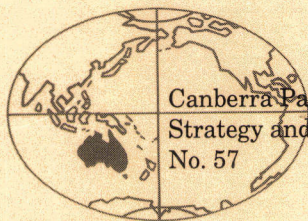


# CHINA'S

CRISIS:

## The International Implications

Gary Klintworth  
Editor



Canberra Papers on  
Strategy and Defence  
No. 57





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**Gary Klintworth  
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## ABSTRACT

China has always been important to countries in the Asia/Pacific region, whether as a vortex of disarray and discontent or - as it has appeared to be, particularly over the last decade - as a modernising great Asian power. In this latter context, China was increasingly accepted as a responsible participant in regional and global affairs. Although China's military capabilities and its political ambitions were regarded with residual distrust by some neighbouring countries, such misgivings were increasingly overshadowed by expectations of a new China possessing the largest potential market remaining in the world today. Hong Kong was booming. Even Jakarta contemplated a resumption of diplomatic and commercial relations with Beijing. China's strategic circumstances, in short, had never been so favourable since perhaps the early 19th Century.

The Tiananmen affair, as it is now known, seemed to shatter many assumptions about China's stability, its economic potential and certainly some of the illusions about China's political system.

This collection of papers begins with an analysis of the political situation in China, as seen from Beijing and Canberra in August 1989. It provides detailed assessments of the way countries throughout the Asia/Pacific region, including Australia, responded or did not respond to the Tiananmen affair. There is an overview of Hong Kong and its governability and extensive discussion on the strategic and economic implications, if any, for China and for neighbouring and regional states, of events in Beijing in June 1989.

This monograph is a product of the 1 August 1989 *Workshop on China* organised by the Australian National University's North East Asia Program in conjunction with the Australian National University's Departments of Far Eastern History, International Relations, Political Science (The Facilities); the Strategic and Defence Studies Centre; the Contemporary China Centre; and the Australia-Japan Research Centre, with assistance from the Department of Foreign Affairs and Trade.

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*Canberra Papers on Strategy and Defence* are a series of monograph publications which arise out of the work of the Strategic and Defence Studies Centre, Research School of Pacific Studies, The Australian National University. Previous *Canberra Papers* have covered topics such as the relationship of the superpowers, arms control at both the superpower and South-east Asian regional level, regional strategic relationships and major aspects of Australian defence policy. For a list of those still available refer to the last pages of this volume.

Unless otherwise stated, publications of the Centre are presented without endorsement as contributions to the public record and debate. Authors are responsible for their own analysis and conclusions.



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# INTRODUCTION

Stuart Harris

The crisis revealed by events in Beijing in June 1989 has great importance for its effects on Chinese domestic political and economic development. It has, as well, great strategic, political and economic significance for China's foreign policies and for China's relationships with the countries in the Asia-Pacific region in particular. A workshop was convened by the Australian National University's Northeast Asia Program in Canberra on 1 August to determine what those implications might be. This followed an earlier session on 8 June which examined internal developments in China.

In a major sense the China crisis is likely to have its most widespread influence in economic terms. The Chinese government is certainly struggling with a short term economic crisis which could easily worsen over the long term if the reform momentum in China is not sustained.

A question addressed by several of the speakers was whether China in crisis accurately described the situation insofar as other countries in the region were concerned. While it was accepted that there is a crisis in China - if only in the emergence of the hardliners over the reformers and the likely major impact on China's economic reforms and open door policy - Wang Gungwu, Vice-Chancellor of the Hong Kong University, argued, for example, that Hong Kong was more in crisis than China. Others argued that the crisis was a particular problem for the West because of excessive Western expectations of China. There was a feeling that China's geopolitical importance and objectives had largely been ignored by the countries outside the Asia-Pacific region on the grounds that China's government was basically benign, Westernising and, above all, opposed to the Soviet Union. Among other things, this led to Western help for China's military and naval development, a trend that had concerned some in Australia as well as in the region. The strong moral response to developments in Tiananmen Square by Western countries, whose optimistic judgements about China had now been shown to have been astray, contrasted with the generally low key response of countries in the Asia-Pacific region. Nevertheless, the response by the West has been limited largely to strong expressions of moral

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disapproval and to a limited array of sanctions - cuts in military assistance and in concessional aid. While, given China's capital and foreign exchange shortages, the cuts in concessional aid could be significant, the consensus was that, apart from concessional financing, a return to commercial business as usual, led by countries in the region, would not be long delayed.

As far as China's foreign policy objectives in the region were concerned, the general view was that there seems little reason to see major change emerging. What clearly had changed was that a more realistic view would now be held of China by Western nations. The West's view of the strategic importance of China was changing anyway because of the closer relations between the West and the Soviet Union and the thaw in the cold war. Those familiar with the Southeast Asian nations suggested that one of the offsetting benefits seen by many of the smaller countries in the region was that China would in future be viewed in terms of its regional activities and policies rather than simply on how it lined up in the East-West confrontation.

The regional response to China's Tiananmen debate has obviously varied from country to country because of the different concerns, interests and perceptions involved of the countries of the region. The low key reaction by China's northeast Asian neighbours is partly because closeness makes strong responses an expensive luxury but partly because they may have been less surprised and less shocked. Reactions in some countries in southeast Asia seem to reflect a residual fear of China, in part reinforced by a belief that several recent events - of which the tragedy of Tiananmen Square was but one - point to a more aggressive assertion by China of its position, and that that may extend to reduced flexibility over other areas of common concern such as unresolved border disputes.

In looking at how China would respond to the regional or global reactions to Tiananmen Square, it was generally considered too early to judge. It was thought unlikely for practical, if for no other, reasons that China would move much closer to the Soviet Union, which had responded tactfully, although it was clearly less than happy with events. A judgement on whether, on the other hand, China would turn inwards was less easily made. It was generally accepted as possible but as something that could occur only with great difficulty.



Would China turn against Australia? This was thought doubtful. Having lived without Australia's friendship for a thousand or more years - as Foreign Minister Qian Qichen observed - China could undoubtedly continue without it in the future if the need arose. Australia is close enough and small enough to need to be cautious and to acknowledge that China will in any event grow in its strategic, political and economic importance. In its approach to China, Australia also has to think not just about the Chinese leadership but about maintaining the links it has carefully nurtured with the Chinese people and institutions over many years. This will, of course, be more difficult in the future - for obvious reasons - than has been the case in the recent past.

Resolution of the Chinese migration - and student - question is likely to provide difficulties for Australia from a number of perspectives and will need to be handled with sensitivity. So too will the issue of Hong Kong, which will undoubtedly be a problem for Australia in various ways as 1997 approaches. The potential for immigration from Hong Kong has both advantages and disadvantages for Australia but the potential for growing ungovernability of the colony remains an important concern.

Finally, the need was recognised for Australia to be aware that, in its relations with China and the countries of the region, particularly southeast Asia, new sensitivities about China have been created, sensitivities that Australia will need to be conscious of and respect.



# CHAPTER ONE

## CHINA'S NEW POLITICAL STRUCTURE

Jonathan Unger

I will not talk in detail about who is doing what to whom in the leadership, and who is allied to whom, in the power tussles now underway in the inner sanctum of Zhongnanhai. But one conclusion seems to fit the logic of the situation: Deng Xiaoping's power has been weakened by the events of recent months. Deng never stood above the other octogenarians like some colossus, the way Mao did. Deng's power has lain partly in the fact that he has balanced cleverly between two wings of the leadership: a reform side represented by, among others, Hu Yaobang and Zhao Ziyang, and a more conservative side containing most of the elderly leaders, whose spokesman in the younger generation has been the Premier, Li Peng. By splitting first with Hu Yaobang over questions of political liberalisation and student demonstrations, and then with Zhao Ziyang over almost precisely the same issues, Deng has, as it were, cut off one of the two wings that he needs to play that balancing role. It leaves him at the mercy of the one remaining wing of the Party, and it puts him in a desperate situation *vis-a-vis* his efforts to keep the economic reforms on the drawing board.

Deng is placed in a paradoxical position. To the extent that he is frightened by the political challenge to Party hegemony posed by the student-worker protests, he will support the ruthless purge and imprisonments that are now gathering steam in China. But to the extent that he is worried that the economic reforms that bear his name will be rolled back, he needs to manoeuvre to keep in place a number of people and institutions that comprise the economic apparatus that has supported and guided the economic reforms. Most of these people were the allies and acolytes of Zhao Ziyang, and Deng will be undercutting his efforts to protect the economic reforms if he allows them to be purged.

Deng is a vitriolic old man, and from all that he has done in recent months, he might just act on his emotions and lead the charge against them. But there is evidence that his principal worry has always turned back to the economy. In the long speech that he gave

less than a week after the massacre, he hastened through some opening rhetoric on the bravery of the soldiery, but then shifted quickly and emphatically to his main theme - that the economic reform programs must be continued. And to *that* extent, he will need at some point to try to preserve the economic-reform wing by limiting the scope of the purges and arrests. I do not know if this is the *likely* scenario, but it comprises the one hope that we have that the terrible campaign of suppression that is now getting underway might be less lengthy and less severe than now portends.

The most significant shift in political power that has occurred in the wake of the demonstrations and massacre is a reassertion of overt power by the members of the Central Advisory Commission - that is, by a group of men in their mid-80s who, for the most part, ostensibly had already retired. The tussle for power is among *them*, between Deng Xiaoping and his mates among them on the one side and, on the other, those like Chen Yun and Peng Zhen who see themselves as Deng's equal.

Until the Grim Reaper comes for the octogenarians sometime within the next several years, the younger generation of men who sit on the Politburo will not hold the keys to ultimate power, less so even than Zhao Ziyang or Hu Yaobang ever could aspire to. The Politburo members are almost all relative newcomers to high-powered national politics, and they have not had the time or the room to consolidate their own national bases of power.

The army will not, I think, figure large on the political scene. In June the Party leadership was ordering the army to serve as despised bully boys, to hold the can, as it were, for the civilian Party leadership's own unpopularity. For the most part, the army commanders did not seem to want to become involved in putting down the demonstrations; the military did not want the attendant unpopularity. The army has had enough problems in recent years in recruiting qualified junior officers or even semi-literate privates. The army now needs to repair its reputation, and the easiest way to achieve that would be to distance itself from what occurred on June 4. (Parenthetically, that will also, I think, be a felt need within the Party itself, if it is ever to hope to rebuild even a modicum of legitimacy among the urban populace.) It would mean repudiating Yang Shangkun and also, perhaps, Li Peng. Sooner or later, I think that will



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occur: Yang Shangkun has for some years been unpopular within the military as too eager to aggrandize his own power and that of his family. Pinning the blame on him and his kin would provide a means to assert that, while the demonstrations needed to be ended by the Party, Yang Shangkun went viciously overboard in doing so, counter to the Party's glorious traditions. Pinning the blame for what occurred on one or two persons will become the easiest way of getting the Party, and army, off the hook.

Much of the urban populace is biding its time now, waiting for the old guard to pass away - the quicker and better - waiting for a time when the goals of the demonstrations might be achieved. At a propitious moment, demonstrations very well could erupt once more, and however widespread the present campaign of mass arrests and terror prove to be, it cannot provide a guarantee against that.

The question is whether the coalition of mass constituencies that came together this past spring in the streets of Beijing will be able to coalesce again in future years. For the expressed interests of the students and intellectuals are not necessarily congruent with the interests of the industrial workers. They could, in other years and other settings, find themselves on opposite sides politically. The intellectuals generally have not been sympathetic to the problems of working classes; indeed, the intellectuals regularly have complained in print over the years that their own salaries are insufficiently higher than those of workers. The intellectuals and students, moreover, generally have supported the economic reforms, while a great many workers are worried that they will be disadvantaged under the present and proposed reforms. They are anxious that the economic reforms are already spelling an end to job security, and that the reforms entail tighter controls over work schedules, rising work quotes, and even possibilities of enterprise bankruptcy and their own unemployment. They believe that the price reforms mean high inflation, and that inflation ends up serving as a means to reduce their own share of the pie. They are angered about that.

If the economic conservatives win out in Beijing, they may well attempt to play upon these fears of the workers, in an effort to turn the workers against the reformers and the intellectuals. And to a certain extent, they might succeed: if the issues that can be placed at the front of people's minds revolve around job insecurity and the

growing disparities in income; if they focus on the 'anarchy' and leaping prices of the market, and if they exploit the worker's declining status *vis-a-vis* the intellectuals and professionals. Already, within a week after the massacre, the Party's rhetoric, in a throwback to Mao's times, was being couched in terms like 'dictatorship of the proletariat'. In a whole variety of ways, the Party in the months to come will probably attempt to widen the divisions between the working class and the intellectuals, and to make pointed appeals to working-class interests.

It probably will not be enough to stage another Beijing spring when the time is ripe; but the intellectuals and the students, more than they have in the past, may need to respond by pitching their own agenda next time more toward issues that make specific appeals to the working class. They will have their work cut out for them.

**Comments by Ian Wilson:** I am in general agreement with Jonathan. However, I would qualify his portrayal of Deng Xiaoping as sticking remorselessly to his economic program by noting that Deng lost faith in some of his own reform programs from about September last year. Deng did after all insist that Zhao Ziyang take on the Party post which removed him from economic management. He did install Li Peng in the premiership and he knew pretty well at that stage where Li Peng stood.

Next I think we should remember that we have had an elderly leadership in China for a long time. We have never had a sudden change. There are younger people coming up - people for the second, and increasingly the third echelon - but I think the changeover will be gradual. There are the 80 year olds, but there are also the 70 year olds. One of our problems is that we just don't know enough about the third echelon people who are backing the Conservatives and who are backed by the Conservatives.

I must also take issue on this question of whether the Army will figure large in the political scene. It is a difference of degree but I think that they will be more assertive; they were in January and February 1987 when they were instrumental in helping to topple Hu Yao Bang. In June 1988 they might have been reluctant to move against the students and other demonstrators in the Square but in the



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end they did. They know what that did to their prestige - and they may well want to exact the price. The cost then of law and order, may well have been a greater say on the part of the military in the whole system.

Taking up the point about China sitting there waiting for the Old Guard to pass away, this is quite tragic for the development of China both in its internal and external relations. It will lead to increased stagnation and immobilism in decision making. People are already afraid to take decisions and instead send them back again to committees. The decisions that do come out of the committees are weak compromises. China cannot afford that kind of uncertainty and inertia at the moment. So my view is particularly pessimistic there.

Finally the social division. A big gap in the picture we are getting about China concerns the emerging bourgeoisie. They are a very interesting group of entrepreneurs with private interests at stake in China's politics. Where do they sit? There is I think an interesting unity between the emerging bourgeoisie - if I can use that inaccurate term - and the intellectuals and students, and the workers. This might pose a pretty frightening prospect for the regime over the long run.

In conclusion I think that there will be renewed demonstrations again, some time in the future. The unfortunate thing about the events of June 4 is that the threshold of violence has been lowered.

**Question by Keith Forster:** When you look at the career of the three successors to Mao - nominal Party leader Hua Guofeng, Hu Yaobang and Zhao Ziyang, (with the possible exception of Hu), it seems as though all three did not have a firm power-base at the centre of the Chinese politics. They have mainly been provincial politicians, who have been brought into the centre. Do you think that perhaps the major beneficiaries of the reforms have been the provinces, the coastal provinces in particular? Zhao Ziyang seems to have been appealing to them to support his position in Beijing. Do you think that perhaps we have overestimated the power of the provinces, and their influence on the political scene and what we are seeing is a reassertion of the vertical lines of authority in China, in other words, the reassertion of the power of the important central ministries?



**Jonathan Unger:** I am not sure that what we are seeing is the reassertion of political power of the central ministries - that could of course come, as Li Peng, Chen Yun and other economic conservatives begin to pull power and revenues back toward the centre. It is fear of that trend which makes the provincial party secretaries and governors, natural allies of the economic reforms. The principal effect of the economic reforms to date has been a weakening of the ability of Beijing to hold on to provincial revenues. The wealthier provinces in particular have gained. It has not been an economic performance which has put great amounts of wealth into the hands of private entrepreneurs. Rather it has decentralised power into the bureaucratic apparatus out there in the hinterland. If Zhao Ziyang had been a supreme leader he might have been able to build a power-base on all those provincial groups that had benefited, much as Khrushchev did when he was overruled by the centre in 1956. He still had power to call an enlarged Central Committee meeting and bring in his people from the provinces. Zhao Ziyang was caught however in a situation in which he was still a front-man for the old generation, and therefore was never able to make use of his support in political manoeuvres in Beijing.

The machinery in the provinces - for the most part - is still very much under provincial control. The hope that we have now, therefore, is that because so many provincial leaders would find their revenues cut by an economic retreat from reform, they will go slow on the purges.

**Comment by Bill Jenner:** I wonder if I could make one or two random observations based on the Chinese official propaganda of the last two or three weeks which backs up what Jonathan has been saying about Deng being on the defensive. On the one hand in an editorial of about 3 weeks ago Deng was reported as saying in effect that we must do anything and use any measures to stop the economy going down. Deng used the metaphor of a knife cutting through tangled hemp. On the other hand the main tendency, coming from whoever controls the official central broadcasting media, has been to pick off, particularly the last two weeks, a number of the most sensitive aspects of the reform program. Big attacks for example on private business people getting rich. Now of course the principle of some people getting rich

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first has been a central aspect of the economic reform. There have also been attacks on the role of managers. Emphasis has been given to the importance of restoring the role of the working class, and taking back the control of foreign exchange from units which previously had such autonomy. So it looks for the moment that whoever controls the central propaganda machine - and of course we know from the past that controlling the central propaganda machine is not the same as controlling the whole thing - is pressing very hard to roll things back in contrast to Deng, who wants to do anything to save the economy.

