



It Was China Built The Wall

Publish Date:

September 2022

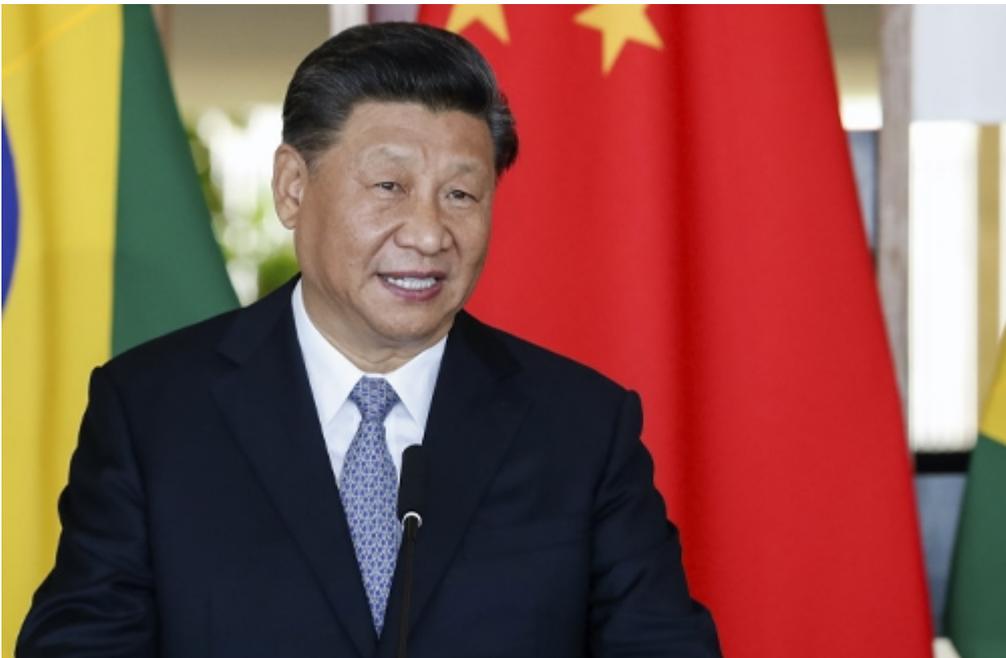
Those blaming Australia for problems with China should examine Xi Jinping's destructive changes in direction, as we carefully weigh our response, argues author and history scholar Paul Monk.

The past two years have seen a series of developments in Australia's relations with China which have upended long-standing hopes and assumptions. It's important that we not only ride out the current challenges, but that, in doing so, we comprehend the roots of what has happened and their implications. Public debate to this point has been vigorous and a broad bipartisan consensus appears to have emerged regarding the shift in the geo-strategic situation. But there remains a good deal of confusion and division that needs clearing up. This essay is an attempt to indicate how that can be done.

Three things have changed fundamentally in our relations with China since Xi Jinping took power in 2012, but it has only been since 2017-18 and especially since 2020 that the consequences of all this have been driven home to both the political class in Australia and the general public. The first is that Xi Jinping has put paid to hopes the Communist Party would find a way to open up its

economy and political system in broadly liberal ways without a domestic upheaval. This was crucial, and does not of itself vindicate those who always insisted liberalisation was never going to happen, and was always a hopeless Western democratic fantasy.

The second is that Xi Jinping has embarked on a militarized and xenophobic foreign policy, rather than one of either strategic partnership with the Western powers (most notably, of course the US and the EU) or at least of peaceful peer competition within a broadly liberal international order. This, too, is vital. Contrary to the allegations of the pro-Beijing lobby, this is not happening because of sinister efforts to 'contain' or weaken China. It is happening because the Communist Party needs xenophobia, or believes it does, in order to justify its continuing monopoly of political power.



Xi Jinping : Drove the turn towards a militarised and xenophobic foreign policy.

Photo: Palácio do Planalto, Brazil

The third is that the mercantilist policies long pursued by the Party in pursuit of national wealth and power within a supposedly free market international order, under the auspices of the World Trade Organization (WTO), have now produced a renewed statism under Xi Jinping. Mercantilism is an economic practice under which governments used their economies to augment state power at the expense of other countries. They interfere to ensure exports exceed imports and to accumulate wealth. Eighteenth century France was a classic example of a mercantilist country, in contrast to the free trade policies of Great Britain. The latter leapt ahead of mercantilist France in wealth and in power, but that lesson seems completely lost on the Chinese Communist Party. Nineteenth century economists in France, such as Frédéric Bastiat and Jean-Baptiste Say, pinpointed why it had fallen behind and argued for *laissez-faire*.



Targeting Australian iron ore has hit China's steel production.

