



## **The Hon. Kevin Rudd MP**

### **THE NEED FOR A NEW US-CHINA STRATEGIC ROADMAP**

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The end of 2012 has seen three very different electoral processes take place for the world's three largest economies.

President Obama was re-elected here in the United States and will hold office until early 2017.

Xi Jinping was appointed General Secretary of the Chinese Communist Party and Chairman of the Central Military Commission where he will remain until at least 2017, and in the absence of domestic political catastrophe, will retain those positions as well as the Presidency of the People's Republic until 2022.

And then yesterday in Japan, nationalist LDP leader Shinzo Abe was elected in a landslide as Prime Minister - Japan's eighth Prime Minister since 2001 - but given the size of his likely super majority in the Japanese lower house, he now has a reasonable prospect of serving a full four-year term.

My core argument is that much of the strategic, political and economic future of the Asian hemisphere for the first half of the current century is likely to be crafted, either by accident or design, by the decisions taken in Washington, Beijing and Tokyo over the next four to five years.

I also argue that if our common objective is for an Asian hemisphere based on a regional order that both maintains the peace and maximizes open economies, open societies and increasingly open politics, this is far better engineered by common strategic design rather than consigning our hopes to the prospect that it will all somehow simply work out in the end. Strategic drift is not an option. China for one does not operate that way. Nor should the rest of us.

I then put forward three basic propositions: first that for a range of reasons, we should not discount the possibility that Xi Jinping could turn out to be a transformational leader, or at least a leader that at this stage the United States can do business with at the strategic level; second, despite this, the Chinese do not have the bureaucratic culture, institutional capacity or probably the political will within their own system to develop a new strategic framework for redefining US-China relations either at the regional or global level; and third, that if there is to be any strategic redefinition of this relationship for the future, it would need to be generated by the United States as the world's remaining super power and put to the Chinese as a possible new historic "communiqué" in a similar historical tradition to that of the two previous communiqués of 1972 and 1979 which established much of the architecture of China-US relations which prevails to this day.

Some will question why any of this is really necessary. My response is that the strategic decision by the Obama Administration during its first term to "rebalance" to Asia was absolutely right in conveying a clear message to the region that America is strategically there to stay.

But having re-established the "realist" foundations of the United States' position in Asia, the time has now come to build on those foundations and construct a framework of strategic cooperation with the Chinese, both globally and regionally. This is not a substitute for "hard power" which our friends in China understand very well. In fact it seeks to supplement that hard power by now seeking to institutionalise a new cooperative strategic relationship with Beijing which seeks to minimise the possibility of conflict and manage issues of contention, while maximising now what the two countries can do together.

Prior to the rebalance, such an approach would have been written off as idealistic claptrap by the Chinese. After the rebalance, despite public protestations to the contrary, from many in Beijing, a new framework for strategic cooperation is more likely to be greeted with greater credibility in mapping a constructive path for the future. This would particularly be the case if the Chinese concluded that the absence of such a cooperative framework may increase the possibility of regional tension,

conflict or even war, thereby undermining China's economic development agenda which remains central to the leadership's ambitions for the decade ahead.

Others will question why there is any particular urgency to this task given that history teaches us that every generation believes its challenges are of unique significance? The truth is that we are living through a decade of profound global transformation when China is likely to emerge as the world's largest economy. And when this occurs, it will be the first time since George the Third that a non-English speaking, non-Western, non-democratic state will dominate the global economy.

Anyone who assumes that political, foreign policy and strategic power are not ultimately derivative of economic power is blind to history. It is therefore far better that these global and regional order challenges be confronted now while we are in the midst of a period of transition, particularly given that the strategic guidance contained in the Chinese Communist Party Work Report of the 18th Party Congress is centred on solidifying the domestic and international foundations for China's development as a great power.

This brings us in turn to the core question of China's new leadership and whether the United States, the West and the rest can do business with Beijing on these critical challenges of our time.

### **China's New Leadership**

It's important that we have an understanding of the political and policy orientation of the new Politburo Standing Committee. And, in doing so, I make these judgements based on their careers so far, what they have said most recently, and having spent a reasonable amount of time in conversation over the years with four of the seven, most extensively with Xi Jinping and Premier-elect Li Keqiang when they visited Australia while I was serving as Prime Minister.

Xi Jinping is comfortable with the mantle of leadership. He is confident of both his military and reformist background - both through his father's career and his own. He therefore has nothing to prove to either constituency. He is widely read and has an historian's understanding of his responsibilities to his country. He is by instinct a leader, he deeply admires Deng Xiaoping, and is highly unlikely to be satisfied with the safe option of simply maintaining the policy status quo. He speaks directly and, in my experience, without notes. Of all his predecessors, he is the most likely to become more than a simple *Primus inter Pares*, albeit still within the confines of collective leadership. Let us not forget that Xi Jinping was appointed immediately as

Chairman of the Central Military Commission, unlike his predecessor who had to wait two years until Jiang Zemin finally relinquished the position.

