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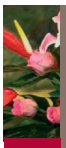

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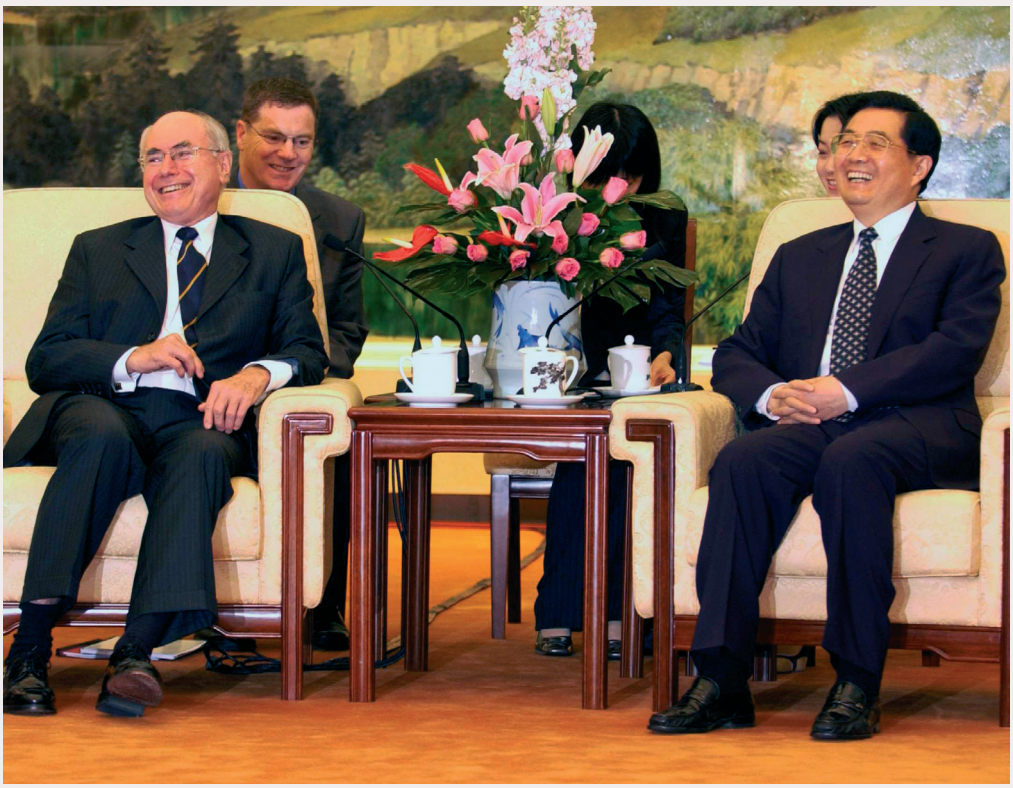
Getting China Right:
Australia's policy options for dealing with China

ASPI
AUSTRALIAN STRATEGIC POLICY INSTITUTE

by Peter Jennings

Australia's view of China is caught between two opposing emotions: optimism and fear. We are enthralled with the prospect of doing more business with one of the world's most dynamic economies, whose growth already underpins Australia's prosperity. But we are suspicious of China's authoritarian political system, and worried about their potential to turn economic power into military and strategic muscle. Many commentators argue that this complex situation will ultimately force Australia into making a choice. They argue that we cannot have our economic cake and the American alliance too. Sooner or later, it is said, Australia must face an unpalatable choice between security and prosperity.



Australian Prime Minister John Howard and China's President Hu Jintao meet for discussions at the Great Hall of the People, Beijing, 18 April 2005.

The China Debate

'... our relationship [with China] is already strong ... the worst that could happen is that we will still be in the marvellous position we are at the present time.'
John Howard, Beijing, 19 April 2005.

'Hopefully, China's rise will indeed be peaceful. But history suggests otherwise. We need to be alert to the risk that Beijing's growing economic and military influence may come to be applied less benignly in our region.'
Paul Dibb writing in *The Australian* 2 August 2005.

'Howard is right to try to build strong links with both China and the US, but he is wrong to think that this does not pose a major challenge to our foreign policy. Both Beijing and Washington want to force us to a choice ...'
Hugh White writing in *The Age*, 13 April 2005

...our links with China and with the United States need not be a zero-sum game, where Australian gains in Beijing deliver us losses in Washington.

