Centre for Strategy and Governance

The Rise of China and the Australian Public Service

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The topic today is, quite frankly, something I had not thought much about before - or least hadn't consciously. It was only as I started jotting down a few ideas that I realized that questions about the implications of China's rise on government and governance in Australia had been there all the while.

Although this is not a university lecture, to give my remarks some structure and perhaps coherence even, I have divided this presentation into five sections.

The first concerns how far China stands apart from Australia and most other major countries in terms of political and social organization

The second is about trying to keep up with the contemporary realities of China as change continues to sweep across the country at a rapid pace.

The third has been topical in Australia recently. It is about the challenges to governance in Australia of large Chinese populations in Australia who remain closely connected with the mainland.

Fourth is a favourite them of mine – which I'm trying to turn into a book as time permits – and which I call Prometheus Bound. It is my notion of China as a "constrained super power".

And finally, in these days of dramatic change, who could not speak of the The Donald?

i. China Not Like Us

The question of the evolution of China's political system is one of the great issues of our times.

For many years, after the reform period began back in the late 1970s, a working assumption, often stated explicitly, was that with economic growth, rising living standards an emergent middle class, greatly improved education, and deeper exposure to the international community through overseas travel and foreigners coming to China, the political system would evolve accordingly.

Most from the US and other western democracies expected or hoped that this would be in the direction of a pluralist, competitive, political system, or what is loosely most commonly referred to as "democracy". After all, it had happened in South Korea and Taiwan so why not in China?

This was what was once known as a Whiggish view of history. This is a teleological approach, where, based on the western experience, the past is seen as an inevitable progression towards western-style of democracy.

Our politicians are particularly prone to see China in these terms. It is all just a matter of time, really. We may not approve of China's approach to human rights, or Beijing's policies towards Tibet and Xinjiang, but if we just hang in there it will all come good in the end.

Now, well into the fourth decade of China's Open Door and Economic Reform policies, today's prosperity and deep integration in the world beyond the Middle Kingdom, that simply could not have been imagined when the journey began. But still no signs exist of convergence with western-style democracy.

To the contrary - the Communist Party controls China as tightly as ever. The political system is still opaque. Living in Beijing one feels what it must have been like living in *Ancien Regime* France. One's status, influence and power being defined by one's distance – both figuratively and literally - from the court. In Beijing that is the vermillion-walled leadership compound, Zhongnanhai, China's Versailles.

It is why I often say, for effect, that when viewed from Beijing, Shanghai is merely a big provincial city. And it was ever thus. For the best part of a thousand years, China has been ruled by an autocratic system of imperial government.

Today, China still stands far apart from the global norms of political and social organization. Many other countries do as well, but they are mainly poor and therefore insignificant. China is a great economic power, of course, but one which shows no sign nor interest in convergence with global norms of political and social organization.

This then lies at the heart of the conundrum Australia finds itself in when dealing with China and in developing policies towards it. It makes the political management of the relationship particularly challenging. It was why our politicians (and we're not alone) find it hard to find the correct balance between our interests and our values in dealing with China.

By virtue of the profound complementarities between Australia and China, and China's sheer size, our economic integration is deeper than with almost any other country, yet it is not like us at all.

From a public policy point of view this would seem to argue for Australia's putting disproportionate resources and effort into managing, as far as it is possible, the China relationship.

How China's political system will evolve is unknown. South Korea and Taiwan are most unlikely to be models, not least because of their small scale and post-World War Two histories. The US was able to play a disproportionate role in their domestic politics during and just after the Cold War.

From Beijing's perspective, Singapore offers an attractive example of a mildly authoritarian, Confucianist, paternalistic form of political and social organization. Singapore is not really a democracy and doesn't really have the rule of law, but it has enough of the look and feel as if it did have these things for there to be a high degree of social and political stability.

Obviously, Singapore is small and China is still an empire with far-flung, disparate territories that are still not firmly integrated into the nation-state.

Absent a major shock to the political system, such as an economic implosion or a major external conflict, it is likely that China's political system will evolve – or continue to evolve – towards more traditional forms of political and social organization by which China was successfully and stably governed for hundreds of years.

Both Ming and Qing Dynasties between them account for the best part of six hundred years of stable government during which China attained great economic, scientific and technological, and cultural heights for the times.

Australian policy makers, while being alert to the possibility of shocks because of the inherent institutional fragility of the system, need to approach China on the basis that this is likely to be a relatively enduring and stable political system and one that will continue to be very different from our own.

ii. Scale and speed of change – keeping abreast of the contemporary realities

Among the biggest challenges for any Ambassador in China is to keep one's home government up to date with the contemporary realities of China.