These attributes have been on display in the 30 days or so since Xi became leader. Unlike his predecessor, he released his first public statement within three days, stating starkly that corruption could destroy the Party and drawing direct analogies with the Arab Spring: "In recent years ... A number of countries have experienced popular anger, street protests, social unrest and regime collapse. Corruption was among the most important of the reasons." No Chinese leader has ever been this explicit before about the potential collapse of Party legitimacy.

In a hugely symbolic move, Xi also decided to travel to Shenzhen where Deng had launched the first of China's Special Economic Zones (SEZ) more than 30 years ago. The SEZs are the embodiment of the entire program of internationalizing the Chinese economy. Not only was Xi stating that Deng got it right, he was also emulating Deng's so-called "Southern Expedition" 20 years ago in 1992 when, following the conservative reaction to Tiananmen in 1989, Deng went back to Shenzhen to state that reform now needed to proceed even faster. Almost exactly 20 years later, Xi returns to the heartland of the Chinese economic reform and opening project and tells the Party and the nation that there must now be more reform.

Lest we conclude from all of this that Xi has forgotten his military background, Xi also in late November made a public point of lauding Luo Liang the architect of China's carrier-borne aircraft program, as being the father of China's rising status of being a "maritime power". Official Chinese media immediately echoed Xi's statement, declaring Luo to be "the new Qian Xuesen", the latter being the father of China's nuclear program.

Finally there is also the question of style, where Xi is seeking to make an immediate and radical departure from his predecessors. He has not sought to heap praise on Hu Jintao's accomplishments as would normally be expected. Instead he has issued a stern rebuke to the Party apparatus saying that there are too many content-free press statements by leaders, too many content-free ceremonies, and simply too much "going through the motions" in the formal engagement of the Party. And to give visual illustration to the dictum he issued to the first meeting of the Standing Committee over which he presided, during his later visit to Shenzhen he chose to travel by mini-bus, not limousine, not closing down the traffic system and not having wall-to-wall coverage by the official media – instead relying in large part on Chinese social media to get the message across that, despite being a princeling himself, he

did not intend to behave like one. This is an important measure in re-legitimising the Party in the eyes of the people, given universal contempt for Party privileges.

So what of the rest of Xi Jinping's team? Rather than give a lengthy dissertation of the character and policy predilections of the rest of the standing six, my overall conclusion is that the overwhelming centre of gravity lies in the direction of the further structural reform of the Chinese economy; a cautious approach to what is described in the Chinese system as political reform; while an open question remains on future directions on foreign policy and security policy given that none of the standing seven have a particular background in these domains. The only possible exception being Wang Qishan who over the last five years has accompanied Hu Jintao to G20 meetings and who, for some time now, has led the Chinese side of the US-China Strategic and Economic Dialogue. It is significant that Wang arrives in Washington today as Xi Jinping's first emissary to the Americans following the leadership change last month. I believe Wang will be a critical figure in the overall direction of China's future international engagement. And because economically he is an internationalist, this may help mitigate against some of the more primordial influences of China's political establishment.

### **Policy Priorities**

If this is the nature of China's new leadership, then what are their policy priorities likely to be over the next five years? In answering this question, sometimes analysts perhaps speculate a little too much on the tea leaves rather than look at the open source documents that the Chinese leadership themselves produce to explain their priorities to an 82 million member Party and to the nation at large.

The core document to be examined is the 18<sup>th</sup> Party Congress Work Report which, like its previous editions going back to the 1980s, is used to provide strategic guidance on the Party's priorities for the upcoming five year period. Xi Jinping himself has led the drafting team that completed the Work Report which was supported by (and only the Chinese would see virtue in telling us all this) 46 individual investigatory units producing 57 separate reports on issues ultimately incorporated in the work report itself.

To the extent that Communist China has a policy bible for the next five years, together with the 12<sup>th</sup> Five Year Plan, the Work Report is about as close as you get.

In a recent analysis by Timothy Heath, it is argued that the Work Report “presents the functional equivalent of a desired strategic end state and interim strategic objectives to support that end state along with timelines for each”.

