

Risk, Reward and Resilience Framework

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In research funded by the US intelligence agencies, Professor Philip Tetlock found that experts in specific disciplines and domains often exhibit limited predictive accuracy because they tend to over-emphasize a single lens of analysis. What distinguished the best forecasters in the world was their ability to see complex problems through “dragonfly eyes.” Tetlock used this metaphor because dragonflies have compound eyes made up of thousands of lenses, which they integrate to give themselves almost 360-degree vision.

Dragonfly Thinking™ – a start-up coming out of the Australian National University (ANU) – has developed a series of tools and techniques to allow us to navigate complexity better. By integrating many perspectives into a coherent picture, Dragonfly Thinking enables individuals and organizations to think more holistically and act more strategically. At the centre of Dragonfly Thinking’s approach lies the Risk, Reward and Resilience (RRR) framework, which was developed at the ANU by Professor Anthea Roberts, one of the Founders of Dragonfly Thinking.

Risk, Reward and Resilience™ Framework

Drawing on frameworks from across a variety of disciplines and domains, RRR provides a simple yet powerful and flexible mental model for decision making that can be applied across various policy, business and organizational domains. Leveraging generative artificial intelligence (AI), Dragonfly Thinking has created an interactive software application called RRR.ai that allows this framework to be applied to any issue. RRR.ai is available as a SaaS application with a portal user interface that is accessible via a browser.

At Dragonfly Thinking, we believe that the best results occur when humans co-create with RRR.ai. We typically begin the process of generating reports by having discussions with decision makers about how best to frame the relevant issue for analysis. We then run an initial RRR.ai analysis of the issue, sometimes with input from experts on potential drivers, before returning to the decision makers or experts for edits and suggestions. Once these modifications are incorporated, we run the revised version through the RRR.ai tool again to get more detail on each driver, including relevant examples.

RRR.ai Reports

We can generate reports showing RRR.ai in action with different levels of co-creation. This example report on “Australia’s relationship with China, including the effects of rising US-China strategic rivalry” was co-created by RRR.ai, Anthea Roberts and Dr Benjamin Herscovitch, who is an expert in Australia-China relations and who writes the Substack [Beijing to Canberra and Back](#). It was extensively co-created.

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UNDERSTANDING THE FRAMEWORK

● GOALS

List of goals

● PERSPECTIVE

Identify perspectives

● RISK

Risk is the potential harm an actor or system may suffer, such as financial, physical or environmental harms. It depends on a combination of threats/hazards, exposure and vulnerability.

Threats and Hazards

The degree of potential danger from an external threat (i.e., intentional harms, such as coercion or cyberattacks) or hazard (i.e., non-intentional harms, such as pandemics and extreme weather events).

Vulnerability

-The internal characteristics of an actor or system that can exacerbate the harm that is suffered (e.g., older buildings are more likely to collapse in earthquakes).

Exposure

The channels through which an actor or system encounter a threat or hazard (e.g., through being connected to the internet, through coming into contact with someone infected with a virus, or through a building being located in an earthquake-prone region).

● REWARD

Reward is the potential benefit an actor or system may gain, such as financial, physical or environmental harms. It depends on a combination of opportunity, access and capability.

Opportunities

The degree of potential benefit from an external option or set of circumstances an actor or system could pursue (e.g., the potential to access global markets and develop economies of scale).

Capability

The internal abilities of an actor or system to effectively leverage an opportunity (e.g., through skills and expertise) to realize the potential benefit.

Access

The circumstances, channels, rules, or institutions through which an actor or system is able to take advantage of those opportunities (e.g., through trade agreements that open global markets and critical infrastructure that enable connectivity).

● RESILIENCE

Resilience is the ability of an actor or system to withstand and recover from shocks and stressors, adapt to changing circumstances, and transform in response to challenges or new opportunities.

Absorptive Capacity

The ability to absorb a shock or stressor without suffering significant negative consequences (e.g., via stockpiles or redundancies) or absorb positive developments (e.g., being able to absorb new technologies).

Adaptive Capacity

The ability to respond to changes by making adjustments that allow the actor or system to continue functioning, although in slightly different way (e.g., via small scale adaptations or modifications).

Transformative Capacity

The ability to transform the structures and incentives of the actor or system not only to recover from shocks but to capture future rewards (e.g., via strategic planning or organizational change).

EXTERNAL FACTORS

INTERNAL FACTORS

CONNECTING FACTORS

DYNAMIC CAPABILITIES



Example

Australia's Relationship with China – RRR.ai Systems Map

Australia's relationship with China, including the effects of rising US-China strategic rivalry



Australia's relationship with China, including the effects of rising US-China strategic rivalry

● GOALS

Prosperity, security and social cohesion

● PERSPECTIVE

Australia

● RISK

Threats and Hazards

- China's Growing Power in the Indo-Pacific
- China's Foreign Interference and Espionage
- US-China Economic and Technological Competition
- Economic Coercion and Diplomatic Denial
- China's Structural Economic Changes and Slowdown

