

INDO-PACIFIC STRATEGIC PAPERS

Building resilience in Japan-China ties: a role for Australia

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FEBRUARY 2017

VICE CHIEF OF THE DEFENCE FORCE
Australian Defence College
Centre for Defence and Strategic Studies



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In 2007, Shane returned to Canberra and joined a newly-formed Afghanistan section, where he worked closely with the Department of Defence and other agencies to prepare policy on Australia's engagement in Afghanistan. In 2010, he was posted as the Deputy Head of Mission in Harare (Zimbabwe). On his return to Australia in August 2013, Shane was appointed Director of the Consular Information Section. In August 2014, he was posted to Kabul as Deputy Head of Mission.

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Abstract

This paper examines the possible implications for Australia of the fragile Japan-China relationship, arguing that Australia has significant interests at stake in both countries and that these may be harmed by deteriorating ties between them. It specifically addresses the issue of the foreign policy measures that Australia might adopt to support greater resilience in Japan-China ties.

The paper outlines a number of policy recommendations that aim to manage differences, particularly relating to the contested Senkaku/Diaoyu Islands and sensitivities over Japan's wartime aggression. While the paper acknowledges that Australian initiatives will not be sufficient to place the Japan-China relationship on a positive footing, it concludes that a commitment to exploring avenues for cooperation between the two most powerful countries in Asia would represent a prudent investment in securing Australia's future in a region that is being fundamentally changed by China's rise.

Building resilience in Japan-China ties: a role for Australia

Introduction

Australia's two largest trade partners, China and Japan, have a fragile relationship riven with mistrust. Unresolved historical issues and a dispute over sovereignty of the Senkaku/Diaoyu Islands provide a conducive environment for a sharp deterioration in ties. Added to this, Japan's status as an ally of the US means the Japan-China relationship is also affected by a developing sense of US-China rivalry.

This paper will explore possible implications for Australia of the fragile Japan-China relationship, and examine the specific question of what foreign policy measures Australia should adopt to support greater resilience in Japan-China ties. It builds on analysis provided in an earlier paper which found that China's sustained and rapid rates of economic growth, commencing in the late 1970s, brought about a dramatic increase in China's national power.¹

Over the past decade, China's rapidly increasing strength has brought about a shift towards a more assertive pursuit of its national interests, which has fundamentally changed the dynamics underpinning the strategic environment in North Asia in the post-war period. Japan is adjusting to the pace and nature of the change through the adoption of a range of balancing measures, which China perceives as intended to thwart the achievement of its strategic objectives.

Despite the resumption of high-level ties between Tokyo and Beijing since November 2014, the bilateral relationship remains poor and has the potential to deteriorate quickly. In the case of a miscalculation by either side near the disputed Senkaku/Diaoyu Islands, there is real potential for Japan-China rivalry to destabilise the Indo-Pacific region, including with effects on Australia.

The paper will argue that Australia has significant interests at stake in both countries and that these may be harmed by deteriorating ties between Beijing and Tokyo. It will further argue that Australia can adopt measures to support resilience in the Japan-China relationship, and outlines five policies to bring this about. These recommendations aim to manage differences in areas that are drivers of poor ties, particularly relating to the contested Senkaku/Diaoyu Islands, and sensitivities over Japan's wartime aggression. The paper also argues that Australia can play a valuable role by encouraging Japan to attach greater priority to several economic initiatives valued by China, such as the Regional Comprehensive Economic Partnership (RCEP) and the Asian Infrastructure Investment Bank (AIIB).

Further, Australia can assist by identifying areas of mutual interest and helping to provide opportunities for the two countries to cooperate in these areas. By aiming to support resilience, Australia would seek to increase capacity to arrest deteriorations in ties and to assist in recovering better relations. Noting also that Australia's interests go beyond supporting a better relationship between Japan and China, this paper proposes four further recommendations to advance Australia's relationships with both countries even at a time when their own ties remain fragile.

Part 1 will provide a brief overview of the outlook for the Japan-China relationship, summarising key elements of the analysis provided in the earlier paper. Part 2 will examine Australia's interests with Japan and China respectively. Part 3 considers the implications of a poor relationship between Japan and China—the two most powerful East Asian nations—for Australia and the broader Indo-Pacific region. Part 4 provides policy recommendations for consideration by the Australian Government to support greater resilience in the Japan-China relationship, and to advance Australia's relationships with both countries simultaneously.

In putting forward these recommendations, this paper—like the *2016 Australian Defence White Paper*—identifies the consolidation of the rules-based global order as desirable for Australia. It uses the White Paper's definition of the rules-based global order as a 'shared commitment by all

countries to conduct their activities in accordance with agreed rules which evolve over time, such as international law and regional security arrangements'.²

Part 1: Outlook for Japan-China relations

Australia's two largest trading partners (and market for almost 50 per cent of total exports) are muddling through a difficult relationship. China's extraordinary economic growth, which has been sustained for several decades, has transformed the country. This has provided it with the tools to achieve vastly increased national power, including in the form of greater international influence and a more powerful military. In comparison to China's phenomenal growth, Japan's economy has achieved only weak and sporadic growth for more than a decade.³ This has brought about a significant change to the dynamics of North Asia.

China's strengthened power has encouraged Beijing to adopt a more forceful pursuit of Chinese interests, particularly on matters of sovereignty. For Japan, China's increasing assertiveness was underlined by the 'Senkaku shocks'—two episodes relating to the disputed Senkaku/Diaoyu Islands—that triggered prolonged crises in Japan-China relations in the period 2010-14. The episodes, and China's preparedness to escalate the situation to advance its sovereignty claims, changed the way Japan looks at China.⁴ It accelerated Tokyo's adoption of a balancing approach that aims to increase Japan's ability to withstand Chinese pressure, strengthen its alliance with the US to boost its deterrence, and strengthen its security relationships more broadly, particularly among those countries which share concerns that China's maritime assertiveness could increase risks to stability and prosperity in the region.⁵

As Japan has pursued this approach, the competitive dynamic between it and China has strengthened. China perceives Japan's response to its rise as directed towards thwarting the accomplishment of its aspirations.⁶ The relationship exists on a fragile footing, and tensions are easily inflamed. Both governments have been strongly influenced by popular pressure, accentuating points of disagreement at the expense of the relationship. Unresolved issues of wartime history have increasingly moved to the fore and, despite the passage of more than 70 years since the conclusion of the Second World War, continue to inhibit more positive ties.