- On the economy the Work Report argues clearly that economic development remains the “key to resolving all problems in the country” and therefore a “new development mode is needed”.
- On political reform, the Work Report emphasises “systemic reform to standardised decision making processes, institutionalised procedures and strengthened laws and regulations” in part in response to the “grave threat” posed by corruption.
- Heath argues persuasively that the section on foreign policy guidance contained in the Work Report stands out for the sharpness and specificity of its guidance compared with previous versions. The Work Report specifically identifies the following tasks for the next five years:
  - Revision of great power relations;
  - Consolidation of China’s influence in Asia;
  - Leveraging developing powers to promote reform in the world order;
  - Leveraging multilateral institutions to encourage reform of the international order; and
  - Protection of Chinese rights and interests in the maritime and other domains

Of all these international imperatives, the one which stands out most starkly from the previous Work Report is that for the first time China defines itself as a “maritime power” that will “firmly uphold its maritime rights and interests”. Critically, the reference to China as a maritime power is included in the section dealing with resource security.

### **Economic Reform**

The first priority of this new Chinese leadership is the further reform of the economy in the context of a weakened global economy over the last five years and facing limited prospects of rapid global economic recovery.

The new Chinese leadership is sufficiently experienced to know what must now be done with the Chinese economy in order to sustain high levels of economic growth, continued increases in living standards, the lifting of the remaining hundreds of

millions of Chinese people still in poverty into a better life, and providing sufficient jobs for the tens of millions of young, educated Chinese bursting into the labour market each year.

China knows it must now change its economic growth model from one that has served it well for the last 30 years to one which will sustain it over the next 30.

In the 12<sup>th</sup> Five Year Plan, the Chinese recognised that the old growth model (based on low wages, labour-intensive manufacturing for export made possible by high levels of state investment underpinned in turn by high levels of domestic savings) has already reached its use-by date in China's coastal provinces, a reality that is working its way westwards across China's central provinces and to Sichuan in the West.

The leadership has concluded that the new growth model should be based instead on higher levels of domestic consumption, lower savings, more generous government safety nets, the rapid expansion of the services sector to meet China's equally rapid urbanisation process as well as greater opportunities for private capital.

I believe the new Chinese leadership may well embrace the following policy directions.

We are likely to see further market reforms of the Chinese economy.

I believe we'll see reforms to China's state-owned enterprises and the possible privatisation of some.

I believe we'll see reforms to the Chinese financial services industry and a greater ability for Chinese private enterprises to have easier and more competitive access to finance, and to sustain and expand their operations.

I believe we'll also see further reforms to Chinese currency markets which over time are likely to make Chinese imports more competitive in the domestic market.

### **Political Reform**

Many have asked the obvious question, what are the prospects for Chinese political reform? My own belief is that if Xi Jinping's leadership successfully prosecutes the formidable economic transformation tasks described above during his first term,

then the leadership may embrace a form of “small p” political reform during his second five year term between 2017 and 2022.

None of us should forget that 2021 is an important year in Chinese political history, as it will mark the centenary of the foundation of the Chinese Communist Party. In the lead up to 2021, the question will increasingly be asked within Chinese intellectual debate and broader political discussion as to whether the historical mission of this revolutionary party has been fulfilled – and whether the time for gradual political transformation to a new political model has therefore come.

History matters in Chinese politics. Anniversaries matter in Chinese politics. And historical analogy also matters. Last year marked the 100<sup>th</sup> year anniversary of the Xinghai Revolution which brought to a conclusion a Chinese imperial system that had survived for more than 2000 years. Nonetheless the Chinese Republic failed to discharge the Mandate of Heaven given to every Chinese administration in history – namely to maintain the unity of the motherland at home and to defend the motherland from aggression from abroad. In China’s national perspective, the Chinese Communist Party has successfully discharged both these missions.

Under Mao’s leadership the task was to unite the country. Under Deng’s leadership it was to economically transform the country in order to return China to its historical position as a great power both within the region and the world. Under Xi Jinping’s leadership, will it be his mission to complete the economic transformation process, raise China to high income status and entrench China’s position within the world order – but beyond that, to transform Chinese politics as well?

I have written elsewhere that any future political condominium arrangement with Taiwan may itself increase democratic impulses within the Chinese body politic, given that Taiwan has already demonstrated that, within the Confucian world, political and economic liberalism are possible. Furthermore, within the Chinese body politic itself, there are formidable mounting pressures of the 350 million Chinese who now use social media to gain information and to disseminate it.

Political reform de minima of course would simply concentrate on the priorities of the last 30 years: namely to reduce corruption and regularise institutional decision making processes with the Party and the government (as for example identified in the Work Report) and to continue to allow people more freedom in their private lives.

A more expansive approach to political reform would go to the core institutions of the Chinese state including the revolutionary as opposed to the parliamentary status

of the Party, the allegiance of the army to the Party rather than to the State and of course the extension of the democratic franchise to the National People's Congress itself.

None of these are even faintly contemplated in the current Work Report. But it remains an open question whether the Chinese leadership, facing the social forces ultimately unleashed by continuing economic reform, attempt to "manage" a political transformation process. As I have speculated elsewhere, this might involve the experimentation with a democratic franchise of China's advisory parliament – the Chinese People's Political Consultative Conference – a type of constitutional convention first convened in 1949 and which continues to have an advisory role today.