Vulnerability

- Trade Dependence on China
- Security Dependence on the US

Exposure

- Location in the Indo-Pacific
- Bilateral Flows of Trade, Investment, and People
- Engagement in Multilateral Institutions

● REWARD

Opportunities

- China's Market Size and Growth
- Strong Economic Complementarities
- Technological Innovation and Collaboration
- Potential to Collaborate on Global Issues

Capability

- Australian Business' Competitiveness
- Rule of Law in Australia
- Multicultural Competencies
- Diplomatic Capabilities

Access

- Investment Access and Flows
- Trade Access and Flows
- Immigration and People Flows
- Time Zone and Proximity

EXTERNAL FACTORS

INTERNAL FACTORS

CONNECTING FACTORS

● RESILIENCE

Absorptive Capacity

- Political and Social Cohesion
- Relational Capital
- Strong Domestic Institutions
- Economic Health and Financial Reserves

Adaptive Capacity

- Selective Market Adaptability
- Open Democratic Debate
- Policy Adaptability

Transformative Capacity

- Greater Economic Complexity and Self-reliance
- Significantly Closer Cooperation with the US
- Significantly Deeper Engagement with China

DYNAMIC CAPABILITIES

● **Issue**

Australia's relationship with China, including the effects of rising US-China strategic rivalry

● **Goal**

Prosperity, security and social cohesion

● **Perspective**

Australia

▲ **Risk**

▲ **Threats and Hazards**

EXTERNAL FACTORS

China's growing power in the Indo-Pacific

China's increasing power in the Indo-Pacific amplifies potential threats to Australia's national interests. As China's military rapidly modernises and emerges as the most powerful regional force, Beijing is increasingly using its armed forces to advance its efforts to coerce, and eventually, annex Taiwan and to intimidate regional countries, including over territorial and maritime disputes. These developments could destabilise the region and heighten the chances of military conflict, which would harm Australia's economic and security interests. China is also leveraging its growing diplomatic and economic clout to influence international organisations and shape international agreements, at times in ways inimical to Australian interests. Meanwhile, China continues its effort to shape and interfere in the domestic politics and policy of other countries in the region, often resulting in outcomes that are less favourable for Australia.

Example 1: China's installation of missile and surveillance systems on artificial islands in the South China Sea could threaten Australian naval and air force transits and reconnaissance missions.

Example 2: China's Belt and Road Initiative, an expansive network of infrastructure projects in the Indo-Pacific and beyond, might pull countries in Australia's region closer to Beijing economically and strategically, thereby reducing Canberra's influence and leverage.

China's foreign interference and espionage

As China's power and ambition have grown, it has actively sought to exert influence on politics and policy both within Australia and around the world. As part of these efforts, there is credible evidence that the Chinese government has targeted Australian politicians, academics, and businesspeople, and the Australian media in a bid to encourage the Australian government to take positions more amenable to China's interests. As well as transparent and largely acceptable forms of persuasion, China has used covert and corrupting means of shaping politics and policy. Meanwhile, China is among the most serious espionage threats to Australia. Beijing uses both traditional methods and a growing array of electronic tools to pursue sustained and widespread intelligence gathering and interference. The Chinese government has also sought to use Chinese-Australians in its foreign interference efforts, while Australia's security responses to Chinese government interference have disproportionately impacted Chinese-Australians, including by inadvertently fuelling suspicions of Chinese-Australians in some parts of the community.

Example 1: As public concern about Chinese government interference has grown, Chinese-Australians have at times had their loyalty publicly questioned by Australian politicians and media commentators.

Example 2: The Chinese government's interference efforts have reportedly sought to use Chinese-Australian businesspeople and community groups as avenues for shaping politics and policy.

US-China economic and technological competition

As well as an ongoing trade war in the form of enduring Trump-era tariffs, the US and China are engaged in intensifying technology competition. Adversarial technology and economic policies in both countries are likely to escalate as the US seeks to shut off China's access to leading-edge semiconductors and related technologies while Beijing doubles down on industrial policy. The US is likely to request Australia's deepening involvement in its efforts to compete with China in critical technology and economic domains, while any Australian support for US moves to hinder China's technological development would likely seriously strain Australia-China relations.

Example 1: US efforts to enlist Australia in moves to starve select Chinese technology companies of access to foreign capital could force Australia to choose sides between Beijing and Washington, potentially either jeopardising Australia's trade and diplomatic ties with China or its military relationship with the US.

Example 2: Australian businesses might face higher costs and lost opportunities if forced to decouple from the Chinese technology ecosystem and divest from Chinese companies. Similarly, they face potential financial losses and missed opportunities if they lose access to the US market.

Economic coercion and diplomatic denial

There is an ongoing risk that China will use economic coercion or denial of diplomatic access to pressure and punish Australia to achieve Beijing's policy objectives. This risk could be triggered by a variety of factors, such as disagreements over investment access, human rights disputes, or geopolitical tensions. China could curtail leader-level or ministerial contact and impose prohibitions or restrictions on the export or import of key goods to or from Australia. Given the importance of access to the Chinese market and high-level diplomatic contact in Beijing for Australia's economic and diplomatic interests, economic coercion or loss of diplomatic access would have negative consequences for Australia's national interest.