Now in China, as in France prior to the Revolution, mercantilism threatens to radically undermine the private sector growth engines of the past 40 years and trigger a systemic economic crisis. That would be bad for China itself and also for the rest of us, but it has not been caused by any external ill-will; only by poor macro-economic management within China by a Party obsessed with political and geopolitical goals at the expense of economic good sense.

Needless to say, the implications of all this for Australia are very serious. We have profited handsomely from China's rapid growth and would have an enormous amount to gain from a China that had continued to open up, transform its economy and society, and grow economically. Precisely for this reason, many in this country are frustrated by the turn things have taken and are inclined to buy Beijing's line that the Australian government, under Malcolm Turnbull and Scott Morrison, derailed the relationship. This is untrue.

Critics of the Morrison government like to allege its decisions have been provocative to Beijing and ruined what could have remained a mutually profitable and workable economic relationship. They are in error. The call for an independent inquiry into the origins of COVID-19 in Wuhan was warranted and there still has not been such an inquiry, because the WHO inquiry was so tightly controlled by Beijing that it failed completely in its assigned task. To put it bluntly, Beijing resolutely covered up what happened and for this there is simply no justification.

The Morrison government's expressions of concern about Xi Jinping's militarisation of the South China Sea, its suppression of civil rights and democratic mobilisation in Hong Kong, its threats against Taiwan, its massive repression of the Uighurs in Xinjiang, are not ill-judged criticisms of an otherwise well-intentioned trading partner. They were and are objections to behaviour on Beijing's part which are systematically at odds with its in-principle commitments and emerging role in Asia.

The Morrison government's cancellation of the contract to have France design and build a new generation of conventional submarines for Australia and the new AUKUS pact with the United States and Britain have been seen in Beijing as evidence of Australia choosing sides against it. This is correct. It has been done because the alternative, as Beijing made clear with its 'Fourteen Grievances', would be to concede a substantial amount of our sovereignty to Beijing's hegemony.

The list of 'grievances' was handed to Nine News by Chinese officials in November 2020 and set the course for a prolonged confrontation between the two countries. Our then Secretary of Foreign Affairs and Trade, Frances Adamson, a former Australian Ambassador to Beijing, called the list and its handing to a commercial media network a "massive own goal" that "played very negatively" for China in Australia and across the developed world. "I couldn't understand why they did it and I don't know that they really understood themselves, exactly what they were doing with that list," she remarked.

The same must be said of the trade sanctions Beijing proceeded to impose on Australia and the strenuous efforts to embark upon finding alternative sources of iron, coal and hydrocarbons to fuel

its economy, given its massive dependence on Australia's high-quality exports of these commodities.

Some in Australia wish us to 'retaliate' to 'punish' China for the actions it has taken, but in reality its actions have already inflicted great harm on itself. China has also imposed arbitrary costs on its own consumers, by banning Australian wine, lobster, barley, beef and other imports, or imposing high imposts on them.

China's private sector—not the state sector—has driven China's economic miracle.

The restrictions on imports of Australian coal have contributed to its current energy crisis, and targeting Australian iron ore has hit steel production. For Australia to 'retaliate' by imposing trade barriers would only achieve a result which mirrored the Chinese experience, harming consumers in Australia, while inevitably giving succour to the dark forces in the CCP who revel in steering the country into a never-ending series of conflicts against foreign devils, including trade wars.



Coal Loader, Kooragang Island, NSW. Beijing's trade sanctions on Australian products, including coal, have inflicted great harm on Chinese consumers and industries.

Photo: Andrew S/Flickr

None of this, safe to say, was anticipated even a few years ago. To comprehend it and react strategically, therefore, requires a considerable stock take. Reflexive self-criticism—asserting everything would be better if only Australia had shown more 'nuance'—only gets us so far. The factors listed above are far more important to a causal understanding of what has transpired than any guilt-ridden or ideologically motivated criticism of the Australian government. And the analysis

was being done well before the event by discerning China watchers. It is worth tabling here.

In 2017, Beijing-based Australian economist Arthur Kroeber contributed a paper to a book by Linda Jakobson and Bates Gill, of the China Matters think tank, in which he highlighted the looming problems for China of the Party baulking at fundamental economic reforms, which he itemised. Kroeber pointed out that China's boom between 1983 and 2013 had been due to factors which had ceased to be operative. In the years after that, he argued, its macro-economic failures, and the danger of it falling into or becoming stranded in a classic middle-income trap, had become more and more glaringly apparent. It plainly needed to make extensive reforms to its economic system. But Xi Jinping is not undertaking those reforms.

