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China in transition

an address to the Institute on 20 November 2012 by

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Hamish McDonald, who was attending an Australia-China '1.5 track' diplomatic dialogue in Beijing at the time China underwent decadal leadership change in November 2012, discusses what the new leadership regime may have in store for China and the Asia-Pacific Region. He also describes the irritants in the Australia-China relationship and what must be done to address them.

Key words: China; leadership transition; 1.5 track diplomatic dialogue; Australia-China relations.

It is a great honour to be invited back here again. It is a happy coincidence that I was in Beijing only last week, so I can bring you a little bit of the colour associated with the leadership transition that occurred in China while I was there.

The 1.5 Track Diplomatic Dialogue

I was in China as part of the Australian delegation to what is called a 1.5 track diplomatic dialogue². This dialogue was started by Kevin Rudd last year when he was foreign minister to try to put a bit more warmth into the relationship with China and to open possible avenues to broaden that relationship.

To that end this year, the Australian side assembled ten people from officialdom, academia, business, the media and one or two other walks of life. The Chinese put together a counterpart group rather more heavily dominated by their foreign policy establishment – very heavy on retired ambassadors and people associated with the institutes under their Ministry of Foreign Affairs.

We met under the Chatham House Rule, with the aim of encouraging frank speaking and off-the-cuff suggestions and without anyone being held to account. This worked rather better with the Australian side. However, we all spoke more freely this time. The Chinese last year were very constrained and tended to deliver very polished, established policy presentations. This year they did open up more, but they still have a long way to go.

The actual day of dialogue, 15 November 2012, coincided with the announcement of the new Politburo standing committee of the Communist Party. We wondered why they had scheduled our talks on this day when China was transfixed by who the leaders for the next ten years were going to be. We also wondered whether there was an additional coincidence in that, also taking place concurrently, were the AUSMIN³ talks

in Perth, with the American secretaries of state and defence talking to our foreign and defence ministers. So we wondered if we were being pawns in a bigger diplomatic game, but possibly it was just that the dates were set a long time back and the convergence of the big events occurred later when it was too late to change the date of our meeting.

Anyway, the result was that we started off the programme at 8.30 a.m. When the new Politburo standing committee was scheduled to walk into the Great Hall of the People, we broke off our talks and gathered in a smaller room with a TV set. It was a fascinating moment, almost like being invited to a family gathering when some important announcement was being made, like an engagement. It was quite an intimate moment for the Chinese, having us foreigners there while they learned who their leaders would be. Our delegation leader, Gareth Evans, the former foreign minister, said that the only comparison that came to him was when Bob Hawke held the inaugural APEC⁴ meeting in Australia in November 1989, which happened to be on the first Tuesday in November. Precisely at 3 o'clock, he suspended proceedings, turned on the TV and made everyone watch the Melbourne Cup – much to the bemusement I am sure of many of the other member countries, except perhaps the Malaysians (they like a punt on the horses).

China's New Leadership

Political reform

The line-up of the Politburo did not throw up any outsiders and the two top positions of party secretary-general and the premier-designate went to the people who had been long-groomed for those offices, *i.e.* Xi Jinping as the party chief and Li Keqiang as the premier-designate. So Mr Xi will be the chief of the Communist Party and will become the president of China next March at their parliamentary formalities and

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²A 1.5 track diplomatic dialogue is a semi-official dialogue. It is more official than a 2nd track dialogue.

³AUSMIN (Australia United States Ministerial) is the principal forum for bilateral consultations between Australia and the United States. It is held annually.

⁴APEC (Asia-Pacific Economic Co-operation) is the primary vehicle for promoting open trade and practical economic cooperation in the Asia-Pacific Region.

Mr Li will become the premier. The other five members of the standing committee are rather less exciting. They are all a little older, in their late 60s, and rather conservative types – no one is expecting much by way of radical proposals from them.

The two new ones have a lot resting on their shoulders. People in China are hoping for a lot of reform. People are fed up with the level of corruption and nepotism and are looking for changes. The new secretary-general of the Party seemed to be aware of that when he gave his opening remarks on television. He completely abandoned any attempt at Marxist-Leninist ideology and made no reference to Mao Tse-tung – unlike his predecessors who always tried to put their own ideological line on things. He just went straight to the point and said China had just got to:

- a. get the best prosperity and welfare possible and handle people's livelihood issues;
- b. tackle corruption and undue formality and bureaucracy; and
- c. learn about the world and the world had to learn about China.

So there were three important messages there that, taken together, were a post-ideological one, which is encouraging.