**Comments by J. Unger:** It looks exactly like that and this seems to coincide with a heating up of the rhetoric over the past fortnight, in terms of the need to purge politically, in a way that indicates that mass arrests are underway, or shortly will be. There may be no coincidence between these trends and developments in the mass media. There certainly is the beginning of an attack on private entrepreneurs. For example, that statement that came out about 60 per cent of the private business in Beijing being involved in corrupt practices. A delicate politics seems to be involved here, leading to what Ian Wilson was talking about, that is, that a portion of the *nouveau riche*, the new bourgeoisie, did come down on the side of the demonstrators. There are two types. First, the small entrepreneurs, the stall keepers. These are people who until they had this opening to make money were at the fringes of the economy and society. They were unable to get those steady, secure jobs in factories; they often had a bit of a muddy past, with previous political or criminal convictions, and they very much favoured the opening up of the economy. These small entrepreneurs found that *vis-a-vis* the bureaucracy they were still very much on the losing end - having in one way or another to make payments. That cut into their earnings. At the higher end are the very competent, thrusting entrepreneurs, represented by the Stone Corporation and other entrepreneurs of the Haixian district. This type of entrepreneur often came out of the intellectual class. They were in favour of the economic reform but they also have been in favour of political reform. They too saw the bureaucracy as an encumbrance on their activities and pulling back China's prospects. Secondly, there is a very large body of newly wealthy, perhaps the majority, who owe their wealth to their bureaucratic connections. Because of the mixed nature of the

economy - partly state planned and partly market - there was an abnormally large parasitic bourgeoisie. My guess is, and I do not have concrete evidence here, that this latter group was worried by the protests because one of the major targets was the type of corruption and nepotism that has been the genesis of this type of new bourgeoisie. So these entrepreneurs were lining up on the side of the present leadership - the conservatives. So when we talk about the corruption of private enterprise in Beijing, we have to see which groups are being targeted. It could on the other hand be those at the bottom, and those at the technological forefront, like the Stone Company, and on the other hand it could be those whom the masses of the people are angry about. This latter group, however - the parasitic bourgeoisie - may be spared since they are in many respects the kith and kin of the political elite.



## CHAPTER TWO

### THE VIEW FROM BEIJING

David Sadleir

Perhaps the most useful thing I can start off by doing is to focus on the views of Deng Xiaoping.

There are at least three of his speeches that are important objects of study at the moment. The main one is, of course, that of 9 June when Deng spoke as Chairman of the Central Military Commission. He stressed two inherently contradictory points: first, the need to uphold the four cardinal principles (adhering to the socialist road, upholding the people's democratic dictatorship, maintaining the leadership of the Communist Party, and the key role of Mao Zedong's thought); and second, the need to persist in the policy of reform and opening up to the outside world. The second speech was made on 31 May, when Deng stressed the need to form a third generation leadership. (The first generation leadership was that of Mao Zedong and the second Deng Xiaoping's, of which he is the core.) Deng said that under no circumstances should there be small factions and little groups that were mutually distrustful or which failed to respect each other; if compromises were not made, small differences could turn into big clashes. He said that only if the collective leadership was united and persisted in reform and opening up would China be able to advance basic reforms. The third key speech was made by Deng on 16 June following the 4th Plenum of the Central Committee. He said that US-China policy was focussed on whether he had fallen or died; many countries were similarly focussing on his fate. But, said Deng, for a country's fate to be based on the prestige of one or two people was very unhealthy and dangerous, 'if nothing happens then there is no problem but if something does happen then things could get messy'. The second point he made was that the entire imperialist western world was vainly attempting to make the socialist countries drop the socialist road, and eventually bring them under the control of international monopoly capital and onto the capitalist track. We must stand up against this tide, said Deng, because if we do not persist with socialism we will eventually develop into a vassal state and then even thinking about development will not be easy. He

insisted that only with socialism could China be saved and only with socialism can China develop. China has no future, he said, if it does not follow the socialist road - even the China-US-USSR triangle would not exist. China was always a poor country, so why does the triangle exist? It is because China is an independent, self-reliant country. Why do we say we are independent and self-reliant? Because we have persisted in the socialist road, said Deng.

Deng then identified three priorities. The first was that the economy must not be allowed to slip. The second was that something had to be done to make people satisfied. And there are two chief areas he identified under the latter heading: one was to carry out the reform and the open-door policy, and the other was to firmly grasp the issue of stamping out corruption. The third priority that he identified was to carry out the calming down of the rebellion to the end.

In talking of the need to carry out the open-door policy Deng remarked:

In the past I've said that we need to create a few more Hong Kongs. If we don't open up we can't develop. We have little capital but we can use opening-up, use our labour force, develop tax revenue, use real estate to gain a bit of money, spur on the development of industry. Using Hong Kong is of benefit to us. If it weren't for Hong Kong at the very least our information would be blocked. To put it briefly, we have to be a bit more daring with reform and opening-up.

Deng, in other words, gives tremendous emphasis to the role of Hong Kong.

I leave those thoughts of Deng with you, because I think they are crucial to understanding some aspects, not only of domestic affairs in China, but also the rubrics which will be setting the character and the tone, of Chinese foreign policy in the immediate future.

One of the first points to make is I think that the Chinese authorities were surprised by the strength of the western reaction to the events in Beijing on 3 and 4 June. And largely, I suspect, that is because of the western media coverage of it, which enabled (as in the



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case of the Vietnam War) every western family, every Japanese family, every Hong Kong family to have the whole event in their drawing room as it unfolded.

Deng's foreign policy has been one of the most brilliant aspects of his statecraft. It was crowned by the normalisation of relations with the second of the two superpowers, the USSR, symbolised by the visit to Beijing by Mikhail Gorbachev.

In the light of the current rather brittle condition of Sino-US relations, it should perhaps be stressed, however, that Beijing did not normalise relations with Moscow in order to destroy its relationship with US. In fact the very pride that China takes in having finally brought off its triangular relationship with the two superpowers reflects the importance China attaches to having attained it, as well as the prestige and standing that it gives to China. Having said that, nonetheless, the Sino-US relationship is under stress - it does have something of a brittle quality about it at the moment. Talking to Chinese officials, the key reasons for that, it seems, are the behaviour and the reporting of the *Voice of America*, throughout the period of the crisis in China; the activities of the China Spring and Autonomous Student Union movements in the US; the activities and prejudices of what are described as 'a handful of Congressmen' in the US; and a general feeling, a general view, that the US was the leader in setting the western reaction to events in Beijing.

Beyond that, I think there are, even in the highest ranks of the Chinese leadership some who would say that the events of 3 and 4 June were the absolutely inevitable result of opening-up and of reform. That is, you could not push in that direction without bringing about all that must accompany economic restructuring and liberalisation. And they would simply say, I think probably to Deng himself even - 'we told you so'. And that has something to do with Chinese reaction to the US at the moment.

But importantly the USSR can not replace the US as a source of investment, as a source of technology, or as a market for Chinese goods - and the Chinese authorities have been very careful even from the very earliest days of US responses to the events in Beijing to stress that they are not about to replace one superpower with the other. In fact, they went so far as to correct news stories which suggested that because Tian Jiyun was going to Moscow they would be looking for

loans, technology, and so on from the Soviet Union to replace any that they might have, in the long term, lost from the US. It was officially asserted that such reports were a total fabrication.

The fact that the US as well as Japan were moderating influences, if you like, at the Group of Seven Summit in Paris a couple of weeks ago, has been noted by the Chinese leadership. It will, no doubt, play its part in enabling a more measured relationship to develop in the coming months between China and its major western partners. As to the Soviet Union, its response has not been uncritical of China, but it has been concerned to preserve, not destroy, the fabric of the new relationship it has achieved.

The Soviet Union recognises that the relationship will always be limited, if only by the fact that a 7,000 km Friendship Frontier tends to separate, more than unite them. Besides, the Soviet Union too is in the business of seeking technology investment from the West. Up to now it has been much less attractive because the political atmosphere and the economic and technological infrastructure in the USSR does not compare with what China has been able to offer. It is a question for discussion whether the Soviet Union would have any active interest in trying to work to supplant China in the priorities of the western world.

To touch on Cambodia, I have not seen or detected any toughening in the Chinese position. Moreover, I do not believe there is any toughening to detect in their position - it has always been tough. It is instead a question of whether anyone can demonstrate that it has become any less tough at any time. Chinese objectives in relation to Cambodia, it seems to me, have been perfectly consistent for the last ten years now, and suggestions that they may have become tougher because of what has just lately happened I think are really in the mind of the beholder. Neither are there any signs of disarray in the Foreign Ministry, or in the top leadership on China's Cambodia objectives. It is, as they see it, a very important national interest, involving the security of their southern frontiers, and the ability of the outside world to place pressure on China. Whether or not it is attainable in current circumstances the Chinese objective has been to get to a genuinely neutral Cambodia, and I do not believe they are going to compromise on anything that is very much shorter than that.



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I think they attach importance to the Khmer Rouge, a very important instrument and a very important point of influence for China. But I think the Chinese have to be believed when they say that they want a genuinely quadrupartite transitional administration in Cambodia, and that they do not want any single faction to dominate.

On the question of Deng's ability to continue with reform, I think there is no question that Deng is still the supreme leader. That is evident, I think, from everything one sees and hears. I think his commitment to the open-door and to reform has also been consistent. The issue now is whether it is possible to follow through with that commitment and also simultaneously remain committed to the 'four cardinal principles'. That is a question I cannot answer. We will have to see events unfold. Second, of course, Deng is not a young man any more, and the question is whether he will have the time left to pursue his objective of advancing, or even, as he puts it, of accelerating, the reform.

On the question of Sino-US relations, Fang Lizhi is obviously one of the reasons why that relationship at the moment is under stress - under particular stress - and the future evolution of it may not be entirely clear. How that problem is eventually resolved and how satisfactorily, is not something I could guess, or would want to, but clearly it is a very important issue that may depend on other considerations of importance to China and the US in strategic and in foreign policy terms. After all, many of their foreign policy objectives are not dissimilar on Cambodia, for example, or Afghanistan, and so on. Also, the US is important to China in economic terms, while China has been part of the US international strategy for quite a long time now.

China is clearly a country of continuing immense importance in the Asia-Pacific region where other changes are taking place. I do not therefore see China changing its fundamental foreign policy approach. Certainly everything you hear from Chinese officials indicates that they have no wish to change; they consider it has been successful, and indeed it has. So as time passes the scope for resolution of the Fang Lizhi problem, of getting it into perspective on both sides, will improve and it will not remain the dominant public element in US-China relations that it currently is, and I think that will

probably be good not only for relations between those two countries but for Fang Lizhi himself.

## CHAPTER THREE

# AUSTRALIA: DIPLOMACY, TRADE AND IMMIGRATION

Penny Wensley, Peter Dixon and Ian Simington\*

Policy on China  
by Penny Wensley

The Beijing massacre, the subsequent purges, and the leadership realignment that has taken place in China since mid-April following the death of Hu Yaobang, led the Australian Government to undertake a comprehensive review of Australia's relations with China.

The tragic events in China necessitated a fundamental reappraisal of our approach to China, involving a major assessment of our interests and concerns, and an examination of how best to manage the relationship in the period to come. Most of you will be familiar, I believe, with the outcome of that review, which was announced by the Minister for Foreign Affairs and Trade, Senator Gareth Evans on 13 July following a special Cabinet meeting.

This reassessment of policy involved not only a major process of consultation across all government departments, reflecting the density and complexity of Australia's interests in China, but also consultation with the wider Australian community. We had very strong, spontaneous input from many areas of the community, including the academic community, and all of those views were taken closely into account.

Australia's relationship with China is determined obviously by our geographic position and our trading environment. We considered that we had more at stake than many of the countries which were also looking at the way they approached China following the events of early June - more, for example, than countries in Western

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\* The views expressed by Mr Simington are his own and do not necessarily represent those of the Department of Immigration, Local Government and Ethnic Affairs.



Europe. We also judged that our interests were perhaps more interdependent than a number of countries, not least because of the complexity and density of those interests that I have mentioned, so that the harming of one area had potential to cause damage in other areas.

A primary interest obviously for us is to see a China that is stable, prosperous and involved peaceably in the region. That is important for both strategic and economic reasons. And it was on this basis that Australia, since 1978, had welcomed the policies of reform and openness which had brought improving living standards to China, greater involvement with the outside world and increased trading opportunities for many countries, including our own.

Another primary area that we took into account in assessing our relations and the future direction of policy was our concern for human-rights. This is obviously of universal importance - but we related it in our thinking also to the significance that human-rights questions have for China's prosperity and stability (to use the cliché which is constantly applied to Hong Kong). We considered that abuses of human-rights, including not just freedom of expression, but things like a fair and non-arbitrary legal system, the opportunity for work, travel, economic initiative, all of which, if threatened, ultimately threaten what we most want to see - continuing reform in China.

A third area of fundamental interests we took into account was Australia's economic and trade interests in China, which of course, are now very significant and have become more important over recent years with the opening up of China. The high degree of complementarity between the economies of Australia and China has really only just begun to be tapped, for example through projects involving Chinese investment in the Australian resources industries. Simply put, we felt that those growing interests would be affected adversely by a down-turn in China's reform processes.

Another area of fundamental interest was China's constructive engagement in the region and with the international community, and our concern that tendencies within China in favour of inward-looking policies would not only imperil China's reform, progress in human-rights, and economic developments, but place at risk a great many of the delicate relationships that affect our own peace and prosperity.

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In developing our foreign policy responses to China, the Government really faced some very difficult decisions. As always with diplomacy, a balance was sought between pragmatism and principle.

We wanted to: protect fundamental Australian interests; give expression to the very deep abhorrence obviously felt by the Australian community and the Government at the events in China; find means of bringing effective pressure to bear on the Chinese leadership without harming the interests of the ordinary people of China; and, above all, to encourage the processes of reform and liberalisation.

So ministers took all those factors into account and agreed on a number of principles which, in effect, set the framework for the management of our relations with China during the coming period, but also underpinned particular decisions that were then made in a number of areas. The principles now guiding Australia's relations with China are:

- that a distinction should be made between the leaders responsible for the violence and for the repression and between the rest of the community and that the Australian Government's responses be very carefully directed accordingly;
- that the processes of economic reform and liberalisation in China should be encouraged by all appropriate means;
- that as many lines of communication be kept open with as many different segments of Chinese society as possible; and
- that Australia's substantial long-term strategic and commercial interests in China be preserved.

It was also agreed that the very clear message of concern over human-rights already conveyed to the Chinese Government, in the immediate aftermath of the events of early June, should consistently and vigorously be reinforced by continuing human-rights representations in both bilateral and multilateral forums, including pushing for China's accession to human-rights conventions. Although

China adheres to a number of them, the key ones of the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights, are two that the international community would like to encourage China to associate itself with.

The second decision that flowed from the wish to sustain and to give expression to the sense of outrage felt over human-rights violations was that Australia should maintain an appreciably down-graded relationship with China by: suspending all high-level visits, both ways, at least until the end of the year; suspending all political visits, including party and parliamentary delegations; severely constraining official contact at senior levels; suspending all visits by public security and police officials; and suspending high-level defence visits - quite a package, in terms of impact on the practical workings of the bilateral relationship. I note that this high-level input is particularly significant, having nurtured and helped significantly to build up the substance and strength of the close and increasingly complex bilateral relationship to which I referred earlier.

In the interests of following through those principles of maintaining the momentum of reform and of keeping open as many lines of access and communication with as many segments of Chinese society as possible - and after a good deal of careful consideration - it was decided that we should continue educational, legal and other professional, cultural and economic exchanges, and that we would not cut the aid program to China, except to postpone consideration of any new technical cooperation and agricultural research activities that might be proposed by the Chinese Government. We also decided to suspend the Market Advisory Program, which helps to promote Chinese products in Australia. So you can see there were a number of specific decisions which flowed from having defined the fundamental principles which should govern the relationship and determine its future management.

Another decision consistent with the wish to maintain communication and to try to encourage China to maintain an outward-looking approach was that Australia should continue to encourage China's involvement in multilateral forums. That meant in particular that we would continue to support China's entry into the GATT and to support in principle China's participation in the Prime Minister's



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Regional Economic Initiative. It was also that principle which governed the decision to seek a meeting between Senator Evans and Chinese Foreign Minister Qian Qichen in Paris.

This then is a brief sketch of the general policy framework that was adopted. You will appreciate that this question of striking a balance is always a very difficult one. We recognised that there simply could be no easy return to 'business as usual'; we recognised that we faced a period of coolness in our dealings with China; we recognised that our ability to bring effective pressure to bear on China was limited - hence the decision to work in concert as much as practicable with like-minded countries.

Finally, I should add that the Government decided also that it would reassess its policy approach if any changes occurred for better or worse, and in any event there will be another review of relations with China before the end of the year. It is also important to emphasise that we remain committed to a long-term cooperative relationship with China. What we hope is that the measures we have taken and the policy framework that has been set will enable us to keep a foundation for the continued development of a strong bilateral relationship should China be encouraged to resume the path of reform and modernisation.

