

# FDI Feature Interview

8 November 2011

## Australia and the Rise of China

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### Key Points

- The rise of China presents a challenge to Western pre-eminence and the diffusion of liberal political ideals.
- While China's economic power has rapidly expanded, it also faces a number of looming internal challenges in areas such as governance, fiscal management and an ageing population, which could hinder its long-term development.
- Given the relative decline in US economic power and its consequences, Australia will need to consider new ways and means of adapting to the strategic challenges posed by China's ascendancy.

### Summary

Dr Paul Monk is a noted Australian public intellectual and the author of *Thunder from the Silent Zone: Rethinking China* (2005) and *The West in a Nutshell: Foundations, Fragilities, Futures* (2009), among other books. He is a former head of China analysis for the Defence Intelligence Organisation. Earlier this year, **Dr Paul Monk** was interviewed by FDI's **Sergei DeSilva-Ranasinghe** on the implications of China's rise for Australia.

### Commentary

#### **Future Directions International:**

**Q: What does the rise of China mean for the rest of the world? Should the West fear China's rise? Is conflict with China inevitable in the long-term?**

**Paul Monk:** When we speak of the rise of China, we need to quantify what we are talking about, so that we don't get spooked by the metaphorical image of a looming monster. The Chinese economy has grown enormously since the Communist Party decided, in 1978, to open China to the world market. At that time, its GDP per capita was extraordinarily low. Even now, according to the IMF, China's GDP per capita in 2010 was smaller than that of the Dominican Republic, only a fifth that of Taiwan, and not much more than a seventh that of

the United States. Yet, according to World Bank figures, China's GDP has increased from \$150 billion (1978) to \$5 trillion (2009) before adjusting for inflation.

The size of China's GDP equals an immense population increased productivity. But it remains a very *poor* country in per capita terms. It's easy to overlook this considering Beijing or Shanghai's central city areas with their transformed and opulent infrastructure overflowing with prosperity and self-confidence. This impression is reinforced by the dizzying growth in China's foreign trade over the past generation and the rate at which it has amassed foreign exchange reserves. But we need to probe deeper into China's economy, demography and social dynamics before getting carried away by the growth that has come from three decades of enormous foreign direct investment and equally enormous strategic infrastructure investment by the Chinese state.

We should take seriously both Wen Jiabao's statement in March this year that China's economic development model is 'unbalanced, poorly coordinated and unsustainable' and Susan Shirk's description of China as 'the fragile superpower' in her 2007 book. Of course, this sounds a bit like crying 'irrational exuberance' just before the e-tech stock bubble burst a decade ago; but in some ways, that is an appropriate analogy. In a number of measurable ways, China is *not* actually in good shape, and it faces looming challenges that are obscured by its own raw growth statistics and the Communist Party's relentless efforts to censor any information that would cast doubt on the resilience and progressiveness of its rule and the sorry fiscal state of the Western world and Japan.

Yet it is the conventional wisdom that China will continue to grow rapidly for many years and that the Communist Party is likely to remain firmly in the political saddle during that time. If that were to occur, what would it mean for the rest of the world? Well, we can already see a little of what it could mean. Having no credibility when it comes to communism or world revolution, the Communist Party depends on rapid economic growth and nationalism for its legitimacy. To sustain it, the communist regime seeks to ever more vigorously secure access to sources of energy and raw materials from all over the world and to assert various territorial claims over Taiwan, the South China Sea, and the Yellow Sea. In pursuit of both these commitments, China has been pouring resources into a military build-up on an increasingly troubling scale across the spectrum of strategic capabilities.

This military build-up, due to its pace and scale, has clearly been setting off alarm bells around the Pacific basin in the past few years. Why? Moderate voices argue that China's military build-up, like its economic growth, is simply taking it from a very primitive state, imposed by Maoist communism, to up-to-date capabilities—and fast. They also say any state that was growing economically the way China is doing would do the same. And China is no ordinary state. It is a state that, as Ross Garnaut says, has been the largest state in the world for most of the past two millennia. It certainly has an intense belief in its right to respect and even pre-eminence in Asia. And the recent economic failures of the West and Japan have galvanized a sense among many Chinese that their time has come and that this century should be China's era.

China's continued economic growth and the Communist Party's dictatorship could potentially destabilise the global, especially the Pacific, balance of power in a way not seen since the equally rapid and assertive rise of Japan in the first half of the twentieth century. The effects will be more dramatic because Japan never grew as fast or overtook the Western powers in economic output. China's rise has the potential to cause serious trouble. It directly clashes with the rosy view of a decade or so ago that the 'end of history' was upon us and that liberal politics, free markets, and human rights were the way of the future. Without

question, this scenario would require sustained and very adroit statecraft and strategic coordination on the part of the United States and its many allies, if serious conflict is to be avoided. Australia could not escape involvement.