For those who imagine, as Paul Keating and others tirelessly repeat, that the Party has lifted hundreds of millions of people in China out of poverty, it is vital to understand China's private sector—not the state sector—has by a very wide margin been the engine of China's economic miracle. Starting from close to zero in 1980, private companies, by 2016, accounted for almost half of China's exports, roughly two-thirds of its industrial output and fixed asset investment, and around 85 per cent of urban employment.

As Harvard University US-Asia relations expert William Overholt forecast in 1993, all this had been achieved by adherence to what he dubbed the 'East Asian development model'. By 2013, that model, at least as practiced under Communist Party dominance, had clearly reached its limits, as Kroeber (and others) were arguing in the late 2010s. But the Party leadership, or at least its dominant actors, led by Xi Jinping, set their face against the implications and claimed credit for all the gains, even as it placed them in growing jeopardy.

In analysis convergent with Kroeber's, Dinny McMahon, in 2018, in *China's Great Wall of Debt: Shadow Banks, Ghost Cities, Massive Loans, and the End of the Chinese Miracle*, advanced arguments that too few inside or outside China appear to have been willing to accept. Financial liberalisation and fiscal reform were touted in 2013, but have not occurred. A fundamental restructuring of the huge, over-indulged State-owned enterprises (SOEs) sector has long been kicked down the road. Xi Jinping continues to thwart market-based reforms, insisting on state dominance. The huge Evergrande property market bust is only one symptom of the crisis now burgeoning inside China.

China's resource dependency is a nightmare for its strategic and defence planners.

That none of this is Australia's doing needs to be emphasised. None of it is the consequence of any conspiracy to contain China or keep it weak, and none of it would have been recommended by thoughtful economic advisers from the West. Indeed, the World Bank, some years ago, in collaboration with some of China's most liberal and visionary economists and planners set out an agenda for macro-economic reform that might have averted what is now unfolding. Xi Jinping did not embrace that blueprint.

"It may be," Kroeber speculated in 2017, "that a stubborn refusal by the Party to open up the

political process will doom China's hopes for sustained economic success." He added, "For Australia a successful Chinese transition would hold enormous opportunities, but the China-led commodity boom is over for good."

In short, we need collectively to understand that China has been through a huge development process, strongly geared to an unleashed private sector, but that the next stage is critical and cannot proceed on the basis of business as usual.

Yet business as usual (until very recently) was immensely good for Australia and we should not for a moment think otherwise. As Kroeber noted:

Between 2003 and 2013, Australia's annual goods exports to China soared nineteen-fold, from A\$5 billion to A\$95 billion. The overwhelming driver behind this increase was exports of iron ore, which rose in volume terms from 64 million tons to 464 million tons and in value terms from US\$1.1 billion to US\$51 billion. By the peak of the China boom in 2013, China accounted for 32.5 percent of Australian export value, up from 5 per cent a decade earlier. Minerals and fuels accounted for three-quarters of the value of Australian shipments to China; China was the market for nearly half of Australia's resource exports.

This, rather than our bold tariff reductions of earlier years, undermined Australian manufacturing, because an overvalued currency rendered our manufacturers uncompetitive. What we can anticipate is that—just to the extent a transition occurs in China any time soon—not only will it become a less hostile power, but its huge services sectors will be opened up to foreign investment and thus offer Australia a second, but very different boom. That transition is not currently occurring, however, and this is the context in which international frictions are rising. Those, like Hugh White and former Australian ambassador to China, Geoff Raby, who argue—and have argued for years—that the fault lies in our persistent alliance with the US, have it wrong.

There is nothing in our strategic approach to China that would constrain its growth, because we have everything to gain from that growth continuing. What will constrain its growth now is Party mercantilism and political dictatorship.

Raby, a long-time analyst of China's economic development, wrote in 2020 that White's 2010 monograph *The China Choice* had been 'prescient' and 'seminal'. I disagreed then with White (who is now Emeritus Professor of Strategic Studies at the ANU) and I disagree with Raby now. But it is vital to understand the grounds for disagreement, because they hinge on issues Raby seems to half understand but not follow through—and which White never seems to have grasped at all.

At a crucial point in his 2020 book, *China's Grand Strategy and Australia's Future in the New Global Order*, Raby wrote:

It was never intended that China integrate into the international economy on the basis of Ricardian principles of comparative advantage. Reform was based more on mercantilist ideas of building national treasure and strength. Trade was seen then as zero-sum—my gain is your loss—and

import substitution was a central policy objective.

This was a notable observation by a protégé of Ross Garnaut (an earlier Australian Ambassador to China and a prominent advocate of free trade and Australian trade with China) and a long-time advocate of China reforming and opening, starting with its agricultural sector. It was also an astute assessment. But Raby then fell at the first hurdle, by failing to think through the implications of this mercantilism for China and its trading partners. What he did do was perceive that Beijing's mercantilist assumptions and tenacious one-Party state politics in themselves set intractable dilemmas for it, regardless of the openness of the outside world to liberal, rules-based trade.

