



CIS EVENT

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The rise of China's imperial president

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Chinese President Xi Jinping has emerged as the Middle Kingdom's most powerful strongman since paramount leader Deng Xiaoping.

In the two years following his ascension, Xi has further centralised political powers, muzzled dissidents and activists even more tightly, and pursued increasingly muscular foreign policy.

Xi has also purged political rivals with a bold anti-corruption campaign that has touched even the highest echelons of the party.

Meanwhile, the ideological foundations of communist party rule have been reinforced. 'Western values' are attacked with new vigour and the one-party state is staunchly defended as the only answer to China's mounting economic, social and environmental challenges.

Will Xi now push to amass more personal power, lay the foundations for another 65 years of Chinese Communist Party-rule, and aggressively assert China's primacy in Asia?

This event explored the likely trajectory of a presidency that is set to shape not just China but the entire world.

Professor Kerry Brown

Political leaders are so much part of our daily lives that we seldom think of what their real function is. The British historian Peter Hennessy in his book about British Prime Ministers from 2001 addressed this by posing the novel question of what, precisely, the job description of the main leader in a democracy might look like; what were their key functions and responsibilities. Ministers ran discrete parts of policy falling within their portfolios. Officials implemented. Members of parliament tried to sort out local issues and involve themselves with legislation, as did judges. What, in the end, was the person doing who supposedly sat at the top of this structure? Hennessy came up with over 20 different job elements.¹ It was a heterodox and messy list!

The great sociologist Max Weber in his influential essay on the rise of the modern politician stated that historically, leaders had fallen into two broad types – magicians or warlords.² They either used guile or force to persuade people to follow them. Times may have changed, but Weber's description still has resonance. Politicians when they campaign for office in democracies at least still sound like they are either promising miracles, or presenting themselves as being strong and decisive. In the era of science and civilization, it is ironic that magicians and warlords are still playing such a key role in our societies.

Chinese political leaders are even more of an enigma, because they emerge not from the world of party politics where we can observe them relating to other party leaders, but from within one Party, which superficially presents itself as unified and coherent. For the last two decades, the Communist Party of China (CPC) has stressed its ethos of collective leadership. It is still in recovery mode from the decades of Maoist strongman politics. The rallying call since the period of Deng Xiaoping from the late 1970s onwards has been that it is about the Party as an institution, not the people running it. The logic of this world view, therefore, is that in some senses it doesn't matter who sits at the head of the Party. As Singapore based analyst Zheng Yongnian has made clear, the Party is now the emperor, not the person leading it.

Even more bewildering for outsiders is the fact that because of this stress on unity, collective leadership, and the one party system, Chinese leaders even during leadership changes like the one which occurred through 2012 into 2013 are not about competing figures openly setting out manifestos and different policy proposals. On the contrary, unlike political leaders in multi-party democracies, leadership change is not associated, at least openly, with the possibility of policy change. It is all about continuity, ensuring that the broad framework for policy direction already set up is not being subverted or challenged. New leadership in China does not mean new meta-policies. That would be regarded as a failure and a violation of Party legitimacy.

In this context, the one thing outsiders can appreciate is just how tough it is to forge change as an individual politician in China. You inherit your framework and the broad policy drive from your predecessors when you come to power. Your job is not, unlike in democracies, to forge a new consensus. It is to continue with what has happened before, making local changes where circumstances demand it, but leaving the overall framework in place. Overt attacks on previous positions would be highly destabilising, because you are attacking your own Party and power base. This highlights the intrinsic structural conservatism of the current Chinese political model, despite its revolutionary antecedents.

Xi Jinping came to power as Party Secretary of the CPC in late 2012, and became country president in early 2013. He also became Chair of the Central Military Commission. Alongside these positions he has also accrued a raft of other roles, most of them chairing four of the eight important small leading groups where policy is often formulated and coordinated. This acquisition of so many of the trappings of power has surprised many. Even the President of the USA, Barack Obama, commented in late 2014 that Xi had consolidated power more quickly than any other Chinese leader since Deng, three decades before. Commentators inside and outside China have even stated that he is a 'Mao-like' figure, an accolade as much laden with ambiguity and subliminal criticism as with admiration.

Much of this commentary shows just how hard it is for observers to find easy narratives and frameworks within which to set Chinese political leaders. They remain hard people to pigeon hole. They do not campaign in the same ways as democratic counterparts, they do not formulate policy as the leaders of the US or Australia do, nor do they negotiate with their peers domestically in the same way. And our knowledge about them is not informed by what they did or said when they campaigned for power, simply because they never undertook tours of exposition where they tried to convince the public to vote for them. The most we know is that if they did any convincing, it was behind closed doors to an audience who are unlikely ever to say publicly what they promised.

