

# How to train your dragon

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*Australia must accept our future will be tied to China and its role as the dominant nation in the region.*

In April, Kiron Skinner, until recently head of policy planning in the US State Department and a successor to the legendary George F. Kennan, architect of America's Cold War strategy of containment, described US relations with China as "a fight with a really different civilisation" and the "first time we will have a great power competitor that is not caucasian".

Her critics, understandably, piled on. Had she forgotten whose aircraft attacked Pearl Harbor? What did race have to do with great power competition? Didn't the Marxism-Leninism of the Chinese Communist Party emerge from Western roots?

But Skinner's comments were a revealing acknowledgment by a senior US policymaker of how China's distinctiveness is shaping Western responses to its rise. America has never faced a peer competitor such as this.

In Australia, fears of Asian difference shaped strategic and social policy for much of the 20th century. The White Australia policy was one of its dismal manifestations. And it was, indeed, a threat from Asia in 1942 that provided the biggest challenge of the nation's history.

My professional life began in a world in which anxiety about Chinese communist expansionism dominated foreign policy discussions and Australian diplomats in Asia could not speak to their Mao-suited Chinese counterparts, whose government we did not recognise until 1972.

But for 40 years now, since Deng Xiaoping began China's economic reforms and advised his country to "hide its capability and bide its time", Australia has sailed through magic decades in which, as our leaders regularly intoned, we did not have to choose between our prosperity and our security. John Howard could welcome the US and Chinese presidents to address the Australian parliament on successive days in 2003.

Those days have gone. And for Australia the sense of strangeness is growing.

We have never had to manage a relationship as important as the one we have with China, with a country so different in its language, culture, history and values. Nor one with an Asian state so confident and possessing so many dimensions of power. Japan may have been the world's second largest economy, but in strategic terms it was a client of the US.

Even at its current slower pace, China's gross domestic product is growing each year by roughly the equivalent of the entire Australian economy. Our government's own projections see it surpassing the US in total economic size (though not per capita income or comprehensive power) by the end of the next decade.

Under Xi Jinping's leadership, China has become less open and more tightly controlled. Aided by new technologies such as artificial intelligence, the party-state has tightened social control throughout the country, especially over groups such as the Muslim Uighur minority, which it deems a threat. China's foreign policy has become more assertive, displaying ambitions that challenge the established regional order. Its military forces have been reorganised and reformed. Defence spending rose by more than 80 per cent between 2009 and last year.

Australia's relationship with China has domestic as well as international dimensions. It affects our budget sustainability, foreign investment, the viability of our universities and social cohesion. More than 1.2 million Australians claim Chinese ancestry, and we have seen growing evidence of efforts by the People's Republic of China to influence Australian institutions and policy debates.

Canberra has become a more anxious town. Anyone who knows the place understands how quickly a sensible centrist consensus forms among the public servants, policy advisers, academics and think-tankers who make up the country's foreign policy establishment. That consensus can be wrong (see weapons of mass destruction in Iraq) but it has underpinned a system in which the serious fights were over bureaucratic resources rather than the policies to deal with the world.

China is testing the consensus. The debate is getting sharper. Commentators and analysts from the think tanks and universities are marshalling themselves into hostile camps. Those arguing for engagement with China risk being dismissed as agents of influence or naive tools of Beijing. On the other side, suspicions of security agency conspiracies run deep, reinforced by a pattern of leaks to journalists.

The business community mostly wants clarity in a situation that can't deliver it.

The challenge we face with China isn't having to choose between our economy and our security. It's more difficult than that. We have to find a path that enables us to protect and manage both. At the same time, the decisions are coming faster — whether to approve particular investment proposals; how to respond to the Belt and Road Initiative; what to do about challenges to maritime law in the South China Sea; how to react to demonstrations in Hong Kong.

At the core of these choices lies one basic question: can the ambitions of a growing China be reconciled with Australia's national interests and values? To answer that, we need to be as clear as we can about what China wants and about how we define our interests and values.

## The Chinese dream

What does China want? The "Chinese dream", Xi told the 19th Communist Party Congress, is one of national rejuvenation in an era "that sees China move close to the centre stage and making great contributions to mankind". China's goal is to become a state "with substantial global influence".

Xi and his colleagues emphasise the CCP's indispensability in achieving that dream, but the broad objective — a China moving beyond the humiliations of the 19th and 20th centuries to a place of influence commensurate with its history and culture — is one that a large majority of Chinese citizens share.