### **Australia's Commercial Relations by Peter Dixon**

I think the first point to make in terms of our commercial relations with China, is that recent events have had little or no impact on the major elements of Australia's trade with China. This is essentially a reflection of the composition of our exports to China, which are mainly raw materials and bulk commodities. This is both a strength and weakness, not only in our commercial relations with China, but in our trading relations with quite a number of other countries. Those commodities in relation to China are iron ore, wool, wheat and sugar.

As to the immediate future, the Chinese demand for these products, as in the past, will depend on the availability of foreign exchange and the Chinese domestic economic situation. We consider



at this stage the prospects for iron ore are quite good; conditions are also good for wheat and for sugar. The large unknown is in regard to wool. The Chinese up to 1988 were quite large buyers of Australia's wool, but have been inactive in the Australian marketplace in 1989. This, we believe, is the result of (a) foreign exchange shortages, and (b) the tight monetary policy being pursued by the Chinese.

The major commercial impact of the recent government decisions in respect of China is in the area of our exports of capital goods. Australia's exports of capital goods and associated technology to China are highly dependent on the availability of concessional finance, and no further applications for concessional finance will be considered until the review later this year.

Having said that, I think it needs to be realised that there was quite a considerable amount of business in the pipeline as of July 13 and it will start to come on-stream towards the end of this year and into following years.

Another matter I would like to mention is investment. We have maintained very close contacts with Australian companies which have existing investments in China. Australian investment in China overall is not particularly large, about \$200 million in total. Most of the Australian companies now have their management and personnel back in place in China. Most have reported that the factories are running normally, but a number have reported shortages of supplies, that is, in domestic supplies due to a range of economic and infrastructure problems in China.

Then there are a number of possible new investments. In respect of that all I can say is that there has not been any marked lessening of Australian investment interest in China, though in the past it has never been particularly large. Most of the companies concerned have adopted a wait-and-see attitude, as is to be expected in terms of the longer-term risks, etc., associated with investment in China.

An important aspect of the Government's decision is that normal economic relations and the government framework surrounding those relationships will continue. Between now and November of this year there will be a series of working-group meetings with the Chinese on a number of industry initiatives - iron

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and steel, non-ferrous metals, machinery, electrical and electronic products, and transport and communications. There was a joint working group meeting on wool just before the events of June in Beijing.

It is in those discussions that we will be pursuing with the relevant Chinese ministries the prospects for increased trade between the two countries, investment possibilities, the prospects for project activity, and so on.

### **Immigration**

by Ian Simington

I will attempt to put into some perspective the impact of the events in China in June on some aspects of Australia's immigration relations with China.

To do this I would propose to consider the nature and background to the relationship prior to early June and then provide some limited comment on the implications for the future. I use the word 'limited' as in 'limited comment' advisedly. It is clear that the immigration issues thrown up by the present situation will present Australia with a range of difficult humanitarian problems that will not resolve easily or quickly.

Before I begin, however, it might be as well if I were to rehearse some received wisdoms that are usually ignored but are nevertheless a useful beginning or end point in any review such as this.

The most frequently ignored of these is the reality that with a world population touching 5 billion, China's present population of 1.2 billion means in practice that one in four people in the world is Chinese. This is a powerful demographic statistic. China is still by definition a people-rich, land-poor country. Experience elsewhere in underdeveloped countries such as China has always suggested that rising standards of living when linked to rising expectations produce enormous emigration push factors. By comparison Australia's situation is the obverse of that of China. It follows that for these reasons Australia's present capacity to maintain a global non-discriminatory migration policy and a program intake of about 140,000

is based on the unstated assumption that most of China's billions will not want to leave China. This may prove to be a naive assumption either by us or the Chinese.

Until June the Chinese Government was interested in encouraging the movement of people out of China as a logical means of furthering its objective of modernisation: there are signs that this process will be maintained, if not necessarily expanded or modified. If it is maintained, countries such as Australia may require better understandings about Chinese intentions, and maybe a better understanding of our own objectives in a developing migration relationship with China.

The present relationship between Australia and China has been determined (more accurately, perhaps not determined) by the Australia China Family Reunion Agreement (ACFRA). This agreement dates from the 1973 'exchanges in principle' between Gough Whitlam and the then Premier of China, Zhou Enlai. It was not, however, finalised until 1976 and does not have treaty status.

The agreement was meant to facilitate family visits and, less obviously, family migration. It was an excessively limited document. The procedures were reluctant and restrictive and were meant, from the Chinese point of view, to keep the migration lid firmly in place. As such the agreement reflects traditional socialist philosophies of conceding only limited rights to citizens while at the same time insisting on significant obligations. Most obviously, this predated the more progressive approaches taken since then in the name of 'modernisation'.

Almost from the outset the Chinese appear to have accepted some evolution of procedures away from the strict provisions envisaged. Although the number of visitors and migrants covered by the agreement remained at quite low levels during the period 1976 to 1986, practical arrangements on the ground were allowed to evolve sufficiently to allow a broader range of migration and visitors movement than that initially defined. The opportunity for review of the original agreement has not been pursued by the Chinese. This is not surprising and probably reflects an acceptance that the arrangements have worked satisfactorily to date from their point of view, a situation which we have interpreted as a desire to keep any relaxed arrangements largely unofficial and out of formal bilateral



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understandings. From the immigration portfolio point of view, we have seen this development as most positive in that it has allowed us to move to a normal migration relationship with China largely in line with our global approaches.

As a consequence and over the last five or six years, non-family visitors and non-family migration has increased to levels of visa issue that place China as a small but growing source of migration. It has also become a rapidly growing and important source of long and short term visitors - particularly students but also including an expanding range of business and official visitors. An important element in this last mentioned process was the negotiation in 1985 of arrangements to facilitate visa issue for Chinese diplomats and officials.

Since late 1986 student figures have shown a dramatic increase. This followed the signing in 1986 of a Memorandum of Understanding (MOU) on educational exchanges. The agreement which was signed by the respective Ministers for Education set up exchange arrangements which among other things: formalised for the first time the increasingly uncomfortable (for Australia) informal arrangements for the Chinese government sponsored students; but most importantly, cleared the way for the large scale marketing of Australian education to full fee paying private students from the People's Republic of China, consistent with the Australian Government policy on marketing of education.

In recent years Chinese migration under all categories has run at about 1000 per year and is still predominantly family reunion. Visitors total about 4000, and students and long term visitors upwards of about 2000. While all other categories have remained at about the same levels since 1986, the student group increased from 1700 to 8000 in the first full year of operation of the marketing program to a doubling again of that figure in 1988/89 program year. Expectations prior to June were that student numbers could rise to over 40,000 for calendar year 1989.

The burgeoning of student numbers in 1987 and subsequently has focussed on participation in the English Language Intensive Course for Overseas Students (ELICOS). From the program's inception ELICOS has accounted for 80-90 per cent of all fee paying Chinese students attending institutions in Australia.



It needs to be said that the typical ELICOS student from the PRC falls well outside the normal stereotype of a student. They are less well educated, are frequently from a non-academic background and more often than not have only a doubtful vocational reason for undertaking the course involved. Most ELICOS courses are of short duration (usually six months) and course fees are relatively and attractively low.

It follows that at a total cost of about A\$9,000 to A\$10,000 a secondary educated Chinese student can apply successfully for an ELICOS course in Australia and on that basis alone obtain a visa. Although there has been some increase in numbers of students applying for more traditional tertiary and post-graduate training in Australia since 1986 the increase in numbers in this category has been modest.

From its introduction the ELICOS program has created problems for migration management and procedures. Because of the lower level of educational qualifications required for course acceptance and the relatively low course costs there is every evidence that many of those involved have sought to use their stay in Australia to seek work illegally and/or to prepare the ground for a much longer residence. In other words, the program has been a 'non compliance' nightmare and has added significantly to the already high level of overstay in Australia by Chinese nationals. The overstay rate for Chinese students early this year and during the lead up to events in Beijing was in the high forty per cent bracket - a clear indication of the massive emigration pressures building in China prior to the events in Tiananmen Square.

As at early June 1989 there were 16,000 Chinese nationals of all temporary entry categories in Australia, comprising about 4,000 normal visitors, 800 temporary residents and 11,400 students - of whom 9,000 were ELICOS and of whom nearly 5,000 were already overstayed.

Another aspect of the migration relationship which is and has always been sensitive, is that of refugees. Since 1949 Australia has accepted refugees from China. A long running program based on the re-settlement of White Russians was terminated only three years ago and since its inception in 1949 involved the resettlement of 14,000 people. For some time the small number of Chinese seeking asylum or

refugee status in Australia was effectively presumed to be refugees on the grounds that the treatment of all people in communist countries was routinely one of persecution. These views have changed more recently. The presumption of automatic state-inspired persecution no longer applies. The presumption of persecution has been replaced by a more uncertain and not necessarily universal presumption of human rights denial, which has changed the emphasis of our response from refugee determination to lesser procedures.

A large proportion of the Chinese citizens who have sought refugee status or permanent resident in Australia in recent years have put forward claims that have fallen well short of those traditionally associated with refugees. In fact most of these claims could be identified only as moderate deprivation of human rights and have concentrated around the individuals' inability to pursue a preferred career or lifestyle. This is a proposition which if taken at face value, and taken to its logical extreme of absurdity, could possibly entitle several hundred million Chinese to Australian residence.

In recent years the practice in marginal cases has been to avoid solutions involving refugee status in favour of lesser procedures. This has involved decisions to allow Chinese to stay in Australia on compassionate grounds but has not excluded the concept of a negotiated return to China in circumstances where we were satisfied that there would be no recriminatory treatment of the individual on return.

To sum up so far: since 1976 Australia's level of human contact with China has been expanding and normalising against a background of a growing migration push based on rising expectations. The recent upheaval in China has put most of the judgements and expectations behind that process under enormous pressure. It remains to be seen just what options are available to us or China.

The migration legacy of Tiananmen Square is the widespread assumption that China has reverted to its authoritative beginnings and that massive persecutory abuse of some of its citizens has once again become the order of the day. If this is so, will it in fact continue to let its people out (and particularly students)? If it does, will they go back willingly? If they do not go back willingly can countries like Australia afford to accept them in the first place; and again, if China attempts to restrict departures will it succeed?



There are no clear answers, nor are there any clear indicators that would suggest the order of an Australian response. China will probably want to have its cake and to eat it too. It will probably pursue continued modernisation by encouraging students movements overseas, but attempt at the same time to maintain a politically repressive orthodoxy at home. If this happens, the relationship with countries such as Australia will become complicated and strained, as repressive policies at home will manufacture refugees abroad. If a sensible, continued commitment to modernisation means the containment of political repression at home, we can expect a resumption of normalcy - but in what time scale and in what market magnitude? How long will it take, in these circumstances, for the Chinese Government to win back the confidence of its citizens? Just as importantly, how long will it be before a Minister of Immigration in Australia could be confident that Chinese in Australia who have overstayed their welcome here could safely return to their homes in China?

The Government's decision to extend the stay in Australia of all Chinese visitors and temporary residents who were here in early June was a necessary and appropriate humanitarian response. There will be a need for further decisions as the situation develops. The downside of the decision to extend all entry permits, however, is the expectation by the students and others that all of the 16,000 already here, and those who may come in the future who wish to stay permanently will be able to do so. Whether this can be done and under what arrangements is a difficult and unresolved issue.

There is also the question of the nature of future arrivals from China and particularly those involved in the ELICOS program. It would be extraordinary if a large number of those in China now affected by the post-June repression did not attempt to use such a program as a means of escape. The dilemma to be faced by Australia in these circumstances is the likely difference in the perception of those seeking to stay and the perception of the Australian community which may not be as generous if and when the implications of such obligations become clearer.

The problem is not just one of the moral correctness of our response. The scale of the problem and its intensity is relevant and important. The presence of large numbers of Chinese students in



Australia, given the volatility of the political situation at home, raises important issues as to the viability of Australia's capacity to respond. The likely and foreshadowed numbers thrown up by ELICOS threaten to challenge Australia's capacity to maintain its migration intake policy at or about present levels and may challenge the social acceptance of the established machinery for humanitarian response. If the scale is too great, the overall integrity of our migration program itself may be at stake.

In conclusion I would want to briefly refer to Hong Kong migration. It is inevitable that Hong Kong should become involved in our future calculations about developments in China. It is difficult to see how any form of arrangement could serve to isolate Hong Kong migration from that of our migration relationship with China. It is not necessary for me to revisit here the detail of Australia's migration involvement in Hong Kong. It is enough to say that the developing migration relationship between Hong Kong and countries like Australia, Canada and the United States in addition to the United Kingdom means that significant problems with China or significant problems in Hong Kong itself either prior to 1997 or after that date will invoke migration obligations of an important and even distressing order. A modest assessment would be that Hong Kong will remain an important issue in Australia's relations with China well into the foreseeable future. It is still too early to make a firm assessment of the implications of this except to broadly conclude that it is most likely they will be negative.

# CHAPTER FOUR

## UNITED STATES STRATEGY AND CHINA

Tom McNaugher

Thinking about recent events in China prompts me to two quite different conclusions, corresponding to short- and long-term views of the crisis. Taking the short-term perspective, one is prompted to ask 'What China crisis?' Clearly China's leaders are anxious to pretend that nothing happened in June in Beijing. Western states have minimised sanctions and seem anxious for the crisis to pass. Newspaper editorials now speculate that the real problem for the Bush administration will be that of devising a set of standards for relaxing sanctions, not apply them more stringently.

Taking a longer-term perspective, by contrast, prompts one to draw upon that old adage 'You ain't seen nothing yet!' It is hard to imagine that the demonstrations in Beijing that began this past April are the last gasp of student reform. Rather, they are but one more in a series of demonstrations. If anything, those demonstrations have grown more serious over time; note, for example, the involvement of labour and people from many of the institutes in Beijing in this last go-around. There is also very clearly a power struggle going on here. It has been said that Deng refuses to retire because he cannot be sure that his policies will be carried forward. One hardly expects that in view of recent events he now feels that he can safely retire to the countryside!

I shall leave Deng's dilemmas to others and concentrate instead on US strategy in the region and what the China crisis and its aftermath are likely to mean. Significantly, my general conclusion is that this particular crisis is likely to have very little effect on US strategy. In part, this reflects Beijing's clear efforts since early June to isolate its domestic problems from its foreign policy; the Chinese have been at pains to reassure the world that Chinese policy in, for example, Indochina will continue as before. But my conclusion also reflects the fact that China is less important to US regional strategy than many people think. Let me offer evidence by taking a brief tour of major points at which US strategy touches Asia.

There is no better place to start than in Northeast Asia, the principal focus of US concern. President Nixon's opening to China fundamentally altered world politics, and the logic of Nixon's initial move was carried to fruition at the end of the 1970s, as the US and the PRC normalised their relations, while China and Japan also signed a peace and friendship treaty. All the while, of course, China's relations with Moscow were deteriorating quite sharply, as were US-Soviet relations. Thus China figured quite prominently in US strategy, as of course the US figured prominently in Chinese strategy.

Since then, however, China has been moved, relatively at least, to the backburner of US policy. To a great extent the Chinese themselves opted for this position, when in 1982, after reassessing Soviet power and their own priorities, they chose to pursue greater independence. But by that time it was clear that Japan and South Korea, more than China, were coming to play the dominant role in America's regional strategy. Significantly, the Soviets noticed the change; whereas in 1979 they had spoken of a 'Beijing-Tokyo-Washington axis' aligned against them, after 1982 they spoke instead of a 'Tokyo-Seoul-Washington axis.' These changes transpired at the height of what amounted to a new Cold War so far as the Reagan administration was concerned. If China receded from the center of US strategy when US-Soviet relations were deteriorating, arguably it is still less important as a strategic counterweight in the Gorbachev era, when US-Soviet relations are on the mend.

That should help us understand why the US has taken a fairly relaxed attitude toward the normalisation of Chinese-Soviet ties. It may also help explain why US sanctions towards China have focused on the transfer of military technology. There was a heated debate in the United States during the 1970s as to how ardently the US should seek to help China rearm. Ultimately the United States approached the subject rather gingerly, partly because it was such a controversial subject, but also perhaps because analysts realized what an enormous task it was. The PLA is on the whole too large and its equipment is simply too dated. Whatever the case, I do not think that today the US sees any immediate, or even medium-term, prospect of advantage to be gained by helping to rearm China. In fact, the United States has previously used the threat of cancelling technology sales to China during the Iran-Iraq war, when the sale of Chinese Silkworm missiles to Iran caused great concern in the US as well as the Gulf. At that



point Beijing stopped what it had refused to admit that it had been doing all along.

None of this is to say that US strategy toward Northeast Asia is without problems. The US has a much more relaxed attitude towards China because China is strategically much less important in Northeast Asia than it once was. If one wants to find a country in which an ongoing domestic political crisis might ultimately affect US strategy, the more likely place to look is Tokyo, not Beijing. In the longer run China's domestic troubles may come to haunt US strategy. But not now. The US would however have a lot more to say about Japan. The real problems of US strategy in Northeast Asia have a lot to do with Japan and the maritime strategy, not China.

Let me turn next to the Koreans, where as a military strategist I have to consider the possibility that war may actually occur. One suspects that Pyongyang is smugly gleeful at what is happening in Beijing. China's relations with the DPRK have been somewhat troubled over the past decade as the PRC have come to enjoy a growing if indirect trade with the South. Yet the basic contours of China's policy toward the Koreans are unlikely to change as a result of the current crisis in Beijing. It is quite unlikely that, faced with its own domestic problems the Chinese would be anxious to stir up trouble in the Koreans, on their border. Even if they tried, ultimately the Soviets have the controlling hand in North Korea so far as war is concerned, and Gorbachev is hardly likely to see much gain in stirring waters between the Koreans.

