maritime economy, including the construction of huge sea freight capacities, interest in maritime safety, and concern about securing international supplies. As one of the world's largest maritime resource suppliers, Australia fully reciprocates these interests.

Thinking about the implications of China's maritime economy has lagged behind the pace of this change. The major effort now underway in China to redress this deficiency *would be assisted by collaboration between Australia and China regarding the implications of growing resource dependency for resource security; maritime resource development and protection; maritime scientific and weather research; and Australian participation in the Maritime Silk Road initiative.*

The shift towards consumption-led growth in China is now forging a new economic relationship between Australia and China that requires new strategies and institutional arrangements to support closer commercial engagement in a whole range of new merchandise and services trades as well as closer investment and financial market ties. Energy, agriculture and food products provide significant opportunities both to develop regional Australia and to meet new patterns of demand by middle-income Chinese consumers. Development goals in Australia provide new opportunities for upgrading China's trade structure and investment in Australia's economic future.

To support the continued economic adjustment in both economies, and to help both sides weather the changes taking place in the global economy, it is necessary to go beyond a merely trade-focused approach to a comprehensive economic partnership.

- This requires the elevation of the Australia–China Comprehensive Strategic Partnership into an Australia–China Comprehensive Strategic Partnership for Change (see above) and commitment over the next decade to put in place a *treaty-level commitment* covering both countries mutual interests in open markets, resource and energy security; sustainable agricultural development and food security; and reliable access for foreign investment in both countries. It should also acknowledge the global market context of the adjustments that are taking place in materials-based manufacturing (such as steel production) and commodity markets (such as iron ore).
- This Partnership can only be built on more extensive top-level exchanges between the two countries. Australia and China should conclude a *formal agreement to set up an Australia–China (Ao–Zhong) Commission* to promote deeper exchanges between the two countries as soon as is practicable.
- ChAFTA provides a foundation for advancing the opening of new markets and the transformation of the bilateral trade relationship. A *high-level joint working party* consisting of representatives from government and business can support the work of the Australia–China Strategic Economic Dialogue in advancing the implementation of ChAFTA and, beyond ChAFTA, the development of reliable investment arrangements and financial and service market opening initiatives.
- Delivering reliable trade in high-quality food products and internationally competitive tourism and education services requires a deep understanding of each country's consumers, and a tailored approach to trade and investment in country and market knowledge. Both countries should support *programs of public and commercial training and engagement* at the national and local levels that will contribute to the expansion of new market opportunities.

- Investment flows from China to Australia and from Australia to China will play a critical role in the development of the new economic relationship. *Both countries should commit to a 'negative list' approach to foreign investment*, in which foreign investment is welcomed except in specifically designated sectors of the economy. *A new bilateral investment agreement between Australia and China can be concluded* ahead of Chinese agreements with the European Union and the United States, and could serve as the nucleus of broader regional governance arrangements for bilateral investment flows.
- Australia should provide *reliable access* to Chinese investment through standardising the threshold for screening investments across all sources, including those from China, offering equal treatment to market-conforming state-owned enterprise investments, and moving from an 'application and review' to a 'notification and compliance' system under the Foreign Investment Review Board (FIRB). China should provide reliable access for Australian investors by establishing mechanisms to ensure that, after their establishment, Australian investments are subject to national treatment as well as consistent and equitable regulatory treatment in the Chinese market.
- The partnership must be enabled on both sides by the provision of *supporting financial infrastructure* (including access to each other's financial services markets), the ability to make investments that support further trade and service delivery, and continued and easier flow of people between the two countries.
- The *freer movement of people between the two countries* for commerce, business, education and tourism is important to development of the overall relationship. The two countries should establish a joint taskforce whose mandate is to establish most-favoured-nation treatment in visa and other matters affecting sojourn in each country, including the expansion of working holiday visas for young people both ways, and opportunities for Australians to access loans for study in top Chinese universities. This is a clear area of mutual benefit and could be an early reform success story in the new Australia–China partnership for change.
- *Cooperation between Australian states and Chinese provinces, sister cities and NGOs, and bilateral community organisations such as the Australia–China Youth Association (ACYA), should be incorporated into national policy development* through the expansion and formalisation of the role of the Australia–China State/Provincial Leaders' Forum into an Australia–China Leaders' Forum, to identify further practical areas for cooperation, as well as to build the understanding and trust that is the basis of a true partnership.
- *Peak business bodies* in both countries should be encouraged to make an ongoing input into the development of the relationship through the establishment of their own joint working parties and task forces as well as their participation in those established by both governments.
- Effective, independent research and analysis and the fostering of the capacities to undertake it are critical to effective understanding of longer-term developments in the economic relationship. The *China Economy Program* should be encouraged to fulfil its national responsibility in building economic research capacities with institutions across Australia and promoting research collaboration with Chinese think tanks so that there is effective independent advice on longer-term developments in the relationship available to both governments.

