

Chapter 1

Introduction and conduct of the inquiry

Referral of the inquiry

1.1 On 8 December 2004, the Senate referred the matter of Australia's relations with China to the committee for inquiry and report by 15 September 2005. On 13 September 2005, the Senate granted an extension to the committee's reporting date to 10 November 2005. The first report, tabled on 10 November 2005, concentrated on the trading, commercial, social and cultural links with China. This subsequent report, which forms the second part of the committee's report on Australia's relations with China, builds on Part 1 but is primarily concerned with the political and strategic aspects of Australia's relationship with China.

Timing of the inquiry

1.2 This is the third inquiry conducted by a Senate committee into Australia's relationship with China. In 1984, the former Senate Standing Committee on Industry and Trade inquired into prospects for Australia–China trade. In 1996, the Senate Foreign Affairs, Defence and Trade References Committee examined the wider bilateral relationship including the political relationship, trade and investment links and social and cultural ties. Since then Australia's relationship with China has continued to develop and grow.

1.3 As noted in the report tabled last year, the committee believes that at a time of such rapid economic and political development in China and the broader region, it was timely to review Australia's relationship with China. The following terms of reference recognise that economic, political and strategic factors are intertwined.

Terms of reference

1.4 The terms of reference for the committee's inquiry into Australia's relationship with China are set out below:

- (a) Australia's economic relationship with China with particular reference to:
 - (i) economic developments in China over the last decade and their implications for Australia and the East Asian region;
 - (ii) recent trends in trade between Australia and China;
 - (iii) the Australia–China Trade and Economic Framework and possibility of a free trade agreement with China;
 - (iv) ongoing barriers and impediments to trade with China for Australian businesses;

- (v) existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth agencies and Australian Government programs;
- (vi) opportunities for strengthening and deepening commercial links with China in key export sectors;
- (b) Australia's political relationship with China with particular reference to:
 - (i) China's emerging influence across East Asia and the South Pacific;
 - (ii) opportunities for strengthening the deepening political, social and cultural links between Australia and China;
 - (iii) political, social and cultural considerations that could impede the development of strong and mutually beneficial relationships between Australia and China; and
- (c) Australian responses to China's emergence as a regional power with particular reference to:
 - (i) China's relationships in East Asia, including in particular the Korean Peninsula and Japan;
 - (ii) the strategic consequences of a China-ASEAN free trade agreement;
 - (iii) China's expanded activities across the South West Pacific.

Conduct of the inquiry

1.5 The committee sought views from a range of people and organisations including: sectors of the business community who have or would like to establish commercial links with China; Chinese companies who have business ties with Australia; mutual friendship associations both here and in China; organisations and associations interested in fostering links between the two countries; academics with expertise in East Asia and the South Pacific; and people who are concerned about Australia's future relations with China.

Advertisement

1.6 The committee advertised the terms of reference and called for submissions in *The Australian* on a number of occasions leading up to the close of submissions on 24 March 2005.

Submissions

1.7 The committee received 81 public submissions which are listed at Appendix 1. A late submission numbered *P82* was received by the committee after it had presented the first part of the report and is recorded at Appendix 1.

Public hearings

1.8 The committee held nine public hearings in Canberra, Melbourne, Sydney and Perth. A list of the committee's public hearings, together with the names of witnesses who appeared, is at Appendix 2.

1.9 The last hearing held, on 13 September 2005, took the form of a roundtable where Australia's leading experts discussed China's emerging influence in the region. A copy of the agenda paper is at Appendix 4.

Members of the roundtable giving evidence in Parliament House on 13 September 2005.





Background to the report

1.10 The first report detailed China's emergence as an economic and political force on the world stage. It noted that Australia has been drawn very strongly into China's orbit of influence, that strong economic links now bind Australia to China and that many people-to-people links further buttress the relationship. China has also indicated that it would like Australia to be a partner as it continues to take a leading role in world affairs.