US policy toward South Korea over the past eight years has been above all to reverse the sense of US retrenchment that came with the withdrawal of a US Army division in 1971 and President Carter's aborted attempt to remove still more US troops in 1977. Unquestionably the Reagan administration was successful in this effort. More recently I think US policymakers have wisely begun to discuss with the South Koreans possible alterations to the US-dominated command structure. I suspect the issue of US troop withdrawals will also rise again soon, partly for budgetary reasons in the US. Both remain very controversial issues, to be sure. But China's domestic crisis imparts little if any change to the nature of the controversies.

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On to Indochina, where Chinese policy obviously is crucial to current efforts to stabilise Cambodia, it is heartening that Beijing has stressed recently that it does not intend to toughen its stance on Kampuchea in the wake of its domestic crisis. Questions remain, of course, about whether the PRC will truly stop supporting the Khmer Rouge once Vietnamese troops have withdrawn from Kampuchea. But those questions are neither more nor less troubling now than they were before June 4.

It would be difficult to say that the US has had a strategy toward Indochina. We have tried to walk a line between China and our ASEAN friends, albeit with no enthusiasm at all for China's chosen Cambodian ally, the Khmer Rouge. Most of all, though, the US has steered clear of any direct involvement. No doubt this was partly a result of the nation's Vietnam experience. But more recently, as a solution to the Cambodian problems seems to be emerging, I think US policymakers have concluded that if such a solution takes shape without direct US participation, so much the better.

In the last few months the United States has tried gently to distance itself further from China. In May the Bush administration was reportedly considering providing 'covert' aid to the two non-Khmer Rouge Cambodian resistance factions. I do not think such aid would have made much difference, but the policy (ultimately scuttled in Capitol Hill) might have had some symbolic significance in slightly increasing China's isolation in its support of the KR, while it also might reassure Prince Sihanouk of US support should he drop his alliance with the KR.

Last month it was leaked that the US might accept a Hun Sen-Sihanouk regime in Phnom Penh - a serious reversal of previous US policy. Significantly, the reports carrying the leak speculated further that the policy shift resulted partly from the China crisis, which left US policymakers more willing to put some distance between US policy and China's. I think these are sensible policy directions, but they will remain marginal at best in effect. The United States is not going to affect the Cambodian situation very much, while China will. So far, at least, there is no reason to consider China's policy differently than before the crisis.

Finally, let me turn to South Asia. Early in the present decade the US reinvoked a policy pattern first established in 1954: it embraced



and armed Pakistan to cope with Soviet expansion (namely the Soviet invasion of Afghanistan) only to alienate India. Unquestionably the United States and India disagree on many things, India's refusal to condemn Moscow's invasion of Afghanistan being only one among them. Still, India is the natural dominant power in the region. It is hardly an enemy of the United States, and a policy of arming Pakistan does not bode well for the long-run, however successful it might have been in forcing a Soviet retreat.

Over time one would hope that the United States and India could find ways of warming their relationship, and over the past few years they have begun to do so. The Soviet Union's withdrawal from Afghanistan has certainly encouraged this process from the US side; US policymakers and Pakistan's new President, Benazir Bhutto, have a common interest, it seems, in relaxing the close embrace forged by the Reagan administration and Zia-al Haq. But the Indians, too, have reasons to seek closer US ties, notable among them the ongoing Sino-Soviet rapprochement, which leaves India quite uncertain of its Soviet ties and relatively anxious to explore alternative or additional ties.

Will the China crisis change this underlying logic? One assumes there will be a chill in Sino-Indian relations; Rajiv Gandhi is unlikely to visit Beijing soon, as he did last year. But that will not change much, since Gandhi's visit really did not change much in Sino-Indian relations. Meanwhile, to the extent that Sino-Soviet rapprochement is driving India to seek alternatives, the logic of Indian action remains potent. Sino-Soviet ties remain unharmed by the China crisis, after all.

Again, however, the China crisis is dwarfed by larger forces operating around the subcontinent - the Soviet withdrawal from Afghanistan, Gorbachev's successful efforts to normalise his country's relations with China, and perhaps also the slow but steady increase in Indian military power that has left the country more confident of its position and perhaps less worried about the threat posed by China than ever before.

Nonetheless, there are limits to the argument that China is less important in Asia than it once was. There are extremes to which Chinese action could go that would certainly upset things in Asia, though I see no logical reason why Beijing would pursue such policies in the current circumstances.



What is the significance of these arguments? One immediate conclusion is that the United States need not approach the question of sanctions toward the PRC with a sense of desperation. There is plenty of policy 'space' in which to fashion our sanctions policy in accord with how we wish the US relationship with China to evolve, rather than in response to Chinese strategy and China's influence in the region.

On the question of US intelligence facilities in China, those installations have just kept chugging along unaffected by recent developments.

On Indochina and Washington's retreat from mainland Asia, when I say 'a part of the world that the US would rather forget', I am referring specifically to mainland Indochina, but I do think that one has to say that a Vietnam syndrome still operates in Washington, albeit more weakly than it did say ten years ago. We have some tough policy problems ahead of us. If the Vietnamese really pull out of Kampuchea, and I assume they will, US has said that it will normalise relations with Vietnam. Now this is not an easy issue in Washington. There is the MIA issue - small single-issue lobbies can make a big difference to government in Washington. The US will have to debate that issue, and it is going to be an important debate.

What is the future of US relationship with Thailand? If in fact there is a normalisation and stabilisation of Kampuchea, will US want to reassert its relationship with Thailand? What do the Thais want to do? Do they want to continue drifting towards the Chinese as they have in recent years? It seems to me that US will have to reconsider this, and come to terms with the Vietnam heritage.

Beyond the mainland in the Pacific proper the US is quite seriously engaged. Indeed I have always seen US military strategy in the region as simply a fall-out of what it does in Northeast Asia. I mean, it builds forces for Northeast Asia, and if there are any left they float around in the South. The US has six carrier battle groups at present (although I do not think it will have all of them in five years time). That is a lot, and as they float around all over the Pacific, you can say that US is still very much engaged in the Pacific. I suspect, however, that United States' strategy in the region is going to be a maritime one, with a small 'm', one in which China does not have prominence.

## CHAPTER FIVE

### THE SOVIET VIEW

Geoffrey Jukes

The 4 June events in Tiananmen came at a somewhat awkward time for the Soviet Union. Gorbachev had visited the country just a couple of weeks previously. He concluded various agreements which from both the Soviet and the Chinese view points marked a new stage in Sino-Soviet relations. This of course had not come unexpectedly; it was the culmination of an attempt to mend fences with China which had begun in Brezhnev's last year in office with the speech that he made in Tashkent in March 1982. Brezhnev then indicated an end to attempts to depict China as a non-socialist country, and the beginning of Soviet efforts to normalise relations with China.

The agreements mentioned in Gorbachev's speech in Beijing on the 17 May 1989 included big reductions in military force along the Sino-Soviet border, and a proposed demilitarisation of the border area with all military units to be withdrawn a certain distance. There would be cuts in Soviet forces on the Soviet side totalling about 200,000 over 1989-1990, and of these 120,000 would be specifically in the Far East. In addition, 436 intermediate- and short-range missiles are to be destroyed; 12 Army divisions are to be disbanded; 11 air force regiments are to be disbanded, and there are to be small reductions in warships in the Pacific Fleet. Two tank divisions and one infantry division are to be withdrawn from Mongolia.

There is to be a considerable expansion of trade. Trade has been expanding anyway over the last few years; it still constitutes only about 2 per cent of all Soviet trade, and about 3 per cent of all Chinese trade, but there is a clear potential for a very big expansion.

Completion of the railroad from Urumchi to Alma Ata would provide a new 'silk road' for Chinese trade with the Soviet Union and Europe. The possibility of a number of joint-ventures was mentioned, and joint research programs are to be undertaken.

All these plans fit in with Gorbachev's vision of the Pacific which stresses the importance of the individual roles of the USSR and China, and of Sino-Soviet cooperation within the Asia-Pacific region,



as set out in his Vladivostok speech in June 1986 and at Krasnoyarsk in September 1988.

Now in world eyes Gorbachev's visit was overshadowed by the student demonstrations and the occupation of Tiananmen Square. This image however did not appear in the Soviet media. Television and radio crews, and journalists accompanied Gorbachev to Beijing. The reportage of student activities was fairly full. Interviews with students in Tiananmen by Soviet television and radio crews mentioned for example the replacement of the 27th Army and the tension in Beijing; they gave contents of leaflets; the size of the demonstrations; they mentioned the unrest in 26 other cities; they gave full coverage to students demands to end corruption and privilege; and one of them did point out that 'the millions were involved' in the movement. This reporting gave the Soviet public a full indication that this was a large movement, involving millions of people. It was pointed out, however, that it lacked specific aims or alternative propositions for reform or a new leadership. This tended to reinforce the image of China's movement as a spontaneous grass roots affair and not something that was well-organised.

Throughout this coverage by the Soviet media, it was stressed that the movement did not plan to overthrow socialism. The emphasis was on the importance of the visit - it was 'the great reconciliation'. As well, the Chinese people welcomed the Gorbachev visit. The Soviet media interviewed Chinese people who said that the demonstrations had nothing to do with Gorbachev's presence in Beijing. On the contrary, they said how much they wanted to have friendly relations with the Soviet Union. In other words the message to the Soviet people was that what was happening in Beijing would make no difference to the rapprochement that had just been accomplished. Events in China were of course competing with Soviet domestic events on which reporting is now much freer. Moreover, in the Soviet media the massacre in Tiananmen on June 4 was overshadowed by a very large disaster in the Soviet Union on 3 June. This was the explosion from a leaking gas pipeline which set fire to two trains and killed several hundred people. One might remember also that the Soviet media party which had accompanied Gorbachev to Beijing had returned to Moscow with him so there does not appear to have been any direct Soviet reporting of what happened in Beijing on 4 June.



The Soviet response to the Tiananmen affair provides an interesting contrast to the western response. The US administration came out on 5 June with a statement very critical of China. It also announced the suspension of US military sales, and urged restraint on the Chinese leadership. On 6 June the Soviet Congress of Peoples Deputies adopted, without debate, a leadership statement which tactfully avoided criticism of the PLA or the Chinese government and said that outside pressure on China was inappropriate. At the same time, however, the Soviet statement urged China to continue economic and political reform.

I emphasise the term political, because the problem in China seems to include an attempt to modernise everything except politics, and the inclusion in the Soviet statement of references to political change therefore is of some significance. A minority of the Soviet Deputies, including of course Boris Yeltsin, wanted a much stronger statement, but they did not get one, and there was no debate. It was simply a matter of a resolution being put and adopted without discussion. Since then the Soviet attitude has continued to be cautious. It was exemplified in a statement made by Gorbachev at a press conference in Bonn in mid-July. He was asked: 'Do you think that students, workers, and other citizens of Beijing who protested and advocated democracy were counter-revolutionaries?' and 'Do you believe that the Chinese government did the right thing using weapons against peaceful demonstrators?'

Gorbachev's reply was as follows:

When I was in Beijing I came out in favour of a dialogue to resolve, settle and defuse the situation that already existed there at that time. Unfortunately the situation later deteriorated. I guess for the time being you and I don't know everything. I understand that the government of the German Federal Republic has no full information on that score either. This is why our judgements should be highly responsible and weighed. It seems to me that all of us are very concerned at what is happening in China. All of us feel worried, lest the process of radical reform and transformation in that great country should come to an end. It seems to me that all of us understand that

this would greatly damage the overall process of improvement in the world. That is why it is important that no matter what your attitude is to what happened then, it is our wish that the Chinese people and the government find such a solution that would be in line with the interests of the Chinese people and with our common expectations. This, and nothing else explains our responsible and serious position. That does not mean that we cannot regret the fact that events worked out the way they did. To be able to say whether the events were counter-revolutionary in nature or not, we should first analyse them in detail. When in Beijing I received a letter from students. It contained many interesting things: they welcomed the visit, they welcomed cooperation and improvements in our relations; and they came out in favour of reform. In essence they proclaimed the same goals as the Communist Party of China. I cannot suspect them of having some devious plan. I'm referring to those who sent me the letter. But perhaps there are such elements. It was evident from reports and statements of the Chinese government that somebody wanted to put to their own advantage the situation and real processes that resulted in the domestic tension. These things, I repeat, need to be investigated most thoroughly. A report may require few facts, sometimes even rumours can suffice, but a political statement takes profound knowledge and responsibility, more so when we are taking about the most crucial issues of world politics.

I think the Soviets' message comes through very clearly. There is regret for what happened, but the main concern is that the process of reform be continued, and there is a reluctance to criticise. The objectives I think are certainly not to prejudice Sino-Soviet relations when they have just attained the best footing they have had for 30 years. There is, of course, (although it is not expressed in the statement) a tacit common interest in the preservation of the leading role of the Communist Party, subject to the reservation that Gorbachev probably does not believe that this is the best way to do it.



The belief in the inefficacy of pressure does not derive solely from first principles, but simply from the fact that the Soviet Union over a long period did attempt to apply pressure to China, and some of it of a very cruel kind. It did not achieve the desired results. Brezhnev had already realised this by 1982 when he initiated a change of Soviet policy.

Apart from that all that one can say is that there is of course a belief that there will be some residual benefits for the USSR in this situation, in international terms. For the best part of a two decades the West has castigated the Soviet record on human rights, and maintained a discreet silence over the human rights record of China. The prospective change in these attitudes in the direction of a less punitive attitude towards the Soviet Union and a less indulgent attitude towards China, will probably make the job of Soviet diplomacy a little easier.

An important consideration in the Soviet response to China has been the triangular dynamic involving China, the USSR and the US. One thing that has not been adequately explored by Western scholarship is the relationship between Brezhnev's Tashkent speech of March 1982 and the writings and statements of Chief of General Staff Marshal Ogarkov, then the most vocal representative of the military. In late 1981 he expressed strong concern about an alleged Washington-Tokyo-Beijing axis, directed against the Soviet Union in the Far East. This was particularly marked in an article Ogarkov wrote in November 1981. The nightmare that he revealed was that of Chinese manpower combined with the technological capabilities of the US and Japan. I think when we look into it we may well find that Brezhnev's initiation of the attempt to mend fences with China was in large part motivated by the adverse strategic and economic consequences for the Soviet Union of following the confrontationist policy with China that was implicit in the writings of Marshal Ogarkov. In fact it may turn out to have been the turning point in his fortunes as soon afterwards he was retired from Moscow.

The China/US/USSR triangle however has been replaced more recently by a Washington-Tokyo-Seoul relationship. And now we are seeing a quite serious Soviet attempt at rapprochement with South Korea. In other words, there seems to be a sequence in Soviet foreign and strategic policies in which military confrontationist



scenarios are turning out to be really too expensive. This has precipitated attempts to ease tension by the alternative diplomatic means. I think for that reason, the so-called great reconciliation between China and the USSR must be taken back to 1981-82. The increasing cost of the military-type solutions advocated by people like Ogarkov and Gorshkov led to them being 'retired' by Gorbachev as one of the first things he did after coming to office. Their solutions were expensive. The alternative approach led to Gorbachev's Beijing visit of May 1989 and was the culmination of years of work. The Soviet Union is not likely to want to throw away these years of effort by being excessively critical over developments in Beijing in June 1989; because, if I may quote Harold Macmillan, 'They see the current situation as just a little local difficulty'.

On the question of China softening its stance on Cambodia in order to strengthen its relations with the Soviet Union because of its increasing isolation with the rest of the world, I do not accept the premise that China is being increasingly isolated. Any isolation will prove to be of a short term but I would be interested to hear from a China specialist on the question.

**Comment by David Kelly:** I think that perhaps some of the speakers today have ignored chauvinism as a factor in Chinese politics at present. It seems to me that the isolation of China should perhaps be looked at in terms of isolation, but from which parts of the world? Isolation from Western so-called bourgeoisie or capitalist countries is a prospect that cannot be overlooked and this is because of the forces driving politics inside China. Chauvinism is a very important plank for the conservative elderly Party leadership in Beijing today. It is very important to these people to have an external threat - it is important for them, for example, to find external instigators of the crisis, and it is important in their domestic politics to exaggerate the role of foreign countries, particularly Western bourgeoisie countries. This cannot be consistent with breaking down the barriers of communication with those countries. So I think that we have to say that there is a prospect for China being increasingly isolated, at least in the short-term, from the so-called Western bourgeoisie world.

**Comment by Denis Argall:** I think there has been a tendency for a long time to over-emphasise the anti-Soviet element in China's Indochina policies. There has been a tendency to disregard the Vietnam-China driven qualities of China's policies towards Indochina in favour of seeing it in terms of some sort of global China-USSR confrontation. This perspective was facilitated of course by the sort of line China was putting out in the period 1979-1982, an emotionally tense period, when China was trying to create an anti-Soviet united front. To look at the question now in terms of China being in a position whereby it is obliged by some mechanism to seek Soviet support by softening its Indochina policy is to ignore the China-Indochina basis of that policy.

**Geoffrey Jukes:** Yes, and also, of course, it is seven years since the Chinese government officially proclaimed that it does not regard the Soviet Union as a threat.