- *The collaboration established between the China Center for International Economic Exchanges (CCIEE) and the East Asian Bureau of Economic Research (EABER) at The Australian National University and their government and non-government partners in both countries through this study provides a natural foundation for continuing the implementation of the initiatives recommended here, especially the development of closer research and official relationships between both countries and the commitments to secondment of officials to an ongoing program of work over the coming years.*

Financial integration

China is at a critical point of its economic transition, committed to continued financial reform and capital account liberalisation while simultaneously managing associated domestic and external challenges. The extent to which China can successfully liberalise its financial sector to better channel capital to the most productive sectors of its economy will largely determine whether it will stagnate at middle levels of income per capita or whether it can, like its neighbours in Northeast Asia, rapidly attain high-income status. Australia, China and the world at large have every interest in the success of this endeavour. Similarly, capital account liberalisation in China will unlock a vast pool of savings and unleash financial flows that will profoundly change the financial structure of the regional and global economies. Handled intelligently and deftly, this change will constitute a powerful force for prosperity in the region.

The lessons of the past three decades of Asian financial history are that financial sector liberalisation and capital account opening must be managed with care by policymakers, with particular attention paid to the correct sequence of reforms. Chinese policymakers are aware of the need to proceed with prudence. Australia offers the possibility of a 'testing bed' for the opening up of Chinese finance to the outside world. Australia, meanwhile, must be careful not to squander the historic opportunities inherent in this fundamental reshaping of the financial geography of the region and the globe. Seizing the potential benefits will require active engagement on Australia's part with China on the latter's financial opening rather than reactive policymaking, or, worse, a turn towards protective economic nationalism.

These reform processes clearly have particular implications for the future of the Australia–China relationship across its economic, political and social dimensions. But if the governments and private sectors of Australia and China position themselves strategically, these reforms offer a once-in-a-lifetime opportunity to deepen the relationship in financial services and financial flows, which are still nascent compared to the relationship in merchandise trade.

Financial services are the largest single component of the Australian economy. With A\$6.4 trillion in assets, the fourth-largest superannuation system in the world, a robust regulatory framework and one of the least restrictive industries in the region, Australia has a clear comparative advantage in exporting financial services into the region. Investing in deeper links and greater engagement with growing Chinese markets offers an immense opportunity to the Australian financial services industry. It is an investment in future growth that will be key to supporting the Australian economy's transition towards services following the mining boom.

For China, Australia offers the opportunity of a testing ground for reforms that will support China's continued opening and financial integration, both regionally and globally. Australia can support China across the many reforms it is undertaking, including expanding access

to insurance, promoting inclusive finance, raising the proportion of direct financial intermediation, liberalising interest rates, promoting the internationalisation of the RMB, and helping strengthen financial and prudential regulation and the institutions that underpin it.