Example 1: Australia's call for an inquiry into the origins of the COVID-19 pandemic combined with other bilateral disputes led to tensions with China, resulting in Beijing imposing trade restrictions on nine Australian exports.

Example 2: Australia's criticisms of China's human rights abuses and efforts to hold Chinese officials accountable with targeted sanctions could lead to another freeze in diplomatic relations and the imposition of trade restrictions.

China's structural economic changes and slowdown

Decelerating economic growth rates in China are likely for a range of structural reasons. As well as shrinking demographics and President Xi Jinping's cautious approach to liberal reforms, China's growth rate is likely to slow because of an economic rebalancing towards the services sector and diminishing returns on fixed assets, such as property and infrastructure. Whether as a result these and other structural shifts or external economic shocks, a tapering down of China's economic growth would have cascading effects, especially for countries heavily linked to China's economic engine, including Australia. A recession in China or even a moderate slowdown of China's economic growth rate would affect its consumption patterns, thereby altering its import needs, likely leading to associated drops in demand for some Australian energy resources and minerals. For Australia, which exports a range of commodities and services to China, these changes would have significant negative impacts on both private sector and government revenues.

Example 1: A reduced growth rate in China might curb its infrastructure projects, thereby diminishing its demand for Australian iron ore and coking coal.

Example 2: Economic strains in China can adversely impact the middleclass' spending capacity, possibly reducing the number of Chinese tourists or students visiting Australia.

▲ Vulnerability

INTERNAL FACTORS

Trade dependence on China

Australia's trade dependence on China, coupled with its exposure to changes in China's political and policy landscape more generally, create a significant vulnerability for Australia. Australia's heavy export and import concentration or dependence on China, including for especially lucrative exports like iron ore, liquefied natural gas (LNG), coal, tourism, and education, make Australia vulnerable to shifting Chinese economic policies and market fluctuations. A sudden change in China's demand for Australian commodities or services, or a move to diversify its import sources away from Australia, could adversely impact Australian industries, companies, employees, and government revenue. Meanwhile, China is the largest source of Australian imports, including numerous critical goods and services, so Chinese outbound export restrictions or moves to prioritise the domestic market could lead to shortages of essential imports in Australia.

Example 1: If China decides to source iron ore, LNG or lithium from other countries due to rising costs or for geopolitical reasons, Australian exporters would lose a major market.

Example 2: Shifting education preferences or a state-directed boycott of Australian universities could see international student revenues plummet, with significant negative flow-on effects for the Australian tertiary education sector and the broader economy.

Security dependence on the US

Australia's security dependence on the US, coupled with its exposure to shifts in US politics and policies, increase Australia's vulnerability in its relationship with China. As Australia deepens its alliance with the US through expanded military collaboration, including the AUKUS partnership, and welcomes increased US military presence, it is likely to strengthen its strategic alignment with Washington. This deepening military interdependence will heighten China's suspicion that Australia is part of a US-led containment effort and would support the US in potential regional conflicts, including in the Taiwan Strait. Concurrently, the close nature of the US-Australia relationship makes Australia especially susceptible to shifts in US domestic politics and its China policy. As the US adopts a more assertive economic and technological posture against China, Australia finds itself in a precarious position, having to navigate between aligning with US-led economic and technological competition and preserving its significant trade and investment ties with China.

Example 1: Australia's acquisition of nuclear-powered submarines in partnership with the US and UK will prompt sustained objections from China and confirm perceptions in Beijing that the Australian military will act at the behest of Washington, including in the event of military contingencies in the Taiwan Strait and elsewhere in the region.

Example 2: Australia's deepening dependence on US military technology is likely to heighten expectations in Washington that Canberra will align with US efforts to hold back China's technological rise, which will strain diplomatic relations with China and might prompt Beijing to impose additional trade restrictions on Australia.

▲ Exposure

CONNECTING FACTORS

Location in the Indo-Pacific

Australia's location in the Indo-Pacific creates additional economic opportunities but also exposes the country to the volatility of regional security dynamics, especially those influenced by US-China relations. Australia is relatively geographically close to potential military flashpoints in the region, including the Taiwan Strait and the South China Sea. On top of the risk of being drawn into a regional conflict, Australia faces potential harm to its economic interests given its dependence on shipping lanes that traverse contested waters. Australia's exposure is heightened because of the depth and breadth of the US-Australia military relationship, which would likely make Australia more militarily exposed in the event of US-China conflict. Australia's exposure would be further amplified by the intensity of the country's trade interdependence with China.

Example 1: Potential US-China conflict zones like the Taiwan Strait and the South China Sea increase the risk to Australia's maritime trade routes, which pass through these waters and are vital for its access to export markets.

Example 2: The ongoing expansion of US military presence in Australia will likely increase Australia's role in any regional military conflict involving the US, which could consequently make Australia more of a military target for China.

