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ANALYSIS

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SWEET AND SOUR: AUSTRALIAN PUBLIC ATTITUDES TOWARDS CHINA

EXECUTIVE SUMMARY

The 2010 Lowy Poll shows that Australians are increasingly conscious of China's rise and are starting to grapple with its implications. Indeed China looms so large that Australians have developed a somewhat exaggerated view of its global weight. The Poll provides a window into a relationship that will become not only more important but also much more complex and challenging.

Australians welcome growing trade with China. They are much less welcoming of investment by Chinese state-owned entities, however, reflecting concerns about China's authoritarian political system and possible strategic motives.

As a result of problems in the bilateral diplomatic relationship over the past two years and of Beijing's increasingly assertive international behaviour, Australians are becoming more concerned about the geopolitical implications of China's rise. Our economic and strategic interests are diverging for the first time in over 200 years. This fundamental departure is starkly reflected in the Poll's finding that almost half of all Australians think our major trading partner may attack us within the next two decades.

Managing China's rise will be easier for Australia if the next government gets right our other key Asian relationships and our domestic policy settings, leverages our natural resources wealth to maximise our international influence, and puts in place a clear policy framework for relations with China. The incoming government needs to develop a coherent regional strategy and articulate a durable long-term approach to the relationship with China that supports commerce and lays out clear and consistent principles for foreign sovereign investment while underlining that Australia will not compromise on its core strategic interests or its values.

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China's rise is the most significant external event affecting Australia for several decades. How it plays out will shape our national choices and profoundly influence not only our future prosperity but also our long-term security. China's rapid growth is driving the minerals boom that underpins Australia's economic growth. It is transforming Australia's strategic environment. Over time it will increasingly influence Australian society and play a more prominent part in Australian domestic politics. The 2010 Lowy Poll, released on 31 May, shows that Australians are conscious of these profound changes and are starting to grapple with their implications.

The Poll provides a window into a relationship that will become not only more important but also much more complex and challenging. As Vice President Xi Jinping's recent visit attests, tensions between Canberra and Beijing over foreign investment, human rights and China's rapid military modernisation have abated somewhat. Nonetheless, the underlying issues are structural and have not been resolved. The Poll's findings could help the Australian government craft the sustainable long-term policy framework for relations with China that has been lacking for the past two years and will be needed if Australia is to navigate successfully one of the most consequential foreign policy challenges it has faced in generations.

Riding the terms of trade

China's rapid and sustained economic growth is reshaping the global economy and the Asia-Pacific region. In an immediate sense, Australia has been a major beneficiary. Demand for raw materials from China was one of the key reasons why Australia was the only traditional developed economy not to go into recession following the global financial crisis. China's insatiable appetite for iron ore, coal and increasingly LNG is driving an explosion in two-way trade and a significant rise in Chinese foreign direct investment in Australia.

In 2009, China overtook Japan to become Australia's leading trading partner, with total two-way trade (goods and services) worth \$85 billion; total trade with Japan was \$59 billion. Sales to China accounted for almost one in every five dollars Australia earned from exports. The growth trend has been remarkable: in 1999 Australia's goods exports to China comprised less than 5 per cent of total goods exports; by 2009 they were more than 20 per cent. Surging export prices, driven largely by demand from China, have seen a huge lift in Australia's terms of trade, which have risen by about two thirds over the last five years to their highest level in about half a century, delivering a major boost to national income.

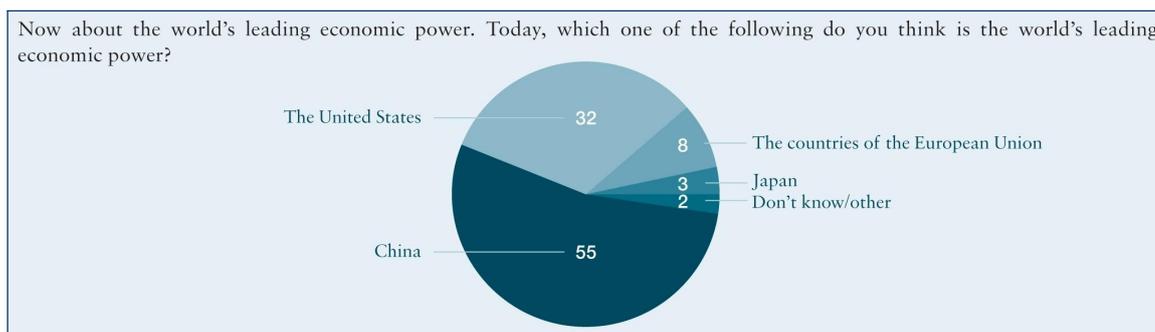
Hence it is hardly surprising that 73 per cent of Australians polled agreed that China's growth has been good for Australia – up by 10 points since the Lowy Institute first asked this question in 2008. Australians see few downsides to trade with China. This probably reflects the high degree of complementarity between the two economies: China is not a direct competitor with Australia for

