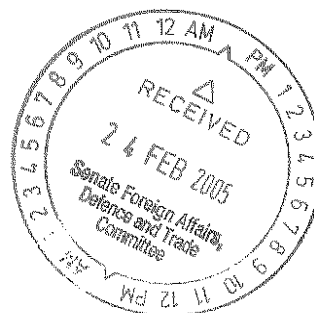


Tuesday 22 February 2005

Dr Kathleen Dermody  
Senate Foreign Affairs,  
Defence and Trade References Committee  
Suite SG57  
Parliament House  
CANBERRA ACT 2600



Dear Dr Dermody

Thank you for your letter of 17 December 2005, asking if I would be interested in making a submission to the Senate Foreign Affairs, Defence and Trade Committee's inquiry into Australia's relations with China.

This is obviously a very important topic and I am delighted that the Committee has decided to hold the inquiry.

As it happens I have just completed a chapter for a book to be published later this year by the Committee for the Economic Development of Australia (CEDA) on Australia's relations with China. My chapter makes a number of recommendations particularly relevant to sections 'b' and 'c' of your terms of reference.

I would be delighted if you could treat the chapter as my personal contribution to the Committee's deliberations. I'm not sure how that might fit with your rules about submissions, because the chapter is now with CEDA and is being prepared for printing.

With best wishes

A handwritten signature in black ink, appearing to read "Peter Jennings".

Peter Jennings  
Acting Director

## **Emerging Political and Security Relationships**

Peter Jennings<sup>1</sup>

"... two countries with very different political systems, very different histories, very different cultures can build a strong future together if they focus on the things that they have in common rather than the things that they don't have in common."  
Prime Minister John Howard<sup>2</sup>

Australia's bilateral relationship with China is going through a period of redefinition. Driven by a massive growth in trade and fuelled by expectations of even larger economic dividends in the future, the Australian Government is pondering the strategic and political implications of closer ties with Beijing. Seldom have prospects for the relationship looked more promising. As Prime Minister Howard said in December 2004 to a gathering of Sydney's Chinese-Australian community, the aim is to focus on the things the two countries have in common. Yet, although political statements about the relationship remain unceasingly upbeat, a number of strategic and political issues have the potential to complicate matters.

### **The worrying 1990s**

The positive state of Sino-Australian relations in 2005 contrasts with a period of greater uncertainty about China's role in Asia-Pacific security during the 1990s. In the early years of that decade the Australian Government held some concerns about America's longer term commitment to play an active role in regional security. The numbers of US military personnel based in the region were reduced from 130,000 to around 100,000. As China's economy grew and as Beijing invested heavily in modernising its military forces, Australia's concern was about the strategic role a more assertive China might play.

In 1995 Chinese military forces occupied Mischief Reef in the Spratly Islands. The reef was claimed but unoccupied by the Philippines. Between August 1995 and March 1996 China staged missile tests and held large-scale military exercises in the vicinity of the Taiwan Straits. These were designed to demonstrate Beijing's opposition to pro-independence moves in Taiwan. As concerns grew about the prospects of a cross-straits war, Australia and Japan were alone in the Asia-Pacific to openly support a US decision to sail two aircraft carrier battle groups close to the Taiwan Straits.

Chinese political statements during this time argued very strongly against a US military presence in the Asia-Pacific and, in particular against America's alliances. Beijing reacted negatively to Australia's public support of the US during the Taiwan Straits missile tests. In 1997 China briefly but decisively put political relations with Australia on hold. Commentaries in the Government controlled Chinese press argued that the Australia-US alliance was the southern pincer of 'two crab claws' directed against China. The northern pincer was, of course, the US alliance with Japan. In 1996 both alliances had been formally reviewed by their members and both had issued strong statements reaffirming their central importance to regional security -- a view that flatly contradicted Beijing's view of the world.

In December of 1997 a Howard Government statement titled *Australia's Strategic Policy* expressed serious concern about the potential for regional instability as a result of increased competition between a rising China and America and its allies. The statement said: "China will need to work hard to assure the rest of the region that its national objectives and the means it uses to achieve them will be consistent with the basic interests of its neighbours."<sup>3</sup> At its most optimistic the statement conceded that "such competition is not inevitable", but the general tone was one of concern about China's future role.