But building this relationship will not happen on its own. It is an ambition that will not be achieved quickly. It will require determination and commitment from the highest political levels and will be more challenging than was the case in building the relationship in merchandise trade. Australian and Chinese governments and private firms should strategically position themselves and build the infrastructure necessary to foster this relationship through the following measures:

- The Australian and Chinese governments should engage with the business sectors of both countries while *developing a formal program on financial services, development and reform*. It would complement the Strategic Economic Dialogue and engage ministers, officials, regulators and firms in a work program to deepen bilateral financial integration that would be focused on:
 - piloting *the select release of regulatory and licensing restrictions on Australian firms in China* as a phase-in for regional liberalisation, through expanding the financial services components of ChAFTA;
 - *developing a regular dialogue and a mutual recognition framework between financial regulators, and supporting the development of RMB-denominated assets and securities listings in Australia;*
 - pursuing *mutual reforms of macroprudential regulations and dividend imputation schemes* to ensure that Australian and Chinese entities are better able to engage with one-another in the region;
 - promoting *the bilateral and regional opportunities arising from fintech and digital finance;* and
 - commissioning *research between Australian and Chinese institutions on financial services trade and cross-border investment.*

There are also opportunities for partnership in regional financial cooperation:

- Both countries should work to build a bilateral financial infrastructure focus into regional initiatives such as One Belt, One Road, the Asian Infrastructure Investment Bank and the Asian Development Bank to improve payment systems, credit information bureaus, collateral registries and financial intermediaries and institutions throughout the Asia Pacific.
- China should sign on to, and Australia implement, APEC's Asia Region Funds Passport and both countries should advocate its greater use in the region.

Framework for capturing opportunities and managing risks

There are untapped opportunities in the Australia–China relationship to increase two-way bilateral trade, investment, finance and cooperation on regional and global issues. Success will be important for the long-term economic performance and security of both countries.

There are three major types of risks that need to be managed in realising the opportunities:

commercial risks, macroeconomic risks and system difference risks. Commercial risks are the province of normal business strategies. Macroeconomic risks are common to all economic partnerships and can be avoided or their costs mitigated through appropriate policy settings, strategies and investing in policy capabilities. System difference risks — which are a consequence of sovereignty and are also normal in all major bilateral relationships, even between countries that have relatively similar institutional and political systems — are structural and therefore more complex in character. However, there are bilateral, regional and international institutional frameworks for dealing with the many dimensions of system difference risk that can be deployed to alleviating those risks particular to the relationship between Australia, China and the world.

The opportunities in the Australia–China relationship will be best achieved, and the risks best dealt with, through high-level political leadership and commitment to institutional arrangements that promote common understandings and norms of behaviour, and mobilise bi-national and plurilateral work programs to advance priority interests in the relationship.

Australia and China have a bilateral legacy from the 1980s of a ‘model relationship’ that was initiated between the two countries as an effective means to propel their respective domestic reform agendas. This history can be drawn upon in forging a new Strategic Comprehensive Partnership for Change that would both capture the new opportunities in the relationship and ameliorate the impact of system difference risks. This partnership requires entrenching a culture of cooperation within the relationship across government, business and both communities through regular working engagements, jointly targeted policy initiatives and through inculcating in China and Australia a deep understanding of the other country’s society, culture and economy, as well as close personal connections. High-level political commitment and a unifying vision are key to commanding the attention and focusing official resources to address system risks, and key to providing the confidence and leadership that encourages private initiatives to flourish.

- The Australia–China Comprehensive Strategic Partnership for Change would provide *an overarching framework for long-term, high-level engagement that creates a culture of cooperation and trust between the two countries’ different systems that advances their respective economic transformations.*
- The Australia–China relationship should be *a model of how countries with different social systems and at different levels of economic development can collaborate to enhance domestic as well as mutual bilateral, regional and multilateral objectives.*
- The essence of an upgraded partnership will be Australia and China’s *working together in a strategic fashion within bilateral collaborations that deliver specific objectives of common priority and focus on shared ambitions for reform and change.*
- The top-level leaderships of both countries should establish a *‘working group on bilateral reform’* that will structure the future bilateral political relationship to achieve: increased depth and scope of political dialogue; strategic forward agendas for leaders’ meetings; joint working groups on reform between government agencies; and joint protocols for working together and managing differences.

