

China: an unfamiliar terrain

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When China became its largest trading partner two years ago, Australia entered uncharted territory. For the first time in our history our most significant trading partner is not a member of our alliance system. Our most important trading partner is our closest ally's strategic competitor. And that trading partner is not a democracy.

With each passing month the Sino-Australian relationship becomes more complex and difficult to manage, as its strands become contradictory and tangled. Canberra has a schizophrenic attitude to China's rise: happy about windfall gains in the short term but, longer term, worried about China as a great power.

The chill in Sino-Australian relations this year has drawn attention to the need to get Australia's relationship with China right. This goes beyond the bilateral relationship; it is a test of whether Australia can look after its interests in an emerging world in which our international fortunes will not be solely determined by countries that are culturally similar to us.

Getting China right means Australia must make the effort to better understand China, to locate where its interests lie in the context of China's development, and to articulate its position clearly to Beijing, firmly but not confrontationally.

China defies easy understanding. It is a country that evokes extremes of opinion. People tend to make simple, sweeping judgments about China because it is huge, complex, and changing rapidly.

It is an authoritarian state in which no one exercises clear authority. Power and resources in China are far more fragmented among competing authorities than in Australia and, arguably, even the US. The Chinese political system rigidly divides bureaucratic authority, is fundamentally factionalised, and is prone to protracted competition between Beijing and provincial governments. More often than not, policy outcomes are the result of prolonged haggling, compromises and power plays.

China is seen as one of the saviours of global capitalism from the recent crisis, but is deeply committed to communism. For all of its economic reforms, the Chinese Communist Party still believes it is building a socialist system. Its intellectuals and leaders are adamant it was communism that first predicted globalisation, that can best see and exploit its contradictions, and that can best harness it to vanquish capitalism.

China, the growth engine of the world economy, the holder of the largest stock of foreign exchange reserves, is still a poor country. Its per capita wealth puts it in the same league as Egypt and El Salvador. Even when its economy becomes the largest in the world, it (with India) will still be the poorest great power in history. This will affect its mindset. There is a tendency among Chinese leaders to view the world as having been stitched up by wealthy Western powers. And Beijing is justifiably nonplussed at the progress of its attempts to break in.

In general terms, the developed world encourages China to become more engaged in the global economy and institutions; but it reacts with alarm when a Chinese company tries to buy equity in a wealthy country's resources or energy companies. Beijing is constantly lectured about dealing with unsavoury regimes by countries happy to buy energy from Saudi Arabia, Russia and Nigeria.

China is determined to be recognised and respected, but is allergic to leadership. Beijing has learned all of the attention it has attracted is not an unalloyed benefit. Mixed in with the admiration has been criticism. Neither have China's leaders enjoyed being catapulted by others to a world leadership role by the financial crisis. Unexpectedly for an authoritarian country, China has long been an advocate for the "democratisation" of international affairs – a world controlled not by one or a few great powers, but in which most states have a say.

Coming to terms with these complexities is not easy, but even beginning to perceive them develops a much more nuanced understanding of China than is conveyed by simple judgments. Even harder is the process of working out how Australia's interests are affected by China, both positively and negatively.

The traditional formula of Australia's national interests – security, prosperity and values – shows just how difficult this task is, because the China relationship pulls these interests in different directions. While Canberra and Beijing agree stability in our region is the best guarantee of security, they disagree on the methods. We would prefer the US to be the main guarantor of regional and global security. When push comes to shove, our security preferences are going to be different from Beijing's.

Our prosperity, however, demands that we are attentive to China's economic wishes. But even our prosperity interests in relation to China are more complex on closer inspection. Beijing has a preference for acquiring equity stakes in resource producers in the interests of price stability and long-term supply security, and we have yet to think through the implications of selling to Chinese state-owned enterprises.

Our values are also likely to be challenged by China. Beijing's brittleness about its internal cohesion makes it less than willing to accept the democratic freedoms of other countries that allow Chinese dissidents to visit.

This year's events have shown each of these interests cannot be managed in isolation. Building a durable relationship with China requires some hard thinking about how we prioritise our interests, and how they are affected by the complex, dynamic reality of China. Because how we manage this relationship is being watched by other countries, too, and will have major impacts on how we are able to deal with the rest of our region.

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