

Executive summary and recommendations

This report, the second in the committee's inquiry into Australia's relationship with China, examines the factors shaping China's foreign policy and the way in which other countries are adjusting to China's emergence and the implications for Australia.

China's foreign policy: influences, style and responses

China openly acknowledges that its diplomacy must serve its economic development. Chinese leaders espouse a foreign policy that places high importance on global stability, friendly and cooperative relations and good neighbourliness. It is deliberately cultivating special relations with countries rich in the natural resources it needs to continue economic development and is presenting itself to its citizens and the outside world as an advocate for global peace. It wants to reassure the world that its 'peaceful rise' does not pose a threat.

Although China's foreign policy is designed to show China's friendly face to the rest of the world, fears about its future intentions persist. Some, especially those with important economic links with China, such as Australia, are keen to strengthen their diplomatic relations but are aware that the relationship is not risk free. The report examines how China's 'good neighbour' policy manifests itself in China's relationships with other countries and how this in turn affects Australia.

ASEAN countries

China's emergence as a major economic and political force is having a profound influence on its neighbours in East Asia. The strength of the Chinese economy and its potential economic power in the future has contributed to China's capacity to exert a greater political influence in the region.

Although China is at pains to stress its opposition to hegemony, power politics, and terrorism in all its manifestations, it has a major challenge in allaying fears that more ambitious and selfish motives underpin its 'peaceful development'.¹ It accepts that some harbour suspicions about its intentions. China, however, is attempting to dispel fears about its growing influence in the region through both bilateral and multilateral means.

China now participates—often taking the lead—in a number of multilateral fora on economic and security issues. Most notably these include China as an ASEAN dialogue partner, the ASEAN+3 grouping (ASEAN plus China, Japan and South

1 Part VII, *Report on the Work of the Government* delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 15 March 2005.

Korea),² the ASEAN Regional Forum (ARF), the Asia-Pacific Economic Cooperation (APEC) forum and, most recently, the East Asia Summit (EAS).

The committee recognises the significant role that APEC has in the region not only in facilitating trade but in promoting regional cooperation, good will and security. That said, the committee also recognises the work being done in other regional fora such as ASEAN, the ARF and the EAS. It believes that they also have an important place in developing a sense of regional community and warrant the strongest support from Australia.

Recommendation 1

3.90 The committee recommends that the Australian government demonstrate to East Asian countries a genuine interest in and support for ASEAN and the ARF, redouble its efforts to reinvigorate APEC and remain fully engaged with the East Asia Summit. The committee believes that the Australian government should look upon these fora as complementary.

The United States

At the bilateral level, Sino-U.S. political relations have been tested over specific issues such as the political status of Taiwan, democratisation and human rights abuses, as well as broader strategic questions. In particular China's trade regulations, especially intellectual property violations, and international energy trade are major sources of frustration for the U.S. China's preparedness to strike energy deals with countries deemed to be 'rogue states' by the U.S. is a serious difference between the two countries.

If Australia is to develop constructive ties with the U.S. and China concurrently, cordial and constructive relations between them are clearly important. Fundamentally, this depends on the U.S.' strategy towards its emerging Asian competitor and China's own behaviour.³ There has been some suggestion that Australia can play an important role as a mediator between China and the U.S.⁴ However, the committee argues that this would place Australia in a potentially awkward diplomatic position. It believes that Australia, as a friend to both countries, should encourage them, in pursuing their own interests, to place the highest priority on contributing to the stability and prosperity of the region as a whole.

2 The ten member countries of ASEAN are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand and Vietnam.

3 Alan Gyngell, 'Living with the giants', *Time Asia*, 25 April 2005.

4 William Tow, 'Stand by your mate', *The Diplomat*, Oct/Nov 2004, p. 25. See transcript of joint press conference between Prime Minister Howard and President Bush, Washington DC, 19 July 2005. See also text of speech by Chinese President Hu Jintao to Australian Parliament 24 October 2003.

For many decades the United States has taken an active interest in maintaining a secure environment in East Asia.⁵ The committee found, however, that the U.S.' commitment to the region—as distinct from its own narrower strategic pursuits—appears to fall short in comparison to China's. A number of analysts have compared China's growing sophistication and skill in its foreign diplomacy in the region with the apparent lack of attention by the U.S.