He wrote:

China's resource dependency is a nightmare for its strategic and defence planners. It is not difficult to imagine that at some time around the mid-2000s, someone in the leadership compound at Zhongnanhai in Beijing woke up in the middle of the night and screamed at the ceiling, 'What have we done!?'

Well, what they had done was open China to global trade and thereby gamble on liberal rules prevailing, so their resource import needs would be met and markets would be open for their exports and investments. Why need that have been a nightmare? Certainly, we had no desire to restrict China's imports. The US and many other wealthy countries had been very open to China's exports. Raby first doffed his cap to White's argument that "soon the US would need to decide between accommodating China's rise and, in order to avoid war, ceding strategic space to China and ultimately hegemony in East Asia; or choosing to push back and seek to contain China".

He then went on to state that China could not readily become the hegemon in East Asia, because Japan is too powerful, the US would remain powerful in the region, and China had no real allies and few friends. What strategic space needed to be or would have to be conceded to China, in these circumstances, neither he nor White explained. As we ponder the formation of the Quad (the US, India, Japan and Australia) and AUKUS, we could do worse than contemplate Raby's assessment of China's strategic vulnerabilities:

China's grand strategy derives from a position of weakness, not strength. China is constrained by its geography, its history and most of all by its resource endowments ... China is also still an empire with significant unresolved internal territorial issues—Xinjiang, Tibet, Taiwan, and more recently Hong Kong. Most importantly of all, China, unlike the US, is utterly dependent on international markets and foreign suppliers for all the energy and resources it needs for its continued prosperity.

It is far from clear, one would have thought, that China can unilaterally alter this state of affairs. Its best option would, surely, be to integrate more fully into a liberal rules-based order and seek to strengthen rather than undermine the provisions that ensure secure access to resources and markets. Taking the path on which Xi Jinping has embarked looks, by comparison, distinctly less promising—to say the least.

By Raby's own account, China is still decades away from matching the US in military terms (a complex net assessment that others contest, let it be said). Yet all its vital resource imports:

... travel via strategic chokepoints, especially the Straits of Malacca and the South China Sea. In return, China's exports, so essential to its economy, mainly travel through those same chokepoints, as well as the Suez and Panama canals. In a conflict, the US could readily control any of these and disrupt the flow of China's trade in both directions.

What the Quad and AUKUS signify is the resolve of the great powers other than China (with the notable exception of Russia for the time being) to 'keep it honest' and drive its strategists to reflect that Xi Jinping is leading it up a strategic and economic blind alley. No one wants war with China. But we do want it to see its own best interests and those of the rest of us consist in its abiding by liberal rules and opening up its political system and now huge economy in ways requiring a major paradigm shift on the part of the Party.

Australia has a lot to gain from Xi Jinping's poor policies being replaced by a major and overdue transition in China.

Raby gloomily concludes that "the old order shaped and led by the US is over". Yet he fails to make this case and contradicts himself at several points. Instead, he evokes the famous argument by Graham Allison that the US needs to avoid what the latter dubbed the 'Thucydides Trap'—the dangerous confrontation between a dominant and a rising power. He seems, however, to have understood the Peloponnesian War (431-404 BCE) even less well than did Allison, when he first constructed his confused metaphor.

Sparta was the dominant power in Greece before the Peloponnesian War. Athens was the rising challenger. The war occurred not because Sparta was determined to thwart Athens, but because of a complex set of conditions throughout Greece which triggered a war the Spartan leaders would have preferred to avoid. Crucially, Sparta ended up winning the war—not Athens. Those, therefore, who argue the US must avoid the so-called 'Thucydides Trap' appear to imply it must avoid a confrontation that, in all probability, at least in terms of the historical analogy, it would actually win.

Australia is a central player in all this. We have a lot to lose should Xi Jinping's China go to war in pursuit of misconceived objectives, win, lose or draw. We have a lot to gain, on the other hand, from Xi Jinping's poor policies being replaced by a major and overdue transition in China.

Our policies need to be directed at diplomatically and economically remaining nimble on our feet, aware of our strategic interests, but with an eye on the main prize—an open, prospering, and well-disposed China to which we can sell our abundant resources and high-quality services.

This approach, avoiding both pre-emptive capitulation to Xi Jinping and the Party reactionaries, and also knee-jerk attempts to muscle-up and reciprocate in an escalating trade and diplomatic war, must be the foundation of our foreign and security policies for the next decade.



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This article from the [Summer 2021 edition](#) of the [IPA Review](#) is written by author and history scholar Paul Monk.