Emotionalism is usually a bad platform for making policy. In this *ASPI Strategic Insight*, I argue the case for an Australian policy towards China that balances our long-term interest in having both a sound economic relationship and growing political and strategic contacts with China. Moreover our links with China and with the United States need not be a zero-sum game, where Australian gains in Beijing deliver us losses in Washington. In broad terms these are the objectives of Australia's China policy right now. Whatever else might be said about Canberra's approach, the fact is that we have not yet been forced to choose between Beijing and Washington. But we must do all that we can to make sure this choice remains only a worst-case theoretical possibility. In what follows, I suggest some new policy initiatives designed to promote Australia's interests in China and to balance these interests against other vital national objectives.

The bilateral relationship in 2005

John Howard said with characteristic understatement in his March 2005 speech to the Lowy Institute: 'Australia's relations with China have bulked large during my time as Prime Minister.' China's *potential* to be a major power in the Asia–Pacific has long been a focus of Australian speculation. But what has been particularly striking in the last two or three years has been the speed of China's growth and its arrival as a more influential diplomatic force.

The broad contours of Chinese economic growth are well known. Following the reforms of the late 1970s, China's Gross Domestic Product (GDP) grew by an average 9.7 per cent a year in the 1980s and an astonishing 10.7 per cent in the 1990s. In the last five years annual growth has averaged 7.9 per cent. This has fuelled a massive demand for resources, energy, investment and services. Australia's economy has been uniquely well placed to help fuel Chinese growth.

Australian Prime Minister John Howard and China's Premier Wen Jiabao hold bilateral talks at the Great Hall of the People, Beijing, 18 April 2005.

As a result our trade relationship with China is booming. In 2004, two-way merchandise trade was valued at $28.9 billion—a trebling of trade since 1999. In April 2005, the two countries began talks on a Free Trade Agreement (FTA) which could add in the order of $24.4 billion to Australia's economy over the period 2006 to 2015. Even without the FTA, trade between Australia and China is projected to more than double between 2005 and 2015. China is Australia's third largest trading partner for goods, while Australia is China's eighth largest partner. In 2004, China overtook the US to become Australia's second largest merchandise market.

The two economies are highly complementary, with Australia being a prime provider of inputs to Chinese economic and industrial expansion. Chinese demand for resources and energy imports will grow. From 2006, Australia will begin exporting between three and four million tonnes annually of liquefied natural gas (LNG) to Guangdong as part of a 25 year, $25 billion dollar agreement. Australia and China have also begun discussions over the possible export of uranium oxide concentrate to fuel China's expanding nuclear power generation system.

China is Australia's fastest growing market for services. In 2003, the bilateral trade in services was valued at $1.9 billion. Annual growth has averaged 14 per cent in the last five years. One of the biggest components of this area is education. In 2004, there were 68,857 Chinese students studying in Australia—fully 20 per cent of all foreign students studying in Australia. Around half of the Chinese students were studying at tertiary institutions.

Political relations have seldom been warmer—a marked contrast to the brief freeze in ties which followed China's provocative missile tests across the Taiwan Straits in 1996.

Changing political attitudes

The growth of the bilateral relationship has led to rapid shifts in Canberra's attitude to China. Political relations have seldom been warmer—a marked contrast to the brief freeze in ties which followed China's provocative missile tests across the Taiwan Straits in 1996. Then, China came close to cutting diplomatic

links because Australia publicly supported the American decision to deploy an aircraft carrier battle group close to Taiwan. Since that time, however, China has muted its criticism of the US–Australia alliance, pragmatically focusing instead on building long-term economic ties. Australia has become more important to China, primarily as a stable source of raw materials, but also because of our alliance with the United States and our active engagement in Asia–Pacific security issues.

Chinese President Hu Jintao's speech to a joint sitting of the Federal Parliament in October 2003 was an important symbolic statement of the new maturity in the relationship. Hu spoke of the importance of both countries putting aside differences to expand areas of agreement. For his part, John Howard has made five visits to China while Prime Minister. Howard's references to China are unfailingly pragmatic. He too argues that the countries should concentrate on the interests they share rather than points of difference.

...only China's relations with Japan seem to be marked by a decidedly un-pragmatic brand of aggressive nationalism.

Pragmatism has also marked the rise of Chinese diplomatic influence in the Asia–Pacific and beyond. Beijing has become a more active partner of the Association of South East Asian Nations (ASEAN), shelving for the moment disputed claims over islands in the South China Sea to pursue economic cooperation with talks for a China–ASEAN free trade agreement. China has also played a constructive role in facilitating multilateral talks over North Korea's nuclear weapons program and has promoted region-wide engagement through the East Asian Summit.