### **The optimistic 2000s**

From the perspective of 2005, the concerns of the mid-1990s seem overstated. Now, Australian policy statements emphasise the strengths of the bilateral relationship. A White Paper produced by the Department of Foreign Affairs and Trade in 2003 says that Australia seeks to "... build a common understanding of how we can manage relations in a way that makes the most of our shared interests while acknowledging our differences." The aim, the White Paper claimed was to build "...a strategic economic relationship with China similar to those Australia has established with Japan and Korea."<sup>4</sup>

In late 2004 the Foreign Minister, Alexander Downer, took the relationship one step further by claiming at a media conference in Beijing that:

... we agreed that Australia and China would build up a bilateral strategic relationship, that we would strengthen our economic relationship and we would work together closely on Asia Pacific issues, be they economic or security issues.<sup>5</sup>

The implications of the phrase 'strategic relationship' will be examined shortly, but first, it is important to ask how the bilateral relationship could

so dramatically move from the diplomatic chill of 1997 to the warmth of bilateral ties in 2005.

Three major developments contributed to the rapid improvement in the bilateral relationship. The first of these was a substantial shift in the character and content of Chinese diplomacy in the late 1990s. Beijing had made it clear that its greatest priority was internal development and, from an observer's perspective, it appears to have taken a deliberate decision to avoid any actions that might threaten that growth path because of international instability. China has developed more effective security relations with the nations of Southeast Asia and has avoided any further military actions like the Mischief Reef occupation. The anti-alliance language of the 1990s is no longer being used. China has not changed its core position on the unacceptability of Taiwan pursuing independence, but Beijing has eased the situation by refraining from using high-profile military manoeuvres during Taiwanese political events. There was no repeat of the 1996 Straits crisis, for example, during the 2004 Taiwanese presidential elections.

A second positive development has been the warming of Sino-American relations. The Bush administration has, on a number of occasions, strongly reaffirmed its support for the One China policy. Beijing's condemnation of Al Qaeda's attacks in the US on September 11, 2001 was appreciated by Washington as has China's continued support in the 'war on terror.' This policy may well reflect Chinese self-interest as it looks to the potential for Islamic fundamentalism to cross China's western borders, but it provides a pragmatic basis for current co-operation with the US. China has also worked co-operatively with the US on the dangerous question of North Korean nuclear weapons, by using its influence with Pyongyang to force it to negotiations. Both Washington and Beijing have an immediate pragmatic interest in containing North Korea's nuclear activities even though they may have different views about what might constitute the best long-term outcome on the Korean peninsula.

The third factor contributing to the warming of Sino-Australian relations has been the growth of extensive bilateral economic links, and a happy outbreak of pragmatic policy thinking in both capitals. The two factors are connected. In August 2002 Prime Minister John Howard announced that Australia's Northwest Shelf Venture was chosen by China to be the sole supplier of liquefied natural gas (LNG) to Guangdong province. This remains Australia's largest single export deal, worth between \$20 - \$25 billion in export income.

The LNG deal made it clear that Australia and China have the potential to develop an economic relationship that, in its scope, goes well beyond simple trade ties. Australia offers China a combination of essential

resources and long-term political stability underpinning a guaranteed supply. China offers Australia almost limitless demand and the potential to broaden the relationship beyond providing raw materials to include a huge requirement for services. Neither country can afford to let this economic potential be compromised by a failure to address the political and security dimensions of the relationship.

### **Is pragmatism enough?**

Australia and China have sought to secure their economic relationship by tacitly agreeing not to stress the issues that either party finds difficult to handle. For example, Australia has strongly reaffirmed its own support for the One China policy. Indeed practically every time the Prime Minister or Foreign Minister speak about China, they will reaffirm the One China policy. For its part Beijing no longer argues that the ANZUS alliance is an impediment to Australia's role in Asia. By this means both countries have been able to move beyond two key bilateral sticking points.

From time to time Australia has also been prepared to show some measured differences with the United States in ways that promote our position in Beijing. One example of this was Australia's refusal in early 2005 to support US calls for the European Union to continue its arms export embargo on China. Canberra's ability to have any real impact on the EU's position was negligible, but the pro-China stance probably earned some credit in Beijing.

There is no doubt that this pragmatic approach --as John Howard puts it, focussing on the things Australia and China have in common -- is yielding substantial benefits for both countries. However, it would be wrong to suggest that the issues over which potential differences remain could not still have some dangerous implications for the relationship. The most important of these concerns how Australia balances its links between China and the United States.