Disputed territorial claims over the Senkaku/Diaoyu Islands also significantly inhibit the Japan-China bilateral relationship. Encouragingly, tensions have eased somewhat since Japanese Prime Minister Shinzo Abe and Chinese President Xi Jinping exchanged a famously frosty handshake in November 2014.⁷ Despite the awkwardness of that meeting, it nonetheless signalled the resumption of high-level political contact between the two countries, and this has continued, including through a recent leaders' meeting on the sidelines of the G20 Summit in Hangzhou in September 2016.⁸ However, notwithstanding some modest improvement, the factors that led to high-level ties being suspended for approximately two years (from 2012-14) remain very much in place.

At the same time, factors that had stabilised the relationship, including the scale of trade, economic and investment ties, and extensive people-to-people links, seem to have only limited effectiveness in curbing negative momentum. Going forward, the prospects for genuine improvement appear remote—and the best-case scenario may be for a poor relationship to be sustained without the sharp deteriorations that have occurred in recent years. As major countries in the Indo-Pacific, there is a real risk that the competitive dynamic arising from Japan and China's increasingly rivalrous relationship could be exported throughout the region, posing challenges to countries seeking to maintain positive relations with both.

Part 2: Australian interests with Japan and China

The following section will provide an overview of Australia's interests in Japan and China to underline the importance for Australia of preserving effective relationships with both countries.

Australian interests in Japan

Post-war relations between Australia and Japan were initially rebuilt on the foundation of trade and economic complementarity following the signing of the 1957 Commerce Agreement.⁹ After the conclusion of that agreement, Japan emerged as Australia's largest trading partner in the 1960s and retained this status until being overtaken by China in 2007. Japan is now Australia's second-largest trading partner, and also Australia's second-largest export market, purchasing 16 per cent of Australia's exports in 2015-16.¹⁰ The trade relationship is expected to grow further following the entry into force of the Japan-Australia Economic Partnership Agreement in January 2015.¹¹

Investment links between the two countries are also significant. Japan is Australia's fourth-largest foreign investor, with an investment stock of \$199.6 billion in 2015.¹² Japan was the second-largest direct foreign investor in Australia (\$85.9 billion) in 2015, accounting for 11.7 per cent of total foreign direct investment.¹³ Japan is also a significant investment destination for Australian companies and individuals—the fourth largest in 2015—and Australia has a total stock of investment in Japan of \$93.1 billion.¹⁴

Australia's relationship with Japan has now developed well beyond its initial trade and economic foundation and is now described as a 'Special Strategic Partnership'.¹⁵ This designation reflects a convergence of interests between the two countries and recognition that the bilateral relationship is 'based on common values and strategic interests, including democracy, human rights, the rule of law, open markets and free trade'.¹⁶

As liberal democratic nations in the Asia-Pacific region, and as major trade and investment partners, Australia and Japan have much in common. With respective alliance relationships with the US, both countries recognise that the presence of US forces in the region has supported stability and provided a foundation for dynamic economic growth, and both attach strong importance to ensuring this continues.¹⁷

Both Canberra and Tokyo also ascribe significant importance to support for the rules-based global order, and have come to view each other as a partner in this. At the Australia-Japan Summit in December 2015, both Prime Ministers expressed their determination to contribute to the establishment and maintenance of an international order that respects universally recognised rules and a high level of transparency in order to promote unimpeded mobility of people, goods, currency and information.¹⁸

A considerable alignment of interests has contributed towards the emergence of a partnership now described as Australia's 'closest and most mature in Asia'.¹⁹ Further, Australia and Japan have worked together to shape the regional architecture in the Asia Pacific, including during the creation of APEC and the East Asian Summit.²⁰ In doing so, Australia and Japan have helped create multilateral avenues for international engagement that also serve to support a rules-based approach.

The alignment of interests between Australia and Japan has paved the way for considerable broadening of security cooperation over the past decade. The signing of the Joint Declaration on Security Cooperation by then Prime Minister Howard and his Japanese counterpart, Shinzo Abe (in his first iteration as Prime Minister) in March 2007 provided the foundation for strengthened strategic cooperation.²¹ This has been supported by a regular schedule of Joint Foreign and Defence Ministers (so-called '2+2' meetings) and Trilateral Strategic Dialogue meetings (also including the US), which have provided a framework for regular engagement on strategic issues.

During this period, the countries' respective defence forces have operated together in Iraq and South Sudan, and refuelling activities by Japan's Self Defense Forces (SDF) supported coalition activities in Afghanistan—a mission to which Australian forces were also committed. Australia has also provided sustained encouragement to Japanese efforts to expand the scope of activities which the SDF is permitted to undertake. Accordingly, when security reform legislation was approved by Japan's Parliament in September 2015, Australia's Minister of Foreign Affairs welcomed the passage of the legislation, noting that this would allow Japan to make a greater

contribution to peace and security, and make it easier for Australia to ‘work with Japan overseas on peacekeeping operations and humanitarian and disaster relief’.²²

Australian interests in China

Since China’s economic reforms in the late 1970s, and the sustained period of rapid economic growth that these reforms ushered in, Australia’s relationship with China has come to be underpinned by trade and economic complementarity.²³ This has formed a virtuous circle in which Australian exports have provided the Chinese economy with the resources needed to boost its production and drive its development, which has in turn further increased demand for Australian resources.

The respective Governments, however, have made efforts to broaden the base of the relationship beyond trade, and a Comprehensive Strategic Partnership was agreed in April 2013.²⁴ Within the framework provided by the strategic partnership, Australia and China engage in a range of dialogues. These include an annual meeting between Australia’s Prime Minister and China’s Premier; a Foreign and Strategic Dialogue led by respective Foreign Ministers; and a Strategic Economic Dialogue led on the Australian side by the Treasurer with the Minister for Trade, and on the Chinese side by the Chairman of China’s National Development and Reform Commission. A further Ministerial-level meeting is held in the form of a Climate Change Ministerial Dialogue. A range of other dialogues also exists, including the Australia-China Defence Strategic Dialogue, Human Rights Dialogue, and a Consular Dialogue.²⁵ In addition, a 1.5-track High Level Dialogue was inaugurated in 2014.²⁶

China’s market is enormously significant to Australia, with more than 36 per cent of Australian exports purchased by China in 2013.²⁷ This is the highest proportion of exports to China relative to total exports of any G20 country.²⁸ The entry into force of the China-Australia Free Trade Agreement in December 2015—and the resulting removal of tariff barriers on a significant proportion of Australian products sold to China—is expected to drive further increases in bilateral trade.²⁹ Australia’s abundance of natural resources, and record as a reliable and competitive exporter of resources, means it has benefited immensely from the industrialisation China has achieved through decades of rapid economic growth.