For this reason, the speculation about Xi's powers has proved perhaps more illuminating about our conceptual and cultural confusion as outsiders than they have about the nature of actual power the figures we are thinking about hold. In the era of dense information flows, Chinese elite politics remains one of the final great black holes where so little is known, despite such intense interest and observation.

There are three areas we can look at to try to understand what the nature of Xi Jinping's power really is. The first is from the words he has said, or put his name to; the second is from the people he has kept close around him. Finally, almost three years into his Party leadership role, we can deduce a lot from what he has already done. What do these three things tell us about Xi?

We often raise the question about political leaders anywhere of what they finally believe. For someone like Xi, there is the question of whether he is a Marxist Leninist subscriber. Does he really believe in socialism with Chinese characteristics,

1 Peter Hennessy, 'The Prime Minister: The Office and Its Holders since 1945', Penguin, 2001

2 Max Weber, 'The Vocation Lectures: Science as a Vocation, Politics as a Vocation', ed David S Owen, Tracy B Strong and David Livingstone, Hackett, New York, 2004

and if so what does this really mean? Even with democratic leaders, these questions of what leaders believe are hard ones to answer. Did Britain's Tony Blair believe in Labour party philosophy? Did Bill Clinton believe in the values of the Democrat Party when he was in power? There is no straightforward answer to these questions. They did, and didn't. Their belief systems were highly individual, and there were ways in which they strayed from the orthodoxy of the Party and reshaped it, and others where they remained within its boundaries. After all, political party ideologies anywhere are dynamic, changeable things and political leaders often agents of change. The most we can say about Xi Jinping is that he believes in the unique, unifying role of the Communist Party in Chinese society and political life, he believes in its leadership function, and in its being the legitimate holder of power. He also believes in the value of stressing Chinese historic and cultural assets, and in conveying the message of China restoring itself to a great, powerful country after a century and a half of victimhood. We can be confident he believes these things because he has said them many times, before and after coming to power. More importantly than this, he probably believes in these things because they are profoundly useful to him and the Party he leads. They are also the things his colleagues in the elite believe in too. Like Deng, whether he has a profound versing in Marxist philosophy and a profound belief in it is probably neither here nor there. At most, we can say that he probably emulates his great predecessor in believing that Marxism is a useful tool for achieving what China wants. He is, after all, a political leader, not a philosopher.

From the people around him, we can see that he has a diverse, nebulous constellation of influences and networks. There are no easy 'Xi factions' to point to with a sharply defined political purpose and ideological coherency. His main allies divide into political, intellectual, institutional and family links. He is regarded as close to Wang Qishan, who has enforced the anti-corruption campaign. He has a group of more administrative influencers around him – people like the economist Liu He, the ideologue Wang Huning, and the academic turned politician Chen Xi. He also has figures in his private office, from Zhu Guofang to Ding Xueliang. All of these are more bureaucratic enablers rather than distinctive political leaders in their own right. And their prime work is functional in nature, to articulate and then promote a reform agenda set out in Party and government documents. He has also inherited a world of connections and links through his father, former elite leader Xi Zhongzun. This gives him significant political capital.

On the final question of what the leadership under him has done since 2012, the most conspicuous issues are to have outlined a market-based philosophy of reform where economic change is still stressed as fundamentally important, and to have waged a campaign to clean up Party, government, state enterprise and military elite and administrative leadership through clamping down on graft. If the implementation of these has been more purposeful than previous leaderships, their general objectives are not different from anything prosecuted under Jiang Zemin or Hu Jintao. Xi Jinping is not promoting a radical change in Party function and philosophy in the same way that Deng Xiaoping did after 1978. He is working with the broad parameters of the Dengist reform agenda.

Xi's political leadership is shaped by the context in which he is working. Here he is no different to leaders anywhere. He has to work with what he has. China is undertaking a tough transition to middle income status by 2021. It has to avoid a number of traps, from the middle income one to seeing inequality run out of control, or the economy seizing up. The environment and natural resources of China, its public health and education system, and its state enterprises, all need attention. This was all set out in the 2013 Plenum decision and other places. In this era, the pressures on the Party leadership are very great. Succeed, and it achieves the dream of Chinese full modernity that has been a part of the Chinese ideosphere for over a century. Fail, and it falls back into the nightmare of history, disunited and broken, a problem for itself and the world outside.

