The Secretary
Senate FADT References Committee
Suite SG.57
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

Thank you for your letter of 17 December 2004 inviting me to make a submission to the Inquiry into Australia's relations with China.

I regret that I was unable to respond by the due date. However, I have heard informally that a late submission could be accepted.

I therefore have pleasure in attaching a comment on the second and third sections of the Senate's reference.

Yours sincerely,

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Introduction

In 1976, when I went to Beijing, the theory was being advanced that China, having become a status quo power, should be viewed, and be expected to act, less in terms of Communist ideology than in a traditional 'Chinese' way. Such has been the pace of economic and social change in China that this then bold assessment now seems out-of-date.

Understanding of its civilisation and uniquely long continuous history, of Confucianism (whom some historians view as the least militant of faiths), and of Sun Tzu's *The Art of War*, which is widely *read*, will still be relevant to forecasting China's actions. But China is going forward so rapidly that accommodation to change will shape policy more than looking backwards for precedents.

The social effects of China's economic transformation - educational progress, labor mobility, an affluent middle class, uneven development, the one-child family – are profound. They encourage individualism, and constrict the power of the central government.

China is (if it is not an oxymoron) a normal great power, which is to say that the difficulty for Australians in assessing its future course lies more in the scale and pace of change and in disparity in power than in differences of culture and history.

Internationally also, China's foreign policy is adapting to limitations imposed by its rapid embrace of multilateral ties. China's major international challenge is to reach an accommodation with the megapower, the US. The latter's current strategic doctrine of pre-emption of the rise of a challenger is an obstacle to mutual understanding, and poses problems for America's allies, who could be drawn into contrived crises or into cooperation in schemes which China could interpret as adversarial. While the US has dropped calling China a 'strategic competitor', the notions of maximising power while it is predominant and of ultimate strategic competition are articles of faith for many neo-conservatives.

My paper is addressed to these international scenarios which could be of particular relevance to Australia and the Sino-Australian relationship. However, first I wish to offer a comment on the machinery for handling the relationship.

Machinery for Coordination

For no country is it more important that Australia should seek to monitor developments and manage relations through a 'whole of government' approach (PSC http://www.apsc.gov.au/mac/connectinggovernment.htm). I doubt that the Committee needs this explained, but to advance a few relevant reasons:

- China seeks the most comprehensive possible range of links, so that when one is stretched others can take up the slack
- China's power and importance to us is growing exponentially
- China respects those who take it seriously and are professional
- 'Problem areas', eg human rights, need to be regularly weighed in the totality of the relationship, not to be escalated or suppressed on a whim.

When I left government in 1986 there was an annual China review by Cabinet, an ad hoc Secretaries Committee and a working-level (First Assistant Secretaries) IDC which met monthly, and attracted sufficient enthusiasm for its members to give up some of their private time to network and exchange information. There were also ad hoc links with State governments, some of whom. like Victoria, have adopted a 'whole-of-government' approach to China.

The Committee might wish to assess how the 'whole-of-government' approach is working.

Avoiding Confrontation

There are no fundamental or insoluble differences in the bilateral relationship unless we make them so (which we should take care to avoid). There are, however, differences that can be acknowledged, as has been done successfully up to now. There also a few which, in my view and at the risk of sounding prescriptive, we cannot afford.

In the latter category are issues relating to security in Northeast Asia and Taiwan. Notwithstanding the importance of the regional countries to our trade and investment, Australia is not a major player in the politico-security issues of the area. It is a country of the second rank. We should, when required to do so, define our treaty commitments under ANZUS most carefully. If we do so, we shall be better able to play a political role in consultation with all parties. This in turn will facilitate our voice being heard in regional and international councils.

In regard to security in Korea, we have accepted the special influence of China, and the insights that South Koreans, often through bitter experience, have into the North. Amongst the six dialogue partners, these are the two with which we should maintain the closest contact, against the possibility that we might be able to say useful things in Pyongyang. We need to be active in these two bilateral dialogues partly to offset the appearance of leaning to another side, which could be strengthened by the upgrading to Ministerial level of the tripartite consultations with the US and Japan.