Indeed, a number of witnesses to the inquiry raised concerns about the United States' lack of engagement in the region, particularly in light of its exclusion from the East Asia Summit.

The committee believes that Australia must do its utmost to encourage the United States to remain constructively engaged in the region. While the committee stresses the important role that the United States has in APEC, it believes that Australia should also encourage the United States to demonstrate its support for the broader objectives of ASEAN—including the ARF—and to build a more visible and credible presence in the region.

Recommendation 2

5.26 The Australia government, through its good relations with the United States, encourage the United States to use its influence more effectively in the region, and in so doing, to improve its relationship with ASEAN and its member countries.

China's modern militarisation

The committee recognises that as China's economy grows, the Chinese authorities will seek to update the capabilities of the People's Liberation Army. China's growing investment in military capability, however, has attracted a great deal of attention from its neighbours and those concerned about regional security. Some view the modernisation of China's military as a threat to regional stability, while others note that the improvements in China's overall military capability needs to be set against the very low-technology starting point of China's armed forces.⁶

Transparency from the Chinese government, or a perceived lack thereof, with regard to the scope and intent of China's ongoing military modernisation was a major issue raised during the course of this inquiry. The uncertainty about China's military budget and the capability of its forces creates an atmosphere of mistrust and conjecture. Any

5 See for example statement by Acting Assistant Secretary of State for East Asian and Pacific Affairs, Rust Deming, Washington File, EPF307 03/08/00, Text: State Official Deming, 8 March on Asia–Pacific Security Issues. He stated: 'Our interest in maintaining a secure environment to allow economies to develop, trade to grow, and democracy to spread has not diminished...in fact the American strategic, political, and economic stake in East Asia has only increased'.

6 Frank W Moore, Institute for Defense and Disarmament Studies, 'China's Military Capabilities', June 2000, <http://www.comw.org/cmp/fulltext/addschina.html> (accessed on 27 October 2005).

steps taken by China to make its reports on military spending and capability more informative, accurate and comprehensive will at least remove the tendency for other countries to indulge in speculation.

As a political force, Australia has little if any influence over China's overall defence policy or over how the U.S. will respond to what it believes are military developments in China. That is not to say that Australia cannot take a constructive role in helping China to further open up its military activities to greater scrutiny, to encourage China and the United States to improve the level of trust between them and to assist to create a climate in the region where countries work together toward a safe and secure environment.

The committee believes that Australia has an important role in encouraging both countries to work together to create an atmosphere that supports open discussions about military and strategic planning in the region.

Recommendation 3

6.80 The committee recommends that the Australia government work with countries, which have a common interest in regional stability and security, in the ARF, APEC and EAS to promote confidence building measures, such as increased transparency in reporting on military spending and capability, that will contribute to greater regional stability.

The committee notes China's increasing importance as a dialogue partner on strategic and defence issues and the growth in the defence relationship with Australia in recent years.

Recommendation 4

6.88 The committee recommends that the Australian government use its good relationship with China, and its defence links in particular, to encourage China to be more open and transparent on matters related to its military modernisation such as its objectives, capability, and defence budget.

Recommendation 5

6.95 The committee notes the suggestions by Professor Tow and Mr Jennings for a regional arms control agreement and recommends that the Australian government work with like minded countries in the region to promote such an agreement.

Taiwan

China's diplomatic relations with Taiwan are of major significance to the region. From China's perspective, Taiwan's reunification with the mainland represents a key foreign policy goal. Taiwan, however, is resisting reunification.

Both the U.S. and Australia support a continuance of what is regularly referred to as the cross-strait 'status quo' until a peaceful resolution to reunification can be found.

Essentially, the status quo refers to a bundle of commitments between China, Taiwan and the U.S. to ensure peaceful relations across the Taiwan Strait. Central to this status quo is China's undertaking to pursue reunification peacefully and Taiwan's acceptance of its present, uncertain political status.⁷

Although an immediate threat of military conflict across the strait appears unlikely, Taiwan's demonstration of its political autonomy, as well as China's continued assertions that anything other than reunification remains unacceptable has strained the status quo.