Bilateral flows of trade, investment, and people

A central driver of exposure in the Australia-China relationship stems from the complex interdependence characterised by the flow of trade, investment, and people. This interdependence produces massive economic and social benefits for Australia. For instance, Chinese investment in Australia has been a boon for the mining industry and contributed to the local economy, enhancing government revenues and creating jobs. Similarly, the expansive Chinese market offers unparalleled export opportunities to many Australian businesses in sectors ranging from natural resources to agricultural products, thereby contributing to Australia's economic growth. However, these flows also serve as conduits for risk, especially given China's proven track record of weaponising interdependence to pressure and punish other countries, including Australia. Rules, such as those governing foreign investment reviews, represent a mechanism for responding to different levels of risk.

Example 1: Dependence on the Chinese market for Australian exports can expose the Australian economy to risks of economic coercion.

Example 2: Given Beijing's efforts to maintain its dominant role in the international rare-earth elements (REE) market, Chinese or China-linked investors in Australian REE mines could seek to shape commercial outcomes to serve the Chinese government's national objectives.

Engagement in multilateral institutions

Australia is deeply engaged in, and benefits from, the international system and its participation in multilateral institutions. As China's diplomatic and economic influence grows, it is poised to shape international organisations and political alignments in ways that could make them less likely to reflect Australian values and interests. As a long-term beneficiary of the US-led global order, such developments could adversely impact Australia. Such shifts could expose Australia to changes in: (1) processes, meaning that Australia and its allies would likely wield less influence over institutional processes; and (2) outcomes, meaning that the decisions and actions of these institutions would likely be less aligned with Australia's international interests.

Example 1: As China strengthens its role in international organisations, it is likely to push for the reinterpretation of human rights in terms of development and economic rights at the expense of the political rights often championed by Australia.

Example 2: As China's economic influence continues to expand, Chinese companies are increasingly involved in setting international standards, including through international standard setting bodies. Increased participation of Chinese actors in these forums is changing how these forums function, which may sometimes impact the standards they produce in ways unfavourable to Australian interests.

★ Reward

★ Opportunities

EXTERNAL FACTORS

China's market size and growth

China's rapid ascent to economic superpower status has created a vast and dynamic market, providing lucrative opportunities for Australian commodity exporters and service providers. The scale of China's consumer base, coupled with significant industrial and technological advancements, has made it the prime export destination for a range of Australian industries. Despite ongoing bilateral tensions and security concerns, China remains a valuable source of foreign direct investment for Australia. China's massive market size continues to offer growing trade and investment opportunities for Australia even as its economic growth rate moderates. Australia's ability to leverage this potential is crucial, especially for sectors like natural resources, education, and tourism, which have already established strong customer bases in the Chinese market.

Example 1: Australian universities have historically capitalised on China's market size and value, with a significant influx of Chinese students contributing to the growth of Australia's international education sector.

Example 2: The Australian tourism industry has flourished by catering to the increasing number of Chinese tourists, who have been amongst the highest spenders in Australia, bolstering local economies.

Strong economic complementarities

The economies of Australia and China are interlinked through strong complementarities, which have underpinned the bilateral trade relationship. Australia's rich endowment of natural resources aligns with China's robust demand for raw materials and energy to support its manufacturing sector and infrastructure development. Moreover, Australia's advanced agricultural, services, and innovation sectors complement China's economic diversification and its push towards consumption-led growth by its burgeoning middle class, which enjoys increased disposable income. As China's demand for critical minerals increases to feed its manufacturing and renewable energy industries, and as Australia transitions towards Net Zero, green economy complementarities will also grow. This symbiotic relationship underlines the significance of each economy to the other, with Australia supplying both the raw materials and services required by China's economic development.

Example 1: Prior to the introduction of anti-dumping duties in late 2020, Australian wineries saw a sustained increase in exports to China, with premium brands gaining in popularity.

Example 2: As China continues its rapid industrialisation and urbanisation, the demand for raw materials and energy from Australia will continue.

Technological innovation and collaboration

China's and Australia's technological and research capabilities present opportunities for mutual benefit. Australian research and industry advancements in sectors like renewable energy, agriculture technology, and digital services can pave the way for joint ventures and investments. Meanwhile, technological innovation could be further spurred via research collaboration between Australian and Chinese universities in Science, Technology, Engineering and Mathematics (STEM). This technological innovation and collaboration can lead to the development of solutions to global challenges, including climate change and food security. Despite these potential benefits, research and technology collaboration between Australia and China is declining, driven in part by security concerns. For the first time in the history of the Australian Research Council Discovery Projects, no China-focused grants were awarded in 2023. China was also no longer one of Australia's top-ten international collaborators.

Example 1: China's market scale and Australia's innovation ecosystem could jointly foster the development and rollout of new technologies, including in agricultural sciences and green technology, offering a dual benefit of environmental sustainability and enhanced food production.

Example 2: Australia's renewable energy innovations can aid China in transitioning towards a greener economy, further serving both countries' goals of reducing carbon emissions.

Potential to collaborate on global issues

Australia could pursue opportunities with China to address regional and global challenges, including climate change and public health. Both nations have shared interests in addressing these challenges, and cooperation in these domains can create a buffer against volatility in bilateral ties and regional security. Such collaboration not only benefits both countries but also contributes positively to regional and global stability and progress. Engaging in joint research projects, sharing best practices, and contributing to multilateral initiatives can strengthen ties and build a foundation for broader dialogue on contentious issues.

