

Learning to Live with China
Stern Hu, Kevin Rudd, Governance and China Policy
....what China Policy?

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The title I suggested for this talk a couple of weeks ago seems more apt now even than I thought then. Because the question I want to discuss is not so much China as how Australia is managing itself, how the government is managing our interests, faced with a Chinese Super Power right here in our immediate habitat. Whether we think China is or will be more of a friend and partner or more hostile and overbearing, the question is the same. And there's much resting on the quality of official policy and the people who run it.

There's plenty of quality in the Rudd government. Across most domestic and foreign policy domains it is patently better than its predecessor including in some key areas of foreign policy like commitment to multilateral institutions, human rights and participation by non-Western countries in global forums. And its instincts and values return Australian government after a ten-year retrogression to the values which in the half century from the end of World War II and with bipartisan commitment developed Australia into a tolerant, multi-ethnic and cosmopolitan society domestically and a respected contributor internationally.

Then how on earth did we get to where we are now with China? Many Australians who have spent a lot of their professional lives working for

closer relations with Asia and for what they call ‘an Asia-literate’ Australia find themselves looking at a puzzle. They have wanted to believe that Kevin Rudd – the first Australian prime minister who can claim to be Asia-literate can really make this work for Australia in Asia, particularly on China. They have wanted to believe that he can build the quality of our dialogue with China and the management of relations, and weave a strong narrative about how we are going to live with this complex giant. A narrative explicable to the Australian public, and understandable and consistent to Beijing.

And the puzzle is that whatever the idea Kevin Rudd may have in his mind, and whatever good moves the government may have made that do or don’t make the news, the narrative is missing. The Prime Minister’s Asia-region initiative, for example, is not a narrative of our future with Asia repeated and explained and elaborated so that it becomes a story everyone understands. And therefore it remains questioned among our foreign policy community and almost unknown to the wider public. His strong support for the equal participation of Asian countries in global financial solutions is seen more in isolation than in the Australia-Asia context. And the several episodes that have dogged relations with China recently, each one of which need not have been unmanageable in itself, have all seemed to find the government on the defensive, with ad hoc responses. They therefore became linked not only in the public mind but also in the mind of the Chinese government, which seems to have come to the view that Kevin Rudd is simply antagonistic to China and attending more to domestic opinion than to the relationship with China as such.

Commenting on these episodes in the Herald a couple of weeks ago, Peter Hartcher wrote that we've seen a harsher face of China in the past few months. He's right, but I differ with him in that it's not new. I've seen it in different modes ever since I first went to China in the 1960s, and I've had to deal with it directly in many contexts right up until the recent past and I've raised it in various talks and papers over that time. (When I did so in the annual Morrison Lecture in Canberra in 1989, my critique ended up in the Chinese Politburo - and I ended up classified as 'unreliable' 不够朋友). Anyway, that face is a reality, and the government should have been clear on that from the beginning and had a long-term strategy in place to deal with it. That strategy, also, is missing.

We also have to remind ourselves in the current stand-off that that face is not the only reality. There are many others, and in these lie the fertile ground of our relations, that *can* be tilled and very productively. And any harsher edge to China's posture still doesn't explain the puzzle of Australian policy.

The closest we have had to an idea of the Prime Minister's thinking on the long term (apart from the Defence White Paper, which I'll come to) is his Asia-region proposal. China is clearly central to this. And while he didn't make it explicit, it also seems pretty obvious that one of his premises is that while working for a positive partnership with China, you have to acknowledge it could at times be difficult, and perhaps concede even the possibility that there could be security issues, and that therefore your best guarantee is for China to be locked into obligatory and even binding regional multilateral arrangements to which Australia is also party.

That's my assumption, and I support the general objective, if not his approach. But there hasn't been an extended explanation of *China policy* to follow, in the more than a year since he first made this proposal. What, for example, does he believe it means for us to be living in such close proximity to a China Super Power? What happens when we become even more dependent? What's in store for us in pushing for inclusion in an integrated region that would bring us more closely within the Chinese orbit? What kind of China does he expect in that context? What are the trade-offs? We are now, as Bob Hawke said back in the 80s we should aim to be, 'enmeshed' with China. What does that say about our future? The answers are in my view by no means necessarily negative – *if* we have the right policies. But to go down this track without clarity on these questions *and public support* is a less than satisfactory approach to such a major issue of public policy.