In this context, it is truly odd to speak of Xi as a 'strongman' like Mao, or some new kind of Communist Party emperor. As of 2015, he looks and sounds strong because the Party has made him so. He has been its faithful servant all his life, unlike Mao, who moulded it, transformed it, and in the Cultural Revolution, bullied and decimated it. Everything Xi's leadership has so far done shows that he is a faithful follower of the parameters of Dengism, not someone setting up a different set of parameters to work within. If we want to understand Xi's power, we need to look at the Party he is in charge of. And the role of the Party in Chinese society, its culture, history, and philosophy are the reason why leadership in China is different to leadership in other political environments. If we bear this in mind, we have a chance of understanding Chinese modern politics. The moment we get personal, as we so often do in western contexts, is the moment we start to lose the plot.

Professor Kerry Brown – Executive Director, China Studies Centre and Professor of Chinese Politics, University of Sydney.

Peter Cai

As an economic journalist in Australia I think I should start the presentation with the iron ore price, which at the moment is hovering around \$40 — and it is pretty hard to be bullish about China's economy when iron ore prices are trading at \$40. It can be said that President Xi Jinping inherited the Chinese economy possibly at the worst time. When he became Secretary-General to the CCP, China's golden decade had just ended. Before that it had grown at double digits, but when he took over it was about 7.7%. Now in this year, 2015, there is a lot of doubt over whether China can even deliver 7% — which was inconceivable just a few years ago.

During the GFC we had a great time. China had a massive \$4 trillion stimulus package, an R&D stimulus package combined with a \$10 trillion credit expansion. It saved a lot of people, including Australia and Brazil. BHP, Rio Tinto had a lovely time, but courtesy of that it created a lot of problems for Xi Jinping. The number one and well-known problem was local government debt. Before China implemented the package, the country was in a very fiscally strong position but since the GFC stimulus package China's local debt at a most conservative estimate has increased from \$3.9 trillion to \$10.8 trillion, according to China's National audit office.

But if you look at various estimates from Merrill Lynch or McKinsey the picture is much worse. Basically China's local debt increased quite dramatically during that time and now we have a large problem to deal with. Not just local government debt but also China's corporate debt. According to S&P (if you still believe them after the GFC), the credit rating deteriorated significantly. Once again, before 2007 Chinese companies were in a very strong financial position; significant cash flow, very little leverage. But after the GFC they borrowed very heavily, so now the Chinese corporate debt is actually larger than the United States'... some \$13 trillion. So that's quite a large problem for China — local government debt and corporate debt all courtesy of the massive stimulus package.

The second one is an associated problem: an excess capacity. An example of what a big problem China has is Hebei province next to Beijing — a very polluted place, basically home to seven out of the 10 most polluted cities in China... very unpleasant. It's the second largest producer of steel in the world. It produces 185 million tonnes which is 23 times Australia's national production and larger than the combined output of Japan and South Korea. Just one province, now with so much stuff no one wants. The international market for steel products is completely depressed and that's why we're enjoying a relatively low inflation. That's one of the reasons the world is having a problem with deflation.

So the Chinese Government wants to curb excess capacity. Hebei Province alone is being tasked with an almost impossible task to reduce steel production by 60 million tons by 2017. If they can carry out the task 200,000 people will lose their jobs directly and another 400,000 will lose their jobs indirectly. As you can imagine, local officials are not really willing to carry out this task, so it's problem number two.

I only want to mention two problems as I don't want to get you too depressed on a Monday night. As you can imagine, however, China has more problems than I have mentioned. So how should Xi Jinping and his team take on this challenge? At the end of 2013, the government published a very comprehensive 60-point reform program. It is really heartening to see the blueprint, which is quite impressive. But like any other strategy, the implementation is the most tricky and difficult part. In this session I will address three to four problems, depending on time.

Let's start with the local debt. This is quite an epic problem. How does China's government deal with this problem — and first, to his credit, he has not used his old tricks. If you read in the financial papers the speculation that China will engage in another round of stimulus packages, I think most of the time you can ignore it because it is just speculation. They think that every time there is a problem in China the standard solution is to open the purse and all the problems will just disappear.

But to the credit of China's central bank and to the leadership team, they have not engaged in another round of irresponsible credit creation. The central bank's governor is quite an impressive guy with very solid economic credentials so he's been holding firm on that front.

The second problem is, if you look at the problems in terms of local government debt, the first thing you want to get is a true sense of how big the problem really is. So China's National audit office has been doing a reasonable job in this area but I think the numbers must be truly scary. We basically told all the provincial governments to go back and look at the books again because some of the numbers are just incredible on many different fronts, either they are too high or too little, so they don't believe their own numbers.