While the composition of Australian exports to China continues to be dominated by resource commodities, the export of services, particularly education and tourism, has become more significant. In the area of education, for example, China is Australia’s largest education services market, with Chinese students comprising 36 per cent of total international student enrolments in Australia in 2015.³⁰ In the tourism sector, China was Australia’s largest market for total expenditure and visitor nights in 2015.³¹

Although investment flows between Australia and China are more modest than the vast trade relationship, these flows are increasing. According to a report published by KPMG and the University of Sydney in April 2016, titled *Demystifying Chinese investment in Australia*, Chinese investment in Australia grew strongly in 2015, reaching more than A\$15 billion.³² This was the second-highest amount of Chinese investment recorded in Australia, second only to that which occurred in 2008 at the height of the resources boom. Significantly, investment occurred in a broader range of sectors beyond mining, including real estate, renewable energy, health care, and agri-business. The stock of Chinese investment in Australia reached \$35 billion in 2015, making China the fifth-largest foreign investor in Australia.³³

Despite the mutually beneficial trade relationship, and broad engagement on range of issues, there is a sense of uncertainty about what China’s re-emergence will mean for Australia. This is evident in recent controversy over proposed Chinese investment. In the past 12 months, a number of proposed Chinese investments have been rejected by the Australian Government. In August 2016, Treasurer Scott Morrison rejected foreign investment proposals from two Chinese bidders to purchase a 50.4 per cent share of a 99-year lease to operate the electricity distribution network in New South Wales on the basis that the proposals were ‘contrary to the national interest’.³⁴ On the same grounds, in April 2016 Morrison also rejected a bid from a Chinese

company to purchase S. Kidman and Co.—a pastoral company which holds approximately 1.3 per cent of Australia’s total land area.³⁵

Despite the way in which China’s industrialisation has propelled the Australian economy, the concerns over Chinese investment betray a sense of misgiving in Australia over what China’s re-emergence means for Australia. Then Prime Minister Tony Abbott may have been alluding to these misgivings when he told visiting German Chancellor Angel Merkel in April 2015 that Australia’s relationship with China was driven by a combination of ‘greed and fear’.³⁶ On the one hand, there is recognition that continuing to advance a productive relationship with China is critical to Australian prosperity and standards of living and security. On the other, there is evident concern that China’s re-emerging national power may encourage it to pursue its national interests in ways that undermine the rules-based global order and prove inimical to Australia.

A major factor that has given rise to these concerns has been the approach China has adopted in recent years in the pursuit of its maritime territorial claims, including in the East and South China Seas. China has appeared to pressure rival claimants by adopting a range of measures, including by scaling up its maritime capabilities, conducting regular patrolling activities, engaging in maritime confrontations and collisions, protecting Chinese fishing vessels from law-enforcement activity undertaken by other states, and reclaiming land and developing military infrastructure in contested areas of the South China Sea.³⁷

Several high-profile global economic initiatives launched by China in recent years have also raised questions about whether China intends to use its economic power to exercise greater political influence over trading partners in support of China’s foreign policy interests. The first of these is the so-called ‘One Belt, One Road’ initiative which brings together an overland economic network linking China with Central Asia, the Middle East and Europe (a Silk Road Economic Belt), and a maritime economic network of ports extending from the South China Sea into the Indian Ocean and beyond (the Maritime Silk Road).³⁸ The project is to be supported by a US\$40 billion fund announced by Xi during the APEC meeting in Beijing in November 2014.³⁹

The second is the establishment by Xi of the AIIB to finance infrastructure development in the Asian region, drawing from authorised capital of US\$100 billion.⁴⁰ The establishment of the AIIB has been interpreted in some quarters as representing an effort to wrest economic leadership from the US by challenging the World Bank. Both initiatives share a sense of global ambition, while placing China at their centre. This has raised concern that Beijing may be seeking to increase its ability to leverage its economic weight in support of its broader objectives.

For Australia, as an ally of the US, these concerns are closely linked to the question of whether the relationship between the US and China is shifting from cooperation towards greater strategic tension.⁴¹ On an episode of the ABC’s current affairs program *Four Corners* in October 2016, titled ‘China rising’, Hugh White argued that for Australia ‘this is the first time in our history where our biggest trading partner is a strategic rival of our principal ally, so this introduces a whole level of complexity into our strategic situation we’ve never known as a country before’.⁴² While some may disagree with White’s analysis, it raises uncomfortable questions about what the future might hold for the Indo-Pacific region and helps to explain the anxieties about China’s rise that have become increasingly evident in Australia in recent years.

Part 3: The problem of Japan-China rivalry

As discussed, the outlook for Japan-China relations is poor, with key issues such as the territorial dispute over the Senkaku/Diaoyu Islands and unresolved historical issues acting as key factors inhibiting better ties. This section will argue that persistent heightened tensions and the prospect of further sharp deteriorations in the relationship between Japan and China present a potential risk to Australia and other regional countries in the Indo-Pacific.

In a worst-case scenario, the territorial dispute between Japan and China over the Senkaku/Diaoyu Islands has the potential to escalate to the point of threatening stability in East Asia. The potential for the situation to escalate was vividly highlighted by Japanese claims that Chinese frigates had locked weapon-guiding radars on a SDF destroyer and helicopter in areas

surrounding the islands in two separate incidents in January 2013.⁴³ More recently, China's Defense Ministry similarly accused Japanese jets of locking their targeting radars on Chinese fighters over the East China Sea in July 2016.⁴⁴

The prospect of the defence forces of two major East Asian powers directly engaging in hostilities is alarming. Japan's alliance relationship with the US, however, also raises the possibility that China and the US could find themselves involved in a confrontation over these small, remote and uninhabited islands. Although this may seem an unlikely trigger for conflict, during a visit to Tokyo in April 2014, President Obama chose to make clear that the US considers the islands as falling within the scope of the US-Japan Security Treaty. Standing alongside Prime Minister Abe, Obama said:

[L]et me reiterate that our treaty commitment to Japan's security is absolute, and Article 5 covers all territories under Japan's administration, including the Senkaku Islands.⁴⁵

By these remarks, Obama was referring to the article of the Japan-US Security Treaty which includes a provision that 'each Party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes'.⁴⁶ Prior to the visit, Obama had foreshadowed his remarks in an interview for Japan's national newspaper, *Yomiuri Shimbun*.⁴⁷ After the publication of the interview, a spokesperson from China's Foreign Ministry criticised Obama's remarks saying 'the so-called US-Japan alliance is a bilateral arrangement from the Cold War and ought not to harm China's territorial sovereignty and reasonable rights'.⁴⁸

At the time of writing, it is not clear whether President-elect Trump will adopt a similarly steadfast stance in support of Japan's territorial sovereignty. Speaking on the campaign trail, Trump suggested Japan needed to bear a greater proportion of the costs for the forward presence of US forces.⁴⁹ He further indicated that US support may be conditional on Japan doing so. Trump's remarks have invited some doubt about the strength of the US commitment to the defence of Japan. There is a risk that this in itself increases the danger of provocation and/or miscalculation in the area surrounding the islands.