## CHAPTER SIX

# INDIA AND THE SUB-CONTINENT

Michael McKinley

While I do believe the crisis in China possesses the essential elements of what we might describe as a crisis, it is not at all obvious to me that it has any significant implications for the countries of South Asia. China is important for the countries of the so-called sub-continent - India, Bangladesh and Pakistan - because it was China that spawned the Indo-Soviet relationship in the mid-1960s and later. It is China which has been influential in Pakistan to a much greater level than the US over the last ten or fifteen years and it is China which has been a threat to India at various stages of its short history. For example, the border war of 1962; various border problems in which the Chinese are alleged to have supported insurgents on the periphery of India; the Chinese military modernisation and expansion, and in particular the claims voiced recently by some Indian strategists that eventually Chinese nuclear-powered submarines with missiles will be deployed in the Bay of Bengal. All these things must present the Indians with something of a security problem in the moat around the great barrack which seems to be becoming the modern India.

Pakistan of course is important to the sub-continent. It is a receiver of Chinese arms - it is, depending on whom you believe, possibly engaged in some sort of collaboration with advanced weapons systems, and perhaps even nuclear weapons systems with China. It is the least stable internally of the major states, or the major actors in South Asia. It is the Islamic link between the Middle East and South Asia, and it is the nuclear aspirant, I think, most likely to involve countries of the Arab world in South Asia.

And then of course there is India in the process, I believe, of becoming a regional great power, and probably no greater compliment can be paid to that development than that the Senate Standing Committee and Defence, Foreign Affairs and Trade would invite various academics to give papers on the subject. There is also the matter of divergent history between India and China. Two thousand years of history in which both have shown a remarkable divergence in culture and politics, leading to the divisive tensions and divisive self-



images, which in turn manifest themselves in, say, Chinese support for Pakistan, and Indian support for Vietnam. But for all that, the security complexes of the South Asian region, including the so-called supra-regional security complexes, involving the Soviet Union and China, are, I think, stable, even if the levels of amicability are somewhat lower.

The question I ask after the events in China is, what is new now? What is it that might lead this situation to change? And I would argue that it is very little, despite of all my training in strategy, searching for threats, potential enemies, I cannot find a thing which suggests that any change will take place. Indeed, there appear to be signs of improvement, which are enduring and which I think will endure beyond the so-called China crisis. Prime Minister Gandhi and Prime Minister Bhutto have recently met and I think have established a better relationship than has existed for some time. Prime Minister Gandhi has visited China and the outcome of that visit appears to be relatively satisfactory. In fact Prime Minister Gandhi went out of his way to assure the Chinese that Tibet remained as it had been in Indian foreign policy, a subject for Chinese internal judgement. Also we have to note that there has been slight reduction of tensions between China and the Soviet Union, and perhaps the breakout of another era of detente between the US and the Soviet Union - that the antagonisms between China and India no longer seem appropriate or useful.

In fact I think the Chinese have discovered that the tensions with India are essentially dysfunctional and that it is high time that a high level of flexibility was introduced into Sino-Indian relations. I think that has been accompanied with some flexibility, but also with a forgiving nature in Indian and Chinese pronouncements where the bourgeoisie of India are now no longer held in such contempt in some Chinese pronouncements. Now I do not think that this means that the differences have been eliminated between China and India. If anything they have only been ameliorated, and that is the best expectation that we can construe. I think there is a non-committal willingness to have much more normal relations between the two States and once again I am drawn back to the fact that no matter how I view this relationship, essentially nothing has changed between China and India.

In answer to a question on possible instability in Tibet and Xinjiang, India has had a policy going back to the mid-1950s of declaring Tibet to be essentially within Chinese jurisdiction. Since that has been repeated, and quite loudly and clearly by Prime Minister Gandhi, it seems that he has already decided that if the worst comes to the worst, Tibet remains China's problem. If it should lead to a spillover of refugees into India, I think it would depend on the scale of disruption caused by India. But at this stage I would think that what Gandhi needs is a foreign affairs success. I think he has determined that it is better to reach some sort of diplomatic accommodation with China rather than have a confrontation; and until the next Indian election at least he will be governed by the need for a diplomatic success.

In answer to a question concerning Chinese naval activities in the Indian Ocean, India, as I understand it, is generally concerned about China's defence modernisation. In 1986/87 a Chinese flotilla made a quite extensive visit around the Indian Ocean littoral. The Chinese at the time took quite extraordinary steps to emphasise that it was only a goodwill visit. Now, of course, this is a subjective interpretation which is not necessarily shared by everyone. But the Indians seem to be preoccupied by Chinese deployments in the Bay of Bengal which they see the Chinese having to do if their nuclear ballistic missile firing submarines are to target the Soviet Union.

One of the difficulties, as many people are aware, is that the Indian elaboration of its growing naval strength is somewhat lacking. It is very difficult to find considered and authoritative pronouncements by Indian spokesmen as to why they need this navy, and some of these spokesmen are attributing the Chinese with motivations which perhaps simply do not exist. But it appears to me, as a Western observer, that the Indians definitely want to establish the Indian Ocean as some sort of moat to secure their territory against threat perceptions which we might not share and which they appear to have constructed. In that light, however, India views the activities of any external power in the Indian Ocean as unhelpful and unnecessary.

On Myanmar (Burma) as a focal point for rivalry, why would it? The Chinese government would have maintained support for the Mizos, for example, and other insurgent groups if its objective was to foment trouble and tension on the Burmese/Indian border. This is,



however, at variance with China's recent policies which, as far as I can ascertain, show that the Chinese have actually cut this support back.

On Nepal as a focal point for rivalry, what is new? At present the Indian government seems to be exerting considerable pressure on the government of Nepal. I am not satisfied that the Chinese government could not be other than something of a nuisance at great expense to themselves inside Nepal. They have difficulties of a logistic character operating in Nepal whereas the Indians would be logistically advantaged if they were to go in there, but this is not likely either. I am not at all sure, in fact, that Nepal is going to become a *causus belli* between China and India.

On the mutually agreed Indian sphere of influence in the Indian Ocean, I do not see China ultimately agreeing to being excluded from the Indian Ocean. As the China's navy expands, it will express its foreign policy in goodwill visits. The Indians are unduly sensitive to the future presence of extra-regional navies. I am not sure how that will work out. What I do see happening perhaps is some sort of naval arms race in the Indian Ocean which I think is dangerous, dangerous in particular for Australia because some of the ASEAN group are going to be particularly agitated by what is taking place. I am talking obviously about Indonesia.

I think the thaw in Sino-Indian relations was brought about more by Chinese initiatives than by Indian ones, although it did take Gandhi to go to Beijing to cement some of this. But the Chinese seem to be much much more flexible over the last few years. They realise they can coexist with India without a serious threat to their own security or foreign policy objectives. In some of the specialist literature it was put down to economic and political reform taking place in China, and that is now problematic. However, the process was taking place before 4 June and I do not see any reason for it to stop.

**Comment by Sandy Gordon:** I would like to put to you that events in China last June do at least have some effect. I agree with you broadly that there is no major effect but I think there is an effect of degree. In my view the greatest problem that India has always had in dealing with China is the domestic-political problem. In the long term the resolution of the border crisis is fairly self-evident. It will be along the



lines of existing control probably. But the difficult part for India, as the loser of territory, is to come to accept that fact domestically. It was only after a lot of testing of the wind with a wet finger that Rajiv Gandhi decided to go to Beijing in December 1988. I think that recent events in China make it difficult for him now to progress the relationship at quite the pace it might otherwise have been. We can see this in attacks by Gandhi's opposition on the relationship Rajiv had carved out with China. Apart from this, I agree with you broadly that there are no real differences between the two sides and that there are much stronger imperatives operating than the domestic events in China last June.

# CHAPTER SEVEN

## THE JAPANESE STAKE

Eiichi Katahara

I want to answer three questions: What is Japan's economic and political stake in China? Why did Japan respond to the events in China with caution and restraint? What are the implications of the current events in China for Sino-Japanese relations, and for Japan's security outlook on China and North East Asia?

### Japan's Economic and Political Stake in China

Japan has significant economic interests in China, and indeed, Japan has played a very important, if not crucial role in assisting the Chinese modernisation process. To pursue modernisation programs, China needs capital and technology, both of which Japan can offer amply. Japan's interest in China's energy resources is related to its need to diversify energy sources.

I would argue, however, that Japan's economic stake in China is somewhat more limited than widely observed in the Western press and that Japan's cooperation with China's modernisation reflects Japan's political and strategic considerations as well as its pursuit of long term economic interests in China.

Let's look at three major areas of Sino-Japanese economic relations: Trade, investment and Japan's Official Development Assistance (ODA) to China.

Japan's trade with China has increased dramatically since 1978 when the Long-Term Trade Agreement was concluded.<sup>1</sup> In 1988, Japan-China trade totalled approximately \$20 billion both ways,

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<sup>1</sup> There is apparent complementarity in the Japan-China economic relationship. Japan imports energy resources such as coal and oil, and foodstuffs and textiles from China. China imports metals, machinery and electrical goods from Japan. See Laura Newby, *Sino-Japanese Relations: China's Perspective*, London: Routledge, 1988.

accounting for more than 20 per cent of Chinese trade.<sup>2</sup> For China, Japan represents its second largest trade partner, taking 23 per cent of its imports and 16 per cent of its exports. For Japan, however, China is far less important as a trade partner than the US and some of the Western European countries. In 1987, for example, the share of Japan's exports to China in the total value of its exports was 3.6 per cent, which was less than that of Japan's exports to Taiwan. The share of imports from China in the total value of Japan's imports in the same year was 5 per cent, about the same level as that of Japan's imports from Australia.<sup>3</sup>

Although the Japan-China trade relationship is characterised by strong complementarity, the prospects for growth in trade is uncertain. Given that Japan's economy is undergoing restructuring from energy resource oriented industries to knowledge intensive, high technology and service industries, a substantial increase in Japan's demand for energy resources is not likely. On the Chinese side, deteriorating foreign currency reserves led the central authorities to impose import restrictions on consumer goods, thus curbing Chinese demand for imported consumer goods from Japan.<sup>4</sup>

What about Japan's direct investment in China? In promoting modernisation programs, China has made strenuous efforts to create a better climate for foreign investment. However, Japanese investors remain remarkably cautious and Japan's direct investment in China falls short of Chinese expectations. Indeed, Japan's accumulated direct investment in China during the period 1951 to mid-1988 amounted to \$1.9 billion, accounting for only 1.2 per cent of the total value of Japan's direct overseas investment. China has been more successful in attracting direct investment from overseas Chinese in Hong Kong and Macao and from the United States, than from Japan.<sup>5</sup> The Japanese claim that there are still formidable deficiencies in the investment

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2 See, for example, Tanaka Akihiko, 'Shizukana gaiko g hitsuyo no toki' (Now is the time for quiet diplomacy), *Chuokoron*, August 1989, pp.89-90.

3 *Japan 1989: An International Comparison*, Tokyo: Keizai Koho Center, October 1988, pp.39-40.

4 See Newby, *op.cit.*, pp.1027.

5 Ministry of Finance, Japan. See also, JETRO, *Foreign Investment of Japan and the Rest of the World*, Tokyo, 1988 (in Japanese).



climate in China, including the poor state of infrastructure, the lack of qualified labour and managerial skills, and deficiencies in laws and regulations.<sup>6</sup>

However, Japan gives massive official development aid to China. Japanese aid accounts for 56 per cent of China's multilateral assistance and 68 per cent of its bilateral aid.<sup>7</sup>

Japan's ODA has been predicted on the assumption that it will assist China's modernisation process, thus helping to make China a stabilising influence, positively contributing to peace and security in the region. There is also an emotional element in Japanese motivations. Many Japanese acknowledge China's renunciation of reparations for the damage caused by Imperial Japan during World War Two.<sup>8</sup>

Japan's ODA to China began in December 1979. It has been mostly directed to capital projects aimed at improving infrastructure including the construction of railways, ports, and hydropower stations, thus assisting China's modernisation process. Japan has so far extended three packages of yen loans to China. From 1982 to 1986, China emerged as the largest recipient of Japan's ODA. The first yen loan of 330 billion yen (\$1.5 billion in 1979 dollars) covered the period from 1979 through 1983, and the second aid package involving 540 billion yen (\$2.3 billion in 1984 dollars) covered the years 1984 through 1990. In August 1988 Prime Minister Takeshita announced the third aid package of 810 billion yen (\$6.3 billion in 1988 dollars) for the period 1990 through 1995.<sup>9</sup>

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6 Newby, *op.cit.*, pp.27-30; *Asahi Shimbun*, 23 August 1988.

7 *The Australian*, 14 July 1989.

8 See Newby, *op.cit.*, pp.39-44; see also Greg Story, 'Japan's Official Development Assistance to China: A Survey', *Pacific Economic Papers*, No.150, Australia-Japan Research Centre, Australian National University, Canberra, August 1987.

9 See Saburo Okita, *Japan's Quiet Strength*, *Foreign Policy*, No.75, (Summer 1989), pp.135-136. See also Alan Rix, *Japan's Aid Program: Quantity versus Quality: Trends and Issues in the Japanese Aid Program*, Australian Development Assistance Bureau, International Development Issues No.1, Canberra: Australian Government Publishing Service, 1987, pp.28-29.

Critics argue that Japan's ODA to China reflects Japan's pursuit of economic interests in China, rather than considerations of China's developmental needs.<sup>10</sup> In selecting development projects, Japan's long term economic interests as well as the economic interests of Japanese private firms, are undoubtedly an important consideration. Nevertheless, I agree with Newby's view that '[Japan's] principal motivation has been, not the potential economic gains to be made in China's vast market, but the belief that strong economic links with China would cement political relations and contribute to political stability'.<sup>11</sup>

I would want to argue, therefore, that the Japan-China economic relationship is underpinned by Japan's political and strategic considerations, and not by short term economic profits of Japanese private firms. Japan's economic stake in China, albeit important, is not as great as is perceived in the West.

### Japan's Cautious Response to the Events in China

Tokyo's reaction to the Tiananmen massacre of 4 June and the crackdown on the pro-democracy movement fell short of strong condemnation and imposition of economic sanctions, and was milder than that of the West. Tokyo expressed deep regret and told Beijing that the events of 4 June could not be condoned because of humanitarian reasons. Tokyo also decided to reexamine the implementation of the third aid package announced last year by Prime Minister Takeshita.<sup>12</sup> According to Foreign Ministry officials' estimate, Japan's aid 'will remain "virtually frozen" until Beijing meets four requirements: the installation of an effective government; the restoration of stability through the lifting of martial law and other restrictive measures; a renewed commitment to economic reform and

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<sup>10</sup> See, for example, Story, *op.cit.*

<sup>11</sup> Newby, *op.cit.*, p.44.

<sup>12</sup> See Oguri Keitaro, 'Shiten: gekido chugoku (A Perspective: the China Upheaval)', *Asahi Shimbun*, 15 June 1989; *Asahi Shimbun* (evening edition) 20 June 1989; and *Asahi Shimbun*, 28 June 1989.

open-door policies by Beijing; and an improvement in China's external relations, particularly with the United States'.<sup>13</sup>

In the political declarations of the recent G7 Summit, the seven countries, including Japan, condemned China's crackdown on the pro-democracy movement, but acknowledged the need not to isolate China from the international community. According to the Japanese press, Japan urged other summit countries not to institute strong economic sanctions against China.<sup>14</sup> While recognising that 'Chinese actions are an affront to the system of values held by Japan and other democratic nations', Tokyo emphasised the importance of not isolating China.<sup>15</sup> Let me quote from the Summit political declaration on China:

We have already condemned the violent repression in China in defiance of human rights. We urge the Chinese authorities to cease action against those who have done no more than claim their legitimate rights to democracy and liberty...

We look to the Chinese authorities to create conditions which will avoid their isolation and provide for a return to cooperation based upon the resumption of movement towards political and economic reform, and openness..<sup>16</sup>

Japan's cautious response to the China situation reflects long term political and strategic considerations as well as long term economic interests. Politically, the Japan-China relationship is susceptible to emotional contestation, because it is heavily burdened by history. In recent years, we have seen occasional eruptions of contention between the two countries including the textbook issue in 1982, the Prime Minister's visit to the Yasukuni Shrine in 1985 and the

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13 See Foreign Ministry spokesman Taizo Watanabe's statement at the Press Conference, 18 July 1989.

14 *Asahi Shimbun*, 16, 18 July 1989.

15 See Foreign Ministry spokesman Taizo Watanabe's statement at the Press Conference, 18 July 1989.

16 *Asahi Shimbun*, 16 July 1989.



## 54 *China's Crisis: The International Implications*

Kokaryo case in 1987.<sup>17</sup> China has also been critical of Japan's defence buildup in recent years.<sup>18</sup>

Tokyo also believes China is a key factor in the maintenance of stability in the Asia-Pacific region. A China that is prone to political instability and economic chaos would adversely affect the region's security. China's isolation would be unwelcome, because it would create tremendous uncertainties about Chinese actions and its involvement in regional political problems such as the Cambodian issue. The prospect of a massive exodus of Chinese refugees is a source of anxiety not only for Japan but for other countries in the region.