The question is how much will they be able to do about these objectives? How far can they advance without changing the structure of party dictatorship which is at the root of the use of power? As I mentioned, the standing committee is stacked with conservatives who are probably loath to change anything. Even the initial step of requiring officials to register their personal assets has been talked about as a seven-year programme, with a pilot project to begin with and then the programme coming in gradually – which means that most of this leadership's ten years in power will be over by the time it is fully installed.

Just before this meeting of the Communist Party we had rather damaging revelations about how the families and personal circles of the top leaders had become enriched at the time their relatives were in senior positions. Mr Xi, the new secretary of the party, although he and his immediate family are not involved in any business, his siblings and other relatives, according to Bloomberg, built up commercial assets of about \$800 million. And the present premier, Wen Jiabao, who is retiring in March, has just been accused by *The New York Times* of having a family circle, including his wife and son, that has \$2.7 billion of business assets, which is getting too close for comfort, as a Chinese gentleman is supposed to be responsible for his wife's and children's behaviour.



Xi Jinping
[Photo: Wikipedia Commons]



Li Keqiang
[Photo: Wikipedia Commons]

So that has been damaging. Although the websites of these foreign outlets were blocked immediately, the Chinese internet community and its twitter community have plenty of ways of getting around this, either using code words and oblique references, or using various means to get around the internet firewalls that the Chinese authorities put up. So there is great cynicism and yet hope, but not a great expectation, that much will be done by the Communist Party to reform itself.

Most of the speeches referring to political reform by senior figures claimed that a switch to what they call Western-style competitive democracy and elections would be completely inappropriate for China. However, as a Chinese friend of mine who is a teacher at a state institute said to me last week, there is the example of Taiwan sitting close by, a Chinese society that moved away from dictatorship in 1987-89, when Chiang Kai-shek's son decided to abandon the Kuomintang (KMP) monopoly on power, and since then it has been a very vibrant system with power sifting away from the KMP and back to the KMP through regular elections. So that is a democracy with Chinese characteristics if China wants to pursue that.

Some other Chinese academics look to the Singapore model as a way of being democratic without losing power, given that the People's Action Party, set up by Lee Kuan Yew, has ruled the place since 1959 without a break. However, even Singapore is starting to free up and the recent election results showed that it is becoming a much more contested democracy than it ever was.

Economic change

While the outlook probably is not for a great deal of significant reform at the political level, China is going through some quite significant structural changes. One is that the demographic impact of the one-child policy is really setting in now and you have a rapidly ageing society and a shrinking number of new entrants coming into the workforce. There is no longer a ready supply of young workers prepared to work for low wages in factory zones far away from home. The younger Chinese are becoming a lot choosier and business is having to relocate to the inland areas to get closer to labour. But, even so, the pressure of the tighter labour supply situation has forced wages up quite dramatically and the economics of the 'sweat-shop' economy are changing very rapidly for exporters. As a consequence, China is being forced into an upgrade of its skill and product levels. The effect of recession in North America and Europe is also going to damage that export model.

Consequently, there is large pressure to stimulate domestic demand, which will mean empowering many

more Chinese individuals, encouraging them to spend more and demand more services – health, pensions, welfare, holidays, whatever. To do that, they will need to be given much more control over their own money. The Chinese save something like 50 per cent of their income, but have very few avenues, apart from the state bank, in which to invest it. And that has been giving official China a ready source of cheap finance for its lavish projects – infrastructure, airports, big offices for the government and Communist Party, and a very large defence budget, growing at 11 per cent a year on average.

The outlook, therefore, for China is probably of a slowing economy. The people may find they are being taken for granted, so they may become more assertive of their rights, as awareness grows that individual rights really have no certainty, and property rights are being over-ridden by land grants and redevelopments. One can see a ten-year outlook where China is starting to 'hit the wall' of many of the methods of growth that have given them such a brilliant 20 years up to now. You can see slowing growth, more cynicism and a leadership constricted by internal power plays within the Communist Party, yet very much aware that it has to do something.

Resurgent nationalism

The possible outlet for that, however, could be even more dangerous ramping up of the nationalism than we have seen for some years now. It has flowered in a rather ugly form again this year in the dispute with the Japanese, the traditional 'whipping boy' of the Chinese nationalists, over the disputed islands called Diaoyu in Chinese and Senkaku in Japanese.