The Senkaku/Diaoyu Islands are therefore a potential flashpoint in a region of enormous consequence to Australia. Moreover, sustained tensions between Japan and China over the islands, short of outright hostilities, also places pressure on regional countries. Following China's November 2013 declaration of an Air Defence Identification Zone (ADIZ) in the East China Sea, in an area with several overlapping ADIZs, Australia took a firm position opposing China's actions.

Australia publicly expressed concern about China's announcement, noting that the 'timing and the manner of China's announcement are unhelpful in light of current regional tensions, and will not contribute to regional stability'.⁵⁰ The statement also expressed Australia's opposition to 'any coercive or unilateral actions to change the status quo in the East China Sea'. It also noted that the Department of Foreign Affairs and Trade had called in China's Ambassador on 25 November to convey the Australian Government's concerns and to seek an explanation of China's intentions.

China did not agree with Australia's approach to the issue and expressed its displeasure in direct terms. During a visit to Beijing by Foreign Minister Bishop the following month, Chinese Foreign Minister Wang Yi told her that Australia's response to the declaration of an ADIZ over the East China Sea had 'jeopardised bilateral mutual trust and affected the sound growth of bilateral relations'.⁵¹ In the lead-up to the visit, Chinese participants in a 1.5-track dialogue (Australia-China Forum) between senior participants from political, business, media, academic and cultural circles, held in Canberra in November, also strongly criticised Australia's response to the declaration of the ADIZ.⁵²

It is evident that the Senkaku/Diaoyu Islands raise difficult issues for Australia. Beijing's sudden declaration of an ADIZ raised concerns that it was pursuing its interests unilaterally, and in a way that undermined international rules and cooperation. Accordingly, and as outlined above, Canberra adopted a firm position in response to Beijing's declaration in late 2013. Despite clear

opposition from China, the Australian Government has maintained this position and, in the *2016 Defence White Paper*, identified the declaration as an issue that ‘caused tensions to rise’.⁵³

To date, the difference of opinion between Canberra and Beijing on this issue has not prevented progress in the overall Australia-China bilateral relationship, including with the entry into force of the China-Australia Free Trade Agreement in December 2015.⁵⁴ Nonetheless, in the event that tensions over the islands escalated to a genuine crisis between Japan and China, it may become more difficult for Australia to manage its response to this issue. On the one hand, Australia will have an interest in upholding its position in support of an international system based on rules and cooperation. In addition, Japan (and mutual ally the US) will expect diplomatic support and possibly more. China on the other hand will want Australia to prioritise its bilateral ties with Beijing by staying out of the dispute.

It is conceivable in this case that elements of Australia’s carefully crafted trade relationship with China could come to be used as a tool for providing Beijing with leverage to raise pressure on Canberra. In this regard, it is worth noting that in their book *War by other means: geoeconomics and statecraft*, Robert Blackwell and Jennifer Harris argue that China makes effective use of economic tools for geopolitical purposes, including by adopting coercive economic measures.⁵⁵ The authors cite examples of China using economic measures to impose economic costs and send messages to the Philippines and Japan during times of dispute. It is possible that in certain circumstances, Australia might also find itself the target of such measures. This scenario highlights the potential for Australia to face difficult choices should efforts to manage tensions between Beijing and Tokyo fail.

Even falling short of outright conflict, however, poor relations between Japan and China pose challenges for Australia and the region. There is a risk that mistrust and competition between Japan and China could develop to the point where relations reach a zero-sum equation, and therefore force regional countries to prioritise ties with either Japan or China at the expense of the other. For Australia, which sees maintaining productive relationships with both countries as critical for advancing its national interests, this poses a serious risk. Given the enormous stakes, an active role for Australian foreign policy to support resilience in the Japan-China relationship is warranted.

Part 4: Australian Government policy recommendations

Noting the potential costs for Australia if rivalry and tension between Japan and China are not managed and escalate, this section outlines five policy recommendations for Australia to play a positive role in adding resilience to Japan-China ties.

Japan and China policy recommendations

A sustained improvement in Japan-China relations can only be achieved if fundamental drivers of instability between the two countries are addressed. This would require steps to manage differences relating to the disputed sovereignty over the Senkaku/Diaoyu Islands and concerning wartime history. As outlined in an earlier paper, these issues are key inhibitors that undermine efforts to strengthen the Japan-China relationship. Failure by Japan and China to successfully manage differences on these issues may lead to instability within the Indo-Pacific region with potential impacts on Australia. It is therefore important for Australia to encourage the two countries to adopt approaches towards the other that help reinforce the relationship and prevent deteriorating ties.

In doing so, it will be useful for Australian engagement with the two countries to encourage those factors that exercise a stabilising influence over their relationship. This includes the extensive nature of trade, investment and people-to-people links, and would involve building on these links. A number of the following recommendations aim to manage those factors inhibiting the relationship, and build on those with potential to stabilise it, including by identifying potential areas of common interest.

1. Support the adoption of maritime and aerial confidence-building measures

Two years on from the second so-called ‘Senkaku shock’, Japanese and Chinese maritime law-enforcement vessels and military aircraft continue to operate in close proximity to each other in the vicinity of the disputed islands. In the three months between April and June 2016, Japanese Air SDF jets scrambled against Chinese aircraft approaching Japanese airspace a record 199 times.⁵⁶ Similarly, in the maritime domain, Japan continues to protest about ongoing incursions by Chinese government vessels into Japanese territorial waters around the Senkaku/Diaoyu Islands. By September 2016, Japanese authorities recorded such incursions on 26 days in 2016.⁵⁷ Each maritime and aerial encounter between respective forces and law-enforcement authorities carries the risk of an accident or incident with the potential for miscalculation and escalation.