### **Chinese Foreign Policy Priorities**

So what of foreign policy?

Looked at from Beijing's perspective, China faces an increasingly non-benign foreign policy environment, given the Party's stated desire to increase its strategic influence in Asia while at the same time avoiding serious conflict that would in any way undermine the centrality of the economic growth agenda.

From Beijing's perspective, it is disconcerting that they have no allies nor any close strategic partners in Asia other than the DPRK, Pakistan and Cambodia, although some of these would be increasingly seen as net liabilities rather than net assets.

Instead what Beijing sees is an increasingly hostile North East Asia, an increasingly problematic maritime South East Asia, a still fractious border relationship with India and, over the last 12 months, the loss of strategic monopoly over Burma.

In North East Asia, the relationship with Korea remains difficult following China's refusal to repudiate North Korea's hostile actions against the South during the course of 2010/11. The relationship with Japan has in fact now become mutually toxic over the Diaoyu Dao / Senkaku Islands dispute which has progressively contaminated the political, commercial and security dimensions of the relationship with Tokyo. Beijing may assess that the return of the LDP, Japan's natural party of government, given the depth of the LDP's foreign policy experience in dealing with China over decades, may now assist in stabilising the relationship. Any such analysis would be incorrect. By instinct Shinzo Abe is a nationalist. China figured prominently in the Japanese elections. And there has been a quantum intergenerational shift in

attitudes to China in the Japanese Diet even from a decade ago. We cannot, for example, rule out the possibility of the Japanese now seeking to amend the constitutional constraints on the capabilities and mandates of the Japanese self-defence force; a wider security role for Japan across wider East Asia as recently requested by the Filipino foreign minister; as well as the possibility of Japan placing meteorological equipment on the Diaoyu Dao / Senkaku Islands which would inevitably attract Chinese counter-measures and the further escalation of this dispute.

In the South China Sea, the region is more unstable than it has been at any time over the last 40 years. Whereas the Philippines has attracted most of the international media attention in recent times, China is focused much more on Vietnam. Vietnam's recent statement that Chinese vessels have recently severed Vietnamese cables in an area 65 km off the Gulf of Tonkin has sunk relations to a new low. The Chinese responded by saying that Vietnam has breached its undertakings on the management of the South China Sea disputes which were reached when the Vietnamese Party Secretary visited Beijing in late 2010. Right now, it is difficult to overstate the level of toxicity in the Beijing-Hanoi relationship and, given relatively fresh Chinese memories of the 1979 border war, it is entirely possible that in this theatre conflict recurs. From Beijing's perspective, relations with Vietnam are of a different character to either those with the Philippines or Japan, given that those countries are both allies of the United States.

From China's perspective, the United States "pivot" or "rebalance" to Asia under the Obama Administration has compounded the difficulties they confront in their foreign and security policy environment. The rebalance is routinely described in official Chinese statements and literature as part of a concerted policy of containment of China by the United States and its allies in Asia.

Beyond the region and at a global level, China's desire to assume global great power status is also seen to be frustrated by the democratic world's concentration on the lack of democracy in China and its support for non-democratic regimes abroad (e.g. the Sudan, Syria). As well as China's perceived reluctance to take on the nuclear non-proliferation challenges presented by both the DPRK and Iran. Although the Chinese would readily point to what they believe to be the United States' double standards in the latter's diplomacy around the world in pursuit of United States' national interests.

From China's perspective, therefore, its broader foreign policy environment is not all going China's way. China's diplomacy, however, has always been agile and it would be foolish to assume that following China's foreign policy and strategic setbacks over

the last three years that it will not now contemplate new diplomatic approaches that are consistent with China's long term strategic objectives. We should not forget that China's stated strategic goal in our hemisphere is to increase its strategic influence in Asia which means decreasing the strategic influence of the United States and, over time, decoupling where possible the United States from its allies.

In the meantime, China continues to rapidly increase its military expenditures and equally rapidly modernise its military capabilities across space, cyberspace, nuclear forces, and the projection of significantly greater maritime power and offensive air power as part of an integrated strategy of area denial. China's military capabilities still remain vastly inferior to those of the United States although the gap is beginning to close in critical domains, including cyberspace.

In the absence of a compelling strategic narrative expounding the purposes underpinning China's rapid military modernisation, regional reactions across Asia have been such as to cause increased military outlays on the part of most of China's neighbouring states, as well as across the wider region.