I'm sure Kevin Rudd didn't welcome the issues with China he's had to confront over the past year, just as he didn't welcome the global financial crisis. But compare the handling of the GFC. In that he has shown decisive leadership and good command of policy and response, he has what seems to be a team-relationship with Swan, Gillard and Tanner whose advice he apparently seeks and listens to, and he has drawn heavily on the professional advice of the most experienced officials, particularly Ken Henry. And policy has been projected out about as far into the medium-to-long-term future as its possible to go in this uncertain policy domain.

China is of course not a 'China Crisis' in the way the financial crisis was, but its just as important to Australia's future. And it bears repeating that

it's more pressing than it would be if China were economically and politically distant, or Anglo-Saxon or at least European, or democratic; that our circumstances with China are uniquely different from those with our two great determining relationships since Federation, with powers that were our patrons and protectors, English-speaking, institutionally related, and civilisationally European. Yet China now already affects our politics - from our ability to raise revenue to fund social programs, all the way to the tens of thousands of students who subsidise our universities and morph into permanent residents – and some, if they choose (and with a little help from Chinese officials), take to our streets to oppose freedom of speech. But there's also the fact that what happens *domestically* in China from now on, from development and reform in government, to education, the environment, public health, mass migration or social stability, will impact on Australia.

So our China policy should be one of the most central matters of government. Let's have a look, then, at how the issue of China has played out over the recent past, at some pieces in the puzzle that illustrate the questions that seem to hang over China policy.

First, Mr Stern Hu, not because it's the most important but because of what it shows. On the case itself, we actually have almost no facts, and it would have served relations better if the Chinese government had provided them. But you wouldn't think there were no facts from the public discussion, in which supposition, speculation and context have been conflated, and Mr Hu's innocence was not presumption but established fact just because its China. That could be so. But from other, less publicised such cases - one of which, with some uncanny similarities to the Hu case, I was involved in

resolving – I can assure you that innocence has not always been the fact just because its China.

The context, also, is far from clear – from the lack of transparency in the Chinese system, to the character and record of Rio Tinto, the fractious commercial iron ore relationship with Australia, the rorting on all sides in the industry in China, and the fact that more broadly China is awash with corruption, on a scale that would make even a Wall Street executive envious.

China is not a monolith. There will have been any number of Chinese agencies involved in this case – government, party, security, judicial; central and provincial – and one indisputable fact about China is that they generally have their own agendas and rivalries and often don't cooperate. Its known as compartmentalism 本位主义. And finally, there is the tension (which exists in every country) between intelligence services and politicians, and also often the trade and diplomatic agencies.

In all of this, any journalist or politician in Australia who claims to know the truth about who motivated Mr Hu's arrest and why is not credible.

I assume only: one, that Mr Hu would have come under routine observation by the security services - a common practice that's also reciprocated by a number of China's trading partners - long before any bid for Rio by Chinalco or price brawl on iron ore; and two, that the central Chinese government would not have elevated his case to such prominence had it not believed there was fire behind the smoke.

Some media have said that it seems to be only ethnic Chinese foreigners who get arrested. There may be an issue here that the Australian government should be in dialogue with China about. But one reason, apart from the fact that more and more foreign firms have ethnic Chinese representatives in China, is what's called *guanxi*. Translated as relationships, this term is loaded with other meaning. When its open and upright, relationship networks are how you work in China and legitimate. But there's a heavier and non-transparent *guanxi* game, about favours and pulling strings and getting and using information, and money – and ever-deepening obligation. Most non-Chinese don't play this game because they don't know how to, and the door to its more convoluted reaches is not open to them. But for ethnic Chinese representatives of foreign firms, because above board *guanxi* is how Chinese society works, its natural and legal, and the only way to operate. But its not all that difficult to stray across the boundary into that other territory, or to do so knowingly, believing in your ability to play the game. But its dangerous territory because its not transparent, and those who play in it are exposed and vulnerable.

Now let's look at how it unfolded in Australia.