The committee believes that the cross-strait status quo can be maintained and that military conflict is unlikely. The sheer cost—economic and humanitarian—of a military confrontation is the strongest case for all parties to chart a cautious, peaceful path. A confrontation between China and the U.S. would polarise the Asia–Pacific and threaten military escalation.⁸ The committee agrees with the Australian government that it is not useful to speculate on hypothetical situations involving Australia's response to conflict between China and Taiwan especially where the U.S. may intervene and the ANZUS Treaty may be invoked.

Japan

The committee recognises that China and Japan are two countries naturally positioned to exert great influence in East Asia. Therefore, a cooperative and peaceful Sino-Japanese relationship is vital for the stability of the region. Their relationship also has a direct bearing on Australia's interests in the region. China is fast becoming one of Australia's major trading allies with political and cultural ties also strengthening. Japan is one of Australia's most important and long-standing partners in the region with not only close economic links, but shared strategic interests in the region. Australia would therefore like to see both countries maintain friendly relations.

There are, however, some deep seated disagreements between them which flare up from time to time, giving rise to acrimonious outbursts and a failure to support each other. The committee supports Australia's current stand that the arguments are between China and Japan and that it should not interfere. Even so, the committee believes that Australia has a role in encouraging both countries to engage actively in regional fora where they can meet and discuss matters in an environment conducive to the resolution of problems.

The committee further notes that Australia is committed to participate in a ministerial-level trilateral security dialogue with Japan and the U.S. Talks were held in March 2006. It believes that the trilateral discussions should maintain their original broad focus on regional and global security issues and definitely not adopt a stance that

7 Malcolm Cook and Craig Meer, *Balancing act: Taiwan's cross-strait challenge*, Lowy Institute Paper 06, p. 4.

8 Peter Jennings, 'Australia's Chinese challenge', *Australian Financial Review*, 7 October 2005, p. 11.

could be interpreted by other East Asian countries, especially China, as a move to contain China's influence. It suggests that the three countries in the dialogue should be careful to ensure that their discussions are aimed at involving China as an important partner in securing regional stability.

The North Korean nuclear issue

The North Korean nuclear issue has demonstrated China's skill and persistence in bringing the U.S. and North Korea to the negotiating table and finding common ground. Between August 2003 and November 2005, China's decisive involvement in hosting five successive rounds of Six-Party talks 'significantly departed from its traditionally low-profile diplomacy in Korean peninsula affairs'.⁹ The U.S. had urged China to play a mediating role in its neighbour's disarmament, although China differed from the U.S. over the nature and character of the problems that North Korea poses. Indeed, while the committee acknowledges China's important role in the talks to date, it emphasises that Beijing's principal concern is not to rival the U.S. but to ensure its own internal stability. It is for this reason that China has remained opposed to the use of sanctions against North Korea and encourages two-way trade and bilateral economic cooperation.¹⁰

It was not until the fourth round of talks, in July 2005, that real progress was made through China's drafting of principles for ending North Korea's nuclear weapons program. The chief U.S. envoy to the talks, Mr Christopher Hill, noted: 'we give a lot of credit to the Chinese for putting this all together'.¹¹ It led to the September 2005 Joint Statement that established six principles, including a commitment from North Korea to abandon all nuclear weapons. In return, the other parties would discuss, 'at an appropriate time', the provision of a light-water reactor to Pyongyang. However, the sequence of concessions was the stumbling block with North Korea maintaining that its commitment to disarmament depended on initial receipt of a light-water reactor. A further round of Six-Party talks in November 2005 established Pyongyang's preferred five-stage strategy for disarmament, although the sequence of concessions is again likely to see this plan fail. The committee expresses particular concern at North Korea's December 2005 decision to end the World Food Programme's (WFP) emergency distribution programs and restrict the number of WFP staff and monitoring visits.

Recommendation 6

9.56 The committee recommends that the Australian government continue its efforts to encourage North Korea to abandon its nuclear weapons program and

9 Anne Wu, 'What China whispers to North Korea', *The Washington Quarterly*, vol. 28, no. 2, p. 36.

10 Department of Policy Planning, Ministry of Foreign Affairs, People's Republic of China, *China's Foreign Affairs 2005*, World Affairs Press, 2005, p. 137.