- The new Australia–China (Ao–Zhong) Commission (see above) *should enable the two national governments to pool their resources with those from private and other sources to nurture the relationship through creating an independently governed public institution for programs of exchange and development sponsored by subnational governments, corporate businesses, academic institutions, cultural foundations, community organisations and individuals.* The heads of government of both countries will serve as dual patrons.
- The Commission will foster *high-quality research and academic exchange to increase the pool of Australia- and China-literate human capital across Australian and Chinese society.* This will include: scientific research; the promotion of language and cultural education at all levels; public and privately sponsored postgraduate, postdoctoral, early-career researcher and senior academic exchanges; and long-term partnerships for innovation and entrepreneurial commercialisation.
- The Commission can assist to *foster policy exchanges to produce future cohorts of political and government leaders in both countries who are familiar with the policymaking dynamics of the other country and have deep personal networks with their bilateral counterparts.* Deeper policy linkages will be achieved through an intensification of joint work on policy initiatives and agreed objectives, professional secondments, research fellowships, and training for Australian and Chinese officials in both countries. The Commission will leverage existing partnerships between the Australian Treasury and China’s National Development and Reform Commission (NDRC), the Reserve Bank of Australia and the People’s Bank of China, between the ANU and the Central Party School, and between ANZSOG and China’s Organisation Department, as well as the National Parliamentary Fellowships Program proposed between the Australian Parliament and the National People’s Congress.
- The Commission will foster *business and economic exchange to propel strategic collaboration on economic reform priorities* that will help Australia and China to manage their respective transformations. This will be supported by the forward work agenda from this Report on Australia and China’s economic policymaking structures and how Australia and China can relate effectively to each other across government, business and society.
- The *Australia–China CEO Roundtable can be upgraded with a secretariat structure* that sustains effective collaborations on enhancing the business relationship, including through strategic engagement and the recommendation of future policy programs.
- *The process of planning, launching and implementing the Australia–China (Ao–Zhong) Commission and the Comprehensive Strategic Partnership for Change would lay the groundwork for Australia and China in the long-term to upgrade their ‘model’ relationship into a bilateral treaty framework.* This treaty framework would help enshrine the principles outlined in this Report and provide an umbrella for future bilateral agreements. Such a framework is a goal to be worked towards over a period of many years, but this process will cement political commitment to the relationship, institutionalise bilateral cooperation and perpetuate both countries’ economic reform partnerships.

Regional initiatives

Australia and China have both enjoyed economic prosperity as a consequence of their domestic economic reforms and their integration into the international and regional economy. Openness, within the broader context of a more integrated regional economic order, has been an important dimension of their economic success. There are large changes underway in Asia due to the scale and pace of economic growth and Asia's growth has created a more complex and multipolar regional and global order. The existing regional institutions and arrangements in East Asia and across the Pacific were not designed to deal with all the challenges that have come with the changing structure of regional and global economic power, and there are gaps in their membership and issue coverage of economic and political cooperation institutions.

Neither Australia nor China would have prospered without the confidence and stability offered by the regional cooperation and governance frameworks that have underpinned Asian growth. Neither country would be benefited were these processes and institutions to fall into disrepair or irrelevance because they did not evolve to respond to the new challenges faced by the region.

- Australia and China share a common interest in working together to *forge a new consensus around the principles that will guide future Asian regional cooperation*. To that end, they should work with partners in Asia and the Pacific to strengthen and better connect existing regional institutions and arrangements, such as APEC, the ASEAN Plus Six arrangements and the East Asia Summit, and to initiate high-level political dialogue on important, cross-cutting issues such as energy and environmental transformation and regional infrastructural funding and investment.
- Australia and China should also *work to mobilise a coalition to help define the path forward in making the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) inclusive and complementary, and in transforming the TPP and RCEP into a Free Trade Area of the Asia Pacific that strengthens the WTO and the global economic system* (see Global Goals below).
- Asia's future economic growth and integration is increasingly dependent on investment in critical infrastructure, and Australia and China should seek to create *a common framework for regional infrastructure investment and funding that draws together key actors in the region including AIIB, the ADB, the World Bank, national development funding institutions, and recipient regional groupings such as ASEAN*. Australia and China can use *ambitious bilateral initiatives developed through ChAFTA as a model to advance progress in regional and global arrangements*, especially by driving regional investment and services sector liberalisation through RCEP.