This dispute has been a regular thing, with every summer a few boatloads of hotheads setting off from China, trying to land on the islands and being thrown off by the Japanese coast guard. This year it has gone on a lot more. Activists from the mainland, Hong Kong and Taiwan headed into the islands in a kind of competitive Chinese patriotism; and patrol ships from both Taiwan and the mainland entered waters that Japan claims to be its own territorial sea – and, of course, the islands are under Japanese control. It is a very volatile situation that has led to rioting back in China with attacks on Japanese businesses and a fair degree of tolerance by the police of these riots. The Japanese ambassador's car was not protected and was allowed to be attacked by a crowd in Beijing. I was told that the guards outside the American embassy refused to allow the American ambassador to enter by his usual back gate and made him go around the front through this crowd, whereupon his car was rocked and jostled as well. So it was an ugly scene there; and a rather bad omen for the year to come should the Chinese authorities decide that this kind of external aggravation is a good diversion from domestic pressures.

One possible explanation is that it has happened in the run-up to the leadership change and that there may

have been some competitive posturing among leaders that might die away now that the leadership is settled. We will have to wait and see on that.

Xi Jinping's power grab

One other aspect of the leadership change that was a bit of a surprise was that Xi Jinping, the Party secretary, was immediately given the chairmanship of the central military commission, instead of a more delayed transfer as happened with his predecessor. That is a very decisive grab of the main levers of power by Xi. It gives him control of the Communist Party apparatus and of the People's Liberation Army, which is under the Party, not under the State – it is a military that is loyal to the Communist Party of China. How he will wield this power we do not know. It will be very interesting to see whether this leads to a more assertive use of military-strategic power by China or whether this leader will seek to bring it back and integrate it more into a broader economic and political strategy as it had been for a long time under the pattern set by Deng Xiaoping in 1978. Until recently, China has really followed his motto of biding its time, allowing its economic power to grow while steadily modernising, and not taking any steps that would seriously challenge the world order or cause undue friction. We are now at a point where that scenario may be breaking down a bit. The crucial sign will probably come next northern summer when we will probably have a new conservative government back in power in Japan with a very nationalistic prime minister, Taro Aso, expected to be re-elected in December 2012, and there may be another confrontation over the disputed islands if China wants to make one. That will be a big thing to watch for in 2013.

Australia-China Bilateral Relations

For Australia, the message we got was that the Chinese see us as one of the top ten countries that they regard as important to their national interests and as a country of wider influence beyond the bilateral relationship and our size.

Irritants in the relationship

The Chinese are irked by three or four things, one of which is the stationing of United States marines in Darwin – a slap in the face for them. They see it as aimed at China and probably quite rightly so, whatever the Americans and our people say about it. It has great symbolic value far beyond the six-monthly rotation of 2500 marines in a country that is quite a distance from China. We had speaker after speaker revive the 'deputy sheriff' comment that was pinned on John Howard during an interview. There was concern that there was some kind of return to the cold war strategies of containment and exclusion that the Australian side was at pains to say was not part of our policy.

There was also some mention of Hugh White's book, *The China Choice*, about the balance between Chinese

and American power in the Pacific. One of our speakers sagely pointed out that the China choice meant by Hugh White was not a choice for Australia so much – he was not saying that we have to make a choice between the United States and China – he is saying that it is a choice for America how much power to share or cede to the Chinese over the course of this century if the relative balance of power continues to change as it has in the last few years.

Another thing that worries the Chinese is the foreign investment climate here. The sensitivity about investment by their state-owned enterprises, which tend to be most of their companies operating abroad in a big way, and particularly the exclusion of their telecommunications company, Huawei, from tendering for the national broadband network. Huawei still has all kinds of high-level lobbyists working on their behalf. They have Alexander Downer on their local board, as well as a former premier of Victoria and a former Royal Australian Navy admiral. Yet it was something that people found hard to argue about seeing that the exclusion came on the recommendation of our intelligence agencies. As several of our speakers pointed out, it would have been unthinkable for Australian or American companies to have been given a comparable part of China's digital backbone network. So there was a bit of a stand-off there.

There is also impatience with our cost-base here and our labour shortages, particularly in skilled areas. This was expressed in something of a crude (although not rude), rather uninformed way, as if we were some kind of African country that should let them bring in their own labour to build the projects they wanted.

Clouds over the relationship

We left with the feeling that the relationship sat under a couple of potential clouds. Although the relationship goes back a long way to 1972, and has had periods of deep engagement since, it is now at risk of becoming rather less friendly. One sign is the perception of a cold war atmosphere growing. A second sign is more anecdotal – some of our academics found a feeling among young Chinese that Australia was only interested in China for the money that could be made out of trade.