In the long run, China would play an important role in stimulating economic growth and facilitating economic integration of the Asia-Pacific region. Indeed, China's active involvement in the economic dynamism of East Asia would be a prerequisite not only for China's modernisation process but also for future economic growth and prosperity of East Asia and the Pacific. The integration of China into the international economy, therefore, constitutes a challenge for China as well as for other countries in the region, including Japan and Australia.<sup>19</sup>

### **The Implications**

My third question concerns the implications of the recent events in China for Sino-Japanese relations, and for Japan's security outlook on China and North East Asia. The recent events in China, in my view, will have some ramifications for Sino-Japanese relations, but it is unlikely that Japan will significantly change its security outlook on China and North East Asia.

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<sup>17</sup> See Newby, *op.cit.*, pp.48-72.

<sup>18</sup> *Ibid.*, pp.71-72.

<sup>19</sup> See Peter Drysdale, 'The Growing Importance of the Asian-Pacific Region to Australia's Economy', Paper presented to Australian Financial Review Symposium on 'Industry Policy and the Hawke Government: The Current Economic Climate and Challenges Ahead', Sydney, 14 July 1989.

First, on the economic front, there is and will be a slowdown both in Japan's trade with China and Japanese direct investment in China. The Japanese attitude towards investment in China is likely to become even more cautious. Whether or not China will be able to restore international confidence is still an open question.

Second, there will be a sharp decline in Japanese tourism to China. The Japanese public image of China has been seriously tarnished. Public optimism about the future of China, rooted in cultural affinity and historical contacts, which had been further strengthened by China's reform and open-door policies, disappeared.

Third, Tokyo continues to value stable political relations with China and is likely to resume the on-going yen loans to China, 60 per cent of which is still to be disbursed through 1990.<sup>20</sup> However, the prospect for resumption of the third aid package is uncertain.

As regards Japan's security outlook on China and North East Asia, I think that the recent crisis in China is unlikely to change Japan's security views on China and Northeast Asia in any significant way. The Soviet military presence in the region remains a paramount concern in Japan's security planning. And Japan will preserve its security ties with the United States while maintaining a modest level of defence capabilities.

Despite American attempts in recent years to promote some degree of defence cooperation with China, including defence technology transfer, there is no such thing as Sino-Japanese defence cooperation in substantive terms. This is partly because of Japan's domestic political considerations and partly because of Japan's unwillingness to provoke the Soviet Union. There are also uncertainties with regard to the prospects for Sino-US relations and concerning China's leadership politics. Further, Japan's policy of banning arms export and adherence to COCOM regulations prevents Japan from exporting arms and sophisticated technologies to China.<sup>21</sup>

Japanese defence planners, however, well recognise the strategic importance of China for Japan's defence as well as the

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<sup>20</sup> See *Asahi Shimbun*, 28 June 1989.

<sup>21</sup> See Hiramatsu Shigeo, *Chugoku jinmin kaihogun* (The Chinese People's Liberation Army) Tokyo: Iwanami, 1987, pp.184-187.

security of the region. Japan's geographic proximity to China and the fact that China is a nuclear power with offensive power projection capacity compels Japan to keep China as its friendly neighbour. China also presents itself as a counterweight against the Soviet Union, an important consideration in Japan's security planning.<sup>22</sup>

Therefore, provided there is no change in China's commitment to reform and open-door policies, I would argue that the current crisis in China is unlikely to affect Japan's security outlook on China and Northeast Asia. At this point, we need to continue monitoring closely political and strategic developments in China.

The future is somewhat unclear. What is evident is that the question of human rights in China will not go away and will return, perhaps in even more violent form. Japan and Western countries, therefore, need to pursue patient dialogue with China in this respect.

**Comment by Perya Short:** An impression I have is that there seems to be a degree of Asian solidarity at work with restrained and cautious responses from Japan and South Korea towards the China crisis compared to the huge Western outcry. Is that a fair impression or are there more pragmatic factors at work?

**Eichi Katahara:** Yes, the important factor that influenced the cautious response from Asian countries, including South Korea and Japan, is geographic proximity to China. China is Japan's neighbour and the Japanese must necessarily be cautious.

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<sup>22</sup> See, for example, Gary Klintworth, *China's Modernisation: The Strategic Implications for the Asia-Pacific Region*, Canberra: Australian Government Publishing Service, 1989, pp.92-95.



## CHAPTER EIGHT

# THE TWO KOREAS

Peter Polomka

Viewed from Pyongyang, China's crisis was doubly inexcusable. Anti-government demonstrations simply should not happen; that they could also be brought instantaneously to international notice by Western reporters carrying cellular 'phones, beggars all belief.

North Korean President Kim Il Sung is unlikely to have hesitated in privately reassuring Chinese leaders of his full support for their crack-down on the pro-democracy movement. He may have had difficulty in refraining from 'I told you so!' That he waited until towards the end of the 13th World Festival of Youth from 2-8 July before making his support public, probably reflected his concern that China's crisis should not detract from or overshadow the festival which was Pyongyang's riposte to the South's 1988 Olympic Games.

Unlike their counterparts in Pyongyang, leaders in Seoul could not keep their public 'in the dark' about events in neighbouring China. The South Korean media reflected a wide spectrum of opinion, including that sympathetic to students at the receiving end of brutal treatment from security forces. But, by and large, it generally seemed restrained. Official comment avoided criticism. Seoul also quickly joined Tokyo in opposing any move to isolate China from the international community.

Early on a 'task force' was formed to look at the implications of developments and the security cabinet met to evaluate the impact of events on the Korean peninsula. But an admittedly incomplete search of the media offers little by way of public comment on the outcome of either the work of the 'task force' or cabinet deliberations.

Initial South Korean comment, attributed to officials, 'worried about the victims', 'hoped for an early peaceful settlement' and expressed the hope that authorities would 'exercise restraint'. President Roh Tae-woo first spoke publicly of developments on 29 June, the second anniversary of South Korea's own dramatic turn towards more democratic government, when he met foreign reporters

for the first time since assuming the presidency 16 months earlier. He said:

In principle, I'm against any government taking those kind of measures. What happened in China is very regrettable and we are very much concerned. As tranquillity is restored, I hope and expect our economic relations with China will be restored.<sup>1</sup>

Seoul showed concern for the safety of its nationals in China at the time. An official announcement said that several joint venture projects would not go ahead 'because of the unstable political situation' there. But late in June, a South Korean firm announced a joint venture manufacturing TV sets with a Chinese company.

Within days of the massacre of demonstrators in Tiananmen Square, the Korea Trade Promotion Corporation (KOTRA) was worrying about a 'communications breakdown' with the China International Exhibition Centre. It was keen to forward a second shipment of goods for display in Beijing at an exhibition, scheduled to open in mid-July. A South Korean newsagency report, recounting the narrow escape of three Korean businessmen from the turmoil in Beijing, ended by quoting all three as agreeing: 'We wish we could soon go to Beijing again'. President Roh was reported urging South Korean athletes and sports officials to 'make thorough preparations' for up-coming events, including the forthcoming Asian Games in Beijing.

That Seoul should take a low-key approach to events in China - especially by comparison with the West - and the fact that Pyongyang preferred to ignore them entirely should not be surprising. The peninsula's proximity to China, the history of Sino-Korean relations and their cultural affinity, coupled, in the case of Seoul, with the prospect of improving relations not only with China but also other communist countries were among factors counselling prudence and a low profile. In addition, for South Korea, domestic issues and the ongoing tactical contest with the North, especially with the World Festival of Youth about to take place in Pyongyang, were of much greater moment as events in China unfolded.

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<sup>1</sup> *Asian Wall Street Journal*, 29 June 1989, p.10.

A short comment can only canvass a few of the issues events in China raise for the two Koreas. So I intend to speculate briefly about the implications for South Korean commercial interests and also attempt to make two more substantial points - one about democracy and the other on trends in intra-regional relations - which may be brought more sharply into focus by China's crisis. However, much will depend upon future developments in China itself.

Among foreign business interests, those of South Korea may well prove to be the least affected. Indeed, what they lose on the swings could be more than offset by gains on the roundabout.

First, Seoul found a few foreign buyers, who had switched their imports from Korea to China, returning in the wake of China's turmoil. Second, South Korea has no official economic relations; its burgeoning trade and growing investment gets a wink-and-a-nod from Beijing but is carried on at a non-official level which could prove to be least affected. Third, China has already looked to South Korea's economic success as a model from which it could have something to learn; it will be even more interested in South Korean technology, given increased caution in Washington and Tokyo and the inability of Moscow to meet its demands. Fourth, compared with most foreign business (e.g. the Japanese), South Koreans are among the greatest risk-takers. To the extent that China will need to 'sweeten the pot' to sustain the interest of foreign business, those still prepared to take a chance are likely to be the biggest winners.

Despite media comment concerning the 'shock' of events to South Korean business, the general assessment in South Korea seems to be that China's 'open door' policy will continue. According to this judgement, it does not matter who is in power, the reforms must go on. Indeed, growing political instability before the 'crackdown' was probably a greater source of concern among some business interests than the current heavy hand on the helm. Early fears that events could severely slow South Korea's growing economic relations with China already seem on the decline.



My point about democracy is to suggest that most Koreans are likely to have seen the pro-democracy movement in China in a somewhat different context than the view in the West. The stress lies less on political equality and participation in processes of government than what constitutes 'worthy government'. Unworthy and anti-democratic government is marked by a lack of ethics and virtuous conduct on the part of rulers, the resort to strict laws and cruel punishment, and of failure to foster the people's welfare and corruption and incompetence. That is in short, the perception of the pro-democracy movement in China about its leaders' recent performance, and that of many South Koreans two years ago, when they threw out President Chun Doo-wan.

Events in South Korea continue to suggest that the well-spring of greater openness and pluralism compared with either the North or the Chinese mainland lies less in a truly democratic spirit and instinct than in the influence of Christianity, in foreign education, in the exigencies of outward-looking economic and foreign policies, and in its alliance with the United States. These influences have contributed to a political diversity and a concern for individual freedom which do not exist elsewhere on the Northeast Asian mainland. But their roots are shallow and their power weak compared with the pull of traditional Korean national influences and behaviour. They continue to clash with the constraints of autocratic rule which most South Korean leaders, officials and security forces favour. While two years on the road to democracy has led to a freer, more open atmosphere in the South, the same institutions wield power, led mostly by the same people as before.

As the South Korean media recently reviewed 'the road to democracy', many acknowledged increased freedoms and civil rights and the mushrooming of media to 'assert untrammelled independence and liberty'. But 'negative developments', where noted, seemed more numerous; e.g.:

Intensified labor unrest and campus disturbances present a special cause for worry. Some of them were absorbed or condoned as inevitable in the course of the political transition. But others have gone overboard to threaten the normal economic performance and to disrupt education.

The people [South Koreans] do not want too high-handed and overbearing government. President Roh is expected to live up to the spirit and inspiration of 'the hour of decision' that was June 29, 1987 by clearing the dismal aftermath of the Fifth Republic without delay and reestablishing a responsive yet strong government leadership and authority to achieve full democracy and economic viability in tranquillity and stability.<sup>2</sup>

Democracy as benign, authoritarian government which successfully pursues 'economic viability in tranquillity and stability' may already be the ideal among Northeast Asian nations and increasingly even in the Soviet Union. Could South Korea become something of a political as well as an economic model for Chinese leaders as they look for ways of regaining international support for economic reform while retaining a firm grasp on power?

A common interest among communist regimes in Northeast Asia, including the Soviet Union, in economic reform and enhanced technological capacities is becoming a powerful force in intra-regional relations. It is driving both Beijing and Moscow in their interest in developing economic and commercial ties with South Korea. South Korean-Soviet relations since the 1988 Olympics find Moscow still cautious lest it offend Pyongyang too much. But it wants to be seen as playing a conciliatory role between the two Koreas (e.g., Kim Youngsam's meeting with Pyongyang's Ho Dam during the former's Moscow visit in June). Indeed, both Moscow and Washington seem more interested than at any time in the past at working towards a resolution of the Korean question.

Recent testimony by Assistant Secretary of State for East Asia and the Pacific, Richard Solomon, to the Senate Foreign Relations Committee indicated that the US was relaxing its trade sanctions against North Korea, allowing diplomatic contact (several meetings with North Korea have now been held in Beijing) and trying to maintain contact with Moscow and Beijing over the Korean issue. Solomon indicated that the US was looking to the North to take 'reasonable and sufficient' confidence-building measures, including

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<sup>2</sup> *Korea Herald*, 30 June 1989, p.8.

the evacuation of its troops from around the DMZ and removal of offensive weapons and river-crossing equipment from near the DMZ.

In the context of recent debate about a move in US Congress to withdraw some troops from South Korea by early in the 1990s, Seoul argued that events in China heightened the risk of North Korean aggression against the South. Other Korean sources have argued that international criticism of China will help persuade the North to take a more cautious attitude. But neither Beijing nor Moscow want war on the Korean peninsula and the North's ability to take independent action continues to decline. While an early break-through in South-North relations seems unlikely, the overall prospect for an eventual political settlement would not appear to have been set back by events in China.

But China's crisis could sharpen the focus on forces at work in East Asia which are returning intra-regional relations to a more traditional pattern of interaction. A shared geography, history and culture are combining with the pressing need for political and economic reform which will allow countries like China to benefit from new technologies and compete effectively in the international economy, while, at the same time, resisting the inroads of unwelcome Western traits and values. In the process, Western influence is likely to be edged more towards the periphery of intra-regional relations.



## CHAPTER NINE

### HONG KONG

Wang Gungwu\*

This has been a sad period for us in Hong Kong. Thinking about the phrase 'China in crisis', I am not sure that China is in fact in that much of a crisis compared with Hong Kong.

David Sadleir has quoted Deng Xiaoping as saying that he still has hopes for Hong Kong and that he wants to have more places like Hong Kong on the coast of China. In the last few weeks, of course, the Chinese have been trying to reassure Hong Kong businessmen that:

- there will be no change to the one-country, two-systems policy;
- they want things to get back to normal as quickly as possible;
- they welcome all foreign businessmen to return; and
- they would like everybody to calm down and look to the future with a degree of optimism that the people in Hong Kong obviously do not now have.

Equally important and interesting, the *Peoples' Daily* ran an editorial without naming the people concerned, but clearly identifying two of Hong Kong's Legislative Council members who have been very active in the pre-democracy movement as potential counter-revolutionaries engaged in acts which were recognised as unfriendly towards China. The editorial warned against Hong Kong ever becoming a base for anti-communism.

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\* Transcript of the talk given by Professor Wang.

So on the one hand China is reassuring Hong Kong, while on the other it is wagging its finger in warning to the people of Hong Kong. That is the background of the situation in Hong Kong.

I note that in the program today that while just about every important part of the world has been covered, there is nobody speaking about Britain! The British are after all in the front-line - they have responsibilities for Hong Kong for another eight years yet. Some of them may wish that it was not their responsibility any more. But they still have that responsibility and they would very much like to leave Hong Kong in one piece when they go in 1997. I am sure they will work very very hard to try to ensure that, but it is a very difficult job. The resumption of the joint liaison group meetings, the discussions about the basic law, how the basic law can mesh into what will have to be introduced to the Legislative Council and reforms in the political system within Hong Kong itself - all are British responsibilities in the Anglo-Chinese negotiations that have still to come before 1997.

Since the British are not represented, however, I might take this opportunity - not to speak on behalf of the British as I cannot do that - but to say a little about what they are up against. And there is no question but that the British are in a very awkward position. They have been concerned to assure the people of Hong Kong that things are going to be alright, that the British will be responsible to the end, and that they will do what they can to get the best possible arrangements settled before they leave. Of course it is easier said than done when the conditions are as critical as they appear to be to the people of Hong Kong. Many people in Hong Kong have been virtually in a state of panic recently and some of them are very difficult to reassure. Moreover, the British Foreign Secretary Sir Geoffrey Howe did not do too good a job in reassuring the people of Hong Kong when he visited the colony recently.

On the other hand the people of Hong Kong have made demands on Britain which are very difficult for the British to accept, so there is a kind of a stand-off for the moment. The British, of course, are being very practical. They cannot take very seriously this idea of a right of abode for three and a quarter million people from Hong Kong yet at the same time they cannot quite shake off the accusation that people who had been British subjects had their rights totally taken

away from them over the past two decades. Now there is a belated effort to take up that issue again, although not terribly convincingly.

One of the most moving and emotional features since May 19-20 has been the response of the Hong Kong people to the martial law declaration in Beijing. There was an outpouring of emotion with demonstrations in Victoria Park and on the streets of Hong Kong. To everyone's surprise they totalled nearly a million people. It was a sustained demonstration, something that had never happened in Hong Kong before. Hong Kong people have never been known to be so emotional about any one single subject, for any length of time, especially something that did not obviously have anything to do with business. This was quite remarkable. But the critical thing about that emotional response was that that response stemmed from the people of Hong Kong identifying with China more fully than they had done ever since anyone can remember. Of course one can say that in the past, before 1949, most Chinese people in Hong Kong never really took Hong Kong very seriously and always considered themselves as Chinese from the villages in Guangdong, Fujian or some other province: they were only temporarily living in Hong Kong. It has been only in the last couple of decades that people have identified with Hong Kong at all. In the meantime there have been probably millions of people over the last century and a half who have passed through Hong Kong on their way somewhere else, and never identified with either Hong Kong or China. These are quite well-documented features of the Hong Kong's attitude towards Chinese affairs.