Example 1: Australia and China jointly funding a research institute focused on studying and combatting emerging infectious diseases could benefit the global community.

Example 2: Collaborative efforts in renewable energy projects could aid the transition towards a low-carbon economy, potentially setting a precedent for other nations to follow.

Capability

INTERNAL FACTORS

Australian business' competitiveness

Spurred by the liberal economic reforms of the 1980s, many Australian businesses have become and remain globally competitive. Australia's competitiveness has made Australian exports appealing for Chinese consumers and businesses alike. Due in large part to this competitiveness, Australia is now a leading supplier to China of minerals, energy, education, agricultural products, and tourism, amongst other exports. This competitive advantage stems from various factors, such as advanced technology, high-quality standards, and a focus on innovation and customer service. This advantageous position is bolstered by Australia's ability to consistently meet the demands of the Chinese market, ensuring a steady flow of goods and services critical to consumers and businesses.

Example 1: Competitive price point and reliability of supply, amongst other factors, have made Australia by far the largest supplier of iron ore to China.

Example 2: Despite geopolitical tensions, Australia's internationally competitive and reliable agricultural exports are an integral input into China's food security.

Rule of law in Australia

The rule of law in Australia and its commitment to international trade law anchor its global economic engagements, offering a stable and predictable legal environment that is conducive to international trade and investment. Despite China's political and diplomatic suspicions of Australia, the reliable Australian legal system has contributed to a robust bilateral investment relationship. Australia's rule of law fosters confidence among international partners and investors, who can rely on transparent and fair legal processes and intellectual property protection, which are vital for encouraging innovation and foreign investment. The rule of law also helps create a competitive business environment that can attract talent and capital from around the world. Meanwhile, Australia's legal system upholds contracts and trade agreements, reinforcing Australia's position as a trustworthy trading partner. This is further underscored by Australia's commitment to the rules-based international trading system, which ensures that China can be confident Australian governments will honour their bilateral and multilateral trade commitments.

Example 1: Clear regulations and protections for foreign investors have encouraged China to continue to seek investment opportunities in Australia despite deep and enduring bilateral tensions.

Example 2: The integrity and impartiality of Australia's legal system mean that China can afford to depend on Australian agricultural exports for its food security.

Multicultural competencies

Australia's multicultural society with its Chinese diasporas plays a role in strengthening relations with China via cultural linkages, language skills, and cross-cultural understanding. Often bilingual and bicultural, these communities can help manage bilateral relations, enhancing Australia's capability in cross-cultural communication. Furthermore, Chinese-Australian diasporas' understanding of linguistic and cultural subtleties can help Australian businesses navigate and adapt to the shifting Chinese market landscape, while bolstering the government's adeptness in handling China-related affairs. By capitalising on its multicultural strengths, soft power, and interpersonal connections with China, Australia can more effectively shape perceptions, foster goodwill, and cultivate a conducive atmosphere for dialogue on challenging topics. Operationalising these multicultural competencies will, however, be hampered by enduring barriers to hiring and promoting Australians of Chinese backgrounds in the Australian government and private sector.

Example 1: Many of the approximately 1.4 million Chinese-Australians possess language skills and cultural understanding that can help build ties between Australia and China, as well as assisting Australian businesses develop and maintain opportunities in the Chinese market. Their skills can also assist with increasing China literacy in the Australian government.

Example 2: Many Australian journalists of Chinese backgrounds use their language and cultural understanding to improve the quality of reporting and public understanding of China.

Diplomatic capabilities

Australian diplomatic capabilities are crucial for managing Australia's relationship with China. Australia's active participation in multilateral forums and international organisations can help resolve disputes and secure new opportunities in its relationship with China. Australia's successful participation in these platforms allows for dialogue, negotiation, and cooperation on global issues and can aid the resolution of bilateral disputes. Australia's bilateral diplomatic engagement with China also provides many opportunities to advocate and seek to persuade. This bilateral

Diplomatic capabilities (cont.)

diplomatic capability is used to negotiate trade deals, resolve disputes, and foster cooperation in areas such as climate change, global health, regional security, and global governance. However, Australian diplomatic capability would be even stronger if the Australian government recruited more staff with deep knowledge of Chinese history, culture, and politics, as well as strong Chinese language abilities. There have also been times when Australian diplomatic capabilities contributed to a diplomatic incident or were not sufficient to arrest a decline in relations between the two countries.

Example 1: Australia's skilful use of bilateral diplomacy helped secure the release of the long-detained Australian journalist Cheng Lei in October 2023. However, Australian diplomatic skills have not led to the release of Yang Hengjun and other Australians detained in China.

Example 2: Australian diplomatic capabilities were not sufficient to prevent a significant rupture in relations with China in 2020 after the Australian government called for an international inquiry into the origins of the COVID-19 pandemic. Combined with a wide range of other factors that contributed to the repair of the Australia-China relationship from 2022 onwards, Canberra's bilateral and multilateral diplomacy likely helped Australia advocate its trade priorities, including the resolution of several trade disputes with China over the course of 2023.