Apart from the special case of Taiwan, only China's relations with Japan seem to be marked by a decidedly un-pragmatic brand of aggressive nationalism. Further afield China's quest for resources has led Beijing to renew diplomatic efforts in Africa, including with regimes as unsavoury as Zimbabwe and the Sudan, and to build new links in the Middle East. Even in the Southwest Pacific, China has an active diplomatic network, distributing an estimated $300 million in aid annually, mostly designed to limit Taiwan's efforts to gain diplomatic recognition from the island states.

China's expanding soft power

While these political and economic gains are impressive, so too has been China's capacity to draw attention to what might be called 'soft power'—its capacity to win regional hearts and minds. For example Beijing's more engaging diplomacy of the last half decade is improving perceptions of China. A February 2005 poll by the Lowy Institute found that 69% of Australians expressed positive feelings about China, while only 58% were positive about the United States. Other polls show that around 10% of Australians currently identify China as a threat, down from close to 20% who saw China as a threat at the time of the 1996 Taiwan missile crisis.

Australians born in China or with Chinese ancestry are a fast growing segment of the population. By the time of the 2001 national census, Chinese languages had overtaken Italian to be the most common language spoken at home after English. Over 400,000 people (in 2001, 2.1 per cent of the population) speak Chinese at home. John Howard has said that around 15 per cent of voters in his Sydney electorate are of ethnic Chinese background. So, matters to do with China figure both in Australian domestic politics as well as international affairs.

For all its careful management of the relationship, Canberra at times feels it is walking on diplomatic eggshells to avoid repeating the 1996 freeze.

For all its careful management of the relationship, Canberra at times feels it is walking on diplomatic eggshells to avoid repeating the 1996 freeze. When Foreign Minister Alexander Downer visited Beijing in August 2004, he rather awkwardly answered questions about whether the ANZUS alliance would oblige Australia to help America defend Taiwan. That led some commentators to question if Australia was consciously distancing itself from the United States. No government statements since have lent any credence to the possibility of such an epoch-making policy change. But it is true that a conflict over Taiwan would be the biggest threat to Australia's ability to balance the US alliance and closer ties with China.

Another example of how Australia believes Beijing needs sensitive handling was seen in the management of the proposed defection of a diplomat from the Chinese consulate in Sydney. In late May 2005, the consul for political affairs, Chen Yong Lin, requested asylum. He offered details of Chinese spying in Australia. The asylum request was declined and after some delay Chen was given a protection visa. Pragmatically, both Canberra and Beijing put top priority on keeping the problem low-key. Canberra did not show outrage at Chen's revelations about spying. For its part, China kept the ritual denials very muted, publicly laughing off the allegations.

In the bilateral relationship both China and Australia are content, as the song says, to accentuate the positive and eliminate the negative, even if at times that means turning a blind eye to mutually inconvenient problems. On balance this is a very sensible approach and one likely to produce good results for both countries. The strategy works best, however, when the relationship is on an even keel. As John Howard told Sydney's Chinese Community in 2004, currently both countries can agree to: '... focus on the things that they have in common rather than the things that they don't have in common.' However, the test of Australia's China policy will come over the issues that give rise to serious policy differences. At these points pragmatism may not always be the best guide. In what follows I identify some areas over which Australia and China may not always enjoy plain sailing, and I suggest some strategies our government might adopt now to calm choppy waters into the future.

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Shaping American thinking on China

The broad shape of American policy towards China is constructive. It is based on building closer economic and trade ties, supporting the 'One China' policy with regard to the status of Taiwan, and agreeing to contain strategic differences. Neither Washington nor Beijing want to swap their mutual prosperity for conflict. Even though Chinese rhetoric rejects America's Asia–Pacific alliances, the network benefits China because of the stabilising role it plays. The US worries, though, about the impact of China's rising military and strategic power. China is building maritime forces that will reduce US naval predominance in East Asia. History's record shows that rising powers tend ultimately to clash with the established order.

America needs to work out how it can give China some strategic elbow-room without compromising stability in Asia.