Like all large powers — like all countries — China wants to shape a world more conducive to its interests, one in which it can attain its objectives at a minimum cost. Beijing's frustrations with the constraints of some dimensions of the global order have become clear. With initiatives such as the Asian Infrastructure Investment Bank, it is building institutions that suit its interests and priorities. Ignoring international tribunal rulings, it has reinforced its control over disputed territories in the South China Sea and, contrary to Xi's promises, militarised islands it occupies there, as part of a broader effort to counter US military dominance in East Asia. Through the BRI, it is using its economic strength to deepen its influence over its neighbours and trade partners, and to mould new standards and norms.

It is stepping into areas Australia regards as within its own sphere of influence. "We are committed by inexorable circumstances to the doctrine 'Hands off the Pacific,'" declared the Australian prime minister — not Scott Morrison but Billy

Hughes — in 1919. Hughes had Japan rather than China in mind, but the idea that outside intrusions into the southwest Pacific represent a strategic threat has deep roots in our thinking about the world.

It is not surprising that China has shrugged off Deng's "hide and bide" advice. That was a useful policy for a weak state but it's hardly a plausible approach for the world's second largest economy.

Yet the pace of change in China sometimes can distort our perception of its scale. Claims such as those in last year's US National Defence Strategy — the Pentagon's first such blueprint since 2008 — that Beijing is seeking "Indo-Pacific regional hegemony in the near term and displacement of the United States to achieve global pre-eminence in the future" are overblown.

Discounting official Chinese pronouncements about the modesty of its national aims, and even accepting that world domination may be the secret desire of some People's Liberation Army generals and nationalist think-tankers, "near-term regional hegemony" in the Indo-Pacific (presumably meaning the swath of the world covered by the US Indo-Pacific Command) is an implausible ambition for the Beijing government. America's \$US733bn defence budget is still greater than those of the next eight countries in the world combined.

China faces significant challenges. These include an ageing population, problems of labour productivity, growing local government debt, environmental degradation and water shortages. Tens of millions of Chinese still live in poverty. To sustain its legitimacy in the face of these challenges, the CCP leadership is still more likely to see its interests served by a stable geopolitical and economic environment than by risky confrontation.

There is no blueprint for China's future. The ambitions of its government will be formed across time by the strength of its economy, the foresight and resolution of its leaders, the skill of its diplomacy and the responses of other states. Of those, none matters more than the US.

## **The lucky country**

The statistics about Australia's economic relations with China can seem eye-glazing.

Chinese demand accounts for 7 per cent of Australia's economy. Our two-way annual trade with China (\$230bn) is greater than the sum of our trade with

Japan, the US and India combined. Even excluding minerals and energy, Australia's exports to China have risen by \$36.8bn during the past decade, compared with \$9.86bn for Japan and the US combined.

The 1.3 million Chinese tourists who visited Australia last year were responsible for one-quarter of all foreign tourist expenditure here. Our universities and schools host 205,000 Chinese students. These students' spending alone adds almost as much to our economy each year as our total trade with Britain.

The China-Australia Free Trade Agreement, which entered into force in 2015, has dramatically boosted new areas of trade such as wine and dairy products.

Some commentators look at these figures and see an overdependence on the Chinese market, opening us up to coercive pressures, such as recent efforts to slow down Australian exports of coal and barley.

It's true that for any country — or any individual, for that matter — diversification is a sensible economic strategy. But the complementarity of the Australian and Chinese economies is broad and deep. From minerals and natural gas to horticultural products and sophisticated services, Australia is unusually well-placed to meet Chinese demand. Our exporters can, and should, look elsewhere, but no other potential partner — none — can offer Australia the scale and certainty of the Chinese market.

## **A question of values**

Our interests in China are clear enough, but what about our values, those beliefs fundamental to the way we define ourselves, whether as individuals or nations? Most of the discussion about values in relation to Australia and China focuses on those embedded in our political systems. Australia's liberal democracy, protecting individual rights and free speech under the rule of law, is very different from the authoritarian structure of a communist party-state, run along Leninist principles, in which the right to challenge the fundamental underpinnings of the system does not exist.

These differences matter, in part because they affect the level of trust between our two nations. But in international relations, values are seldom the sole determinant of government actions. They have to be weighed against interests, which often have a moral value of their own. A strong economy, for example, provides us with more opportunities to build a just society. And values cannot be disentangled from the arena of power.

China's capacity to assert its values and influence others is the reason values feature so much more prominently in our relationship with Beijing than with Vietnam, another authoritarian communist state.

But China is by no means unique. The world of liberal democracies is shrinking. Independent watchdog Freedom House has recorded 13 years of consecutive decline in political rights and civil liberties. Of all the countries in the East Asia Summit, only Australia and New Zealand rate as full democracies in The Economist Intelligence Unit's annual democracy survey.