The ongoing risks underline the importance of the establishment of crisis management and confidence-building measures.⁵⁸ While the ‘four-point consensus’ agreed by Xi and Abe in November 2014 provided a step towards the introduction of confidence-building measures, including through the establishment of a Japan-China Maritime and Aerial Communication Mechanism to improve communication, this mechanism has not yet been implemented. The fifth round of discussions was held in Hiroshima in September 2016, and provided a valuable opportunity for relevant organisations to exchange views on issues related to the East China Sea, as well as tangible ways to promote maritime cooperation.⁵⁹ The two sides reached in-principle agreement that a further round of the talks would be scheduled before the end of 2016.

While it would not be advisable for Australia to seek a direct role in these negotiations, it can and should provide diplomatic support to the process. During discussions with Japanese and Chinese leaders, senior Australian officials should recognise the usefulness of Japan and China taking practical steps to reduce the risks of miscalculation in the East China Sea; welcome the process of dialogue; and encourage the implementation of the Japan-China Maritime and Aerial Communication Mechanism. Regular high-level meetings with Japan and China respectively provide opportunities for Australia to encourage progress on this issue. The implementation of the mechanism itself will not provide the basis for resolving disputed territorial claims over the islands but it will at least reduce the chances of a misunderstanding leading to catastrophic consequences.

Australia can also play a supporting role by including confidence-building measures, particularly the Code for Unplanned Encounters at Sea, as a training element of multinational maritime exercises it conducts in the region. The Code for Unplanned Encounters at Sea was agreed by 21 Indo-Pacific navies, including the US, China, Japan, ASEAN littoral states, India, and Australia in 2014.⁶⁰ The convention provides a set of basic communication, manoeuvring and safety protocols to prevent accidents and misunderstandings in international waters.⁶¹

The Royal Australian Navy included discussions on the Code with China’s Navy during a port visit to Zhanjiang in October/November 2015.⁶² While this is a welcome step, there is scope for these activities to be expanded. The *2016 Defence White Paper* includes a commitment to increase Australia’s investment in international engagement over the next 20 years, including through more regular Australian Defence Force (ADF) participation in multinational exercises.⁶³ This provides additional opportunities for Australia to engage regularly with regional navies and make a meaningful contribution to reducing risks.

2. Encourage Japanese leaders to refrain from visiting Yasukuni Shrine

Despite the passage of more than 70 years since the end of the Second World War, historical issues remain a significant inhibitor of ties between Japan and China. Far from diminishing, the shadow cast by wartime history appears to be growing longer. Heightened rivalry between Japan and China—evident in the unresolved territorial dispute concerning the Senkaku/Diaoyu Islands—and an associated upsurge in popular nationalism in both countries, has played a role in the apparent amplification of this issue over time. The actions of Japanese leaders that appear to equivocate on matters of wartime responsibility, particularly through visits to the Yasukuni Shrine, have also contributed to the current situation in which Japan’s wartime history continues

to curb its contemporary relationships with its neighbours, particularly China and the Republic of Korea.

When Abe visited Yasukuni on 26 December 2013, he did so knowing that Japan and China would condemn his visit. He attempted to pre-empt this through a statement issued that day in which he explained the rationale for his visit, noting that it was 'not my intention at all to hurt the feelings of the Chinese and Korean people'.⁶⁴ Unsurprisingly, Korea and China were not placated by Abe's explanation and protested his visit. On this occasion, the US also added its voice to those criticising the visit when it issued a statement through its Embassy in Tokyo noting that 'the United States is disappointed that Japan's leadership has taken an action that will exacerbate tensions with Japan's neighbours'.⁶⁵

Australia has tended to adopt a highly cautious approach to this issue. However, it is worth considering whether more direct language is now warranted, particularly given Australia has already raised historical issues in the context of providing support for reconciliation efforts among the countries of North Asia. In an address to the National Press Club in Tokyo in February 2016, Foreign Minister Bishop spoke of the value of greater regional engagement between Japan, China and Korea for regional stability, noting that:

Australia would continue to do and say all we can to encourage Northeast Asian countries to resolve their differences cooperatively ... [and that] we understand there are sensitivities based on history but we hope regional leaders will continue to make progress in resolving or managing these issues.⁶⁶

Earlier in the same speech, Bishop commended the leadership and foresight of the governments of Japan and the Republic of Korea for pursuing reconciliation, and noted the announcement of an agreement between the two sides to resolve their dispute on 'comfort women'.⁶⁷

Given Bishop's other remarks about historical issues, it is appropriate to ask whether Australia should make a clear statement that Australia regards visits to the Yasukuni Shrine as inimical to regional stability. Providing Australia's position as an element of a broader speech presents an advantage in that it could be done at a time and location of Australia's choosing, and in the context of other remarks.

This would be preferable to making a statement specifically in response to a visit to the Shrine by a Japanese Prime Minister. In addition, this proposed approach of speaking up on matters in the interests of stability in the region would be consistent with that adopted by the Australian Government following China's declaration of an ADIZ in the East China Sea in 2013, in which the Australian Government issued a statement expressing concern, and noting that the declaration would not contribute to regional stability.

Australia could consider going further by supporting the Chidorigafuchi National Cemetery as a more appropriate venue for recognising Japan's war dead. US Secretary of State John Kerry and then-Secretary of Defense Chuck Hagel laid wreaths at the cemetery during a visit to Tokyo in October 2013.⁶⁸ A similar activity should be considered as an element of a future visit to Japan by Australia's Foreign Minister in the same way Abe paid his respects at the Australian War Memorial during a visit to Canberra in July 2014.⁶⁹

Playing a role in having Japanese leaders desist from visiting Yasukuni Shrine may help to remove an avoidable source of tension in Japan's relationship with China. But it would not resolve underlying issues which stem from Japan's wartime aggression and a subsequent sense that it has not genuinely atoned for its actions. In this respect, former Australian Prime Minister Kevin Rudd outlined a more ambitious proposal. In a report he prepared for Harvard University's Belfer Center, Rudd suggested an effort to establish a mutually accepted account of the Sino-Japan War, envisaging:

[A] US-led effort, or joint Allied effort including China, to resolve with Japan an accurate historical record of Japanese armed aggression in Asia during the Second World War, in order to free the region from the continuing and damaging political, diplomatic and security policy impact of a war concluded 70 years ago.⁷⁰

It is clear that such an exercise would face many obstacles and, through the controversy it would likely court, may actually inflame tensions. For these reasons, Australia should not seek to drive this proposal. Nonetheless, should it gather traction, the Australian Government would need to consider whether Australia, as a wartime adversary that has moved forward to build a warm relationship with Japan in the post-war period, could play a useful role. Although the odds are very much stacked against it, if this concept ever took root and removed wartime history as an inhibitor of contemporary ties between Japan and China, the benefits would be substantial.