While the formal political structures have not changed much, ways of engaging have done so. I was the first, and I believe, still am the only Australian Ambassador to China to visit all 31 provinces officially.

Until the last decade it was enough to run the relationship with China from Beijing, with occasional visits to Shanghai and Guangzhou, with a bit of diplomatic tourism thrown in on the side.

Australian states developed their own sister state-province relationships with the same places, except for South Australia which, for whatever reason, was particularly adventurous and went to Shandong. In hindsight that was a good call.

Thirty years ago Shandong was one of China's poorest provinces in per capita income terms. Today, if it were a separate country, it would be Australia's fifth or sixth largest export market.

In the mid 1990s, it took several years for the Australian Government to decide to commit funding to open a Consulate in Guangdong, despite the fact that many of our marker countries were doing so.

Again, during my period as Ambassador, I spent the best part of my term making the case to open a Consulate in Chengdu in China's rapidly developing south-west. The decision was eventually taken to open at the end of my term, after some 15 other countries had already opened consulates there or in neighbouring Chongqing. Whatever early mover advantage we may have had was lost.

Another example of the struggle to keep up with the contemporary realities has been our tardy recognition of and response to the rapid growth of China's private sector. Some 72 per cent of China's GDP is now accounted for by the private sector. Yet we still think about China and therefore act is if it were still a predominately state-owned economy.

Official engagement tends to be mainly around the state-owned sector. Visiting Ministers, for example, will be directed towards meetings with SOEs. Much of the public discussion in Australia

about mainland Chinese investment in Australia is conducted as if SOEs were the rule, rather than the exception.

On a searing July day in 2009, in Hangzhou, I took Australia's then Trade Minister, Simon Crean, to meet an unknown private entrepreneur called Jack Ma who had established an on-line retailing company called *Alibaba*. Simon wonder what was the point of the visit and felt it was a waste of time. It was, of course, to let him see something of China's future, rather than more of its SOE past.

Alibaba is now a household name around the world. Yet it wasn't too long ago that a fairly typical refrain heard at Australian business conferences on China was that whatever they might be good at making, the Chinese couldn't build international brands like in the west – now think *Ten Cent*, *Huawei*, *Haier*, and so many more. On a trip last year to South Africa, on the way from Johannesburg airport to the downtown, just about every billboard featured Chinese well-known branded products.

Australian public policy needs to come to grips with an essentially private economy in China, with all the Schumpetarian impulses of creative destruction. Firms prosper and thrive and also fail and disappear.

But no matter how private in fact firms are in China, they are all subject to the will of the Chinese Communist Party. *Alibaba*, for instance, could not exist if Jack Ma had not assiduously cultivated his links with the Party. It is interesting to note, and little commented on, that *Alibaba* rose to have a national and global presence while Xi Jinping was the Party Secretary of Zhejiang Province, where *Alibaba* is based.

For Australian Government policy, it is important to recognize that while so much has changed, the Party is still never far away.

iii. China's deep reach

Recently there's been a lot of controversy in Australia about mainland Chinese business people resident in Australia who have sought to influence Australian politicians to take positions more favourable to Beijing, such as over the South China Sea disputes.

Concern is often expressed about China's attempt to exercise soft power through funding of cultural activities, such as Confucius Centres in Universities to teach Chinese language and cultural studies.

Concerns over agents of influence among the domestic resident Chinese business community are much exaggerated. No doubt some hope to curry favour with officials in China by being seen to be doing Beijing's bidding. Others seek to rub shoulders with our politicians for prestige or face. Most of these business people in Australia have few if any links back to the centres of power in Beijing.

Of course, many in Australia's Chinese business community want nothing to do with Beijing, which is also true of many in the Chinese student population in Australia.

From a public policy perspective, however, the ever increasing number of mainland Chinese doing business in Australia will test our accepted standards of ethical behaviour. It is the case that when Chinese do business, the culture is one of building personal relationships, so gift giving and entertainment are an essential part of this.

Open discussion and recognition of the divergent cultural norms of doing business need to take place, accompanied by clear and enforceable rules. Without wishing to feign naivety, it is still surprising that rules governing politicians' behaviour often fail to match those applying to public servants.