We had the Foreign Minister Stephen Smith initially without a script, waiting for his Prime Minister's word. Malcolm Turnbull and Julie Bishop jumping up and down like impatient schoolchildren. Kevin Rudd, at first holding to the prescription that you first have the officials try to work out what's happening, you don't get involved until they've done so, then you only talk with your opposite number in rank *and* only if you're sure of a satisfactory answer. But then, apparently spooked by the Opposition's cries

and shouts he departs from this position, and announces that he's spoken to the Chinese. Who to? A Vice Foreign Minister. Someone said its like talking to a Class 11, but in our system its actually the equivalent of a departmental head.

What does this example illustrate? To the background of a speculative, facile and Sinophobic public discussion, we had

- A foreign minister who is not allowed to be his own foreign minister, especially on China
- An Opposition that plays it only for the politics, with a level of contribution equivalent to somewhere between that of radio shock jocks and morning television
- A prime minister who takes what appears to be sole ownership of China policy
- Government over-reaction to Opposition and media over-excitement
- Ignoring of about two hundred years' experience of dealing with Chinese governments
- A government with no fore and aft narrative for putting such problems in context, explaining this to the public and staying on top of the discussion
- ...When anyone who's worked seriously in China over time knows that these issues will come up – mostly minor, sometimes major. So its not unheard of, not what you'd call an unexpected kind of event

But most critically, it appears that there is no effective dialogue in place through which this problem could be privately explored. That's serious.

A second piece in the puzzle is the Defence White Paper, whose authors appear to imagine China as a major potential military threat, apparently to support an absurd proposition that we, Australia, could engage in possible war with China. The Paper's authors have argued that China's military spending goes beyond what China would need to take over Taiwan and is therefore, in its view, unwarranted and therefore threatening to us. Several great leaps in logic there.

Despite that, this is a policy proposition with pretty serious implications. But Kevin Rudd on this has been rather like the Cheshire Cat. He's there but not there. He comes in and out of the picture. But he has not sought publicly to support or repudiate the interpretation, and we don't quite know what he thinks. Beijing is left to draw its own conclusions.

And we are left with more questions:

- why, on the interpretation of a matter as serious as China in our long-term future, does the government simply make a pass at it in a defence White Paper, without any supporting analysis of the historical, political and other imperatives that might affect China's future international posture? Without first a foreign policy white paper, or even just a China white paper? There's a whole context missing, including Beijing perspectives on why it might be increasing its military spending. The Paper's conclusion is a line you might expect out of Washington, but its hardly credible analysis for us.

- One fact we do have is that the Office of National Assessments and the Defence Department's own Defence Intelligence Organisation both disputed the assessment on the grounds that the intelligence did not support it.
- Another, at least according to the Principal author, is that the Prime Minister was regularly and frequently involved in the process and approval was directed by him
- It is also understood that the hand in the White Paper of the Department of Foreign Affairs and Trade (DFAT) is barely visible.
- Does the Prime Minister mean, then, to have foreign policy or at least China Policy driven by defence policy? Why is his old department out of the main game on China policy? Or the ONA, for that matter, which has generally had former or seconded DFAT officials as its head and many others in its ranks?

Another piece in the puzzle takes us back to the absence of effective dialogue. This is the Chinalco bid for a larger slice in Rio Tinto. Foreign investment by Chinese corporations, including resource-related investment, is not new and their interest in Australian resources is longstanding. It might have been anticipated that state ownership, transparency and lines of accountability, competitiveness, and supplier-buyer relations could become politically contentious. With no strong policy narrative from the government, ill-informed and even hysterical commentary took over, allowing analysts in Beijing to infer that the Prime Minister was opposed to the Chinalco bid. But as economists Peter Drysdale and Christopher Findlay pointed out, as early as last September, the government had no arrangements in place for "routine consultation between Australian and Chinese authorities that would serve to

facilitate scrutiny of competition, corporate governance, and financial transparency issues (in China) and have the practical effect of strengthening that framework over time”.¹ And as far as I’m aware that is still the case.

The question here is, how can you conduct a major relationship of this bearing on Australia without good routine dialogue of this kind? The Chinalco case is partly a technical matter, but its also a political matter that goes to the heart of how the Chinese government governs. Nor is it a one-sided issue. It requires *on our part* political understanding of how government works in China, and routine dialogue that would not only address the technical issues but help to broaden and deepen government understanding of how government works in that country.