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manufacturing jobs, which means that ‘hollowing out’ is not a hot-button issue here as it is elsewhere; nor does China compete for resources markets.

By contrast, global attitudes are more mixed. A 2008 Pew Global Attitudes Survey of 24 nations found that many countries had significant concerns about how China’s economic growth would affect them: majorities in France, Germany, the United States and South Korea – traditional manufacturing countries struggling to maintain international competitiveness – all said that China’s growing economy was bad for their country.¹ The Japanese, Indonesian and Pakistani publics viewed China’s economic growth more positively.²

Australians are so mesmerised by China’s growth that they have developed an exaggerated view of its economic weight. Measured in US dollar exchange-rate terms, the EU economies accounted for 28 per cent of world GDP in 2009, the United States 25 per cent, Japan 9 per cent and China just 8 per cent. In purchasing power parity terms the EU accounted for 22 per cent of world GDP, the United States 20 per cent, China 12 per cent and Japan 6 per cent.³ Yet in the Lowy Poll a majority of Australians – 55 per cent – identified China as the world’s leading economic power (see chart below). Only one third nominated the United States, while the EU and Japan were virtually ignored.



Australians are more likely to exaggerate China’s economic influence than people from other countries. When Pew asked the same question in multi-nation polls in 2008 and 2009 (admittedly pre-global financial crisis), majorities in South Korea, India, Japan, Turkey, Mexico and Indonesia identified the United States as the world’s leading economic power.⁴ In no country did a majority nominate China – although (no doubt reflecting current US economic woes) a February 2010 poll found Americans themselves evenly divided on whether the United States or China would dominate the global economy in the 21st century.⁵

How are we to explain Australians’ somewhat hyperbolic assessment of China’s economic weight?

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One explanation could be the sheer speed of China's economic emergence and of the acceleration in the bilateral economic relationship. Australia's trade with China grew by 15 per cent between 2008 and 2009 alone. And it is true that China will again be the biggest driver of world economic growth in 2010, as it was in 2008 and 2009.

Another probably lies in burgeoning commentary on China's rise. An electronic search of Australian newspapers in 1990 for references to China's economy identified 133 articles. In 2000 there were 774 articles. By contrast in the first half of 2010 alone there were over 1600 articles.⁶

A third reason lies in comparisons with other leading economic powers. The origin of the global financial crisis in the United States, combined with the severity of the subsequent US economic downturn and an increasingly unsustainable fiscal situation, diminished American economic credibility worldwide, including in Australia. According to the 2010 Lowy Poll, 40 per cent of Australians expect the United States' relative position as an economic power to be weaker in the next decade; 30 per cent said it would remain about the same and only 28 per cent expected it to be stronger. It is also difficult to imagine that the current financial problems roiling Europe will not further diminish perceptions of the EU's economic influence. By contrast, 72 per cent of respondents in the 2009 Lowy Poll judged that China would emerge more powerful from the global economic crisis.

But not all sweet

The economic logic that investment follows growing trade ties, and Australia's abiding need for foreign capital, particularly to fund infrastructure, both point to substantial increases in Chinese investment in Australia. But Australians seem much more comfortable trading with China than they do with accepting Chinese foreign direct investment.

According to the most recent information published by the Foreign Investment Review Board (FIRB), China was the second largest source of foreign direct investment inflows to Australia in 2008-09 (behind the United States), investing \$26.6 billion through 57 approved transactions.⁷ Investment in the mineral exploration and development sector accounted for 99 per cent of the total. Yet investment lags the burgeoning trade relationship, and in terms of total investment stock in Australia, China is still well behind such traditional sources as the United States, Great Britain and Japan.