America needs to work out how it can give China some strategic elbow-room without compromising stability in Asia. Visiting Beijing in September 2005, Admiral Fallon, Commander of the US Pacific Command said that a lot of the strengthened navy capabilities he saw were '... pretty understandable in view of the growth of China.' But this contrasts with the far more pessimistic assessment contained in the Pentagon's annual July report to Congress on *The Military Power of the People's Republic of China*. In tone and style the report owes much to the Pentagon's old *Soviet Military Power* reports. The document places China at a stark cross-roads between a '... pathway of peaceful integration and benign competition ... [or] dominant influence in an expanding sphere.' Partly because of the design of the report much of the analysis points to the more pessimistic outcome.

Australia must do what it can to stop the US and China from allowing mutual suspicions to give rise to threatening military postures. The ANZUS alliance boosts Australia's credibility in both capitals. We should use this credibility to engage the US and China in detailed discussions about their military thinking on North Asia. In Washington, we should ask defence planners what they would consider to be a reasonable military posture for the Chinese. We should seek early access to US thinking about their forthcoming Quadrennial Defence Review (similar in scope to Australian defence white papers) and we should offer to share views on drafts of future Pentagon reports on Chinese military power.

In Beijing we should redouble efforts to encourage the Chinese to be more open in their defence planning, reveal their true defence budget figures and participate in substantive bilateral strategic dialogues, for example on force development plans and strategic perceptions. All three tasks are measures of how benign states manage their national security. China must make progress on these fronts if it is to emerge as a trusted power in Asia.

If Australia is going to push for deeper dialogue with the US and China on strategic issues we must lift the amount of analytical effort that the Department of Foreign Affairs and Trade (DFAT), Defence, and the intelligence agencies put into understanding China. This is no less important to Australia's future than defeating terrorism. After major staff cutbacks in the 1990s, DFAT needs more resources to rebuild a strategic policy unit and to strengthen its China expertise. Australia's universities offer an important reservoir of knowledge about China. Using this base the government (with business community support) should develop programs promoting wider and deeper China 'literacy' among Australians.

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Taiwan and alliance obligations

Since 1972, Australia has recognised Beijing as being the sole government of China and that Taiwan is a province of the People's Republic. Canberra regularly calls on all parties to maintain the status quo and make no unilateral moves for change. There is little prospect for this situation to change as long as Beijing maintains its uncompromising

approach. Taiwan is, however, a vibrant and functioning democracy of twenty million people. It's firmly in Australia's interest to uphold the principle that vibrant democracies similar to ours should be respected in the international system. But in the interests of peace, Taiwanese aspirations for more than de facto sovereignty must be curbed.

This situation reflects a delicate and rather unsatisfactory balance, although one that has worked for over half a century. It may be that mainland China's own political system will change more quickly than the state of cross straits relations. There is growing economic enmeshment between China and Taiwan and an increasing flow of people with financial stakes in both countries. Given the pace of economic change in China, in fifteen or twenty years time the 'one country, two systems' formula may look in reality more like 'one system, two countries.'

...a full scale military confrontation between the US and China over Taiwan would have global strategic implications.

If war broke out over the Straits of Taiwan, it is very likely that the United States would turn to Australia for military and diplomatic support. They would point to the ANZUS Treaty, which requires the parties to consult if their armed forces are attacked in the Pacific area. Much would depend on the circumstances which gave rise to the conflict, but a full scale military confrontation between the US and China over Taiwan would have global strategic implications. A war would polarise the Asia–Pacific, bring an end to economic growth and threaten dire military escalation. There is little value (and indeed some danger) for Australian Government's to speculate about our response in such a scenario. The most important point to make about ANZUS is that it, and America's other Asia–Pacific alliances, help to deter the outbreak of conflict.

Australia should retain its current policy of refusing to speculate about how we might respond to a conflict over Taiwan. This is not shirking alliance obligations. Australia's record of previous military commitments speaks for itself, but no alliance requires its members to sign a blank cheque for military commitments into the indefinite future. In the event of a major conventional war, my personal assessment is that Canberra will quickly decide its interests will be to back the United States. But that decision would surely arise only after a lengthy deterioration of the strategic situation. Rather than speculating about this grim scenario, Australia's efforts must be to make sure we never come to this point. Canberra should take President Hu Jintao at his word, when he told Parliament in 2003 that "The Chinese government and people look to Australia for a constructive role in China's peaceful reunification." We should explore what that constructive role might be, and engage Beijing in a serious-minded way looking for strategies that contain the cross-straits military balance.