It is also puzzling that the government has not moved to instigate with China other kinds of private and semi-formal dialogue, for example like the Australian-American Leadership Dialogue. This is not of course problem-solving, but with China Australia lacks such a powerful vehicle for problem-
airing, and the spin-off relationships that go with it. Why also has it not prodded academic and research institutions into establishing with China new one-and-a-half or second track dialogues on specific issues, of the kind which flourished with a number of Asian partners in the 1990s but which have mostly fallen into disuse?

A puzzle of a different kind relates to a couple of points I made earlier: that what happens to reform in China is critical for us, and that there is much

¹ “Chinese Investment in Australian Resources”, *East Asia Forum*, East Asian Bureau of Economic Research Blog, 4 September 2008; and “Another Look at Chinese FDI”, *East Asian Forum*, 9 September 2008.

fertile ground in the relationship, where China is an open and receptive and cooperative partner.

Australia has an aid program in China. About a third is devoted to governance. (I declare an interest here, in that I have had an advice and quality assurance role in relation to this program). The program had its origins under the Howard government at a time when our aid to China was about to wind down, but when every aid agency in the world was getting into governance and Australia decided to do the same, including in China. Before the governance program started, no one really had much idea what it should do, and in Canberra there was quite rightly debate about whether we should have an aid program in a country that was putting people into space. Out of this emerged an idea that it could serve our national interests by supporting government reform in China, and be a vehicle for building institutional relationships. As it has evolved, this program has engaged with some of the inner workings of the Chinese government in critical areas of reform, in partnership with some of the most powerful and influential arms of government; for example on policy development and public enquiries, professionalisation of the public service, corruption prevention in the construction industry, strengthening the judicial system, removing institutional barriers to reform, social policy and many others. The program shows that we can have a deep and intimate relationship with China where we each have something to contribute.

Australian government participation was predicated on whole of government, but this was missing in action. Many government agencies often wouldn't participate, because they were not funded for aid to China or

it was not specified in their 'core business', or they could not spare time or people, and some actually had separate cooperation with the same Chinese counterparts as the governance program but without any connection between the two. There has also been a parallel but smaller Human Rights Technical Assistance program, negotiated annually by DFAT with the Chinese Foreign Ministry, managed by the Australian Human Rights Commission, and working on very similar issues, and the two programs work in total isolation from each other.

The first thing this illustrates is a functional or governance problem in Canberra, which probably affects other policy areas, but in this instance has meant inadequate coordination and support for a new and interesting front that had been opened up in relations with China. And no one has seemed able, or interested enough, to do anything serious about it.

There is also a policy and strategic question here which is more serious. The governance program is now entering its final twelve months and no one knows what to do with its strategic potential because that's not AusAID's role, and aid isn't DFAT's role (DFAT has had almost nothing to do with the program), and there's no policy or mechanism to capture the gains, consolidate the more critical institutional relationships, and bring all into a policy development process under a strategic framework for relations with China, because there's no apparent strategic framework. On present indications, most if not all of what has been created under the governance program will be discontinued.

The mobilisation of the strategic potential should be DFAT's role, but DFAT lacks the authority to compel a coordinated policy across the whole of government. It also lacks the capacity. As the Lowy Institute paper of March this year points out, DFAT resources have been eroded, beginning under the Howard government, to the point where Australia has what it calls a 'diplomatic deficit'.² But its not just 'diplomatic'. There's a deficit in policy development capacity. And with stretched resources, there's a deficit also in the capacity to coordinate, at a time when engagement in foreign relations is widely dispersed across government.

...All, with the likely result that with the governance program, the opening it has made for ongoing deep engagement, as an accepted partner, with China's reform, critical to Australia's future, will be dissipated if not entirely lost.

I suggest that there is in all of the examples I've given a significant governance problem, ours not China's.

Putting all these pieces of the puzzle together, what we have in China policy is:

- That at the conceptual and strategy level it is not clear what the government thinks about, or where Australia should be heading over, the long term. If its clear to the Prime Minister, its not transparent, to the public, or to China.

² *Australia's Diplomatic Deficit. Reinvesting in our instruments of International Policy.* Lowy Institute Blue Ribbon Panel Report, March 2009.