Never before, however, had so many Chinese at one and the same time responded as Chinese as they did in May and June this year. It was the most astonishing outburst of almost old-fashioned patriotism. Even the Hong Kong people themselves were surprised at how emotionally they responded to what was happening in Beijing, and how they identified with those students, those workers and those intellectuals who were speaking out on behalf of what they saw as all the Chinese people. And that response of course puts into doubt, for some Hong Kong people at least, the fervent effort to persuade the British government that they want to be British with the right of abode in Britain.

So there is a fundamental difficulty there, which is not convincing to the British, even though there are sections of the British



population who feel guilty about what might happen to the Hong Kong people after 1997. Nevertheless it is very hard to present a case that the Chinese are now suddenly loyal British subjects, when in fact, just a few weeks before they had demonstrated their Chineseness so convincingly. That is a very fundamental difficulty that has affected the Hong Kong government's attitude towards the question of right of abode in Great Britain.

Nonetheless, the Governor and the Chief Secretary stuck their necks out in supporting the Hong Kong people's demands for the right of abode in Britain. They did not actually have to do that because they could have simply passed on the appeal to the British authorities. But they went further than that - both the Chief Secretary and the Governor publicly supported the Hong Kong people on this issue. I thought that was significant mainly for this reason: the Governor and Chief Secretary of Hong Kong and all the leading British officials realise they have come to a point now when there is a question of keeping the hearts and minds of the Hong Kong people.

The politicisation of the people of Hong Kong had hitherto been a very slow process and the British had helped a great deal in dampening any such politicisation of the Hong Kong people for a long time, and very successfully at that. Even until recently the Hong Kong people could not get very interested in either the Basic Law or any green or white paper dealing with the political structure of Hong Kong simply because they had been accustomed to not being too sensitive or responsive to political issues. The demonstrations of May and June demonstrated that the Hong Kong people had finally been awakened politically. There is no doubt that they have been aroused to the point where some of the so-called liberals who have been fighting for democracy for the people of Hong Kong for some years, have taken the lead in using the democracy issue in China to demand more rapid democratisation of Hong Kong. They have built upon the political awareness that has grown quite spectacularly in Hong Kong over the last few months.

If the Governor and Chief Secretary had not responded to that in some way, they would have lost the people of Hong Kong. They must have wondered, however, how to respond because they could not go out and say 'Yes, you may have democracy tomorrow, or next year, or 1991, or whatever'. They could not say that. Rather, they did

two things. First, they promised to bring in a Bill of Rights which the Hong Kong people regarded with some skepticism as yet another piece of paper. The British, however, were able to say 'well, here at least is one positive thing - we will introduce a Bill of Rights before we go'. Second, they found that they would have to say something about the right of abode, not because they believed that the British government or British people would really agree to that, but because they had to show sympathy for the Hong Kong people before they panicked and became desperate. There was certainly something like that in the wind in the second half of June. But it took my breath away to find the Chief Secretary and the Governor saying anything like that about the right of abode. That was something totally new to Hong Kong's experience, and it is something that I do not believe can ever happen again. This was remarkable. I would add just one more point about the Hong Kong government: and that is that they also have had to respond to the calls for democracy. It is still uncertain how far they will go. Much will depend also on how the divisions amongst the Hong Kong people develop over the next few months.

Let me refer to three important groups in Hong Kong. First, the businessmen. They are a very mixed lot. You have the multinationals, mostly foreign businessmen. Many of them employ skilled professional Hong Kong people in their businesses, so there are a lot of Hong Kong belongers who are very much committed to the future success of the multinationals in Hong Kong. There are also the larger Hong Kong institutions built up by Hong Kong entrepreneurs themselves over the last two decades. And these companies are very concerned because if anything really goes wrong in Hong Kong they have the most to lose. But at the same time they are big elsewhere too, so probably it would not hurt them a great deal even if they did lose their operations in Hong Kong. There is no question, however, that they are trying their utmost to bring back, as it were, normalcy to business in Hong Kong, and they have been adding their voices to the Government, to that of China, and to the British voices appealing to the Hong Kong people to calm down and look at the whole thing not so emotionally but at the practical issues confronting them. These people certainly have been resuming their business contacts with China very rapidly. I do not have detailed figures, but all the reports suggest that the major businesses are heading off, if not to Beijing directly, certainly to the other ports such as Shanghai, Guangzhou,



Shenzhen and Xiamen. They are resuming as many of their contacts as quickly as possible.

The second group, much larger in number than the first but in terms of capitalisation probably not as significant, are the small and middle businessmen of Hong Kong - the Hong Kong people themselves. They are torn in a completely different way. Their investments are relatively small in China, but in many cases that is all they have. So their dependence on a quick resumption of normal trading relations and an improvement in the business investment atmosphere is very great. Their concern has led them also to trek off across the border to talk to Chinese officials so as to get back to normal as quickly as they can. Their businesses are more likely to be in the Pearl River delta area - they are not much involved in the bigger investments elsewhere. I was struck to find many people reporting that the Hong Kong factories opened over the past ten years or so in the Pearl River delta are back working almost at their normal rate - they have not lost too much momentum. They are a little afraid of losing future orders for their products, so they are very concerned at the call for sanctions in the US and elsewhere, which would directly affect the orders for their products. For the moment, however, there has been no significant deterioration in the Hong Kong/Pearl River delta investment relationship.

Finally, a third business group should be mentioned, although how significant they are I am unable to say. These are the Chinese enterprises set up in Hong Kong by counties, provinces and various central Ministries from China over the past few years. They have grown tremendously. In fact some people might even argue that in percentage terms there has been more investment by China in Hong Kong over the past few years than by anybody else, including the Japanese and the Americans who are probably second and third on the list. Chinese authorities have sent hundreds if not thousands of people every year to open up new businesses. For the moment it would appear that they are the ones most immediately hit by the crisis. They have had troubles with the withdrawals of large sums of money from the Bank of China by the people of Hong Kong making some kind of protest against Beijing. Some of it is also due to uncertainty. A great deal of money has been drawn out from the Bank of China. On the other hand, we also understand that a lot of money has poured in from China to replace whatever has been lost. It may well be that China's



Hong Kong/Macau office will monitor developments and ensure that Hong Kong will stay afloat, with further continued investment from China to keep the market fairly buoyant. Of course the immediate consequences of the June events in Hong Kong - the fall in the Stock Market and a fall in property prices, down something like 20-25 per cent across the board - will be difficult to recover for quite some time. Nevertheless there is a determined effort on the part of China to keep everything as normal as possible.

However, because they are so secretive we do not really know how much is going on in the Chinese companies that are still operating in China. Campaigns against corruption would affect those very Chinese companies that are in Hong Kong. Again, we do not know the details. I can only speculate on how many of the people who have been accused of corruption in China are related to those who are operating in Hong Kong.

Every sector of the business community in the Hong Kong wants without question to go back to the time before May 1989. They want normalcy back, and they are pretty unanimous about that. How, they do not know yet. They are very much dependent on China and they are also dependent on the majority of the Hong Kong people calming down.

Another group that I want to mention, a relatively small group but big nevertheless in Hong Kong terms, is the middle class. These are the professionals, the educated, particularly those who have been Western educated. They are the university graduates, graduates of polytechnics and colleges many of whom have been abroad and have skills which are marketable elsewhere. Now there is no question that there has been a qualitative change in their hopes for Hong Kong's future. At one level one can say there has probably been no real change: it is simply that more of these professional middle class people want to leave Hong Kong more quickly than before. That trend, however, had already been apparent before June 1989. Over the last three years there has been an increasing number of people applying to migrate, and these figures have risen from 22,000 three or four years ago to about 50,000 in the last year. That trend was already there; it had nothing to do with 4 June. Since 4 June, however, what has happened is that many more of these people have panicked and gone to queue up outside Consulate-General and Commission offices.

More of them are filling forms, more of them have read brochures from just about every country that has a consulate or a commission in Hong Kong. Leaflets describing migration conditions to overseas countries are snapped up very quickly. The most dramatic situation involved Singapore. Singapore has been trying for years to get people, especially professional people, to emigrate from Hong Kong but there had not been much response until June. Singapore hitherto had been talking about migration by professionals with middle class background. Now Singapore has said it will take any skilled worker who earns more than \$HK6,000 a month, anybody qualified with five O Levels, or with a skill - all would be welcome to apply. The crowds that gathered to collect application forms were so large that arrangements got out of hand. Singapore had to find another way of getting its forms out to people. But the incident was spectacular, and it added fuel to the sense of panic and desperation amongst Hong Kong people. On the other hand, one might say there is no fundamental change. The June crisis simply speeded up and added numbers to a brain-drain that had already been identified for several years.

The most important change perhaps has been among the ordinary Hong Kong people. Three years ago the vast majority of the ordinary people wistfully thought of leaving Hong Kong but were resigned to staying and made no particular effort to leave. It would have been nice if they could get away, but they knew they could not or they thought they could not and they did not think much about it. Certainly among our own students, who I would expect to be the future middle class, the bourgeoisie of Hong Kong, the vast majority of them gave no thought of migrating. They had hopes, now seen to be illusions, about the future of Hong Kong after 1997. They had hopes that they would be alright somehow after 1997. This is no longer true. The polls suggest that there has been a marked increase in the number of people waiting to leave. How accurate these figures are, I cannot say. All I can say is that among ordinary Hong Kong people everybody is thinking of leaving. Whether they can or not is a different matter, but they are thinking about how they can get away. And that is quite a crucial difference compared to the time before; it is that which makes it possible to argue that Hong Kong is in greater crisis than China or anywhere else.

Unfortunately, unlike other countries, Hong Kong is not a country and does not have a strategic policy. It does not have an



international position. It does not have an army, navy or air force. It does not have any significant political clout in the corridors of power, so it does not enter into calculations about China in terms of its global position and role in world affairs. But it does enter to some extent in economic terms and to an even larger extent in human terms. That is why I suppose people are now fascinated with Hong Kong. There are nearly six million people there, and while there is no question that the majority will have to stay there whatever happens, nevertheless the thought of hundreds of thousands if not a million or two Hong Kong people seriously contemplating departing the shores of Hong Kong must make the world pause. So in a very small and quite unorthodox way the people of Hong Kong are imposing their fate upon the rest of the world, and they are expecting attention to be paid to them.

I have already mentioned that they have been quite obviously politicised. But what does this mean? I have mentioned divisions. It is quite clear that the spectacular marches of 19, 20 and 28 May, and then the days after 4 June indicated a kind of consensus of a dimension unbelievable in the past. Now, however, as you would expect, great divisions have been building up despite the earlier consensus. These divisions are to some extent influenced by the fact that the majority of people realise that it would be very difficult for them to get out of Hong Kong, so they must somehow again resume thinking about how they can survive in Hong Kong after 1997. These are the realistic calculations that have to be considered. There are also those who believe that the only way to have any chance of survival in Hong Kong after 1997, and ensure that Hong Kong is left alone to be the way it has been before all these decades, is to have democratic representation in the Legislative Council, and in all the councils, or the decision-making bodies in Hong Kong. The divisions are over how much democracy and how quickly.

It is very interesting how these divisions have appeared. At one time there were basically two - one seeking rapid democratisation, and the other saying well, no we have done very well in Hong Kong without democracy, we have freedom without democracy and that is better than democracy without freedom, so to speak, so do not knock it, just be content with what is happening there. Now the divisions are much more subtle and include many more grades. It will probably sort itself out eventually, but for the time being there are all kinds of views and all kinds of arguments for different rates of



democratisation, and this will take several months to iron out. It will have to involve both Britain and China. Britain, because of the Legislative Council itself, and the election to come; China because of what will have to go into the draft Basic Law as the debate continues about democratic representation that has been included in the draft Basic Law. What precisely does that phrase mean? In real terms how many people, when and who gets elected, is the Chief Executive himself going to be elected before or after 1997? And so on. These debates will not be easily resolved and probably will not be even up to 1997. They will continue, and this will contribute to the process of politicisation of the Hong Kong people. And as the Hong Kong people learn from this experience and argue among themselves, they are also looking around for potential leaders.

This is a serious problem in Hong Kong. There are no recognised leaders. The majority of those who are speaking on behalf of the Hong Kong people have been appointed by the Hong Kong government. Others have been elected by their specific professional constituencies - doctors, lawyers, etc - and cannot really pretend to speak on behalf of the Hong Kong people.

Ten people will be elected by universal suffrage in 1991. The Hong Kong government has acknowledged that they may need to speed that up a little. How much quicker we do not know. The Legislative Council members themselves have agreed that they must speed it up a little partly in response to the political calls that the people of Hong Kong have made. Again there are divisions cautioning against too rapid a process of democratisation. Among the ordinary people, the radicals who are pressing for very speedy democratisation are being met with opposition from among themselves. Arguments will no doubt continue.

I want to end with one last note. I think it is important to remember just what the Chinese have said, in very clear language, especially in Ji Pengfei's phrase about the river water not interfering with the well water, and vice versa. The fact is that their warnings have been very clear: you can do what you like in Hong Kong but you may not do anything about China, you may not do anything that affects political and other developments in China, particularly the political. And you may not allow Hong Kong to be used as a base for subversion in China, or counter-revolutionary acts or for anything that

is anti-communist. That I think is a clear warning. They have actually, without naming the two, pointed their fingers at Martin Lee and Szeto Wah, the two most radical of the Legislative Councillors who have been advocating rapid democratisation in Hong Kong. Now that is fair warning, and that I think has had a dampening effect on those people in Hong Kong who genuinely believe that they have no way of getting out of Hong Kong in time, certainly not before 1997, and that they will have to live in Hong Kong for years afterwards, if not for ever, and that their children have to live there for ever too. For those people I think there has been a dampening effect, a chilling effect. This is intimidation of a very obvious kind, and everybody recognises it for what it is. Martin Lee and Szeto Wah have defiantly and with much bravado said that this is nothing to be worried about, but I think you will find their calls for rapid democratisation becoming a little more alarming to more and more people in Hong Kong as they observe the tightening, the toughening of the tone of the voice coming from Ji Pengfei and his group in the Hong Kong/Macau office in Beijing.

On that last note I will simply say that the key phrase which emerged after the 4 June demonstrations was a phrase mentioned by a number of Legislative Councillors. They asked a question which I think is still relevant: if something is not done right within the next year or two, Hong Kong may become ungovernable after 1991 or 1992. That is, the last few years of Hong Kong will be extremely difficult for whoever is in government. Ungovernable may be too strong a word, but nevertheless the thought is there. I think there is something to that. Divisions within the community have already begun. There is no consensus right now; the politicisation has gone so far that there will be sections of the Hong Kong people who will be very difficult to keep down or to tempt out of their radical positions during the next few years. If these sections grow larger, then of course there would be problems about governing Hong Kong. Much will depend on how quickly the British and the Chinese within the next year or two can come up with some formula that could be more genuinely reassuring than the unilateral statements that have come out of Beijing or London to date.



# CHAPTER TEN

## TAIWAN AND TIANANMEN

Gary Klintworth

Taiwan's self-assurance has been boosted immeasurably by the spectacle of an apparently discredited economic and political system on the mainland and Western disillusionment with China's modernisation efforts and its record on human rights.

Taiwan, the other China, is also known as one of the four small economic dragons, or tigers, of East Asia. The island's impressive economic accomplishments have been matched by a growing regional influence and a widespread interest in the Taiwan model despite an absence of formal diplomatic ties with the rest of the world. Taiwan as the Republic of China, has been, politically speaking, one of the most neglected countries of the Asia/Pacific region. Only North Korea and Vietnam have been worse off. Yet economically, Taiwan is one of the most envied and admired countries in the Asia/Pacific. Taiwan's dynamism and growth rates provide a striking contrast to the economic, political and social problems of the mainland. Taipei is not only reassured by the contrast but it claims some of the credit for the crisis of faith that has appeared in the Chinese Communist Party.

Taiwan's Kuomintang has used the Tiananmen massacre to reaffirm the Nationalist objective of recovering the mainland. But this may be for reasons other than any genuine expectation of really being able to do so. The Kuomintang is apprehensive about the probably adverse domestic response that would accompany too much talk about reunification with the mainland. At the same time, it is unwilling to fuel Taiwanese demands for a more independent posture as this would only provoke an equally adverse response from an irritable leadership in Beijing.

Taiwan is not, however, worried about an attack from the mainland. Although the armed forces of the Republic of China are always preparing for the worst, Taipei believes that the strategic contours of East Asia and a well-trained, well-paid and well-equipped army of 500,000 are sufficient to deter a PLA attack. The PLA in any



case does not have and is not building the amphibious forces necessary for a cross-strait assault. The post-Tiananmen suspension of Western defence technology transfers to China has added to the island's security. Taiwan has long expressed concern about the implications of access by the PLA to advanced defence and dual use technology, particularly from the United States. Taiwan objected especially to items which might have extended the reach of the Chinese navy and airforce, notably naval gas turbine engines, avionics for the Chinese F-8 interceptor, and air-to-air refuelling technology for the A-5 ground attack fighter. These suspensions will impede China's defence modernisation and delay its capability for offshore projection of military power for several years.

On the other hand, there may be good Machiavellian grounds for continued American involvement in the modernisation of China's defence industries, albeit at a slow and measured pace. The US might not be able to control the development of China's defence industries altogether, but its involvement in the modification of China's warships and fighter aircraft, in Taiwan's view, might enable the US to monitor the progress and perhaps influence the direction of China's defence modernisation and hence its ability to pose a threat across the Taiwan Straits.<sup>1</sup>

Conversely, it is likely that Taiwan's demands for access to modern weapons and equipment from the United States will be given a sympathetic hearing post-Tiananmen.