CONNECTING FACTORS

Investment access and flows

The rules and enabling environment for foreign investments are key examples of access. Investing in China, and especially in areas such as technology start-ups, green energy projects, and advanced agriculture, allows Australia to tap into China's dynamic innovation ecosystem and massive market. Such investments not only provide financial returns, but the scope for such investments is increasing as China seeks to attract more foreign capital. At the same time, Chinese investments into Australia support and stimulate local industries, transfer technology and knowhow, enhance infrastructure development, and contribute to economic diversification. As China continues to encourage its firms to invest abroad, Australia stands to benefit from increased capital inflows, which can spur innovation and job creation. In recent years, however, there has been a discernible shift in the investment landscape, with the Australian government introducing new restrictions on foreign investments.

Example 1: Chinese investments in Australian mining and real estate projects have contributed significantly to the development of these sectors, providing employment and economic growth opportunities. This access has been enabled/regulated by Australian foreign investment laws.

Example 2: Australian financial services firms have expanded their operations in China, leveraging the burgeoning wealth and the shift towards more sophisticated financial products, enhancing bilateral economic ties. This access has been enabled/regulated by Chinese financial services laws.

Trade access and flows

The rules and enabling environment for foreign trade are key examples of access. Australia's two-way trade access to the Chinese market is facilitated by bilateral and regional trade agreements, diplomatic relations, and the international rules-based trading system. With one of the world's largest economies and consumer markets, gaining greater access to China offers Australian businesses significant and sustained opportunities. Meanwhile, access to Chinese exports provides Australian consumers and businesses with a vast array of consumer items and essential manufactured goods. Maintaining two-way trade access to China is necessary for both Australia's ongoing economic growth and its ability to fund its security policy objectives.

Example 1: The bilateral China-Australia Free Trade Agreement (ChAFTA) provided additional market access and economic opportunities for Australian exporters and the economy overall.

Example 2: Both Australia and China are World Trade Organization (WTO) members, which provides greater economic opportunities for both countries, in addition to dispute resolution procedures to resolve trade disagreements.

Immigration and people flows

The rules and enabling environment for immigration and people flows are key examples of access. High levels of immigration and people flows between Australia and China have provided massive economic and social benefits for Australia. Chinese students in Australian universities contribute significantly to the education sector's revenue and create a vibrant multicultural campus environment. Skilled Chinese workers in Australia contribute to the technology, research, and business sectors. The large and growing population of Australians of Chinese background has shaped Australia's social fabric and created deep and enduring familial and cultural linkages with China. Conversely, changes in immigration policy or public sentiment due to geopolitical tensions can lead to a decline in people flows, adversely affecting university finances, labour market dynamics, and the social integration of Chinese communities in Australia.

Example 1: China is the largest source country for international students and tourists, thereby underwriting Australia's two largest services exports.

Example 2: Australia's non-discriminatory immigration policies have seen the population of Australians of Chinese background grow to approximately 1.4 million, which has enriched Australian society and benefitted the country economically.

Time zone and proximity

Australia's time zone and geographic proximity contribute to Australia's ability to access economic opportunities in China. The overlap between China Standard Time and Australian time zones facilitates business and makes Australia a more appealing destination for travel and study. Meanwhile, compared to many other major commodity exporters, Australia enjoys shorter and easier shipping options to China. Australia's location and time zones also make it well placed to become deeply embedded in business and supply chains throughout the Indo-Pacific region, including ones that begin, transit through, or end in China.

Example 1: Australia is an attractive destination for Chinese parents and families to send their children for education, in part because of the similar time zones and the direct flights.

Example 2: Australia's major iron ore deposits in north-western Western Australia are far closer to Chinese ports than many other internationally significant deposits in countries such as Brazil and Guinea.

Resilience

Absorptive capacity

DYNAMIC CAPACITIES

Political and social cohesion

Australia's ability to absorb and mitigate the impacts of international tensions, particularly with China, is significantly bolstered by its political and social cohesion. Political cohesion is a core component of Australia's resilience, allowing it to weather economic, political, and social storms while maintaining a stable foreign policy stance. During periods of heightened tension, such as trade disputes or diplomatic disagreements with China, Australia's political solidarity ensures that internal divisions do not weaken its international negotiating position. Despite some challenges, Australia maintains a largely peaceful and cohesive society with limited populist backlashes against economic and social openness compared to other liberal democracies. Australia's commitment to multiculturalism and inclusive values has supported national cohesiveness even during periods of acute geopolitical tensions. However, recent tensions with China have seen a rise of anti-Chinese and anti-Asian racism and complaints remain ongoing about problems of bias, such as employment-based discrimination against Asian Australians.

Example 1: Australia's social cohesion has been evident in its ability to integrate a diverse population, which has helped maintain domestic harmony and a united front in international relations, even as it faces complex diplomatic challenges with China.

Example 2: Although Australia has seen a rise of racism towards Chinese-Australians, particularly in the wake of the COVID-19 pandemic, this was met with widespread community and government condemnation and active policy measures to reinforce societal bonds.