3. Add resilience by building on trade and economic links

While the two-way merchandise trade relationship between Japan and China is extremely large, worth approximately US\$270 billion in 2015, trade volumes between the two countries have declined for four straight years.⁷¹ There is a risk that despite the enormous magnitude of trade between the two countries, their trade and economic priorities do not reflect the extent of their mutual economic interests. In particular, Japan could adopt several measures to strengthen its trade and economic relationship with China, and Australia could play a positive role by encouraging Japan to do so.

First, under Abe's leadership the Japanese Government is placing emphasis on seeking the entry into force of the Trans-Pacific Partnership (TPP). In a speech to business leaders in New York during a visit to attend the UN General Assembly in September 2016, Abe emphasised the importance for Japan and the US of obtaining domestic approval of the TPP, noting that 'success or failure will sway the direction of the global free trade system, and the strategic environment in the Asia-Pacific'.⁷²

China on the other hand, which is not a party to the TPP agreement, is looking towards the finalisation of the RCEP [Regional Comprehensive Economic Partnership] to drive regional economic integration and advance prosperity. RCEP is an ASEAN-centred proposal for a regional free trade area, which includes the ten ASEAN member states and those countries which have existing free trade agreements with ASEAN (namely, Australia, China, India, Japan, Republic of Korea and New Zealand).

Given China's interests in finalising RCEP negotiations, a decision by Japan to apply the same high-level commitment to RCEP that it has provided to the TPP would provide a boost to its relationship with Beijing. Australia could help through statements of support to RCEP and by emphasising that an agreement would help to drive greater economic integration and prosperity. Australia and Japan may also find some common interest in advancing RCEP negotiations, because concluding this agreement may also provide some impetus to the US Congress to ratify the TPP.⁷³

Second, in the longer term, given that neither the TPP nor RCEP includes both the US and China, it may be useful for countries participating in negotiations for both agreements—which include Australia and Japan—to work towards an agreement that includes both China and the US. Should this be achieved, it would represent a significant development with potential to strengthen mutual interest among major powers, and would also help drive prosperity in the Indo-Pacific.

Third, Australia could play a positive role by encouraging Japan to become a member of the AIIB. While Australia has become a founding member of the Bank, Japan has chosen not to join, possibly seeing it as a rival to the Asian Development Bank over which it has historically exercised considerable influence.⁷⁴ The objectives of the AIIB, however, and its focus on providing finance for infrastructure investment in Asia to drive economic development and prosperity in the region, are consistent with priorities for both Australia and Japan.

Further, Japan's participation in the AIIB would promote its own infrastructure business through access to the information and resources within the AIIB.⁷⁵ At present though, Japan appears more focused on competing with the AIIB by dramatically increasing financing for infrastructure projects in Asia, including through the Partnership for Quality Infrastructure announced by Abe in 2015.⁷⁶

As a founding member of the AIIB, and recognising that a decision by Tokyo to support this Chinese initiative would provide a boost to the Japan-China bilateral relationship, Australia could assist by engaging actively with the Bank to influence its activities, particularly to ensure it complements the work of the World Bank and the Asian Development Bank. A positive and engaged role by Australia in the AIIB could go some way towards building international confidence in this new bank, including by Japan. Japan's membership of the AIIB, and any financial contributions it made, could help build common purpose in its relationship with China, and add a degree of welcome resilience to those ties.

4. *Establish an Oversight Council to consider strategic developments and priorities for Australia in managing its relationships with both Japan and China*

Noting the scrutiny that Beijing and Tokyo apply to Canberra's diplomatic engagement with the other, and to manage the risk that Australia's relationships with Japan and China are considered and advanced in isolation from each other, it would be useful to establish a small group of senior-level Australian officials to meet annually and consider strategic developments related to both China and Japan. The group could be chaired by the Secretary of Australia's Department of Foreign Affairs and Trade and include senior representatives from the Department of Defence, Office of National Assessments, Department of the Prime Minister and Cabinet, and Australian Heads of Mission from Beijing and Tokyo.

The aim in establishing such a small high-level group would be to provide an opportunity for discussion of strategic developments related to both countries, examine priorities to support broader Australian strategic objectives identified above, and identify any gaps between developments and Australian approaches. The establishment of this group would reflect that both Tokyo and Beijing closely monitor Australia's relationship with the other, and provide an opportunity to ensure developments are appropriately balanced. The group would not be oriented towards identifying prescriptive approaches to both relationships but to consider overarching strategic developments affecting China and Japan.

5. *Conduct an activity-mapping exercise to identify potential areas of common interest among Australia, China and Japan*

This paper recommends that the Department of Foreign Affairs and Trade coordinate an activity-mapping exercise across government to identify areas of common interest—and potential cooperation—for Australia, Japan and China. Recognising the difficult nature of the current relationship between Japan and China, it may not be possible to pursue activities on a trilateral basis, and seeking to do so may risk being caught up in difficulties at the political level.

Australia could therefore seek to identify broader groupings of regional countries to provide opportunities for Japan and China to cooperate on issues of mutual interest. Areas of interest may include such issues as strengthening police-to-police cooperation to combat transnational crime; provide for greater intelligence cooperation in support of counter-terrorism efforts; cooperation in the provision of humanitarian and disaster-relief activities; and/or strengthened consular cooperation. While it would be important to be realistic about the extent to which these activities could help to strengthen relations between Japan and China, the aim would be to expand the span of engagement and identify areas of potential cooperation that may be sustained during times of tension.

One area with particular potential for such cooperation is in the provision of humanitarian and disaster-relief activities. Australia, Japan and China have a demonstrated commitment to providing humanitarian responses to natural disasters in the Indo-Pacific region. Most recently, all three countries provided assistance to Fiji in the aftermath of Tropical Cyclone Winston which caused 44 deaths, extensive destruction and affected up to 350,000 people.⁷⁷

The Australian Government provided a significant amount of assistance to Fiji, and its response included the deployment of ADF assets and personnel. The Japanese Government also responded and provided emergency-relief assistance in the form of tents, plastic sheets, sleeping pads and

generators.⁷⁸ China also provided similar forms of assistance, dispatching tents, generators, first-aid kits and other supplies, in addition to financial support to Fiji's Red Cross Society.⁷⁹

As countries with strong capacities, all three countries will be called on to provide this form of assistance in the region again. Effective cooperation can make a valuable contribution towards curbing the negative impact of disasters and accelerating recovery. This paper recommends that the Australian, Japanese and Chinese Governments work towards closer consultation in the provision of humanitarian assistance by undertaking a joint consultation to examine lessons learned from the humanitarian response to Tropical Cyclone Winston. As an element of this exercise, it would be useful to examine practical constraints to greater cooperation in the provision of humanitarian assistance following a disaster. In doing so, it may identify avenues to advance cooperation and its effectiveness.