In the latest round, due by end of the last month, all the provincial governments were supposed to hand in their latest figure and it was supposed to be absolutely accurate because they were used as a benchmark for future policy making. The results were quite scary. Only one province, Hainan province, revised the figure and it is close to about one third higher than the original number. Why did they come clean on this? Because the central government is going to implement a debt swap program. They are going to basically replace all the American short-term, high interest debt with a central government backed low-interest low maturity program — so it's a bit of an incentive for them to come clean on the dirty laundry.

So Hainan is the first one to come out with the true figure I think. We're waiting to see whether more provinces come out with more scary numbers, and it's likely. The debt swap program is the first concrete step to actually deal with the local debt problem. If you look at the official figures there is a massive repayment crunch coming in the first half of the year so with the debt swap program at least it can push back the problem so local governments have a bit of manoeuvring space to deal with the problem.

Another strategy for solving the debt problem is basically to use this wonderful thing called PPP. There is a lot of

business opportunity to go to China and advise them on the wonderful PPP program. I can tell you that China is not that attractive at the moment, so the response is a bit underwhelming because the PPP requires a pretty sound legal system. When you have a government who can arbitrarily take away your properties and your assets, and et cetera it doesn't look quite attractive at the moment. So the debt program is the first one and I think they're making some pretty good progress in this area.

The second one, just to give you a bit of optimism in China, is in the financial sector reform. Actually there has been a lot of reform in this area. The first one is the insurance deposit scheme that will start next month so that is good news. China has been talking about it for 20 years so finally it is going to happen.

Why is it important? Basically for a very long time everyone just assumed that the Chinese government would pick up the tab. All the financial institutions, banks and et cetera all assumed that Beijing would pick up the tab at the end, so all of them could act quite irresponsibly in terms of lending to local government and companies and so on. This created the well-known problem of moral hazard. Now they are going to introduce an insurance deposit scheme which means basically all deposits up to half a million RMB, about a hundred thousand Australian dollars will be covered. So what does it mean in the future? I think Beijing will allow some selective defaults. This will teach a lesson about moral hazard, a very useful lesson. So that's the number one, the first reason to be optimistic about financial sector reform.

The second reason is interest rate liberalisation. I am going to introduce a concept called financial repression here. For a very long time it simply meant Chinese banks were enjoying a very fat margin without doing much work. The Chinese banks are some of the worst managers in the world but have some of the healthiest profit margins. So for very many years they have been living off the poor depositors in China and China's depositors have had to put up with this so the wonderful industrialisation process in China can happen.

All this credit was being channelled into China's factories et cetera, and especially state-owned firms which enjoyed all this very cheap credit. So that is likely to end in two years' time if you can believe the promise of the Chinese Central Bank's governor. Some tentative steps have been taken. The most important ones are deposit ones.

At the moment they can move up to about 20% of the benchmark price so in the future, hopefully within two years, the Chinese central bank will fully liberalise interest rates. When that happens it will present Chinese savers with a lot more options than what is currently available — which is not much. So if that happens it will be a huge landmark in terms of Chinese financial sector reform.

One thing that is actually pushing this along is the work of wonderful companies like Ali Baba. I think they are raking in deposits at the rate of something like 4 million RMB a second. I can't remember the exact figure. The money market fund they are running is close to 1 trillion RMB because you can shift your money just like that, and they give you a very attractive deposit. So as a result, Chinese savers are putting money into this money market fund run by Ali Baba, this internet giant... so it is giving them an additional impetus to reform. I think this is going to happen and I had an interview

with the Chairman of the Construction Bank of China when he was in Australia. He actually said his bank, the second largest bank in China, is actively preparing for the day when interest rate liberalisation is going to happen because at the moment their largest profit centre relies on this financial repression, relies on this guaranteed profit margin thanks to the central bank. But at the moment they are going into all kinds of different areas — aircraft leasing, private wealth management, et cetera. So that is another thing that is quite interesting that is happening in China.

So, the third problem, state-owned enterprise reform, is one of the most tortured areas for reform in China. This is another one of these litmus tests when it comes to how willing and determined Beijing and this current government are to tackle the reform problems in China. As it is, these state-owned enterprises — if you look at the Fortune 500 list — are some of the most powerful, most well capitalised companies in the world... all China's big four commercial banks and et cetera; very powerful. They soak up so much of the resources from the financial sector, are totally inefficient, and if they can be reformed according to China's own calculation it can potentially add another 1.5 to 2% to their GDP which is about US\$1.5 trillion in terms of additional productivity — if they can be effective in terms of using their capital just like their private counterpart.