Relational capital

The nature of Australia's relationship with China has historically been one of mutual goodwill and collaboration, which has helped the relationship navigate geopolitical tensions. This relational capital—spanning both individual and institutional ties between Australia and China—has been instrumental in the two nations' capacity to manage differences amicably and maintain a robust bilateral relationship. However, this relational capital has been eroding over recent years due to escalating frictions and growing distrust, reducing the effectiveness of social reserves as a buffer in diplomatic engagements. This decline in relational capital makes it increasingly difficult for the two countries to navigate conflicts and manage differences amicably.

Example 1: Previously strong relational capital between Australia and China allowed both countries to maintain positive diplomatic, political, trade, and investment ties despite strong disagreements over contentious consular cases and China's human rights abuses.

Example 2: Despite the recent stabilisation of the bilateral ties, the decline in relational capital means that it is harder for Australia to leverage relations with China to facilitate dialogue and understanding during conflicts, which could slow the resolution of bilateral disputes.

Diversified trade and investment

Despite China's importance as an export destination and source of imports, Australia has been deepening its economic interdependence with other key economies in the Indo-Pacific and beyond. By trading more with a diverse array of partners, Australia can better absorb political and economic shocks in its relationship with China without significantly impacting its overall economic health. Notwithstanding a growing stock of investments from China, Australia also relies on a diverse range of countries for foreign capital, including the US. This approach promotes resilience and adaptability in the face of global economic shifts. However, this strategy requires careful management to ensure that trade diversification does not compromise Australia's economic competitiveness or national interests.

Example 1: Despite China's trade restrictions against Australian exporters in recent years, Australia's trade ties with a diverse range of other countries remained robust and, in many cases, has expanded.

Example 2: Australia is a member of a growing range of regional and bilateral free trade agreements, which further enhance trade and investment diversification.

Strong domestic institutions

Australia's strong domestic institutions, including its democratic governance, rule of law, and independent institutions and judiciary, provide a bulwark against foreign pressure. These institutions ensure that domestic policies are usually based on rigorous processes and the national interest rather than being swayed by external influences. They can help absorb the impacts of various economic, security, social, and political shocks that arise in Australia's relationship with China, ensuring a predictable and fair process for resolving disputes, enforcing agreements, and protecting rights. However, these institutions need to be continually strengthened and updated to maintain their effectiveness in the face of evolving domestic and international challenges. Moreover, some Australian institutions, including the Foreign Investment Review Board (FIRB), are liable to have their advice ignored on occasion due to the ultimate authority of federal ministerial and Cabinet prerogatives.

Example 1: Democratic processes give expression to a diversity of opinions on Australia-China relations, leading to rigorous and open scrutiny of policy and protecting against vulnerabilities that might stem from groupthink.

Example 2: The independence of many Australian institutions, like the Anti-Dumping Commission, ensures that they deliver findings largely free from internal and external pressure and aligned with the national interest.

Economic health and financial reserves

Australia's economic health and financial reserves, bolstered by long-standing trade with China, constitute another form of absorptive capacity. Underpinned by Australia's broad macroeconomic settings of an open and liberalised economy, these reserves provide a fiscal buffer that allows Australia to withstand and recover from economic disruptions. However, as geopolitical tensions rise and the relationship with China becomes strained, and as Australia's financial reserves are affected by other economic headwinds, the capacity of Australia's economic reserves to buffer against shocks is likely to be tested in the coming years.

Example 1: Australia's economic prosperity has allowed the country to absorb shocks, such as those from economic coercion, without immediate severe repercussions for its economy as a

Economic health and financial reserves (cont.)

whole.

Example 2: As trade relations with China face strains and economic interdependence is questioned, the resilience provided by these economic reserves is likely to be tested, potentially leading to a need for greater fiscal prudence and diversification of trading partners, which may lessen future economic rewards and thus lower absorptive capacity over time.

■ Adaptive capacity

DYNAMIC CAPACITIES

Selective market adaptability

Australia's adaptive capacity in global trade is particularly evident in its export of basic commodities, which typically enjoy broad global demand. This allows Australian exporters of such goods to demonstrate remarkable flexibility in redirecting their products to alternative markets in the event of trade disputes. The country's internal capacities, such as cost-efficiency and production scalability, combined with the generally homogeneous nature of these commodities, facilitate this ease of market transition. However, this adaptability has its limitations, particularly with high-value, bespoke products like premium wines and lobster, which were tailored to the Chinese market's specific tastes and preferences. These products faced greater challenges in finding alternative markets due to their specialised nature and the established consumer base in China.

Example 1: Most of the Australian commodities that were impacted by China's trade restrictions, including coal, copper, cotton, beef, timber, and barley, were able to redirect to alternative markets relatively quickly and with manageable additional costs.

Example 2: Although Australian commodities could find new buyers due to widespread demand and less specific market requirements, wine and lobster exporters faced steeper challenges in replacing the Chinese market.