A second such area with potential for enhanced cooperation relates to consular assistance to citizens. As the number of people living and working outside their country of citizenship continues to increase rapidly, and as the international security environment has become more complex, all three countries face similar challenges providing consular support and services to their citizens.

Chinese nationals made more than 100 million overseas visits in 2014.⁸⁰ With larger numbers of its citizens working and travelling internationally, and more Chinese companies expanding their international operations, Chinese nationals have become caught up in deteriorating security situations. In the past year, several Chinese nationals have been victims of politically motivated violence overseas—one hostage was murdered by Islamic State in November 2015 and, the following week, three Chinese nationals were killed during a terrorist attack on the Radisson Blu hotel in Mali.⁸¹ The Chinese Government also evacuated approximately 36,000 nationals from Libya prior to the implementation of the no-fly zone in 2011.⁸²

Similarly, Japanese citizens have been victims of recent terrorist incidents, including two hostages beheaded in Iraq by Islamic State in January 2015, three women killed in an attack on the National Museum in Tunisia in March 2015, and seven killed in an attack on a bakery and restaurant in Bangladesh in July 2016.⁸³ With a significant number of Australian ex-patriot workers operating in remote locations, including in difficult security environments, the Australian Government also faces the challenge of keeping its citizens informed of risks and safe from danger. As such, there would be considerable value in investing in strengthened respective understanding of approaches to consular services, including information for citizens and consular assistance when required.

Australia cooperates in the provision of consular assistance with Canada through a reciprocal consular services agreement, and regularly exchanges information on consular issues with the governments of New Zealand, the UK and the US through a so-called 'consular colloque' arrangement.⁸⁴ Australia has also played a leading role in the establishment of a Global Consular Forum, an informal grouping with 25 member countries to support exchanges of information, best practice and lessons learned. Two Global Consular Forum-sponsored forums of senior consular officials have now been held, with the second occurring in Mexico in May 2015 (including Chinese representation) and a third scheduled to take place in Seoul in late October 2016.⁸⁵

Moving forward as this group becomes more established, it may be useful for steering committee members from within the region, such as Australia or Korea, to host workshops on specific issues on an inter-sessional basis for other members in the region. For Australia, this might take the form of a consular desktop exercise with participation from China, Japan and other interested regional countries. Given the scale of the differences that exist, it would be a relatively modest step towards building a resilient Sino-Japanese relationship.

Advancing Australia's relationships with China and Japan

While it is in Australia's interest to play a role in supporting a better relationship between Japan and China, Australia's interests go beyond this. It is also important to consider the role Australia

can play to engage China and encourage it to act in accordance with the rules-based order. This will require broader policies than those outlined above, and will need to be based on the foundation of a positive relationship with Australia. Hence, it will be important for Australia to advance its bilateral relationship with both countries, prospectively in an environment in which the relationship between the two is poor and may be prone to sudden deteriorations.

This paper does not suggest that Australia should refrain from pursuing cooperation with either Japan or China out of concern for the reaction of the other. Australia should pursue cooperation based on a careful analysis of its national interests. Nevertheless, in view of the relationship between Tokyo and Beijing, it will be essential for Australia to be mindful of the possible impact on its relationship on the other country. It will be important to avoid a perception that Australia is advancing its strategic cooperation with one at the expense of the other. The recommendations below may advance Australia's strategic engagement with each country respectively and should be considered.

China policy recommendations

6. *Elevate the existing Foreign and Strategic Dialogue led by respective Foreign Ministers into an annual Foreign and Defence Ministers Meeting*

The establishment of a Foreign and Strategic Dialogue led by respective Foreign Ministers was an important element of measures agreed during a visit to Beijing by then Prime Minister Julia Gillard to expand high-level engagement between Australia and China.⁸⁶ It is now timely, however, to incorporate defence and security matters more clearly in the dialogue by adapting its current format into a 2+2 meeting (Foreign and Defence Ministers' Meeting) to be held annually. This would provide an opportunity for Ministerial-level defence engagement with China, noting that the current Australia-China Defence Strategic Dialogue is led by the Secretary of the Department of Defence and the Chief of Defence Force.

Taking this step also appropriately recognises that China's approach to the region is of first-order significance to Australia's security. The *2016 Defence White Paper* implicitly recognised this by stating that 'the roles of the United States and China and the relationship between them will continue to be the most strategically important factors in the Indo-Pacific region to 2035'.⁸⁷

Given that Australia already holds 2+2 meetings with the US, UK, Japan, Germany, Republic of Korea and Indonesia, and expanded Ministerial meetings with Singapore and Papua New Guinea (which also include Foreign and Defence Ministers), it is somewhat unusual that the Australian Government has not yet initiated this form of strategic dialogue with China. There may be some concerns about perceptions that the establishment of such talks would represent the level of Australia's strategic dialogue with China reaching parity with the US, Japan and other partners. While these concerns are understandable, the need to build strategic dialogue with China in support of stability in the Indo-Pacific is arguably more pressing.

Establishing a 2+2 dialogue would provide both Australia and the China with an avenue to exchange views about strategic issues, including concerning North Korea and other sensitive areas such as those relating to the East and South China Seas. For Australia, it would represent an opportunity to strengthen engagement with China, build strategic understanding, and encourage it to pursue its interests within the framework provided by the rules-based global order.

Clearly, China could also use the meeting as an opportunity to press its positions, including on issues in which Australia and China do not agree. Bringing difficult issues to the fore may mean that this kind of dialogue could be uncomfortable at times. It is also worth noting, however, that Australia's bilateral relationship with China is broad and there are significant elements of cooperation that may help to balance out disagreements on specific issues.