### **Chinese "Grand Strategy"**

There has been much debate in recent years around the question of whether the Chinese leadership have an agreed "Grand Strategy" for the future. Chinese reformers have dreamt over the last 100 years of China attaining national wealth and power in order to regain its historic status as a global great power as in the days of the Ming, Sung and Tang dynasties. The question which therefore arises in the minds of the rest of the region and the rest of the world is: now that China has acquired national wealth and power, how will it then use it? In other words, is there a particular "end state" in mind on the part of Chinese leaders for the immediate neighbourhood, the wider region and the world at large. Here, once again, it is important to take seriously Chinese declaratory policy (as reflected for example in the most recent editions of China's national security and foreign policy white papers and the 18<sup>th</sup> Party Congress Work Report) as well as what might be described as Chinese operational policy in the field.

We should take seriously China's stated aim of becoming a high income economy by 2030. We need to take seriously China's stated objective that it regards the South China Sea within the so-called nine dotted lines as a combination of Chinese sovereign territory and Chinese exclusive economic zones (or EEZs), although most regional states fundamentally contest these claims. We should take seriously China's stated aim of increasing its strategic influence in Asia, just as we should seek clarity

from the Chinese as to what ultimate purpose is served by such influence. We should take seriously China's statement that it wishes to become a great global power but also seek clarity on what sort of great power China wants to be. Just as we should take seriously China's stated desire to reform the international order. But given that the nature of the international order radically affects the rest of us, it is entirely legitimate for us to ask our friends in Beijing what elements of the international order they would change and for what purpose.

Within this framework, we also need to be clear-sighted about the continuing central role of the Chinese Communist Party for the further development and implementation of any "Grand Strategy" as well. With the death of Marxism, the continued legitimacy of the Communist Party hangs on the twin dynamics of the economy and nationalism.

If the Party is to continue to deliver seven per cent plus economic growth into the future, to continue to raise living standards, generate new jobs, and to lift the remaining parts of the Chinese population experiencing poverty out of poverty, the transformation of China's economic growth model over the next five years is crucial for the Party itself. As well as generating profound international consequences beyond the Party.

Similarly with the rising forces of Chinese nationalism which have not been manufactured by the regime. They are, by and large, genuine. These will need to be subject to increasingly sophisticated political management if they are to deliver a continuing positive dividend to Party legitimacy on the one hand, while not resulting in a regional conflict or crisis that would jeopardise the economic modernisation project on the other.

Some commentators have suggested that to continue to purchase and sustain the domestic political capital necessary for the new leadership to deliver a contentious and controversial transformation of the economic growth model, the leadership will have to maintain a hard line on foreign policy and national security policy issues in general and its various offshore islands disputes in particular.

Whereas the domestic political logic of such an approach may appeal to some, the international consequences for the period ahead would prove to be highly problematic, particularly given the competing nationalisms, which have now been brought to life across much of South East Asia.

Taking these various end-game conclusions, as well as their underlying political drivers together, as we seek to decipher the content of any Chinese grand strategy

for the future, we are ultimately brought back to a more fundamental question for the future: will Xi on balance turn out to be a reforming globalist or more of a conservative nationalist in charting his country's future over the next decade.

The first possibility, assuming that China succeeds in its economic transformation task over the next five years, is that the Party will not begin any form of democratisation of the country at large, that its state capitalist model will by and large remain in place, that China's military modernisation will continue apace with China's growing budgetary capacity to deliver that modernisation, and that China will become increasingly engaged in a type of zero sum game balance of power politics with the United States (both in the Asian hemisphere and beyond), and that China will over time become the region's dominant foreign policy influence.

The second possible endgame is that the Chinese economic transformation succeeds, over time a "small d" democratisation process begins and that China begins engaging strategically with the United States and other partners within Asia to build, sustain and enhance the multilateral rules-based order.

A third possibility of course is the same as the second without assuming that any long term democratisation process is necessary in order for China to contribute effectively to the regional and global rules-based order as an active responsible stakeholder.

One final possibility is that the Chinese economic transformation process fails, in which case all bets are off, and under which circumstances the world would confront a whole new reality of global economic pain were the great Chinese global growth engine to run out of steam.

So which is it to be? Scenario one, two, three or four? Whereas western analysts will load any answer to such questions with unwieldy caveats, this luxury is not entirely available to policy makers who are required to make strategic policy judgements for the long-term. What we do know is that China's strategic endgame and the stepping stones to reach it are reasonably explicit in China's open source domestic publications. Whether it succeeds or not will be largely determined by the political and policy skills of China's new leadership as well as the way in which the United States, the West and the rest decide to respond. Or to once again paraphrase that great moral philosopher of our age, Mae West, it does in fact take two to tango.

As for Xi Jinping himself, it is absolutely unrealistic to expect that in a one-party state any leader will lay all his cards on the table as to where he wants ultimately to take his Party and his country. In China, in particular, that is not the way in which you

become a leader in the first place, or even a candidate for leadership. I understand that Stapleton Roy has made comments to this effect most recently.