Open democratic debate

As well as elite and expert views in political parties, the business community, and bureaucracy, Australia's China policy is shaped by a diverse range of civil society, media, and community voices. Given the ability of these different groups to contribute to and shape public debate, political leaders are often pushed to adapt Australia's China policy to reflect a broad range of objectives. This open democratic debate also assists Australia in managing pressure from China. Media debate and interest group advocacy on issues like human rights can reinforce and add extra weight to official Australian government messages. Meanwhile, public discussion and scrutiny of China policy will at times make the Australian government look moderate and restrained by comparison, which can help Canberra manage tensions with Beijing.

Example 1: Media, activist, and public advocacy about long-detained Australian journalist Cheng Lei is thought to have contributed to her eventual release.

Example 2: Public opinion polls, think-tank research, and community advocacy on human rights issues in Xinjiang and elsewhere in China is thought to have helped encourage the Australian government to take stronger public positions.

Policy adaptability

Australia has shown that it has the capacity to modify its security, foreign, and economic policies in response to its evolving relationship with China. The ability to recognise when a current policy is not yielding the desired results and modify it is a hallmark of effective policymaking. Australian institutions have many feedback mechanisms that enable them to draw insights from the private sector and broader society, and then update their policies and processes accordingly. Australia has amended its foreign investment policies to ensure a balance between economic gains and national security concerns, while Australia pivoted towards export promotion in alternative markets in the wake of China's economic coercion. However, in some cases, policy adaptability can come at the expense of the certainty and consistency that might promote trade and investment flows.

Example 1: The Albanese government balanced its security objectives and desire to stabilise bilateral ties with China by placing Confucius Institutes under ongoing scrutiny rather than vetoing them and risking blowback from

Policy adaptability (cont.)

Beijing.

Example 2: Australia's flexible one-China policy allows Australia to pursue mutually beneficial trade, investment, and cultural ties with Taiwan while calibrating such engagement to reduce the risk of provoking Beijing's ire.

■ Transformative capacity

DYNAMIC CAPACITIES

Greater economic complexity and self-reliance

Australia might seek to transform its economic strategy towards greater economic complexity and self-reliance by broadening its industrial and technological base to mitigate the risks of over-reliance on certain markets, including the Chinese and US markets. By fostering a diverse array of sectors and reducing dependence on raw commodity and services exports, Australia can build a more robust economy capable of withstanding global market and geopolitical shifts. Investments in local manufacturing, technological development, and innovation would be pivotal to this by generating domestic growth, diminishing import dependency, and increasing the complexity of the Australian economy. However, greater self-reliance also presents challenges, such as managing the potentially significant economic inefficiencies and costs and the new vulnerabilities created by increasing domestic dependencies.

Example 1: Developing and expanding Australia's renewable energy sector not only diversifies the economy away from the traditional carbon-intensive resources sectors, but also positions the country as a leader in sustainable technology.

Example 2: Encouraging the growth of value-added industries, such as advanced materials and biotechnology, can reduce reliance on resources exports and create high-skilled jobs, fostering a more resilient and diversified economic landscape.

Significantly closer cooperation with the US

To manage the geopolitical upheaval of scenarios like conflict with China sparked by a Taiwan Strait contingency, Australia might pursue alliance-driven transformative resilience. This might entail Australia further deepening its alignment with the US and/or other allies and partners to prepare for the economic and military repercussions of a US-led military standoff or conflict with China. Simultaneously, Australia might aim to bolster its national defence industry, invest in critical technologies, and secure its supply chains from excessive reliance on potentially hostile actors. By pre-emptively developing contingency plans, Australia could mitigate the impact of sanctions and trade disruptions while contributing to an allies- and/or partners-centric defence posture. This transformation would underscore the importance of international cooperation and collective security in safeguarding the national interest against the backdrop of a more bifurcated global order. Such a transformation would, however, create intense vulnerabilities in the form of deeper dependence on the US, as well as heightened exposure to US politics and policy, and likely costly trade-offs between security and economic efficiency.

Example 1: Expanding Australian defence production capabilities, including in partnership with the US, to secure its military supply chains amidst global uncertainties and potential sanctions or a conflict with China.

Example 2: Australia forging closer ties with like-minded nations to develop alternative trade blocs and technology partnerships that circumvent reliance on Chinese goods and infrastructure.

Significantly deeper engagement with China

In anticipation of a potential thaw in US-China relations, Australia could recalibrate its approach towards increased engagement with China. This shift could focus on leveraging improved geopolitical conditions with China to enhance trade, investment, and collaborative efforts on global challenges like climate change. Embracing this positive turn, Australia could seek out synergistic opportunities with China in areas of mutual interest, such as research and development in green technologies and sustainability. This strategy would enable Australia to diversify its international technological collaboration, moving beyond traditional alliances and partnerships to foster more economic efficiency and growth, and developing a more interconnected and cooperative regional approach.

Example 1: Australia increasing its participation in international forums focused on clean energy and climate technologies, working closely with both China and likeminded partners to drive global

Significantly deeper engagement with China (cont.)

action.

Example 2: Revising investment strategies to tap into new markets and sectors emerging from reduced US-China tensions, while also fostering cross-border innovation and digital economy collaborations with China.

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