The rise of China, if it continues on current terms for another 20 or 30 years, could mean the end of Western pre-eminence and the promotion of liberal political ideals, imperfect as that promotion has always been. It could mean that many states, including Australia, South Korea, Vietnam, the Philippines, and even Japan, will have to make tough choices about resisting or accommodating Chinese hegemony. It could mean a long period of military tension and strategic competition between China and the United States. Strategic weapons would in all probability deter both sides from engaging in direct war, but things could become very tense; proxy confrontations or stand-offs comparable to the Cuban missile crisis are not beyond the bounds of possibility.

There are, however, alternative scenarios that we would do well to contemplate. One scenario is if the Communist Party does not manage to keep its hold on power, but instead of a sound liberal democracy emerging, there is—as the CCP has long warned—instability and even internal conflict in China. This is all the more conceivable because the CCP relentlessly prevents the emergence of any competent rival. In such circumstances, China’s strategic behaviour could lurch in unpredictable directions, and depending on how advanced its military capabilities are at the time, this could trigger regional conflict in any one or more of several theatres. The rapid development of China’s military capabilities is creating a context in which abrupt shifts in China’s strategic behaviour will be of far more concern than ever before.

That said, we should never use the word ‘inevitable’ about long-term forecasts. If ‘conflict’ means disagreement or even tension and confrontation, then it is certainly likely in all the scenarios. But if by conflict we mean major or even regional war, there are so many variables that the word ‘inevitable’ is inappropriate. Australia appears to be on the cusp of a major transformation in its strategic environment on account of the rise of China. If we are to have the wherewithal to deal with that transformation on dignified terms, we need to start thinking long and hard about how to do so. The longer we wait, the higher the chances of facing unpleasant constraints in the years ahead.

#### **Future Directions International:**

**Q: Describe the different schools of thought among Australia’s leading strategic commentators on the rise of China?**

**Paul Monk:** Broadly speaking, there are three schools of thought in Australia about the rise of China. According to the first school, which might be called the Ross Garnaut school, China’s rise is almost wholly good for Australia because of the strong complementarities between the two economies. We should not contemplate a military build-up because there is no China threat. The second school says China is indeed rising rapidly and poses a threat to the strategic assumptions we have held dear for many decades. But there is no way to prevent this so we should come to terms with it as nimbly as we can. Hugh White expressed this view in his quarterly essay *Power Shift* (2010). The third school says China’s rise threatens our strategic interests, and we should arm up and strengthen our traditional alliances to make clear to China that it can expect serious resistance should it attempt to alter the existing strategic balance in its favour. This is the view expressed by Ross Babbage in his Kokoda Foundation report, *Australia’s Strategic Edge in 2030*, published earlier this year.

It's important to assess these schools of thought in a measured rather than reactive manner. There is merit in all three of them. The Garnaut school of thought pivots on the economic relationship between Australia and China since the 1970s, which has been stupendous and highly beneficial to us. Moreover, the Garnaut school believe that China is highly unlikely to be territorially expansionist; it has many domestic problems to cope with and much to gain from international peace and stability. Besides, even if it uses force in the region, there is no obvious reason for Australia to oppose it. Therefore, we should keep our powder dry and not be too eager to go along with American attempts to constrain Chinese power.

White was roundly denounced by Greg Sheridan in *The Australian* as stupid, insane, bizarre and words to that effect. Carl Ungerer and others denounced White's views as a call for appeasement, a charge that White and his supporters objected to. They claimed that 'appeasement' implied an unwarranted likeness between China and Nazi Germany, and that White had not called for appeasement. White believes that the strong reactions by Sheridan, Ungerer and others showed that he had touched an exposed nerve or two. In reality, he argues that the scale and pace of China's rise makes it highly counter-productive to expend resources fighting it. Instead, we should be flexible enough to acknowledge that times are changing and that China will become more powerful, whether we like it or not. It follows, he argues, that we should urge the United States to exercise common sense and restraint and not presume that everything can or should remain as it has been since the end of World War II, or even the end of the Cold War.

Of course, White went further in several contentious ways. In particular, he argued that Chamberlain was perhaps right to appease Hitler in 1938, and that for similar reasons we might do well to appease China up to a point as it flexes its muscles in Asia. This brings us to the third school of thought, championed by Babbage, which wants us to commit substantially more resources to national defence than we have done for generations to be able to resist the rise of Chinese power. The security we have enjoyed under the Pax Americana will be at serious risk within a decade or two. Moreover, Australia needs to become far more self-reliant in military capabilities, since American power is waning even as China's is waxing. Crucially, Babbage says we can acquire 'game changing capabilities' if we start now and commit ourselves to their acquisition while the going is good. This needs systematic thought, given the calculations about American staying power and Australia's demographic and economic future. So far, none of the schools provides it.

#### **Future Directions International:**

**Q: *Is the United States on the decline? If so, what are the likely implications for the future of the US-Australia alliance?***

**Paul Monk:** The fascist powers and the communist revolutionaries alleged in the 1930s that Western democracies were decadent and in decline. It's not hard to see why. The Great Depression and the relative pacifism of the Western powers after World War I made them look debilitated and enervated. The global financial crisis and the apparent inability of the welfare states of the West, including the United States, to address their unfunded pension, health care, and other welfare entitlements, while continuing to borrow money for consumption, all make the West—including Japan—look shaky. The United States has been sinking relentlessly into debt for a decade, owing to a political refusal to put its fiscal house in order and this bodes ill for the future.