Even so, Chinese foreign investment – particularly by state-owned entities – has been contentious in Australia. The unsuccessful attempt by Chinese state-owned resources giant Chinalco to acquire a major stake in Rio Tinto during 2009 backfired, causing bad blood between the companies involved and spilling over into the diplomatic relationship. More recently, media reports have generated public concern that Chinese investment is contributing to the overheating of Australia's residential property market – inducing the government to clamp down on real estate investments by non-permanent residents.⁸

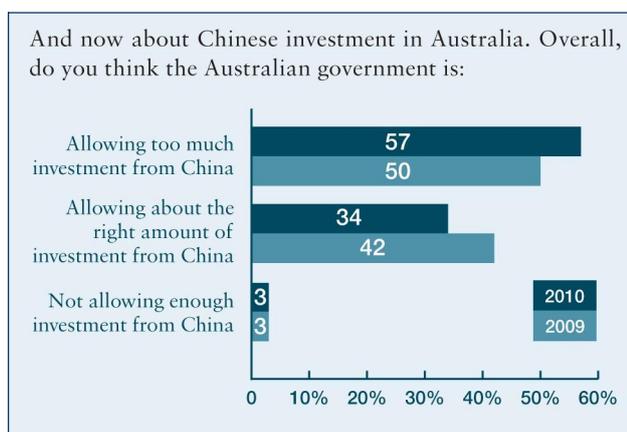
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Despite Australia’s longstanding dependence on foreign capital, Australians – like people in most countries – do not welcome foreign investment. According to the 2008 Lowy Poll, an overwhelming 90 per cent of Australians agreed that the government has a responsibility to ensure major Australian companies are kept in majority Australian control, with 61 per cent strongly agreeing. Those concerns are sharpened, however, when the entity concerned is owned by a foreign government, and in particular when the entity is owned and controlled by the Chinese government.⁹

These concerns may be overblown, but they are not totally without basis. Australia and China have profoundly different political, legal and economic systems. China is changing and may not be a monolith. But the state – and through it the Chinese Communist Party – still penetrates much of the economy and is pursuing mercantilist policies abroad, including its ‘Going Out’ drive to acquire major investment stakes in key commodities considered strategically important by Beijing. China’s concerted drive to monopolise supplies of rare earth metals is a cast in point. It is not therefore unreasonable for Australians to be cautious about the underlying motives of major Chinese investments in sectors of strategic importance to Australia, and to question whether they are driven purely by commercial imperatives.

Some commentators and business executives like to contend that Chinese investment is no different from the Japanese investment flows that have so benefitted Australia over the past few decades. That is patently not the case. China’s authoritarian political system, developing economy and uncertain longer-term strategic objectives all distinguish investment by Chinese state-owned entities and warrant the close attention of the FIRB to ensure that proposals accord with Australia’s national interest.¹⁰

Whether or not it is rational, concern about investment from China is clearly growing. The 2010 Lowy Poll detected a further increase in public opposition to investment from China (see chart below). A majority of 57 per cent considered that the Australian government is allowing too much investment from China, up from 50 per cent in 2009. Only 34 per cent believe the government has the amount of Chinese investment about right, while a negligible 3 per cent support more investment from China.



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These findings will provide little comfort in an election year to a government which has struggled to put in place a regime for foreign investment by Chinese state-owned entities capable of both reassuring the Australian public and providing adequate commercial certainty for Chinese investors and Australian companies alike. They should also give the Chinese government and enterprises further pause for thought about their current strategy for investment in Australia.

Nonetheless, pressure for greater Chinese investment in Australia will continue to grow, both as a result of burgeoning trade flows and of China's 'Going Out' resources strategy. This will remain a difficult domestic policy and political challenge for the Australian government to manage, as well as a source of periodic tension with Beijing.

A more assertive China and a more ambivalent Australia

Australian public concerns and bilateral tensions over foreign investment form just one component of a profoundly important structural change in Australia-China relations. For over 200 years Australians were accustomed to a fundamental alignment between our economic, political and strategic interests. Throughout that period Australia's most important economic partner was also an established democracy sharing our values and our major security provider (or, more recently in the case of Japan, also an ally of our major ally).