So this is a huge area — a lot of reform, a lot of talk about reform. They are supposed to release some blueprints very soon but there is only one case, I think, so far that looks promising. Sinopec, one of the largest oil companies in China, is actually going to auction off a large chunk of its retail arm — we're talking about 50,000 petrol stations and however many hundred thousand shops associated with it. This is actually one of the cash cows of the company, so they invited a lot of private bidders — both Chinese and foreign — to take part in this, and the idea behind it is that they want not just the cash but also managerial expertise. So they basically want to introduce some talent into their management system so they can become more efficient. And the second model they are looking at is the Singaporean model to turn the Chinese state-owned enterprises into capital management companies like Temasek or the Singaporean government investment corporations. So instead of playing a triple role of a regulator, manager and capital owner, their job in the future will become in a way a capital owner of the company. So they lacked professional managers to run the firms. A lot of CCP senior officials from organisational departments which appoint all senior executives in China, and people from the China Investment Corporation made a lot of trips to Singapore to the Temasek headquarters and that's a lot of what they are trying to learn... perhaps implement the Singaporean model when the reform for the state-owned enterprises comes through.

When I am talking about state-owned enterprises, what is a bit encouraging is the corruption crackdown in China. We have seen that a lot of senior executives from the state-owned sector have been arrested — especially from the oil sector connected with the disgraced head of security in China. So a lot of people think this is actually a bit of a precursor for SOE reform. Let's hope that is true.

On a final note, I think another very significant economic policy under Xi Jinping that I will just mention is the Asian Infrastructure Investment Bank. I think it is not possible to

talk about the Asian Infrastructure Investment Bank without mentioning Xi Jinping's signature policy, the so-called 'One Road One Belt' strategy. It is basically about expanding infrastructure investment and trade and et cetera and connecting activities between China and Southeast Asian countries and China into the central Asia region. I think this is one of the most significant international economic initiatives from Xi Jinping. He talks about it a lot and at different forums —and everyone in China wants to get a piece of the cake.

Just to round off my presentation, one of my friends from university is into a kind of aquaculture business in China. One day he gave me a call and said I want to go to Shinjao. I said why do you want to go to Shinjao and he said have

you heard about the One Road One Belt strategy? This guy studied accounting at Deakin and is an interesting, small-time businessman and given his interest in the grand strategy of One Road One Belt it must get a lot of attraction in China.

On a final note and once again to give you a bit of optimism, one of my favourite China analysts, a former journalist, Arthur Kroeber actually said, and I agree with him, that a lot of people are basically saying that there is not much sign of reform in China, not much is happening, not much progress, a lot of empty promises. But he said if you compare what China has done with some of Obama's administration and other major Western leaders, Xi Jinping actually doesn't look that bad.

Peter Cai – Editor, *China Spectator*

Dr Benjamin Herscovitch

Introduction: The indirect threat of China's rise

On an unusually sultry spring day, I was speaking at a Beijing think-tank on the topic of preserving peace in the Asia-Pacific as China rises. During a lively question and answer session that followed the formal presentation, one middle-aged Chinese man was especially energetic and emphatic. He took particular exception to my claim that the United States would remain a source of security for many Asia-Pacific nations for decades to come. The room bristled with tension as he responded roughly as follows:

Your opinions reflect the Australian view; the very, very naïve Australian view. You think that we can all just get along; you think that things can stay the same. This is all deluded wishful thinking. Things have changed fundamentally and you have to make a choice. Either, you continue to rely on the protection of your old, powerful friend on the other side of the Pacific Ocean. Or, you accept that we're in a new world now; a world in which the global power hierarchy is being reordered. In this new world, things are not going to work as they did during the period of unrivalled US global leadership. That period of world history is dead, and your way of thinking must now die too.

Although the question of how precisely Australia and other Asia-Pacific nations should change their foreign policy settings was left unanswered, the implications of his question-cum-statement were clear. A tectonic shift in global power is underway, and although the United States might remain the preponderant Asia-Pacific power for the moment, the days of US strategic primacy are numbered. Australia and other Asia-Pacific nations must therefore come to grips with the impending reality of the end of the decisive US strategic leadership on which they have depended for their security and reorientate their foreign policy accordingly.