As to the activities by Beijing to promote China's soft power, these are not really all that different than those of other countries with their government funded cultural centres and programs. But in the case of China of the Communist Party, there is very little soft power to exercise. Soft power is when other people want to emulate your society. No one wants to be like China. No amount of money spent by the Chinese Government will alter that fact.

iv. Constrained super power

China is acutely aware of its isolation in the world. It has no natural friends or allies. It crudely uses foreign investment and aid to buy friends and influence people. In this it is quite successful, when judged for example by the votes it receives in its favour on certain UN resolutions, such as on human rights.

When China is viewed from Canberra, Washington or Hanoi, and until recently Manila, it is seen as a potentially assertive thrusting power intent on remaking the global order in its favour.

When viewed from Beijing, the world looks rather different. China's capacity to project power and assert its militarily in world affairs seems to be heavily constrained.

From Beijing's perspective, the overriding security concern and threat comes from within. China is still and empire with unresolved territorial issues inside its borders – Xinjiang, Tibet, Taiwan and now – largely of its own making – Hong Kong.

China also has 14 countries on its borders and 22,000 kilometres of land border to defend. Many of which have seen hostilities in relatively recent times. The military, policing and intelligence resources consumed both by maintaining internal control and border security are enormous.

Since the mid 1990s, China is now utterly dependent on world markets for all the resources and energy it needs to survive. For three thousand years it was self-sufficient. In the past twenty years, it has become the world's biggest net importer of most the resources it needs in order to prosper.

Compare this with the US in the period of its rise to world dominance. It had no unsettled territory within its borders, no hostile borders to defend and all the resource it required except labour, which it sucked in from Europe in vast quantities and mostly already trained.

The historical circumstances then of China's rise could not be more different from those of the US. In China's case, Prometheus is Bound.

Our policy response to China's military mondernisation needs to reflect these factors and recognize how China views its security, and not to project on it the past behaviour of less encumbered great powers.

Of course we need to hedge against bad behavior, not least as the one party state has few institutional constraints on potentially bad or mad leaders. But it also needs to be conditioned by the reality of China's actual circumstances.

v. Trump and Australia/China Relations

We read today that Trump's possible next Secretary of State, Giuliani, is proposing a "super-sized" military to stand up to China. I think the last time anyone looked, the US's military was super-sized compared to China's in terms of capacity and technology and raw numbers of ships, planes, missiles and nuclear capacity.

It seems that in these early days of Trump, as the victors jostle for future government positions, they can say just about anything. This is no doubt partly because the President-elect has been so vague on most of his policy.

What is clearer though, is that with Trump there will be a return to great-power relations and much less emphasis by the US on alliances than was the case in the post-Cold War period.

China will be cautiously comfortable with this. It sees itself as a great power and is irritated by the US's network of alliances across the Asia-Pacific.

It probably believes like most of us, but will be careful to test, that Trump is a pragmatic deal maker so much more akin to themselves than the more ideologically inclined Clinton. Certainly, we can expect less emphasis on the human rights' agenda.

For Australia, it is of course still too early to say what all this means. We may come under greater pressure to pay more for our own defence. We should also recognize that we will need to become more active in building and substantially strengthening our own alliances with regional neighbours.

Paul Keating has recently called for Australia to become a formal member of ASEAN. A decade aow go this was unthinkable. But now with China's inexorable rise and more assertive foreign, policy and with President Trump in the White House, this may be a policy initiative that would nbe attractive to both existing members of ASEAN and to Australia.

Conclusion

We're now entering a period of many moving parts. Most of which have been set in motion by China's rise.

The sheer scale and speed of this has been a big challenge for both domestic and foreign policies and will continue to be even more so in the future.

The Australian public service has tended to take a pragmatic and hence open approach to China's rise and as such has made a big contribution to Australia's well-being.

At the edges, however, more ideological perspectives can be seen creeping in, especially from the closely embedded intelligence and defence relationships we have with the US.

A succession of Australian politicians on both sides rejected the notion of "values-based" foreign and strategic policy. This served Australia well as China grew. We need to take the world as we find it. China is different to us in so many respects, but like all countries in the region is seek stability and security.

Through pragmatic, and realistic foreign and security policies, we need to work with China at so many levels from police and customs cooperation, to military and intelligence engagement, to confronting terrorism, to sharing experiences in public administration, to deeper cultural engagement, to developing initiatives on regional architecture, to working together on the big issues affecting the global commons, be it economic growth or environmental management, we have no choice but to work closely with China in re-fashioning the emerging international order.

It is a big and exciting agenda we inevitably share with China and one to which the Australian public service has much to contribute.

Thank you