For these reasons, it is not credible for policy makers to predict with absolute confidence which way modernising China is going to turn out. There are simply too many variables in play, not least how the United States, Japan and others respond to China's national development strategy. How China turns out will in part be the product of a dynamic process of interaction between China the rest of the region and the rest of the world, rather than simply the sound of one hand (that is a Chinese hand) clapping.

That is why many governments in their policy approach to a rising China have deliberately chosen a hedging strategy which embraces strategic cooperation with China's liberal, globalising forces on the one hand; while not discarding practical precautions should Chinese nationalist forces prevail on the other.

In other words, we seek to maximise cooperation with the China that is transforming its growth model and continue to encourage China to recognise the value to China itself of sustaining and enhancing the global and regional rules-based order. By this means, the international community's objective would be to cause the Chinese leadership to conclude that once they have become both a regional and global great power, that it is entirely consistent with China's continuing interests and internationalist values to sustain that rules-based order into the long-term future. Should China in the medium-term also begin a long-term program of partial democratisation, then so much for the better. But while this would be helpful in providing encouragement and assurance as to the future shape of Chinese political power and how it might be exercised, we should recognise that such democratisation could be a very long time in coming.

On balance, I have long been an optimist that with significant political will within China itself, and with a complimentary policy of cooperative engagement with China on the part of the rest of the world, China can over time be socialised into full, active and, most critically, continuing global and regional engagement within the framework of the existing rules based order. Nonetheless it will remain prudent, given the realities of 21<sup>st</sup> century statecraft, for countries also to hedge against the possibility of an alternative Chinese outcome which seeks to fundamentally change the order itself.

### **United States Strategic Response**

So how then should the United States now respond in the precious years now available to the newly re-elected Obama Administration?

President Obama for his part will be well-positioned to extend a hand of new strategic cooperation to China's new political leadership. Again, as I have noted elsewhere, Congress is unlikely to grant him an easy ride in terms of the passage of core elements of his domestic legislative reform program. Foreign policy, therefore, presents itself as a likely domain for Presidential leadership over a second term. Furthermore, his hand will be emboldened by the fact that he will not face the prospects of negotiating a further re-elect.

I argue that President Obama and President Xi need to outline a five year US-China Strategic Roadmap. In the absence of such a strategic roadmap, there is always a danger of strategic drift, alternatively the bilateral agenda simply being dominated by the challenges of the issue management of the day, whether they are strategically important or not.

Furthermore it provides central organising principles within both administrations, therefore forcing the various agencies within both administrations to agree to and implement a central strategic policy – with agreed rules of diplomatic engagement. The Chinese often complain about United States' policy being inconsistent both within and between administrations. The United States often complains that the Chinese government does not always speak or act with the full engagement or compliance of the Chinese military. A US-China Strategic Roadmap would assist in removing some of these uncertainties and ambiguities.

Further I would recommend five elements to such a roadmap for the future.

First, President Xi and President Obama need to meet regularly with all the key members of their respective staff. These individuals need to become highly familiar with each other. At present they are not. This should involve three to four sets of substantial engagements scheduled regularly throughout each calendar year. Fortunately the G20, APEC, the UN General Assembly (and possibly the EAS) provide opportunities for regular engagement. But these need to be substantive half or full day engagements around a long term structured agenda – that is a strategic roadmap – not just the protocol requirements of the day or, for that matter, the issue management of the day. As these regular summits tend to occur in the second half of the year – there should also be agreement for a regular bilateral summit in one another's capitals in the first half of the year.

Second, both President Xi and President Obama need to have an undisputed “point person” to be the ultimate “go to” person on the relationship. At the United States end, this should mean the National Security Advisor or a senior official within the NSC who can speak comfortably across the Administration, and with authority. At this critical juncture of US-China relations, America needs the next Henry Kissinger for all the back-channelling that is necessary, both behind and between official Presidential meetings. Similarly China needs its own Henry Kissinger as well. The Chinese system does not have a NSC. It needs one. In the absence of an NSC, it needs a senior official who can speak across the political, security and economic agenda with authority. Trust between these two individuals on the United States and China sides is critical.

Third, the United States and China should embark on a realistic program to make the current global rules-based order work. Increasingly it doesn't. We are all familiar with the impasse over Syria which is not likely to be resolved in the near term. But in other critical blockages in the UN System (e.g. the Doha Round, climate change and nuclear non-proliferation) both the United States and China have an interest in demonstrating that the rules-based order can work – and can deliver real results. Furthermore, a new period of Sino-US strategic cooperation will also make the G20 work more effectively given the complex array of global financial and global macroeconomic challenges that lie before us. As China becomes the world's largest economy, a properly functioning G20 becomes even more important. Both China and the United States should identify at least one of these areas of potential global collaboration which together they can drive to a successful global conclusion in order to demonstrate to one another and the world that they can in fact make the global rules based order work.