Prime Minister Howard appears to take some pleasure in refuting claims made early in the life of his Government that he would not be able to maintain a close alliance with the US at the same time as more closely integrating Australia's strategic interests with Asia. He told a conference in August 2004:

I count it as one of the great successes of this country's foreign relations that we have simultaneously been able to strengthen our long-standing ties with the United States of America, yet at the same time continue to build a very close relationship with China.<sup>6</sup>

But this strategy remains a success only for so long as China and the United States are able to keep their interests aligned. If, for some reason, these interests began to diverge, it will become harder for Australia to maintain this policy. Presently both Washington and Beijing are working to minimise any potential for diverging views, especially on Taiwan. The US retains a policy of studied ambiguity about the extent to which it would provide practical support to Taiwan in a crisis, and it works hard to pressure Taipei not to push the independence band-wagon too far. For its part Beijing keeps a lid on inflammatory rhetoric of the type heard in 1996. However the potential for a military clash over Taiwan remains a realistic danger.

When visiting Beijing in August 2004, Foreign Minister Alexander Downer was asked about Australia's ANZUS alliance obligations as they might apply to a crisis over Taiwan. Mr Downer replied:

Well, the ANZUS Treaty is a treaty which of course is symbolic of the Australian alliance relationship with United States, but the ANZUS Treaty is invoked in the event of one of our two countries, Australia or the United States, being attacked. So some other military activity elsewhere in the world, be it in Iraq or anywhere else for that matter does not automatically invoke the ANZUS Treaty. It is important to remember that we only invoked the ANZUS Treaty once, that is after the events of 9/11, because there was an attack on the territory of the United States. It is very important to remember that in the context of your question.<sup>7</sup>

At best Mr Downer's answer might be said to have evaded a key point for the sake of not offending his hosts. It is not correct to say that the alliance only provides for a response when either Australia or the US are directly attacked. An attack on US military forces in the Pacific would, in the terms of the treaty, trigger a requirement for Australia and the US to consult on how to respond.<sup>8</sup> If conflict seemed likely to break out over Taiwan it is highly likely that the US would ask Australia to contribute military forces to a coalition operation in defence of the island.

Some Australian observers have argued that Mr Downer's comments point to a more substantial reshaping of Australian strategic policy by, in effect, signalling to Washington that Australia might not be willing to provide direct military support in the event of a crisis over Taiwan. However it would be very unlikely for Australia to take such a momentous step in its alliance relations with the US in the form of a single answer to a question at a Beijing media conference. In fact, what Mr Downer's comments point to is the enormous importance that Australia, China, the US and Taiwan *all* have on finding strategies to prevent a potential crisis threatening regional stability.

Australian strategic policy will have suffered a strategic failure if we are ever forced into the position of having to decide between support for the US alliance or the viability of our relationship with China. The option Australia would choose would depend largely on the circumstances of the day, and the Government's consideration in particular of the causal factors that had led the region to the brink of a major war. It is pointless to speculate on the decision, but what is clear is that Australia has a vital strategic interest in making sure we do everything we can to avoid such a situation.

Prime Minister Howard has said "our aim is to see calm and constructive dialogue between the United States and China. ... Australia is well placed to promote that constructive dialogue."<sup>9</sup> His comment offers an intriguing clue to the likely next stage in Australia's relations with China.

## **Building a 'bilateral strategic relationship'**

Over the last generation the major focus in Australia's bilateral relationship with China has been on trade and economics. That will remain a central preoccupation, but increasingly Canberra will need to find ways to engage China in a sustained and substantive dialogue about strategic issues in the Asia-Pacific. Too often in the past these issues have been put to one side, either for the sake of pragmatism or because the strength of the rhetorical positions on key security issues make practical dialogue very difficult. This situation is changing. The rate of China's economic growth is rapidly turning the People's Republic into a key strategic power in the Asia-Pacific. On Taiwan, on North Korea, on disputed sovereignty claims in the South China Sea and on the broader strategic balance in the Asia-Pacific, China is increasingly the single most important factor in deciding whether the region will remain stable.

Looking to the longer term it seems unlikely that Australia will be able to indefinitely rely on the hope that the bilateral relationship needs only to focus on the things the two countries have in common. The challenge is to broaden the connection, from what the 2003 Foreign Policy White Paper called a "strategic *economic* relationship" into what, in 2004, Mr Downer called a "bilateral strategic relationship."

The Australian Government should take four essential steps to broaden its relations with China, all focussed on building a more substantial dialogue with Beijing on critical security issues.

First, a significantly enhanced effort must go into improving our understanding of Chinese strategic thinking. We need to know the Chinese mind much more closely on issues like North Korea, nuclear proliferation, its relations with major powers like Russia, India and Japan and on Chinese military strategy. A tiny fraction of the Australian resources currently being devoted to counter-terrorism analysis would help to significantly boost the Government's capacity to study China. Building our analytical capabilities in key Departments such as Foreign Affairs and Trade and Defence as well as in the intelligence agencies would be a sound long-term investment.