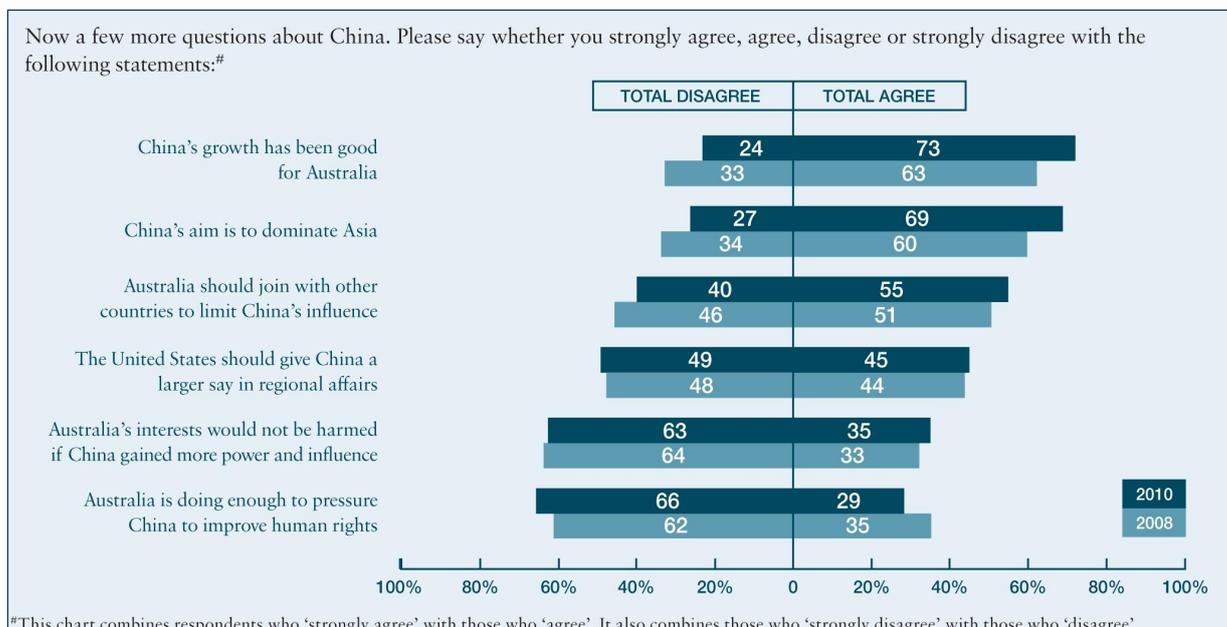
All that changed when China overtook Japan as Australia's largest trading partner in 2009. Our economic and strategic interests are diverging. For the first time, our major economic partner is a developing country with an authoritarian political system. It is pursuing increasingly assertive mercantilist policies, is rapidly modernising its military – particularly its power projection, anti-access, missile, space and cyber capabilities – and is emerging as a strategic competitor to the United States in Asia. As a result it is becoming increasingly difficult to align our strategic policies with our economic interests. Managing this divergence will be *the* overriding international policy challenge facing Australia over the next two decades at least. How successfully we tackle it will have profound implications for almost all aspects of national life.

Compared with a few years ago, when Australian attitudes to China were almost invariably positive, views in 2010 are much more mixed. Although a majority of Australians believe that China's growth is good for Australia, at the same time they are increasingly concerned about the geopolitical implications of China's rise.

While welcoming the economic benefits that flow from China's growth, a sizeable majority of 69 per cent of Australians believe that China aims to dominate Asia (see chart below). Most likely reflecting China's more assertive diplomacy in the region and globally over the past one to two years, as well as recent tensions in the bilateral relationship, this figure is up nine points since 2008. A majority of 55 per cent also said Australia should work with other countries to limit China's influence. Only one third of

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Australians judge that Australia’s interests would not be harmed if China gained more power and influence.



In this respect Australians’ views are converging with those of others in the region. Increasingly negative views of China’s influence in the world were recently recorded in the BBC’s 2010 World Service Poll. Indians moved from a positive leaning in 2009 (30 per cent positive, 24 per cent negative) to a negative leaning in 2010 (30 per cent positive, 38 per cent negative), while in South Korea negative views increased from 50 per cent in 2008 to 61 per cent in 2010.¹¹ In Japan, negative views of China’s influence also prevail (18 per cent positive, 38 per cent negative).¹² A number of countries in Asia also view China as a country with unilateralist tendencies. In the 2008 Pew Global Attitudes Survey both South Korea (68 per cent) and Japan (79 per cent) considered that China gave little or no consideration to their interests when making foreign policy decisions (a view shared by 72 per cent of Australians).¹³ It is true that China’s relations with some of these countries are complicated by vexed historical legacies. But nonetheless the trend in regional opinion over the past two years must be of concern to Beijing.