Fourth, a new US-China Strategic Roadmap should embrace the principles of how to build a new rules-based security order for East Asia. I outlined this in an address to the Asia Society in New York earlier this year and again in late September at the Singapore Global Dialogue. The latter in particular details a range of specific measures of how we can create a new Pax Pacifica which is neither a new Pax Americana by another name, nor a Pax Sinica. This involves working and agreeing on the strategic and conceptual language of such a regional rules-based order – that is, comprehensible in both countries and the rest of the region. It should also include basic principles of regional security cooperation. As well as specific confidence and security building measures that help facilitate dispute resolution as well as prevent conflict through miscalculation.

Fifth, a new US-China strategic roadmap should also be consolidated into a new “Shanghai Communique” between China and the United States. A proposal such as

this would need to be prepared by the United States and put to the Chinese given that it is now almost a third of a century since the last communique was produced, and that this occurred at the very beginning on Deng Xioping's program of reform and opening, it can credibly be argued that the dynamics of the relationship have fundamentally changed – not least because of China's new economic and strategic size; but also the end of a cold war between the United States and the Soviet Union which had underpinned US and Chinese strategic collaboration during the 1970s and 1980s; as well as the democratic transformations which have now occurred in former military dictatorships of Korea, Taiwan and Indonesia. Furthermore, there is a deep appetite within Chinese political and bureaucratic culture for fundamental organising principles that have been agreed between the relevant parties. The language of a new communique could achieve that purpose assuming, of course, that the content of the communique reflects a substantive set of principles on the entrenchment of the global and regional rules based order, as well as the specific programs of work outlined above.

### **Security Cooperation in the Asian Hemisphere**

As noted above, a core element of a new US-China Strategic Roadmap for the next five years lies in developing a new, basic security architecture for the Asian hemisphere for the future.

A Pax Pacifica would seek consciously to build the habits, customs and norms of security and strategic cooperation from the ground up. Such a concept does not ignore the underlying strategic realities of the region – the rise of China, continuing military and diplomatic engagement of the United States the region's future. Rather it accepts these realities. But it also seeks to create new possibilities based on these realities. Remember in the darkest days of the Cold War, the Americans, the Soviets and the Europeans managed to conclude the Helsinki Accords. They developed a Conference on Security Cooperation in Europe and began to build basic confidence and security building measures to reduce the risk of unintended or accidental conflict.

The truth is, in Asia we have embraced very few confidence and security building measures of any description. That is in part why our security policy environment is so brittle. There are in fact no shock absorbers in the system so that even minor security problems become magnified beyond their inherent significance. That is

perhaps why we need to consider the development of an organisation for security cooperation in Asia.

So what might the principles of a new Pax Pacifica look like? To begin with, one area of concrete work that could be advanced is to be clear about some basic principles.

One, China's peaceful rise should be accommodated by the United States and by the rest of the region, and that China has legitimate national security interests.

Two, China equally should accept that continuing United States strategic presence in the region is normal and that United States alliances are to be respected.

Three, China and the United States need to accept that the other member states of the region also have major equities in the region's future, and hence an equitable voice in the region's management.

Four, all states should collectively develop, agree and accept the basic norms of behaviour for a regional rules-based order.

Five, this should include the non-use of force in dispute resolution.

Six, region-wide dispute resolution mechanisms along the lines outlined in the TAC and the ASEAN Code of Conduct and the United Nations Conference on the Law of the Sea (UNCLOS).

Seven, the freezing of all existing interstate territorial claims, and the development of protocols for joint development commissions for the common extraction of resources from disputed territories.

Furthermore, the East Asia Summit and the ASEAN Defence Ministers Meeting (+8) should prepare a program of practical action to create a set of confidence building measures to enhance regional security cooperation:

First, hotlines between the relevant national security agencies within all member states to deal with incident management;

Second, detailed protocols for managing incidents at sea;

Third, regular high-level meetings between all the region's militaries so that networks and relationships are developed over time;

Fourth, joint exercises in search and rescue and counter disaster, counter- terrorism and counter-organised crime. The basic reality is this, most of our armed forces are trained to fight and win wars. If at the same time we have a number of them engaged in a complex network of confidence and security building measures, including joint exercises and joint operations in counter-disaster, it is remarkable what impact this could have on our collective security policy mindset over time. For example, if you are to ask the good people of Asia what their number one physical security threat is today, they will most likely respond natural disasters. Why not respond to their stated needs, consistent with the Australian and Indonesian paper agreed to at the 2011 East Asia Summit – and turn this vision into a reality. In fact the first such counter-disaster exercise involving all the region’s militaries will soon be held in Brunei. This is a good first step.