The United States will find it increasingly difficult to maintain its existing military commitments and inventory in the next couple of decades. The recent moves by the Conservative government in Britain to curtail defence spending and abandon an aircraft

carrier capability for the first time since aircraft carriers were invented may be a harbinger of major cut backs in American power by the 2020s. Certainly, the willingness of the United States to engage in expensive military interventions of the kind entered into in Afghanistan and Iraq is likely to diminish as the debt problem grows bigger. As Pete Domenici, a former Reagan administration economic adviser, told *The Economist* in November last year, 'America is on the threshold of economic devastation' but it isn't clear that this has really sunk in yet.

The real driver of perceptions that the global balance of power is shifting is not the financial mess in America, Japan or Western Europe, important as this is. It is the fact that China, India and Latin America have been, step by step, getting their economic act together and making ground on Western standards of *productivity*. Given that they vastly outweigh the West (and Japan) demographically, this would be shifting the geo-economic balance anyway. And with economic clout comes the capacity and often enough the appetite for military clout. These other states have begun clamouring for greater representation in the councils of the international order and it is becoming increasingly difficult to justify their relative under-representation on the basis of the institutional arrangements set up in 1945 by the victorious Allied powers. The world has changed.

It is very difficult, looking at the record of the recent past in American domestic politics and the disgraceful debacle on Wall Street, not to see the great American republic as being in serious difficulties. We should not too readily write off its recuperative powers, since it has very substantial capabilities and resources. But Australia should work hard to develop a strategic mind-set geared to a world in which the famous unipolar moment has passed. We might well do so with the disconsolate feeling that in many ways that moment has been squandered. The US-Australia alliance may have to become one in which we pull our own weight, or even more than our weight, rather than free-riding as we have largely done since 1945. Australia needs to become far more self-reliant in military capabilities.

#### **Future Directions International:**

**Q: How should Australia consider responding to China's growing influence? How is it likely to affect Australia's sovereignty?**

**Paul Monk:** China's growing influence has several dimensions. Economically, its share of world trade and its vast foreign exchange reserves have suddenly elevated it to a position it has never before enjoyed in the modern era. It is attempting to convert this economic weight into geopolitical influence and military power. It is even attempting, rather crudely, to increase what might be called its 'soft power,' through its Confucius Institutes, the significant professionalisation of its diplomatic service, as well as the increasing sophistication of its propaganda and media institutions. Above all, it beams its messages to a global marketplace, betting on an often anti-Western audience and the appeal of the so-called Beijing Consensus to elites in Africa, the Middle East, Russia, and parts of Latin America. Even Joseph Stiglitz, a Nobel laureate in economics and a former chief economist at the World Bank, has praised the Beijing Consensus at the expense of the Washington Consensus.

However, given that the Communist Party still exerts its influence chiefly by coercion and propaganda, rather than through confidence and openness, Chinese soft power is unlikely to take over the world any time soon. The fact that the CCP did everything it could to suppress reporting inside China of the popular revolutions and demonstrations across North Africa and the Middle East in the past few months demonstrates its lack of confidence in its own grip on power. So does the fact that it continually harasses and arrests those who seek to

defend human rights, expose genuine wrongdoing, or criticise unsound policies or abuses of power. However much we may be impressed by China's accumulation of riches, we should keep a clear collective head on this score. Hugh White is most in error when he declares that we need to stop 'lecturing' China about human rights, democracy and what have you.

If we wish to retain a robust sovereignty and advance liberal political values and practices on the world stage, we must find ways to resist the influence of a China governed by the CCP. Doing so is not being anti-Chinese, let's be clear. It is, however, being resistant to the Communist Party and its high-handed, arbitrary, self-righteous and abusive mode of governance. We'll get into difficulties if regional states begin to buckle under Chinese pressure and influence while the CCP remains in power on present terms. If we want to thrive in such a difficult environment and not merely retreat or succumb, we'll have to develop political, diplomatic, academic, journalistic and business elites strongly conversant with Chinese realities and resilient enough to deal deftly with the CCP. We have a considerable way to go to this end.

Niall Ferguson has warned that Australia could be in for a shock, because American power could unravel faster than anyone is currently anticipating. That is worth thinking about because if Ferguson is right, Australia would be ill-prepared to take responsibility for its own future. But given China's problems, America's capacity to recover and the many impediments to a sudden enlargement of Chinese power, we have the time to think hard about these matters in the next decade. The greatest strategic imperative confronting us is, in fact, to do such hard thinking. That doesn't mean a lot of pointless and unproductive polemic or symbolic and uneconomic expenditures. It means devising new means for creating a sound shared rational consensus as to our strategic needs and how to address them. Unfortunately, neither government nor opposition seems to exhibit a capacity for such thinking or consensus building.

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*Note: This interview was first published in POLICY Magazine in August 2011.*

Published by Future Directions International Pty Ltd.  
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