China’s rising military power and opaque strategic decision-making are giving rise to particular worries. According to the 2008 Pew Global Attitudes Survey, countries around the world are overwhelmingly concerned about China’s growing military power. Majorities in Japan (90 per cent), South Korea (87 per cent), Australia (75 per cent) and India (62 per cent) – as well as in all European countries surveyed – considered growth in China’s military power to be a ‘bad thing’.¹⁴ This sentiment is consistent with decisions by many governments in the region (including Australia’s, as evidenced by the 2009 Defence

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White Paper) to ‘hedge’ – including by acquiring their own modern weapons and by developing closer security ties with the United States and with each other.

Importantly, these polls predate concerns raised around the region by China’s recent assertiveness in pressing its territorial claims in the South China Sea, Beijing’s mute response to the unprovoked sinking of a South Korean navy ship by China’s North Korean ally and its freezing of military-military relations with the United States.

For much of the past decade Australian assessments of China’s military power tended to be more benign than those of our major security partners, including the United States, Japan and India. This presumably reflected the strategic depth afforded Australia by its geography – compared for example with Japan’s ‘front line’ proximity to China’s growing military power – as well as a desire not to rock the economic boat. There are clear signs, however, that Australians are becoming more concerned about the implications of Beijing’s ambitious military modernisation agenda. According to the 2010 Lowy Poll, 46 per cent of Australians (up from 41 per cent in the 2009 Poll) consider China is either very likely or somewhat likely to pose a military threat to Australia in the next 20 years (see chart below). In other words, almost half of all Australians think our major trading partner may attack us within the next two decades – a stark finding that should focus the minds of policy makers in Beijing in particular but also in Canberra.



What is driving this concern?

One possibility is that Australian statements and actions have increased public attention on China’s growing military power. The 2009 Defence White Paper addressed China’s rapidly developing military capabilities more directly than previous statements, in language which resembled US assessments; and the way the government chose to highlight China in presenting the document irritated Beijing. A five point increase (since the 2009 Lowy Poll) in the proportion of Australians who consider China likely to threaten Australian in the next 20 years would tend to support this conclusion – although one would not want to exaggerate how closely the general public follows the twists and turns in Australia’s often arcane defence policy debate.

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Another possible reason may be concern about the decline over time of relative US power in Asia, including its military power. The 2009 White Paper alluded to this risk,¹⁵ and the global economic crisis encouraged international speculation about US decline. It is telling, however, that Australians think US military power is more robust than its economic power (see chart below). Forty per cent considered America would weaken as an economic power over the next decade, whereas only 20 per cent judged its military power would decline over this period. It is also striking that support for the US alliance in Australia remains at a record high level for the period since the Lowy Institute commenced polling. Some of this boost no doubt reflects Barack Obama’s popularity, but it also coincides with the uptick in public concern about aspects of China’s rise.



A third and perhaps more significant factor is China’s increasingly assertive and frequently unhelpful international behaviour during the past couple of years. The public may have only limited interest in international developments, but China was widely portrayed in the Australian media as playing a spoiling role at the Copenhagen climate change summit, which will not have been lost on a population still concerned about the potential impact of global warming. Beijing’s reluctance to impose sanctions on Iran’s nuclear program and refusal to acknowledge North Korea’s role in the sinking of the South Korean warship *Cheonan* have received unfavourable attention, as have its continuing military modernisation and a series of maritime incidents involving Chinese naval forces and US and Japanese vessels.

This growing sense of China as a rising power feeling its oats has been intensified by an unfortunate series of events in Australia which may have been unrelated but seemed by the latter part of 2009 to have become something of a pattern. Many Australians were taken aback by the size, intensity and degree of organisation of the the pro-Beijing demonstration in Canberra during the Olympic torch relay in April 2008. This was exacerbated by bilateral tensions flowing from the Chinalco-Rio Tinto spat and the ensuing arrest and jailing of Australian mining executive Stern Hu. Chinese diplomats’ clumsy response to the visit in August 2009 by exiled Uighur leader Rebiya Kadeer seemed to confirm an impression that Beijing cared only about its own narrow interests and little for Australian institutions, values or opinions and sought to bully Canberra into complying with its wishes.