- That there is no narrative that joins the China dots now or into the future in a coherent way
- That at the long-term policy-development level, the field so far seems to have been vacated to Defence, sidelining the agencies that have most to contribute to foreign affairs analysis and policy
- That at the functional level, the coordinating arrangement necessary to support both day-to-day relations and a durable framework for the long term is missing.
- That on the management of relations the absence of quality dialogue has landed Australia in a row with China that should never have happened
- That in the political discussion, the Opposition shows no interest in responsible bipartisanship, seems even gleeful at the dive in political relations, and by its statements feeds the idea in Beijing that the Australian government is Sinophobic
- And in sum, Australia is at best marking time with China, when it ought to have been building a stronger and more resilient relationship – one of much better quality than servicing China’s need for resources and congratulating itself on doing so.

Of course, relations with China will keep moving on in the way these do between countries, even with political ups and downs. Ministers will rightly point to a host of areas where this is happening. But so did Howard government ministers, and given the immediacy and immensity of the challenge, business as usual is not what it takes. And that’s the point. Its not what we expected of this government.

It is clear from many sources that the Prime Minister holds China policy tightly in his own hands, and there are anecdotes in Canberra that suggest he has rejected significant advice. Perhaps, as in many other areas of policy, he wants to move slowly, prepare the ground. But China is too pressing for that. And in any event, in many of these other areas he has set up enquiries and committees, ordered green papers and white papers. That he has not done so on China, or more generally on foreign policy, is telling.

I think it was perhaps inevitable that with a one-man China policy we would at some point reach the kind of imbroglio we have with China now. But the task of maintaining and building the most effective relationship is a multi-dimensional, multi-analysis, multi-mind task. As also the management of difficult issues, and there are more complex ones than the Stern Hu case or the visit of Mme Rebiya Kadeer. About ten years ago at the Asia-Australia Institute I wrote a hypothetical for a course for senior officials and business people. The hypothetical elements on which they, as government, had to make a decision were a serious dispute over Taiwan, mobilisation by the Chinese government of mass protests by Chinese students in Australia and clashes with casualties, and critical Australian dependence on resource exports to China. My point was not to suggest we had a negative future with China, but to ask participants to work out, before or after the fact, how they would head that off. Now we actually have a whiff of this. And finding effective strategies to persuade China that officially inspired anti-democratic demonstrations by Chinese students over Tibet, or the harassment of the Melbourne Film Festival, are not just unacceptable to us, but also not in its

own bilateral, regional or international interests, requires the application of all the minds and all the resources the government can bring to bear.

China policy is in urgent of attention, of a very different kind from that which we've seen over the past year. In my view, this ought to entail for a start:

1. A foreign policy white paper, or a separate China white paper, not circumscribed by prior assumptions about China's future international posture
2. A major China statement from the Prime Minister on strategy, drawing on all the relevant resources of government, and ideally also on expertise in universities and business and NGOs; and following that, a continuing narrative engagement on China by the government with the public.
3. Urgent attention to improving the quality and effectiveness of government dialogue, and at minimum also something equivalent to the Australian-American Leadership Dialogue, and track two dialogues on specific key issues like investment, regional architecture, education, security and the environment, and conversion of the Australia-China Human Rights Dialogue into a track two
4. Changes at the bureaucratic level to ensure coordination of whole of government on China, requiring a strengthened DFAT with an over-arching role in policy development and advice, and a special China inter-departmental committee, chaired by DFAT, or perhaps, a China Secretariat and related structures similar to the Japan

Secretariat Australia had in the 80s when its relations with Japan were in a mess.³

5. For these and other purposes, giving the Foreign Minister a leading and initiating role on China
6. Politicians and senior officials to “go back to school” on China and not assume that because they go there they know it. This is not outlandish. Many actually did so, in the special courses offered for this purpose on China and other Asian countries back in the 1990s.
7. A quantum leap in government investment in knowledge on China, beginning with funding a China Studies Centre in Melbourne or Sydney equivalent to the \$25 million the Howard government put up for the US Studies Centre at Sydney University
8. To tap advice from a variety of sources on a regular basis, a high-powered advisory body, to advise and assist both the Prime Minister and the Foreign Minister on China.

And Asia-literacy in government? Its essential. It must be a goal. In itself, its not enough.

³ A China Secretariat was suggested by a number of former senior DFAT and ONA officials commenting on an earlier version of this talk, and was also proposed in the Q&A session by Richard Broinowski, who ran the Japan Secretariat in the 1980s.