A third sign was an apparent lack of rapport among the top leaders, which was compared quite unfavourably with the warm relationship that we had back in the 1980s when Bob Hawke, Zhao Ziyang and Hu Yaobang were quite close. Our ambassador at that time, Ross Garnaut, was a very important source of economic advice to the Chinese leaders. The last 15 years or so have seen rather more formal engagement between leaders who really did not have the personality or depth of experience, on either side, to form that kind of constructive relationship. This might have been possible when Kevin Rudd was prime minister, but there is a general feeling that he blew it with the Chinese by trying to be a bit too clever all the time and

show off his Chinese knowledge. He really upset people in China, particularly the top leadership, with his remarks about human rights and showing off his grasp of Chinese cultural history, language and so on.

Recommendations

So out of that came a few recommendations. We should try to broaden the relationship and put in a few shock-absorbers into Australia-China relations.

One shock-absorber would be to pursue the aims of the recent white paper on Australia in the Asian century by encouraging more knowledge of China, among other countries, in our school-children. This could be facilitated by spreading language studies, encouraging partnerships between Australian and Chinese schools and exchanging teachers to speed up that process. The government here, however, has not allocated any more funds to the white paper's objectives and, given the emphasis on budget surpluses, it does not look like much will be put aside for this initiative.

Another shock-absorber would be to make much more use of the Chinese immigrant population in Australia, which now numbers 670,000 people of Chinese descent – 2.9 per cent of our population. That is a large number and, by-and-large, it is not a presence which is creating much of a backlash. If anything, it is widely seen as a positive addition. It is a great resource for trade and for education; and also to give feedback to their relatives in China if things flare up, *e.g.* to say that things are not so bad; or that people generally are not racist. It is a good cushion.

The same thing happened with the Indian population here when we had a string of attacks on Indian students a few years back. The Indian media went a bit crazy, saying it was the 'white Australia policy' all over again. Against this, we had 300,000 Indian settlers here being quoted in the Indian media as saying that these were isolated cases and were not necessarily racist but more opportunistic crimes. It was a good safety net.

That kind of broad contact is going to be very necessary because we are seeing the way in which reaction and counter-reaction and provocation and retaliation can be speeded up in this era. Just a few months ago, we saw a horrible case when a video made in the United States attacking Islam was posted on YouTube. It went around the Arab world and resulted in attacks on embassies, loss of life and serious disruption. There is a potential for similar kinds of viral internet, SMS, and/or YouTube rumours, insults and jokes that go wrong, to set off widespread popular reaction. These often leave governments hopping to try to placate 'the streets'. It is important to have a very broad, healthy exchange of views and knowledge with countries with which misunderstandings could easily happen.

Interlinks with Other Countries in the Region

There are many other aspects of China's rise that interlink with other countries in the region. The

American 'pivot', or rebalancing, to Asia also affects other allies in South-East Asia. Singapore, the Philippines and Thailand are accepting more American warship visits and the stationing on shore of some American defence assets. India is continuing to build its defence relationship with America and separately with us. So you have a region that is very rapidly rethinking itself. It is not a passive one.

You have some very strong economies growing. Indonesia has experienced strong growth for several years now and is developing quite a middle-class. It is becoming a strategic anchor on its own. India is going through a wobble but is likely to pull out of that again. Burma, over the last year, has come very decisively out of the Chinese orbit and now, with Barack Obama visiting, it is becoming much more balanced in its relationships and is opening up to the West.

Conclusion

So, an intriguing, if rapidly moving, strategic picture is emerging in our region, one in which Australia has a lot to do. The more that we appear to be engaged the better – not because we want to be part of any American strategic power-play, not because we want to make money out of it, not because we are scared; but because we are here, because we have a lot in common and have a lot to offer, and because we hope to get a lot from our foreign partnerships. This would stand us in good stead with the region; and would really contribute to a much more stable and secure neighbourhood.

This would require a strong Australian defence force, one into which we are putting our own resources, our own thinking and attuned to our own needs.

We could do with a lot more diplomacy. Our foreign affairs department has drastically shrunken, trimmed down by years of budget cutting. We need more diplomats on the ground.

We need more intelligence – not of a secret military type, but more open-source intelligence, which would certainly involve the intelligence agencies, but also other arms of government, academia and the media, where knowledge of our region was given a lot more importance. If we were to put the necessary resources into developing this capability, it would make Australia a much stronger and respected country.

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Economic Review. He is also the author of five political commentaries on India and Indonesia, books that made him disliked by the powerful. He has twice won Walkley Awards; and a report of his on Burma has been read into the record of the United States Congress. He was made an inaugural fellow of the Australian Institute of International Affairs in 2008. This is his third⁵ article for

⁵His earlier articles were: Hamish McDonald (2007). 2006 in review. *United Service* 58 (1, March), 9 – 16; and Hamish McDonald (2011). The global security outlook: four Australian perspectives – perspective one. *United Service* 62 (3, September), 21 – 22.