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Finally, in the last couple of years Australians seem to have lost some of their confidence in the view – encouraged by many China experts – that over time a more prosperous China would evolve gradually into a more liberal and democratic China. Western policies towards China, including Australia's, have been shaped for three decades by the notion that integrating China into the global economy and international institutions would encourage greater recognition in China of the importance of the rule of law, individual rights, government accountability and freedom of political expression. However, the 2008 Olympics seem to have marked something of a turning point, with the Australian public coming to the profoundly realist view that, on the contrary, China's wealth seems to be consolidating the Chinese Communist Party's hold on power.¹⁶

Conclusion

Australian elites – whether academics, foreign policy experts, business leaders or media – often dismiss public opinion as ill-informed and out of step with the national interest as they perceive it. This tendency is particularly prevalent among Australian China experts, many of whom have been imbued with a strong sense of Chinese exceptionalism and consider themselves the only people qualified to interpret the mysteries of Chinese motives and behaviour, and among business people with a direct commercial interest. They dismiss popular concerns about Chinese investment, human rights abuses, assertive diplomacy and military power as ignorant, misguided or unimportant.

But public attitudes cannot be ignored, particularly when the stakes for the nation are so high. The 2010 Lowy Poll suggests Australians are developing a more nuanced understanding of China's rise and what it means for Australia – one firmly grounded in economic and strategic realities and a shrewd awareness that China's authoritarian political system, assertive mercantilism and very different values are going to exacerbate the challenge it poses as its power grows. It is striking that while Australians overwhelmingly welcome the economic benefits of China's growth, 66 per cent think Australia is not doing enough to pressure Beijing to improve human rights. Evidently, a significant majority of Australians is prepared to jeopardise trade ties by seeing the government stand up for their values. Governments both in Canberra and in Beijing would be well advised to pay attention.

The complexities of managing the impact of China's rise will have far-reaching consequences across almost every area of Australian government policy. Responding effectively to China's rise will require a much more cohesive, integrated approach to policy, both at the domestic and international levels. In an increasingly complex and uncertain global and regional environment, Australia will have less margin for error when it comes to getting key domestic policy settings right. We need to do much better at integrating energy and resources as a central element of international policy, maximising the strategic leverage the country can derive from its immense natural resources.

Getting China's rise right will be much easier for Australia if we get the rest of Asia right and place China in its proper regional context. We need a durable Asia strategy that reinforces our strengths in

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the region and addresses our vulnerabilities. Fundamental to this strategy – and to maximising our weight and influence as a nation – is a recognition of the importance of our key bilateral strategic partnerships and how they can empower our broader regional dealings. Far from undermining Australia's relations with China, a strong network of relationships with strategic partners across Asia – particularly Japan, India, South Korea and Indonesia – can reinforce a robust long-term framework for Australia's bilateral relationship with China.

Ironically given Kevin Rudd's China credentials, his government failed to lay out such a comprehensive framework, which is one reason why the bilateral relationship has been buffeted by misunderstandings and mismatched expectations. Australia's next prime minister will lack Rudd's diplomatic experience but may have more success by returning the relationship to a less personalised footing, one that is informed by the Australian public's intuitive understanding that China's rise poses both opportunities and challenges. An early priority for the government should be to articulate a clear policy approach to China that supports burgeoning two-way trade ties and lays out clear and consistent principles for an investment relationship based on the national interest, while also underlining that Australia will not compromise either on its core strategic interests – including the US alliance and our ties with other democratic partners in Asia – or its values.

Discussing difficult issues is a necessary part of a robust relationship. The government should continue to raise Australian concerns about human rights in China and should pursue legitimate Australian consular interests in a firm but measured manner. It should likewise continue to emphasise the need for more transparency in China's defence planning and that Australia and the region share a fundamental interest in minimising the inevitable disruptive effects of China's rise – including by encouraging Beijing to resume full military dialogue with the United States.

Australia should work with other regional governments to reinforce these messages. Too often officials in Canberra are nervous about discussing aspects of China's rise with other countries, and Beijing is certainly quick to play the 'containment' card to discourage coalitions from coalescing against its perceived interests. But coordinating policy responses in support of existing international institutions and norms is not containment. It is an entirely natural response to the rise of any new great power, which by definition can have destabilising consequences for the existing order if not carefully managed. Australia should work more actively with its partners in Asia, America and Europe to coordinate policy responses across different areas – whether economic, political or security related.