As a participant in the development of the US missile defence system, but geographically distant from North Asia, we can maintain a dialogue with the Chinese, in order to allay their concerns that the system if deployed will be aimed at them. We also will want to assure them, and be assured, that the program does not have the purpose of impelling China to over-spend, as the Soviet Union did in reaction to President Reagan's Star Wars.

The avoidance of war in the Taiwan Straits is the most serious of the regional problems. The Prime Minister has spoken of a role for Australia as an honest broker, a course which has also been advocated by Dr Hugh White, now Head of the SDSC at ANU. In my view it is by definition and in fact impossible for Australia to be an honest broker if it is tied by an alliance to one side and to automatic military obligations. The US believes that there is such a treaty obligation, but it is possible to argue either way, or for the Foreign Minister's third way, that the obligation is limited, to political consultation, not military support.

The historical record provides limited useful guidance for Australia's current dilemma and is ambiguous. When ANZUS came into force Australia did not regard it as applying to upholding the KMT regime of Jiang Jieshi. Instead Australia wanted to assure self-determination for the Taiwanese (Formosans), not the Chinese on Taiwan, and envisaged this being achieved under the auspices of the UN. Australia's attitude to the possible application of ANZUS to Taiwan was influenced by unwillingness to follow the US into involvement in a civil war situation, in which there was plenty of sabre-rattling on all sides, and by reluctance to accept a treaty obligation in respect of territory whose status was indeterminate.

In 1955, Robert Menzies, while rightly distrusting John Foster Dulles's bellicosity and lack of candour during the first Offshore Islands crisis, did accept that if there were a 'great war' (ie China backed by the Soviet

Union against the US and the KMT) Australia would be involved. Thus the obligation grew out of the Cold War and the existence of rival blocs rather than out of a regional treaty. Menzies once said publicly, but probably off the cuff, that the ANZUS Treaty did not apply to Taiwan. I have come across no evidence, including in the DFAT Historical Documents volume, that Australia took a decision that it did, although there was acknowledgment that the KMT forces and its geographical position in the offshore island chain made it advisable that Taiwan should not fall under Chinese control. These Cold War considerations no longer apply. In 1970 the Australian Ambassador to the Republic of China noted that 'Taiwan is not in the area in which our specific defence obligations to the Americans exist'. The terms of our recognition of China in 1972, and our national interests, prevent us from advocating an independent Taiwan.

Yet it does appear that in the 1990s Australia took a decision that it had a military obligation under the ANZUS Treaty in this most difficult of regional problems. I am not able to be specific about this, but my guess is that it was not the result of US arm-twisting a la Armitage, but was self-generating. If this is correct, it presumably arose out of our perennial fear that the US would prove weak and our habit of seeking to stiffen the resolve of 'great and powerful friends'. Old stereotypes of China, rekindled by the deplorable Tiananmen massacre in 1989, possibly played a part. If this is the explanation, the secret Australian decision was not justified at the time, since strategic ambiguity worked for the US, and it should not be regarded as binding.

Strategic ambiguity does not come easily for Australians, perhaps because we are a small power and feel we were its victims in WWII. However, whether by accident or design, we seem to have achieved it in the conflicting statements about our ANZUS obligations to Taiwan made by the Prime Minister and the Foreign Minister. The Lowy poll, which provides an interesting contrast with Gallup polls 50 years ago, indicates that the Prime Minister's stance lacks public support. No doubt China would prefer Australia to go one step further and to deny that ANZUS applies to Taiwan at all. However, it has shown that it can acquiesce in treaties with the US, and our best approach would seem to be to let sleeping dogs lie. We can only test whether this posture will help or hinder us in seeking through dialogue to avert disaster through miscalculation.

Accelerating multilateral cooperation

The phenomenon of China's rise has coincided with the growth of regional cooperation in which it has been most active over the last decade Australia has a long and excellent record of encouraging China in this direction. It would be a setback if Australia were not involved in the next step, East Asian Summitry. All that would seem to be required is that Australia should again show imaginativeness and flexibility, as over Taiwan, in going along with the normative changes that are emerging from growing regional understanding. Whether we have successfully met this simple but significant challenge will be known shortly.

1.6.05