And fifth, in time, transparency of military budgets and national military exercises.

As to where this specific work can be done, the United States’ recent accession to the East Asia Summit means that this institution provides the best possible vehicle – given that its membership covers all of East Asia plus India; and given the fact that the EAS’ formal mandate covers political, economic as well as security questions.

Both the EAS and the ADMM +8, have an identical membership, the former with heads of government and foreign ministers, the latter with defence ministers. On one level, an EAS at Summit level can help agree on the broad directions for security policy cooperation. At a different, practical level, the ADMM +8 could be given specific responsibility to develop the raft of confidence and security building measures referred to above. Furthermore, the EAS over time will need a dedicated secretariat. And in time our good friends in ASEAN should give consideration to the hosting of an expanded EAS secretariat function.

The truth is, none of the above will happen by magic. Or by permanently rotating chairs. We will need to start to think together as a region – as we shape together the region’s future.

### **Conclusion**

Any foreigner visiting Washington will concede that this country has an increasingly overloaded political and policy agenda.

The rebooting of the United States economy remains fundamental to all that I have proposed in this paper on the future of US-China relations.

Over the last five years China has concluded, rightly or wrongly, that the US and European economies have been built on insecure foundations.

At one level the global financial crisis and the great global recession caused something of a shock to the Chinese system given that the Chinese had by and large concluded over the last 30 years that whatever defects the collective West might have, they knew how to run economies. Those assumptions have now been shattered.

China's conclusions about Europe are of a more fundamental nature. China has respect for Germany but has little respect for the rest of Europe. And as one senior Chinese security policy analyst said to me recently, Europe has also developed the first "postmodern" foreign policy in the world. This criticism may be unfair, but it partly reflects a degree of Chinese contempt for Europe's declining defence outlays and, with the exception of the Middle East, Europe's long period of foreign policy introspection.

Therefore United States economic revival is critical to the overall Sino-US strategic equation for the future. And many of us who are students of United States economic history are confident of this great continent's capacity to renew itself, assuming of course the restoration of functional politics here in Washington between the executive and legislative branches. The economy therefore remains key.

Nonetheless, critical foreign and security policy challenges also confront this administration at the same time. These include the need to conclude a Middle East peace process, the nuclear programs of the DPRK and Iran, as well as a new strategy for engaging the China of the 21<sup>st</sup> century based on a combination of strategic realism and political cooperation.

Foreign policy priorities are always a choice between the urgent and the important. The China challenge represents both.

I have recently been reading a book by Christopher Clark entitled *The Sleepwalkers – How Europe Went to War in 1914*. It is a cautionary tale of how the Europeans drifted into a conflict that slaughtered millions, brought down empires and destroyed an entire civilisation.

The book chronicles how the leaders of Europe, "who prided themselves on their modernity and rationalism, in fact behaved like sleepwalkers, stumbling through crisis after crisis and finally convincing themselves that war was the only answer".

I sometimes wonder whether we in Asia have properly reflected on the centuries of industrial-scale killing that our friends in Europe endured before finally concluding after 1945 that enough was enough and that it was time for a new European and global order.

When we look at Asia today we see it is driven by two conflicting change drivers: the forces of globalisation bringing our countries, economies and peoples closer than ever before; in contrast to the forces of ethno-political nationalism which threaten to pull our countries and economies apart.

It is almost as if we have 21<sup>st</sup> Century dynamic economies being dragged back by a set of almost 19<sup>th</sup> century security policy realities, in turn anchored in ancient, unresolved cultural animosities and territorial disputes.

I for one do not believe there is anything determinist about history. Ideas matter. Politics matters. Policy matters. Foreign policy matters.

The key challenge confronting us all therefore as we consider the rise and rise of China is how we recognise the strategic and economic realities unfolding before us: reconceptualise the problems we face into opportunities which could benefit us all; and then develop a concrete program of policy action to give these ideas practical effect.

The reengineering of strategic mindsets is arguably our core challenge. If we and our friends in China just simply conclude that the difficulties we experience are just too hard to deal, with and that at one level or another, conflict is somehow inevitable in the long-term, then the prospects are grim indeed. If however both our ideas and our analysis are capable of engineering an alternative mindset which is neither utopian nor delusional but instead seeks to maximise cooperation, minimise conflict and manage the rest, within the overall principles of an agreed strategic framework, then we are capable of changing the course of history.

So as a former Prime Minister and Foreign Minister of Australia, a country whose most important economic partner is China and a country whose oldest continuing ally is the United States, my purpose in Washington today is to leave these various proposals with you in the hope that the United States, China and Australia, in partnership with the other countries of our wider region, can in fact build a truly Pacific century together.

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