To join or not to join: China's Belt and Road initiative

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A lot of Australia's recent economic growth can be directly attributed to the rise of China. China became Australia's largest trading partner in 2007 and last year it accounted for more than 23 percent ($155.2 billion) of Australia's total trade. With a growing middle class, China will remain vital to Australia's economic prosperity for decades to come.

Given the significance of the economic relationship between the two countries China's Belt and Road Initiative (BRI), a US$1.3 trillion investment in regional infrastructure, provides enormous opportunity. Through this investment, new efficiencies in trade will be achieved. This will undoubtedly provide Australian companies with access to new markets and customers.

The Australian Government has indicated it welcomes the BRI however it has not signed a memorandum of understanding (MOU) to formally align domestic infrastructure projects with the Chinese initiative. While 29 heads of state attended the first BRI Summit in Beijing in May, Prime Minister Malcolm Turnbull did not. Australia was instead represented by Trade Minister Steven Ciobo which meant Australia did not take part in high level discussions held at a leaders' retreat.

Some believe the Australian Government's reluctance to sign an MOU risks jeopardising the potential benefits of the BRI for Australia. They have argued if Australia sits on the sidelines there may be less Chinese investment in Australia in the future. However this is a misrepresentation of Australia's current position towards the BRI and the relationship between the two countries.

Australia has long embraced foreign investment because there is insufficient domestic capital to sustain economic growth. Australia is a popular destination for Chinese capital, with Chinese businesses investing $15.4 billion in Australia last year. This has made Australia the second most popular destination for Chinese investment behind the United States.

The problem with the BRI is it is still unclear what further advantage there would be for Australia to formally align itself through an MOU. Chinese companies already invest in Australia and many have already invested in significant infrastructure projects in northern Australia and elsewhere. Both the diplomatic and trading relationships between the two countries remain strong and there is no reason why each BRI project could not be assessed on a case by case basis.

There is no doubt the Australian Government recognises the enormous economic and social benefits of the BRI. Minister Ciobo said in a press release before his departure to the BRI summit this year:

"Australia supports the aims of initiatives such as Belt and Road that improve infrastructure development and increase investment opportunities in the Asia-Pacific region."

The BRI will shape the trading relationship of many countries for years to come and the Australian Government must ensure Australian businesses are not left behind. The challenge for Australian businesses will then be to identify the best opportunities.

The development of northern Australia will not be solely dependent on the BRI. While the BRI and the Northern Australia Infrastructure Facility (NAIF) are complementary institutions, they do not need to be formally linked. The NAIF already has $5 billion to invest in commercial projects and there is nothing stopping Chinese investment in Australia right now, subject to Foreign Investment Review Board approval.

The worst case scenario would be for the Australian federal government's response to the BRI to be unclear or inconsistent. Long term investment decisions depend on a stable investment environment. Policy stability is vital to grow Australia's economy and increase job opportunities. If Australia's position was ever to become unclear or changed, it must be accompanied by clear policy evidence as to why this has happened.

In response to the BRI, state and federal governments must also be consistent. The Victorian Premier Daniel Andrews attended the BRI summit and other state governments have indicated their interest in the initiative. State governments are currently being individually lobbied by the Chinese to join the BRI and sign MOUs. With limited control over revenue raising taxes, the promise of billions of dollars of investment in vital infrastructure will be appealing to some states.

The federal government must therefore clearly articulate how Australia will respond to the BRI over the next decade and explain how it intends to strengthen Australia's relationship with its largest trading partner. This should be included in the upcoming Foreign Policy White Paper, due to be released at the end of this year. A failure to address this significant issue will create a policy vacuum and lead to greater uncertainty, the kind of environment which will limit the opportunities for Australian business.

Questions

- Beyond economic objectives, does China have strategic goals in its BRI?
- Should Australia seek to align ongoing projects such as the Northern Australia Infrastructure Facility with the BRI with a Memorandum of Understanding?
- What could be the downside of Australian State Governments engaging actively in the BRI while the Federal Government remains uncommitted?
- Would BRI investment in the Northern Territories from Chinese State-Owned Enterprises pose particular risks to Australia?

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