11 Christopher Hill, Transcript, 'Hill reports "encouraging signs" at the Six Party talks', *Washington File*, 29 July 2005.

resume full receipt of international aid. It notes the success of China's efforts to date in the Six-Party process and urges the Australian government to continue supporting China in its efforts to broker and implement a strategy for disarmament.

The Southwest Pacific

China has formed diplomatic relations with a number of island states in the Southwest Pacific. Likewise Taiwan has established formal political ties with countries in the region. Among some Pacific Island nations, competition between China and Taiwan for diplomatic recognition has, on occasion, appeared to take on the characteristics of a bidding war, conducted mainly through bilateral 'aid' payments.

The committee remains concerned at the effects that this rivalry is having on the countries in the Southwest Pacific. It notes that being relatively poor and tending to lack the appropriate institutional mechanisms to ensure political and bureaucratic accountability, many Pacific islands are vulnerable to financial influence and corruption.

The committee accepts that each country in the Southwest Pacific has the primary responsibility for its economic and social development but that countries providing development assistance should ensure that their aid contributes to sustainable development. The OECD Development Assistance Committee has formulated guidelines to assist donor countries and the recipients of development assistance. Adherence to these guidelines would ensure the correct, proper and most efficient use of such assistance.

The committee acknowledges the positive and active role that China is taking in the Post Forum Dialogue. Its level of interest and engagement underscores the need for Australia to ensure that it remains focused on the activities of the Pacific Islands Forum and attentive to its goals and aspirations.

Recommendation 7

10.63 The committee recommends that the Prime Minister of Australia place the highest priority on attending all Pacific Forum Meetings.

10.64 The committee recommends that the Australian government, through the Pacific Islands Forum, encourage members to endorse the OECD principles on official development assistance.

10.65 The committee recommends that the Australian government, through the Post Pacific Islands Forum, encourage China to adopt, and adhere to, the OECD principles on official development assistance for the islands of the Southwest Pacific.

10.66 The committee recommends that Taiwan should also be encouraged to adhere to the OECD principles on official development assistance for the islands of the Southwest Pacific.

10.67 The committee recommends further that Australia work closely with China to encourage both countries to enter joint ventures designed to assist the development of the island states of the Southwest Pacific.

Australia

Despite diplomatic efforts to remain on friendly terms with China, there are circumstances where Australia may be placed in a situation requiring choices involving competing interests. Indeed, many analysts have noted that Australia has a difficult task in plotting a careful diplomatic course that would avoid any confrontation with China while remaining on good terms with a major regional partner who may be in dispute with China.

The committee believes that Australia must maintain its current position of presenting itself as an independent country whose abiding interest is in ensuring that the region as a whole remains politically stable and secure. It recognises that a cooperative Sino–U.S. relationship is crucial to Australia's own interests in the region, particularly with respect to the U.S.' regional security presence and China's economic opportunities. It believes that Australia, as a friend to both countries, should encourage them, in pursuing their own interests, to place the highest priority on contributing to the stability and prosperity of the region as a whole. The committee again underlines the important role that multilateral fora have in creating an environment conducive to cooperative and friendly relations that take account of the interests of the region as well as of individual countries.

The committee believes that Australia must continue to participate actively in regional fora and encourage other countries, especially the U.S., to demonstrate its support for the broader objectives of ASEAN, including the ARF.

The committee welcomes initiatives such as that taken by the ANU in arranging a workshop on reconciliation between China and Japan that includes both Chinese and Japanese academics. It believes that the government should lend strong support to Australian institutions using their resources to bring together colleagues from the region to discuss problems such as disagreements between regional neighbours.

Recommendation 8

11.38 The committee recommends that the Australian government support Australian institutions that are using their initiative and resources to bring together colleagues from the region to discuss means to reconcile differences that exist between countries such as those currently between China and Japan.

The committee also believes that Australia needs skilled and well trained analysts, with a thorough understanding of China's security priorities and the complexities of relationships in the region, to advise government on foreign policy. In light of the importance of East Asia to Australia and the rapid and complex changes taking place in the region, the committee makes the following recommendation.

Recommendation 9

11.55 The committee recommends that the Australian Government:

- **place a high priority on building-up a pool of highly trained, skilled and experienced analysts specialised in East Asian affairs, and**
- **review the incentives it now has in place to attract and train highly skilled strategic analysts to ensure that Australia's current and future needs for such trained people will be met.**