Promoting Australia's perspective on human rights

China's integration into the world economy is bringing about important behavioural changes. Beijing knows that sustaining economic growth requires it to improve such things as property law, accounting standards, financial regulations, customs procedures and other measures that support trade and investment. By these means China is slowly adopting the norms of behaviour we see in developed economies. The challenge is to encourage China to do the same in the area of human rights and other social reforms. Australia has been too inclined to push these issues into

the background. DFAT says that 'our approach to human rights in China is constructive and based on dialogue rather than public confrontation.' This may be true, but it also an approach where we see little progress and no public expression of core Australian values.

Given China's greater openness over the last decade, we should review the adequacy of our human rights approach.

Given China's greater openness over the last decade, we should review the adequacy of our human rights approach. This is not a call for megaphone diplomacy, but rather for Australia to give the issue more attention and prominence in our dealings with China. The bilateral relationship is durable enough to handle the challenge. A number of Australian aid projects are currently targeted to promote improved governance and human rights in China. It might seem odd that Australia spends around $50 million annually providing aid to the world's seventh largest economy and a nuclear weapons state. However, accepting this is our starting point, the bulk of this aid is well directed towards programs that promote Australian interests. The government should review whether aid currently targeted at rural development should be phased out in favour of programs on governance and human rights.

Ultimately these measures are designed to encourage a China that is 'more normal' in the way it conducts diplomacy, a point Greg Sheridan of *The Australian* made at the 2005 ASPI International Conference. That is to say, a country with which Australia can openly express differences of view about alliances, political systems, human rights and other matters, without these differences threatening the overall relationship. Until recently, Australia's engagement with China was constrained because of the concern that raising such issues could quickly lead Beijing to dramatically downgrade the relationship. That concern seems less valid now. The ability to sustain a more open dialogue on points of policy difference will ultimately strengthen China and enhance its links with other countries.

Promoting positive relations in the South Pacific

Finally, Australia needs to address China's increasingly active diplomacy in the South Pacific. DFAT estimates that China has more diplomats located in the South Pacific than any other country. China and Taiwan actively compete for diplomatic recognition from the island states, often offering aid projects of dubious value as rewards for recognition. In DFAT's restrained language these projects apply '... less rigorous standards of transparency, accountability and governance.' In other words, the potential for corruption is high and many projects are of doubtful long-term value to the island states.

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to develop ways to more forcefully present its views about the South Pacific to China. Australia has learned from its own experiences about the factors that produce effective and ineffective aid programs and we should share these with China. It may be sensible for the two countries to look at jointly delivering some aid programs in the region. With or without Australia's engagement China has every right to build relations with South Pacific states. But this engagement needs to be built on more lasting grounds than simply using the region as a lever in Beijing's competition with Taiwan.

Important disclaimer

About the Author

Peter Jennings is the Director of Programs for ASPI. He is responsible for the Institute's research and publications programs on defence and international security issues. Prior to joining ASPI, Peter was most recently the Senior Adviser for Strategic Policy in the Cabinet Policy Unit of the Prime Minister's Office. He has held a number of Senior Executive Service level positions in the Defence Department, including heading the Strategic Policy Branch and being deputy head of the Defence Imagery and Geospatial Organisation.

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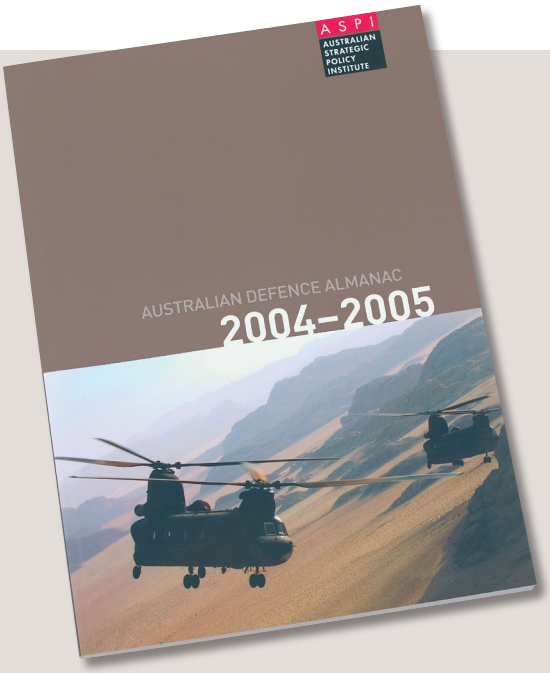

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(Mr Ric Smith, Secretary of the Defence Department, September 2004)

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