Second, the Government should look for new opportunities to open discussions on strategic and security issues with China. This should not be limited to people in Government service. A private sector Australia-China Dialogue similar to the one run annually between influential Australian and US citizens would be a major step forward (and one, I should declare, that the Australian Strategic Policy Institute is working to establish). There are already many occasions in which Cabinet Ministers and senior officials meet to discuss bilateral issues, but there is need to



create a specific closed-door forum for officials to discuss longer-term strategic matters in the Asia-Pacific.

Thirdly, defence and intelligence exchanges between Australia and China should be increased. It is time to review the level of seniority of our Defence Attache in Beijing and to address opportunities for more substantive intelligence exchanges, some military exercising and dialogues on defence doctrine and strategic plans. There are already some useful defence contacts, including visits at Service Chief level and training exchanges. The need, however, is to move beyond the types of co-operation that traditionally are considered to be at the easy end of the engagement spectrum, and to take on some of the harder challenges involving practical exchanges of thinking on tough strategic issues.

Finally, Canberra needs to look at what more can be done to help shape American thinking on China. The Prime Minister says we are well positioned to do this but the reality is that Australia has not yet sought to engage with the US in a sustained discussion of China's strategic future. Interestingly enough the Chinese have, on several occasions, indicated that they would value Australia playing a more decisive hand in helping to influence US thinking. When China's President Hu Jintao addressed the Australian Parliament in October 2003 he said in relation to Taiwan that "the Chinese Government and people look to Australia for a constructive role in China's peaceful reunification."<sup>10</sup> One reading of this comment was to suggest the Chinese thought Australia could usefully influence American policy. The message was reinforced when Mr Downer visited Beijing in August 2004. Downer told his media conference:

... and I think now there is a recognition by Chinese leadership that the significant role that Australia plays in the region, for all sorts of reasons, [has] value for both of us, not just for one of us, but for both of us, to work much more closely together on political and security issues in the region.<sup>11</sup>

One option would be for the Australian Government to explore the idea of a trilateral strategic dialogue involving Beijing, Canberra and Washington. There is already a regular trilateral dialogue involving Australia, the US and Japan. A similar dialogue involving China would usefully address a number of security concerns in North Asia.

One should not expect quick results from any of these proposals. In some respects these four suggestions seem far removed from the practicalities of LNG contracts. But each suggestion here is designed to overcome significant gaps in the current bilateral relationship. To reinforce longer-term economic engagement with China, we need urgently to deepen our knowledge of Chinese strategic thinking and to make our dialogue on these issues more thorough-going and substantive.

## Some worse-case thinking

One final thing the Australian Government should do in relation to China, is to test current policy settings by seeing how effective they would be against a range of different scenarios of China's future. For all the optimism that the Government and the Australian business community have about China's continuing economic prospects, it is useful to remember that there is absolutely no guarantee that strong and stable growth will continue. The 1997 assessment, *Australia's Strategic Policy*, was a high-quality document but weakened by its failure to imagine a world where Southeast Asian economic growth might falter. That statement focussed on how to shape Australian policy in a region of high and continuing economic growth. Even as it was released towards the end of 1997 few people in Canberra realised that the key strategic challenges Australia would face in the next eight years would stem from the failure of that growth to be sustained.

By whatever means Australia chooses to develop its China policy now, it would be a tragedy if we limited our thinking to address only the best case scenario about China's future. There is no question that a China experiencing high growth and simultaneously modernising its infrastructure and political system is the outcome most likely to maintain stability in the Asia-Pacific. Australia has a direct economic stake in promoting that outcome. Equally though, a range of less positive scenarios need to be considered.

The internal challenges to China's prospects for high, steady growth are well known and they include serious problems relating to China's infrastructure, demographic profile, environmental outlook, health and social welfare system. These can be added to the potential international security flash-points of North Korea, Taiwan and the South China Sea. Korea and Taiwan in particular raise the frightening possibility not only of large-scale conventional conflict but also the use of nuclear weapons. We cannot rule out the potential for miscalculation and misperception to lead to conflict.

Governments find it difficult, especially in public, to speculate about less pleasant scenarios in international security and that would certainly be true in the case of China. However it is necessary that at least *some* thinking be done on worse-case scenarios in the Australian Government system, if only to see what challenges Australia would face in those circumstances. No sensible business operation would make major investment decisions without first considering the risks as well as the potential rewards of the investment. While the prospects for Australia's

relations with China are currently very bright, Governments also need to think about hedging strategies just in case current trends do not continue.