Structure of the report

1.11 Concerns were raised in the first report about the extent of influence that China may exert over Australia. Some argued that 'China matters more to Australia in terms of trade than the other way around'.¹ They fear that intent on maintaining good trading links with China, Australia may compromise on matters of principle so as not to upset the relationship.²

1.12 This second report is also concerned with China's growing influence but takes a much broader perspective. It looks at China's foreign policy and its military modernisation program and examines its effect on other countries in the Asia-Pacific region and the implications for Australia. It has 11 chapters:

1 See for example, C. Mackerras, *Submission P54*, p. 9.

2 See paragraph 14.2 of the first part of the committee's report, Senate Foreign Affairs, Defence and Trade References Committee, *Opportunities and challenges: Australia's relationship with China*, November 2005, p. 245.

Chapter 2 provides an overview of China's foreign policy. It highlights the factors underpinning these policies, the Chinese government's ambition of a 'peaceful rise', and other nations' response to China's actions and rhetoric.

Chapter 3 looks at China's rapidly expanding influence in East Asian bilateral and multilateral fora. It reviews China's key bilateral relationships in East Asia and the implications of its recent participation in fora such as the East Asia Summit.

Chapter 4 examines China's key bilateral relationship with the United States. It considers the growing anxiety among U.S. strategists about what they perceive as China's unfair trade advantages, undiscerning capture of foreign energy supplies and new-found enthusiasm for regional multilateralism.

Chapter 5 considers the China–U.S. relations in the broader regional context and seeks to understand the complex web of relations in East Asia and how smaller countries, such as Australia, are adjusting to changing circumstances as China and the U.S. work out their relationship.

Chapter 6 discusses China's new defence policy which aims to increase the competency of its armed forces. It explores China's need for improved defence capabilities, the policies underpinning its military program, and the way it informs the rest of the world about its defence spending and strategic intentions. The committee is particularly interested in the transparency of this information.

Chapter 7 focuses on the tensions across the Taiwan Strait. It reviews the history of Taiwan's present political status, the primacy of reunification in China's foreign policy, the changing political environment in Taiwan and China's response to these developments. The chapter then considers some of the difficulties facing both Australia and the US in their support for maintaining the cross-strait status quo.

Chapter 8 is concerned with China–Japan relations, another area of growing tension in China's foreign relations. It looks at several recent incidents including the dispute over oil and gas resources, the Japanese Prime Minister's visits to the Yasukuni Shrine and Chinese anger over a Japanese history textbook's downplaying of Japan's wartime atrocities.

Chapter 9 explores China's important role in multilateral efforts to resolve the North Korean nuclear issue. It presents a chronology of the five rounds of 'Six-Party talks' from August 2003 to September 2005 involving North Korea, the U.S., China, South Korea, Japan and Russia. The focus is on how China has balanced its support for the Pyongyang regime with the fears it shares with the U.S. that North Korean nuclear weapons may lead to arms race in East Asia.

Chapter 10 concentrates on the diplomatic activities of Taiwan and China in the Southwest Pacific, especially in light of the one-China policy. It considers the underlying motives for their presence in the region and the effect that it is having on the islands' development. It looks in particular at the operation of China and Taiwan's aid programs and their involvement in the Pacific Islands Forum.

Chapter 11 concludes the report with an Australian perspective on these issues. It asks: what are the strengths and opportunities for the Australian government in its strategic and political relationship with China? What are the potential problem areas for the Australia government, particularly as its relations with third parties affect Chinese perceptions and interests?

Acknowledgments

1.13 The committee thanks all those who contributed to the inquiry by making submissions, providing additional information or appearing before it to give evidence.

1.14 The committee takes particular note of, and commends, the work of three interns who were placed with the committee secretariat or with the committee's chairman and who produced well researched and high quality papers on matters dealing with China and the region. The committee wishes Ms Thuy Thu Le, Mr Daniel Macpherson and Mr Cameron Reid well in their chosen careers.