The diplomatic wrangling during the southern summer of 2014-15 over the colossal Chinese-led Asian Infrastructure Investment Bank (AIIB) made plain that the shifting balance of power the questioner was alluding to was real and was forcing fraught diplomatic dilemmas on nations across the Asia-Pacific and beyond. Despite vigorous lobbying from Washington, the spectacular failure of US attempts to dissuade its allies and partners from signing up to the US\$100 billion AIIB is the latest dramatic litmus test of relative US impotence in the face of China's rapid resurgence. The United States was even unable to persuade stalwart allies like Australia and the United Kingdom—both of which depend on US security guarantees—to stay out of the AIIB.

Although the stated source of US suspicion was the AIIB's apparently substandard governance structures, the proposed bank arguably provoked so much fear and loathing in Washington in part because of US insecurities about China assuming a leadership role in key institution of global

governance. Whatever the origin of US discontent, this latest sign of the emergence of a post-American Asian order should prompt fresh reflection on the strategic implications of China's rise for Australia.

Considering China's likely external policies under President Xi Jinping yields a sobering conclusion: China's rise is a security threat to Australia, albeit of an unconventional kind. First, the good news: Sino-Australian relations are not burdened by directly clashing strategic interests. Unlike many of Asia's great and middle powers, including India, Malaysia and Japan, Australia is not locked in any territorial disputes with China. Moreover, with trade, investment and people-to-people ties extensive and getting deeper, Sino-Australian relations are overwhelmingly defined by "mutually beneficial cooperation," as Chinese political leaders and officials so often say.¹

Nevertheless, the indirect and long-term threats posed by China's rise are dangerous—and steadily becoming more dire. China might not intentionally and directly threaten Australian interests, and yet its rise endangers peace and security in the Asia-Pacific, and by extension Australia's security and prosperity. China's determined territorial revisionism in the East and South China seas and on the Indian subcontinent combined with Australia's security commitments towards the United States and US allies and partners in the Asia-Pacific risks drawing Australia into regional security contingencies and perhaps even war. Meanwhile, China's rapid military resurgence is fuelling strategic uncertainty in the Asia-Pacific that could undermine the reliability of US security guarantees in the region and sour all-important Sino-US relations.

The threat of territorial revisionism

One of the hallmarks of Chinese foreign policy under Xi is the steadfast pursuit of claims to contested territory in the East and South China seas and on the Indian subcontinent. In the last two years alone, China has launched a controversial Air Defense Identification Zone (ADIZ) over disputed islands in the East China Sea; stepped up its construction of artificial islets in hotly contested waters in the South China Sea; maintained its crowded schedule of border incursions into Indian-administered territory on the Tibetan Plateau; and attempted to force civilians and security personnel from competing claimant states out of disputed territory on numerous occasions. Meanwhile, Beijing has pursued an aggressive information war against its maritime and continental neighbours via the Chinese and international media in a bid to delegitimise their competing territorial claims and create the impression that Japan, Vietnam, the Philippines and other territorial claimants are guilty of aggressively upsetting the *status quo*.

Given these active attempts to either seize disputed territory outright or bolster Chinese claims to contested land and sea, it is unsurprising that Beijing's official policy statements on territorial disputes are utterly uncompromising. China's expansive territorial claims are a key priority of Chinese foreign policy and are often said to concern the country's 'core national interests,' including 'national security,' 'state

sovereignty,' and 'territorial integrity.'² Accordingly, Chinese Foreign Minister Wang Yi has pledged to "defend every inch of territory" that belongs to China, and has repeatedly emphasised that "there is no room for compromise in territorial issues."³

China's explicit commitment to seizing contested land and sea and aggressive policies to achieve these territorial ambitions mean Asia's territorial disputes form an arc of geostrategic instability stretching from Northeast Asia through Southeast Asia and on to the Tibetan Plateau. As demonstrated by the aerial and naval brinkmanship and divisive diplomatic stoushes between China and Japan, the Philippines, Vietnam, India and other Asian nations, Beijing's determined territorial revisionism jeopardises peace and security in the Asia-Pacific. Moreover, with many Asian nations appealing to the United States to help block Chinese territorial aggrandisement, these disputes also act as a dangerous irritant to smooth Sino-US relations. Finally, given that many of these territorial disputes centre on busy waters in the East and South China seas, they also imperil crucial East and Southeast Asian shipping routes on which Australia and other trading nations depend for their prosperity and economic security.

Australia's predicament is, however, more precarious still. Canberra's security treaty with Washington calls on Australia to act to defend the United States in the event that its territories, armed forces, public vessels or aircraft are attacked. Combined with US security guarantees to Japan, South Korea, and the Philippines — and testy territorial disputes between these nations and China — Canberra's alliance obligations to Washington could easily see Australia dragged into a security contingency or even a war with China. If Japan, South Korea or the Philippines became embroiled in an escalating armed conflict with China over disputed territory, US security commitments mean that there is a high chance that the United States would become involved, which in turn entails the high chance of Australian participation in a conflict with China.