7. Clarify the rules for considering whether proposed foreign investments are in the national interest

While this issue relates to all proposed foreign investment (and not just that from China), a number of proposed Chinese investments have generated considerable controversy in Australia in the past 12 months. In two high-profile cases, as mentioned earlier, the Australian Treasurer rejected proposed foreign investments from China on the basis that they were deemed contrary to Australia's national interest.⁸⁸

The seeming lack of transparency in which these determinations were reached has highlighted the importance for Australia of increasing clarity for the consideration of proposed foreign investments. To provide greater transparency, this paper recommends a review to explore such measures as identifying specific sectors that are deemed sensitive and in which foreign investment is not permitted, and/or outlining criteria for applying a national interests test. Failure to address the current situation creates risks that China will perceive that its investments are subject to greater scrutiny than others.

Japan policy recommendations

8. Examine with Japan the impact of reinterpretation of Article 9 to determine what new areas of security cooperation might now be possible

During the past decade, Japan has undertaken a significant transformation of its security policies, with the reinterpretation of Article 9 of the Constitution in September 2015 the most significant. Article 9 renounces war and provides the basis for the constitution to be considered as embracing pacifism.⁸⁹ Following the reinterpretation, the SDF is now authorised to use force to defend a country with which it has a close relationship in the event that country (or its forces) comes under attack and that attack threatens Japan. This change has opened the door for Japan to exercise collective self-defence in some circumstances.

Following the reinterpretation, Japan's SDF will also be more readily able to provide logistical support to forces engaged in overseas missions protecting Japan's security. Notwithstanding the changes, however, the SDF continues to operate within tight legal constraints, with each deployment of personnel outside Japan requiring detailed legal considerations. Given the significance of the change in interpretation, it would be useful for Australian and Japanese defence officials to examine what new forms of cooperation might now be possible. It would also be useful to identify any impediments to practical cooperation. Taking these steps would be consistent with other measures which have been progressed since the conclusion of the Joint Declaration on Security Cooperation in 2007.

9. Advance the Trilateral Strategic Dialogue

The Trilateral Strategic Dialogue was first held at Ministerial level in 2006 and has also been held among leaders on several occasions.⁹⁰ It performs a useful role by using the regular schedule of high-level meetings to drive practical cooperation. The most recent meeting, held in Laos in July 2016, was a useful case in point, as it provided an opportunity for Ministers to exchange views on issues of concern, including maritime disputes in the South China Sea, as well as unilateral actions that could raise tensions in the East China Sea. Ministers also agreed to strengthen cooperation in regional meetings, and to build capacity in areas such as maritime and cyber security.⁹¹

Both Japan and the US already provide significant maritime capacity-building assistance in Southeast Asia. The US provides training, vessels and facilities upgrades.⁹² Japan is also focused on maritime capacity-building assistance, particularly with the Philippines and Vietnam, and has agreed to provide a significant number of maritime patrol vessels, some of which have already been delivered.⁹³ Australia has tended to prioritise defence capacity-building efforts to the South Pacific, particularly through the Pacific Patrol Boat Program (now known as the Pacific Maritime Security Program).

Australia's *2016 Defence White Paper*, however, includes an emphasis on international engagement, including through increased investment in the Defence Cooperation Program, an increase in the number of exercises in which the ADF participates, and in the number of Defence personnel posted overseas. With Australia set to step up capacity-building activities in Southeast Asia, the Trilateral Strategic Dialogue would provide a useful forum to drive strengthened coordination.

Resource implications

Australia has significant interests at stake in avoiding a destabilising escalation of tensions between Japan and China. This paper has outlined five practical policy proposals for Australian Government consideration to help add resilience to ties between Tokyo and Beijing. These recommendations aim to manage differences on issues that inhibit the relationship, and actively identify areas of common interest to build opportunities for cooperation. If adopted, these have the potential to contribute to improved ties between the two most powerful countries in East Asia which also happen to be Australia's two largest-trading partners.

Several recommendations can be implemented without any impact on resources. These include those relating to providing diplomatic support for confidence-building measures between Japan and China, or for Australia to adopt a more direct position opposing visits by senior Japanese political leaders to the Yasukuni Shrine. Several other recommendations, however, particularly relating to creating additional opportunities for cooperation, such as in the provision of humanitarian assistance and consular services, would require additional resources.

These issues are managed by officers with the primary task of delivering these services rather than the sort of engagement required to leverage them into potential areas of cooperation for the region. This is also the case for pursuing greater economic cooperation between Japan and China through efforts to attach greater priority to concluding the RCEP negotiations, working towards a regional free trade agreement that includes China and the US, and encouraging Japan to seek membership of the AIIB.

Implementing these recommendations would require sustained efforts, to be coordinated and led by the Department of Foreign Affairs and Trade, with support from other government agencies as required. Beyond the implementation of specific recommendations, pursuing the bigger objective of shaping the interaction of major powers in the Indo-Pacific in such a way that advances Australia's national interests would require concerted energy. It would also require a significant expansion of the resources of the Department of Foreign Affairs and Trade to enable it to provide advice to Government and interpret developments as Australia's strategic environment becomes more complex.⁹⁴

Providing adequate resources to the Department for it to pursue Australia's national interests, including through a stable Indo-Pacific and in support of a rules-based global order, would complement the approach adopted in the *2016 Defence White Paper* of enhancing international defence engagement. The Foreign Affairs White Paper being developed by the Department of Foreign Affairs and Trade will provide an opportunity for the Government to ensure resources are adequate for the challenges.⁹⁵ Implementing the policies recommended in this paper to address instability between Japan and China should be a core element of this approach.

Conclusion

A difficult relationship between Japan and China is here to stay. China's rapid re-emergence as a global power and the discomfiture Japan is experiencing in coming to terms with the reversal of relative power between the two countries provides the subtext to disputes over history and territory. While the relationship has stabilised somewhat since the resumption of high-level contact in late 2014, the underlying factors that drove ties to a state of crisis remain very much in place.

Australia therefore finds itself in a situation in which its two largest export markets are enduring a tense relationship with no end in sight. Should ties between Tokyo and Beijing deteriorate, this

will inevitably increase pressure on regional countries with the potential to harm Australia's national interests. Active diplomacy to support greater resilience in Japan-China ties is therefore now demanded.

While Australian initiatives will not be sufficient to place the Japan-China relationship on a positive footing, they can help to add valuable resilience by creating opportunities for the two countries to cooperate. The resources required to make a meaningful contribution would cost only a minute fraction of those that would be borne should tensions between Tokyo and Beijing escalate. A commitment to exploring avenues for cooperation between the two most powerful countries in Asia would represent a prudent investment in securing Australia's future in a region that is being fundamentally changed by China's rise.

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