Both countries should *continue to build their growing bilateral military-to-military relationship as an important step towards creating effective working relationships on security issues in the region*, and in strengthening the foundations of political confidence on which regional economic prosperity can continue to grow.

Global goals

The joint interests of Australia and China in regional cooperation, and the potential to use the bilateral relationship to prosecute these shared interests, is just as valid on the global level. Australia and China both benefit from strong global institutions, that are inclusive, rules-based, and promote open and efficient international markets. Many of the institutions that underpin the international economic system were created many decades ago and do not accurately reflect the relative size and importance of many countries within the global economy.

The G20 has emerged as the world's primary vehicle for reforming global governance and steering the priorities of the institutions, forums and organisations that underpin it. It is the only major forum where advanced and emerging economies, and the world's major borrowers and lenders, cooperate on an equal footing. Maintaining the G20's status as the 'global steering committee' and the preeminent forum for economic cooperation is in both Australia's and China's interests. Without the G20, there would be a particular risk for Australia given it is much more likely to be excluded from smaller groupings. But China would also be disadvantaged in a smaller forum dominated by advanced economies, with less influence over global rule setting.

Australia and China also need to ensure the adequacy of the global financial safety net. The needs of the region are not being met by global institutions, leading to greater reliance on more costly and less efficient regional and bilateral arrangements and the accumulation of foreign exchange reserves. The huge potential for Chinese financial sector reform and capital account liberalisation to transform the structure of the region's financial integration means that it is imperative that the global safety net is sufficient to respond to instability.

Australia and China benefit the most from trade liberalisation when it is multilateral rather than bilateral or plurilateral. Australia and China should work to support the cohesiveness of the global trading system by encouraging the G20 to refocus on the multilateral trading system rather than regional and bilateral alternatives.

The global governance architecture faces additional challenges in terms of its representativeness, effectiveness and legitimacy, and needs to be reformed. These challenges impact on Australia, China and the Asia Pacific region in particular. Australia, China and their partners can effect incremental change in addressing these issues, and the three areas set out above deserve special priority:

- Australia and China have powerful interests in *entrenching the G20 as the preeminent forum for global economic governance*. They should actively use and promote the G20, ensure its agenda is inclusive and targeted and ensure continuity across G20 presidencies by prioritising its multi-year growth agenda and deepening its agenda on global governance reform.
- In the near term, China should work to build up *the analytical capacity of the ASEAN Plus Three Macroeconomic Research Office and strengthen institutional collaboration and information and data sharing between the Chiang Mai Initiative Multilateralization, the BRICS currency reserve pool and regional development banks with the IMF*.

- With a view to the longer term, Australia and China should *encourage G20 discussions on the next stage of IMF quota reform, assume a leading role in renegotiating bilateral loans between G20 countries and the IMF, and focus the G20 growth agenda on strengthening domestic macroeconomic frameworks to improve financial resilience.*
- Australia and China should *lead a greater G20 focus on the multilateral trading system.* Australia and China should initiate a pragmatic, incremental process around WTO reform and *define a pathway for RCEP and regional arrangements like TPP to both raise the standard of regional agreements and strengthen the WTO.* They should encourage the use of the G20 growth strategies to achieve ambitious commitments under the Trade Facilitation Agreement and *encourage the G20 to consolidate existing work programs* to initiate a step-by-step process towards a multilateral framework for investment. Other important areas for collaboration are on *global energy governance and the reform of the membership and structure of the International Energy Agency, developing their partnership in the global response to climate change and promoting better coordination of global financing for infrastructure investment.* In each of these areas there is scope for Australia and China to collaborate and use their participation in global and regional forums to support and steer pragmatic, incremental steps in the interests of both countries.

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