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NOTES

¹ *Pew Global Attitudes Project*. 2008. Chapter 3: Views of China, p 43.

<http://docs.google.com/viewer?url=http%3A%2F%2Fpewglobal.org%2Ffiles%2Fpdf%2F260.pdf&pli=1>. Accessed 16 June 2010.

² *Pew Global Attitudes Project*. 2008. Chapter 3: Views of China, p 43-44.

<http://docs.google.com/viewer?url=http%3A%2F%2Fpewglobal.org%2Ffiles%2Fpdf%2F260.pdf&pli=1>. Accessed 16 June 2010.

³ See Fergus Hanson, *The Lowy Institute Poll 2010: Australia and the World – Public Opinion and Foreign Policy*, Note 4.

⁴ Pew Global Attitudes Project, World's leading economic power, <http://pewglobal.org/database/?indicator17>.

⁵ See Steven Mufson and John Pomfret, There's a new Red Scare. But is China really so scary?. *The Washington Post*, 28 February 2010.

⁶ Factiva search of *The Age*, *The Australian*, *The Australian Financial Review* and *The Sydney Morning Herald* conducted on 16 June 2010 for references to 'China OR Chinese AND economy'.

⁷ Foreign Investment Review Board. 2010. *Annual Report 2008-2009*, pp 36-37.

http://www.firb.gov.au/content/Publications/AnnualReports/2008-2009/downloads/2008-09_FIRB_AR.pdf. Accessed 16 June 2010.

⁸ See, for example, Peter Familiar, Chinese ignite real estate boom. *Herald Sun*, 8 October 2008; Turi Condon Chinese and Russians buy up big on Gold Coast. *The Australian*, 27 February 2010; Clampdown on foreigners buying property. *Sydney Morning Herald*, 24 April 2010.

⁹ The 2008 Lowy Poll showed that 85 per cent of Australians either agreed or strongly agreed that investment in Australia by companies controlled by foreign governments should be more strictly regulated than investment by foreign private investors. China was the most opposed of a list of six potential source countries for sovereign foreign direct investment – see p 6.

¹⁰ See Andrew Shearer and Mark Thirlwell, *Is the Foreign Investment Review Board acting fairly?*, Australia's Open Investment Future Paper No. 4, Institute for Public Affairs, December 2008.

¹¹ *BBC World Service Poll*. 2010, p 7.

http://www.worldpublicopinion.org/pipa/pipa/pdf/apr10/BBCViews_Apr10_rpt.pdf. Accessed 16 June 2010.

¹² *BBC World Service Poll*. 2010, p 7.

http://www.worldpublicopinion.org/pipa/pipa/pdf/apr10/BBCViews_Apr10_rpt.pdf. Accessed 16 June 2010.

¹³ *Pew Global Attitudes Project*. 2008. Chapter 3: Views of China, p 39.

<http://docs.google.com/viewer?url=http%3A%2F%2Fpewglobal.org%2Ffiles%2Fpdf%2F260.pdf&pli=1>. Accessed 16 June 2010.

¹⁴ *Pew Global Attitudes Project*. 2008. Chapter 3: Views of China, p 43.

<http://docs.google.com/viewer?url=http%3A%2F%2Fpewglobal.org%2Ffiles%2Fpdf%2F260.pdf&pli=1>. Accessed 16 June 2010.

¹⁵ See, for example, paragraphs 3.17, 4.12 and 4.16-4.19.

¹⁶ John Lee, Beyond the Beijing Olympics – reassessing China's future, *Australian Institute of International Affairs Policy Commentary*, Canberra, June 2008.

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Andrew has extensive international experience in the Australian Government, most recently as foreign policy adviser to former Prime Minister John Howard. Previously he occupied a senior position in the Australian Embassy in Washington DC and was strategic policy adviser to former Defence Minister Robert Hill. He occupied various positions in the Department of Foreign Affairs and Trade, the Department of the Prime Minister and Cabinet, and the Office of National Assessments.

Andrew is a frequent commentator on foreign policy and international security in the Australian and international media. He has honours degrees in Arts and Law from the University of Melbourne. He was awarded a UK Foreign and Commonwealth Office Chevening Scholarship and has an MPhil degree in international relations from the University of Cambridge.

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