For example, US President Barack Obama has explicitly stated that the US-Japanese security treaty applies to the Japanese-administered but Chinese-claimed Senkaku/Diaoyu islands in the East China Sea. Although a Chinese assault on these islands would therefore likely entail US military involvement, it would only require an Australian response if the aggression also constituted an attack on the United States. Nevertheless, the high likelihood that such a security contingency involving China, Japan and the United States would also involve an attack on the United States means it is probable that Chinese aggression over the Senkaku/Diaoyu islands would activate Canberra's security commitments towards Washington and draw Australia into a conflict with China. Moreover, Australia's deep diplomatic and political bonds with the United States and post-World War II record of consistently assenting to US requests for military support are likely to create an overwhelming expectation in Washington that Canberra should join the fight against China in such a scenario.

Australia's fortuitous position on Asia's periphery means China's expansive territorial claims do not pose a direct security threat to Australia. However, China's determined pursuit of policies of territorial revisionism under Xi constitutes a potent and growing indirect threat to Australia. Canberra's security commitments to Washington combined with US security commitments to key Asia-Pacific nations

mean Australia could easily be drawn into a conflict with China as Beijing works to realise its expansive territorial ambitions.

The threat of strategic uncertainty

Even if Australia is not thrust into the midst of a Sino-US war born of one of Asia's many territorial disputes, China's rise will still produce destabilising strategic uncertainties that pose a long-term security threat to Australia. A central plank of Xi's signature 'China Dream' or 'great renewal of the Chinese nation' is the resurgence of Chinese power on the world stage, or, as Xi himself puts it, "an ever-stronger national defence and armed forces."⁴ Accordingly, China's already massive official defence budget of US\$130 billion will expand by a whopping 10% in 2015. Already the world's second biggest military spender, the China-led rewrite of the globe's military hierarchy is set to continue. A plausible projection in which China eventually spends the equivalent of roughly 4% of its GDP on defence would see Chinese military spending balloon to a staggering US\$2.1 trillion by mid-century.⁵ This would make China's defence budget the world's largest by a wide margin, and roughly the equivalent of 124% of US military spending in 2050.⁶

Although the Chinese strategic resurgence is not by its nature a security threat to Australia or the Asia-Pacific more broadly, it is nevertheless creating deep and dangerous strategic uncertainties on two different fronts. It is fuelling widespread doubts about the future of the US security presence in the Asia-Pacific, which translates into doubts about the US role as a security guarantor for a host of Asia's great and middle powers. At the same time, the Chinese strategic resurgence is also prompting challenging existential questions about Sino-US relations.

Since World War II, the United States has underwritten the Asia-Pacific's relative peace and security as the hub of a system of alliances and partnerships that includes allies like Japan, South Korea, the Philippines, Thailand and Australia, and security partners like Taiwan and Singapore. With China's rapid military resurgence and relative US decline, regional powers wonder whether this US-led 'hub and spokes' security system is a sustainable model for regional peace and security. Notwithstanding the much-vaunted US 'pivot' or 'rebalance' to Asia, officials and analysts from key US allies and partners in the region now quietly—and sometimes publicly—question Washington's ability to be a reliable security guarantor in an age of Chinese military primacy.

These growing regional strategic uncertainties are compounded by confusion surrounding the future of Sino-US relations. China and the United States have at different times both voiced support for operationalising a so-called 'new model of major power relations' that will apparently ensure peaceful and mutually beneficial ties between the globe's two greatest powers.⁷ But Beijing and Washington have contradictory visions of this 'new model.' China implicitly interprets it to mean that the United States will gracefully step aside and allow it to assume its rightful position as the world's premier power, while Washington takes it to mean that Beijing will not challenge the US-led liberal world order with its revisionist aspirations.

It would obviously be unfair to level blame on China for strategic uncertainty. Rather, strategic uncertainty is simply the natural by-product of the reform-driven Chinese

economic and military resurgence and relative US decline. Although the Asia-Pacific's strategic uncertainty might be blameless, it certainly poses a real threat to regional peace and security. War is by no means inevitable, and yet rivalry and misjudgement are increasingly likely as Asia-Pacific nations navigate brave new strategic uncertainties. Great and middle Asian powers, including nations like Japan and Taiwan with their intense enmities towards China, will need to grapple with the awkward combination of the declining power of their long-time security guarantor and the expanding military might of their erstwhile bitter enemy. At the same time, the once-preponderant United States will need to come to terms with the chastening effect of unassailable Chinese military power in the Western Pacific. Finally, China will face great difficulties as it attempts to cultivate trust among its nervous diminutive neighbours, many of whom have suffered from recent Chinese aggression.