Many governments with which Australia deals closely, from Vietnam and Thailand to the United Arab Emirates, have values different from ours. If Australia did not engage with such countries, our influence in the world would be minimal.

## **Out in the cold**

This has been a troubled period for relations between Australia and China. The reasons for this are not found in Australia's official policy position towards China. All Australian prime ministers since John Howard have explained that stance in some variation of these words by Malcolm Turnbull, spoken in June last year: "China will play a larger role in shaping the region. It is natural that Beijing will seek strategic influence to match its economic weight, but we want to see China build a leadership role it desires in a way which strengthens the regional order that has served us all so well."

There is a lot packed into that final phrase, but it's a solid foundation. Certainly, decisions such as the effective ban on Chinese vendors in the 5G telecommunications system and our reluctance to sign up to the BRI have upset China. A strong response was always likely. But the damage to the relationship has been magnified by the way Australian policymakers have explained and implemented those decisions.

Turnbull appropriated the purported words of Mao Zedong in saying that Australia had "stood up" to China, thereby framing a completely defensible policy directed against foreign interference in specifically Chinese terms. A government minister criticised China for building "roads to nowhere" in the South Pacific, simultaneously insulting Beijing and our Pacific neighbours. The 5G decision was trumpeted in press background as Australia's leadership of a "Five Eyes" campaign to move the world away from Chinese technology. Some media reports and commentary drew on the fevered language of "silent

invasions” of “citizen spies” from China, and “multi-spectrum” and “grey zone” threats.

The churn in Australia’s leadership, and displays of a hard line towards China for other political purposes, also didn’t help.

Chinese officials sometimes find it tactically useful to put Australia in its place by portraying us as a minor factotum dancing to America’s tune. But in this case the bragging about our role in the global pushback against Chinese power gave them an easier ride.

Chinese displeasure with all these developments came in unmistakable terms. Visits from ministers, and even officials, have been difficult to arrange and our diplomats in Beijing have found doors closed to them. No progress has been made in reviewing and expanding our free trade agreement. Overall trade volume has increased, but some exports, such as coal, have been slowed down or subjected to additional inspections. This paralysis is not inevitable, even in a relationship that will always include elements of disagreement. We can do better.

## **How to handle China**

We can’t know whether China will continue to grow or if deep social and economic problems lie ahead. But our uncertainty doesn’t change the fact there is no Australian future — sunlit or shadowed — in which China will not be central. We can’t engage blindly, without considering the risks and consequences.

But the rules we devise to protect ourselves should always follow the maxim “small yards with high walls”.

We need to be calm in the face of some of the hyperventilation and wilder claims about China. The PRC has become more authoritarian and hostile to dissent in recent years, but it is not the Orwellian dystopia portrayed in some Western commentary. Beijing is not taking over the developing world through debt-trap diplomacy. Its influence in the South Pacific is growing, but it is not supplanting Australian aid.

It is not remotely surprising that, as a “national security source” breathlessly told an Australian journalist recently, China’s spy satellites would “almost certainly” be monitoring Australia-US naval exercises off the Queensland coast.

China's use of economic coercion to advance its interests (as with its efforts to force South Korea to abandon the installation of a US ballistic missile defence system) has been largely unsuccessful so far. As we saw in the way it shifted its positions on the structure of the AIIB and the BRI, China, like all states, responds to the reactions of others.

Finally, we need confidence in ourselves and our values. History hasn't ended. If, as I believe and Australia's leaders affirm, individual freedom, representative systems and strong civil society organisations deliver better outcomes across time, then China will discover these things for itself — in its own way and in line with its own historical experience and cultural values — or its capacity to grow and to influence others will be self-limiting.

The Middle Kingdom is not returning. In international relations professor Nick Bisley's useful distinction, the broader Indo-Pacific is likely to be China-centred but not Sino-centric. In other words, China will be the most powerful state in the region but not unchallenged. There will be no contemporary version of the Qing dynasty tributary system. China's Asian neighbours — Japan, India, Indonesia — are too powerful and too deeply familiar with China for that to happen. The US may no longer be the regional hegemon but, Donald Trump notwithstanding, it will retain, in its own right and in concert with others, a powerful capacity to balance and influence outcomes in East Asia.

The US is not the only country whose relative power is slipping. In the early 1990s the Australian economy was larger than those of all the other countries of the Association of Southeast Asian Nations combined. By some measures, Indonesia's economy alone is now nearly three times the size of Australia's. That doesn't mean absolute decline, but it does mean we will have to work harder to assert our national influence.

The comforting familiarity of the post-World War II era has ended and the strangeness of our international environment, including China's centrality, is here to stay. Learning how to adjust to the strangeness and operate effectively within it is this generation's great national test.

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