The rapid expansion of Chinese military power does not pose a direct security threat to Australia. However, dangerous strategic uncertainties will intensify as China's rise continues under Xi. The challenge of finding security in an era in which US military primacy has passed will need to be confronted, while the United States and China will need to seriously grapple with the complex task of reaching a diplomatic settlement that reflects the changed reality of relative US decline and a Chinese resurgence.

Conclusion: The Chinese lion awakens

Xi regularly seeks to soothe fears about China's rise. Using especially emphatic terms during a visit to Germany in 2014, Xi said China is not a "terrifying Mephisto who will someday suck the soul of the world."⁸ Xi is, of course, right. China has no interest in entirely upending the Asia-Pacific's liberal international system. China might be dissatisfied with certain aspects of the global *status quo*, most notably elements of prevailing human rights norms and Asia's territorial *status quo*. Yet Beijing understands that it benefits immensely from essential features of the current world order, including the relatively free global movement of goods, services and capital and interstate peace. By way of response to the Napoléonic quotation that it would be unwise to wake the sleeping Chinese lion, Xi last year remarked: "Today, the lion has woken up. But it is peaceful, pleasant and civilised."⁹

Yet even if China does not intend to upset the Asia-Pacific's peace and security, its rise risks unleashing diabolically dangerous forces. As China rises, peace and security in the region could be jeopardised by what no nation in the region wants: A war over desolate islets in the East or South China seas or spiralling Sino-US tensions. Australia's security and prosperity are therefore threatened by China's rise irrespective of Chinese intentions. Indeed, China's rise might push the Asia-Pacific into a territorial war and strain Sino-US relations to breaking point despite Beijing all the while wanting the peaceful resolution of territorial disputes and a new 'win-win' model of major power relations with the United States. To extend Xi's animal metaphor, the effects of a lion awakening are so disruptive and momentous that they can have deadly consequences even when the lion is peaceful.

With territorial disputes and strategic uncertainty producing so many powerful strategic eddies and whirlpools in the

Asia-Pacific, preserving peace and security will demand deft diplomacy from Beijing, Washington and other regional capitals as China rises. Canberra should not be scared into viewing China as first and foremost a threat, but equally cannot afford to be Pollyannaish. China is unlikely to ever directly threaten Australia's security and prosperity, and yet Beijing's territorial revisionism and the strategic uncertainty created by China's rapid military rise could easily jeopardise the Asia-Pacific's peace and security, and thereby indirectly threaten Australia's security and prosperity.

Endnotes

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- 4 Xi, J 2014, 'Build Strong National Defense and Powerful Military Forces', in *The Governance of China*, Foreign Languages Press, Beijing, p. 241; Xi, J 2014, 'Build up Our National Defense and Armed Forces', in *The Governance of China*, Foreign Languages Press, Beijing, p. 239.
- 5 For further details, see Herscovitch, B 2015, 'China's path to global military dominance', *Business Spectator*, 11 March, viewed 15 April 2015, <https://www.businessspectator.com.au/article/2015/3/11/china/chinas-path-global-military-dominance>.
- 6 As above.
- 7 The White House 2013, *Remarks As Prepared for Delivery by National Security Advisor Susan E. Rice*, The White House, viewed 15 April 2015, <https://www.whitehouse.gov/the-press-office/2013/11/21/remarks-prepared-delivery-national-security-advisor-susan-e-rice>; Wang, Y 2013, *Toward a New Model of Major-Country Relations Between China and the United States*, The Brookings Institution, 20 September, viewed 15 April 2015, <http://www.brookings.edu/~media/events/2013/9/20-us-china-foreign-minister-wang-yi/wang-yi-english-prepared-remarks.pdf>.
- 8 Xi, J 2014, 'China's Commitment to Peaceful Development', in *The Governance of China*, Foreign Languages Press, Beijing, p. 290.
- 9 Ng, T & Chen, A 2014, 'Xi Jinping says world has nothing to fear from awakening of "peaceful lion"', *South China Morning Post*, 28 March, viewed 15 April 2015, <http://www.scmp.com/news/china/article/1459168/xi-says-world-has-nothing-fear-awakening-peaceful-lion?page=all>.