Nonetheless, ambiguity in dealing with Taiwan's future status and caution in relations with China are still the Kuomintang's best policy options.

However, the temptation to engage in I-told-you-so rhetoric has been hard to resist. Taiwan has seized on the Tiananmen massacre as an opportunity to build up its domestic and regional political status. The portrayal of a brutal mainland regime is good for Taiwan's internal political cohesion. Taiwan has also always wanted to recover its legitimate place in the world, and consolidate an exclusive claim to moral superiority amongst the overseas Chinese diaspora in the Asia/Pacific region.<sup>2</sup>

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1 For this thought I am grateful to Greg Austin.

2 A suggestion from Professor Mark Elvin.

Taiwan not surprisingly has vigorously condemned the killings in Tiananmen as unprecedented, inhuman and shameful. It has expressed solidarity with and support for the democracy movement. It has urged other nations, particularly the United States and Japan, to impose economic and political sanctions against China.

Taiwan feels vindicated by the emergence of the negative trends on the mainland that culminated in the confrontation between the Army and the people in Tiananmen. Taiwan has been forecasting the collapse of Communist rule on the mainland since 1949. The Communist Party would eventually be washed away by waves of freedom and democracy said President Lee Teng-hui.<sup>3</sup> It could not last because in Taiwan's view it is politically dictatorial, inherently corrupt, totally undemocratic and economically incompetent. It is above all an unChinese system of government. The Taiwanese forecast of the demise of Communist China was refined a few years ago.

In 1985 Yu Ming-shaw said that China's modernisation would produce a revolution of rising expectations which would seriously shake the political and ideological foundations of the communist government, so much so that for its survival, the Chinese Communist Party would have to look for an alternative system.<sup>4</sup> Taiwan could then claim to be able to provide that alternative. This would give Taiwan a unique opportunity to raise its profile in the Asia/Pacific region and establish its claims to the mandate of a Chinese heaven.

Taipei is able to present a very persuasive case for being a model for other developing countries and perhaps for China too. It has an impressively prosperous economy and points to a 'constitutionally legitimate and democratic' government which rules 'the people of Taiwan in accordance with rights and freedoms guaranteed under the constitution.'<sup>5</sup> Martial law in Taiwan was lifted in 1987.

Some observers explain Taiwan's economic success in terms of foreign capital inputs and American military protection. Others stress the preservation of Chinese cultural values on Taiwan that have been carefully blended with Western economic disciplines and guided by

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<sup>3</sup> Quoted in *The Free China Journal*, 24 July 1989.

<sup>4</sup> Yu-ming Shaw, 'Taiwan: A View From Taipei', *Foreign Affairs*, Vol 63, No 5, 1985, p 1062.

<sup>5</sup> Premier Lee Huan, *The Free China Journal*, 13 July 1989.



thoughtful government initiatives. Taiwan moreover is physically small. It has none of the demographic and infrastructural problems of the mainland. Its population of 20 million is nothing compared to the mainland's 1.1 billion. Whatever the precise formula might be, Taiwan can fairly claim to have done extraordinarily well since 1949. It is the 12th largest trading nation in the world whereas China for all its great size and effort is 14th. Taiwan indeed is a more important trading partner than the mainland for Australia and many other Pacific Rim countries. Taiwan is awash with US\$75 billion in foreign exchange reserves, the second highest in the world after Japan. Per capita income is already over \$6000 or 20 times the level on the mainland and much higher than some of the less-developed European countries such as Greece, Portugal and Spain.

Taiwan's wealth and economic skills, long respected by Japan, are being rediscovered by the West as well as by the Soviet Union and China.

Rich little Taiwan however has, since the mid 1970s, suffered the indignity of being overshadowed by Western euphoria about mainland China and - in the Taiwanese view - a misplaced belief in the stability of China and its potential as a market of over one billion people. Only about 22 countries have diplomatic relations with Taiwan, the most important of which are South Korea, South Africa, Saudi Arabia and the Holy See. Taiwan nonetheless has managed its international affairs very well. It has retained or obtained membership of many important international economic organisations under the name China (Taiwan), for example, the Asian Development Bank and the Pacific Economic Cooperation Conference. Its entrepreneurial skills and desirability as a successful trading entity, despite the absence of formal diplomatic ties with the rest of the world, have given Taiwan considerable confidence and increasing ambition. This has been reinforced by its expectation of a continued crisis of faith on the mainland, the relative decline of Western fascination for things communist Chinese and a corresponding rise in interest in Taiwan's relative wealth.



The Tiananmen killings were the signal for Taiwan, said Premier Lee Huan, to launch a major assault on the mainland, and a carefully planned international offensive.<sup>6</sup>

The assault on the mainland is not however to be a military operation. Taiwan's CGS General Hau Pei-tsun early suggested that Republic of China forces were ready and willing to support mainland soldiers fighting for China's freedom. He added however that they would only do so if the PLA took the initiative and rebelled.<sup>7</sup> Premier Lee Huan subsequently tempered this rush of enthusiasm and stated that Taiwan would not use military means to implement its national goal of recovering the mainland; it would instead aim to encourage people on the mainland to themselves rise up and destroy the Chinese Communist Party.<sup>8</sup>

This would be assisted from Taiwan by way of what is essentially a subtle process of cultural and political subversion. Such a strategy has been underway since late 1987 when Taiwan lifted bans on contacts with the mainland. It is based on the idea of exposing Chinese on both sides of the Taiwan Straits to the realities of communism and the prosperity of modern Taiwan. Since 1987, over 600,000 Taiwanese have been to the mainland for family reunions. They have spread a virus of knowledge about the success of the Taiwan model. Millions of letters have been exchanged, and since June 10, thousands of direct dial telephone calls have been made. Voice of Free China radio broadcasts, balloon-carried messages and visits by cultural and sporting groups, students, and journalists have helped stimulate mass political consciousness on the mainland according to Taiwanese assessments. It is this awakening of mass consciousness on the mainland that student leader Wuer Kaixi stressed was so important for the success of the democracy movement.

Taiwan of course does not claim sole responsibility for the crisis of faith in China that culminated in the Tiananmen affair in June. And it certainly denies any direct involvement in instigating the student demonstrations, despite accusations from Beijing that it sent

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6 *The Free China Journal*, 15 June 1989.

7 *Ibid.*

8 CNA, Taipei, 20 June 1989, in *Foreign Broadcast Information Service China Daily Report* (FBIS China), 21 June 1989, p 79.

agents into Tiananmen in April and May to stir up trouble by having them mingle with students and rumour-mongers. Taipei only admits to being a catalyst to a situation on the verge of spontaneous combustion. The masses in China are, in Taiwan's view, ready to overthrow the Chinese Communist Party. (As Mao Zedong used to say, a single spark can start a prairie fire). This may in large part reflect wishful thinking in Taipei because the hold of the Party on the PLA, the security apparatus, the newsmedia and the Party/worker/peasant alliance on the mainland is immensely strong.

It is nonetheless interesting to note that Taiwan's armed forces were put on alert as early as April in anticipation of the tension in Beijing. The explanation was that the Chinese Communist Party was then on the brink of collapse and that this could be dangerous for Taiwan and other small states neighbouring China. Beijing, beleaguered, oppressive and irrational might seek to divert attention from its internal troubles by responding to real or imagined provocations beyond its borders. This is unlikely in my view as while China may be domestically repressive, its modernisation drive is hinged on an open-door policy and cooperative relations with Pacific rim countries like Japan, the United States, Hong Kong, South Korea and indeed Taiwan.

Any Taiwanese involvement in the unravelling of the authority of the Chinese Communist Party may have been partly by design but it was primarily quite fortuitous. Taiwan changed its policy on contacts with the mainland because it too wanted a slice of the spoils from China's economic modernisation. Furthermore, its traditional markets in the West were being squeezed under protectionist pressures. Besides, Taiwan is reluctant to leave commercial opportunities in China to the South Koreans. Taiwanese businessmen have also begun to exploit cheap labour and family connections on the mainland. Investment in China's provinces of Guangdong, Hainan and in particular, Fujian, reached US\$500 million in 1988. Two-way trade between the two Chinas via Hong Kong grew from about US\$500 million in 1984 to over US\$3 billion in 1988 with the trade balance heavily in favour of Taiwan, (by US\$1.6 billion in 1988). Taiwan imports animal and plant raw materials and non-ferrous metals from the mainland. Its major exports are textiles, industrial machinery, electronic goods and artificial resins. Paradoxically, Taiwan also exports electric truncheons to the mainland, 5000 of



which, for urgent delivery to Beijing, were seized in Hong Kong in May.<sup>9</sup>

Taiwanese leaders have said that Taiwan will not close its door on China - that would be for other countries. But they have emphasised that Taiwan's attempt to awaken the masses in China should continue unabated. Taiwan was China's only hope, they said, as only Taiwan could provide a model for economic and political reform on the mainland. Tiananmen was the signal for Taiwan 'to take effective action to lead mainland China toward freedom and democracy and to use all possible means to topple the evil Chinese communist regime at an early date' said Premier Lee Huan.<sup>10</sup>

Taiwan anticipates that the mainland is on the brink of collapse, possibly within the next two years. It is mildly exhilarated by the prospect although I suspect neither Taiwan nor other neighbouring states really believe the China will implode. If it does fragment, they have certainly not thought through the consequences of the enormous instability that will ensue. Whatever the outlook for China may be, Taiwan assesses that the time is ripe to launch a major international offensive aimed at winning diplomatic and political endorsement of Taiwan's status as a rising star in an increasingly trade oriented Asia/Pacific region. Whether that means ultimately an independent Taiwan or simply increased yet vaguely stated international support for Taiwan is as yet unclear. Probably it means the latter as any suggestion of independence at this stage is clearly too provocative for Beijing. It also has implications for political reform in Taiwan and the Kuomintang's still dominant hold on the government. Besides, the Kuomintang may still reasonably hope to recover the mainland. Clearly however, the question of reunification will have to be finessed because the prospect of any kind of closer political relationship with Beijing must now be regarded with the same deep suspicion that has been manifested in the streets of Hong Kong in the last few months. Hong Kong's uncertain future in fact is very much tied up with Taiwan. It is important to Taiwan as a trading partner. It is Taiwan's window on developments in China and the region. It is a crucial jumping off place that is almost indispensable for Taiwan's infiltration

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<sup>9</sup> *Hong Kong Standard*, 25 May 1989.

<sup>10</sup> *The Free China Journal*, 15 June 1989.



of the mainland, both in terms of straight trade and investment, and politically.

While there may be uncertainties over the relative merits between the two conflicting goals of reunification with the mainland or independence, Taiwan's Foreign Minister Lien Chan said 'the sky was the limit' for Taiwan's diplomatic offensive in the rest of the world.<sup>11</sup> Taiwan would use a billion dollar aid fund and the prospects for lucrative trade contracts to build up new ties with countries that had hitherto maintained diplomatic relations with the mainland. Taiwan could capitalise on the sharp deterioration of relations between China and the West and on the hand, the growing admiration of the West for Taiwan's economic achievements. Taiwan, he said, would launch an international campaign to break out of its isolation.<sup>12</sup> It would also try to recover its seat at the United Nations and in the General Agreement on Tariffs and Trade.

While it is true that Taiwan has made enormous economic progress over the last 40 years and considerable political progress in the last few years, one should note that strongman politics have been a fact of political life on both sides of the Taiwan Straits since 1949. One can indeed see some resemblance between the two Chinese regimes in their approach to domestic politics. As Premier Lee Huan said recently in discussing Taiwan's political circumstances, the success of democracy depends on the rule of law; disturbances in Taiwan in the past year had to be ended so that law and order could be maintained. This approach seems to be little different to the priority that Deng Xiaoping has recently given to maintaining stability and unity on the mainland. The major difference is that the Kuomintang has undertaken substantial political reforms on Taiwan in the last few years. Also there have been no mass killings of unarmed civilians in Taiwan, at least not since 1947.

So perhaps Taiwan can afford to be somewhat smug. It has certainly left the mainland far behind in terms of economic and political achievements. Today it is poised to try and seize a more important and prominent regional and international role for itself.

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<sup>11</sup> *China Post*, 12 June 1989, FBIS China, 20 June 1989, p 68.

<sup>12</sup> *Ibid.*

Even so, that attempt will still leave Taiwan with the same old hard choices. Perhaps there are indeed no new choices for Taiwan except to continue to work for a changed leadership in Beijing, one that is prepared to accept either Taiwan's independence, or reunification on Taiwanese terms. Neither scenario seems imminent. But either way the Taiwanese clearly possess an imaginative flair for trade and diplomacy, a can-do initiative, the high moral ground and the cash flow to pose a serious challenge to Beijing. And furthermore, for the first time in over a decade there has been a significant closing of the gap between the views of China held by the West and the pessimistic forecasts for the future of the Chinese Communist Party that have been consistently held by the Nationalist Chinese on Taiwan.

# CHAPTER ELEVEN

## CHINA'S DOMESTIC CRISIS AND VIETNAMESE RESPONSES, APRIL-JULY 1989

Carlyle A. Thayer

For over a month throughout the period of unrest and pro-democracy student demonstrations in China, from 17 April until the massacre in Tiananmen Square on 3 June, Vietnamese officials and the Vietnamese media have generally been non-committal or low-keyed in their comments and responses to developments. Events in China have not been given prominence, generally appearing on the back page of *Nhan Dan*, the party's newspaper. For example, a letter I received from Hanoi, dated 26 June, noted 'very low profile China news in the media. Gorba[chev]'s visit also given low coverage here'. When a report appeared, Chinese sources were usually cited uncritically.

What accounts for this reticent response? Quite simply, the prospects for a political settlement of the situation in Cambodia and the consequent normalisation of Sino-Vietnamese relations, coupled with Vietnam's desire to remain 'on side' with its major ally, the Soviet Union, has weighed heavily in Vietnam Communist Party (VCP) calculations. It would not have been tactically prudent, from the Vietnamese viewpoint, to antagonize China on this issue.

More fundamentally, Vietnam is a conservative socialist state undergoing its own process of 'renovation'. The Vietnamese leadership has made it repeatedly clear that it does not wish to sponsor or encourage political pluralism or bourgeois democracy at home. The swift reaction by a government minister in response to student unrest over living conditions in the Faculty of Communications in Hanoi is an apt illustration of Vietnamese sensitivities on this matter. While Vietnam is currently adopting an 'open door' policy in its business and commercial dealings with the west, it also acknowledges, in the words of VCP Secretary General Nguyen Van Linh, that

while actively expanding foreign economic relations, we must uphold our vigilance against negative influence. Once our door is open, not only will the



pure and healthy air pour in, but dust, flies and mosquitoes will also follow... Recently, no sooner did we start opening our door and sending our cadres abroad, then we committed several regrettable mistakes.

The first public commentary on student unrest in China by a Vietnamese official was made by Foreign Minister Nguyen Co Thach in remarks to a visiting Thai business delegation on 22 May. According to Bangkok press accounts '[Thach] said the political turmoil arising from pro-democracy demonstrations in Beijing and elsewhere in China was a domestic affair of the country and would not affect Vietnam's version of *perestroyka* and *glasnost*'.<sup>1</sup> 'China is China', said Mr Thach, 'Vietnam is Vietnam. You can be sure that things will go in accordance with our plans.'<sup>2</sup> This view, that developments in China are an internal matter, has remained the official Vietnamese position.

The first media report from Hanoi on events in China, dated 24 May, confined itself to factual commentary and quoted Chinese sources:

Reports from Beijing said that university students continued their hunger strike while tens of thousands of sympathisers converged on Tiananmen Square despite martial law since 20 May. A Chinese newspaper *Beijing Daily* reported that the present situation in the Chinese capital is similar to that at the start of the Great Cultural Revolution. The daily predicted great chaos if the authorities failed to take resolute and timely measures.<sup>3</sup>

On 5 June, after the massacre of Chinese civilians by the PLA in Tiananmen, an Associated Press dispatch from Tokyo stated, '[I]nonly voices of support for China came from Nicaragua and in an official Vietnamese radio broadcast, which said troops in Beijing were

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<sup>1</sup> *The Nation*, (Bangkok), 25 May 1989.

<sup>2</sup> Ratchaphon Laowanit dispatch from Hanoi in *The Bangkok Post*, 14 May 1989.

<sup>3</sup> Hanoi International Service in English 1000 GMT 24 May 1989.

attacked by hooligans and ruffians *and were justified in fighting back* [emphasis added].’ Wire service reports like this led BBC TV, American news presenters on NBC and CBS, at least one syndicated columnist (Mike Royko), and several leading American newspapers to report that Vietnam had given support to the Chinese leadership. *Asiaweek* went so far as to declare that ‘Hanoi’s state radio stressed the rightness of the Peking leadership’s position. Only later were accounts balanced with news of the thousands killed.’<sup>4</sup> *The Wall Street Journal* (12 June) editorialised that ‘Nicaragua, with Cuba and Vietnam constituted the only countries in the world to approve the Chinese communists’ slaughter of the students’.

These reports are ‘dead wrong’ in all three instances.<sup>5</sup> However, it is the purpose of this presentation to review reactions in Indochina and so I will confine myself to the case of Vietnam.<sup>6</sup> A review of FBIS *Daily Reports* (East Asia) and the BBC’s Summary of *World Broadcasts* undertaken by myself for the period in question reveal no such official broadcast. As journalist Alexander Cockburn noted:

[t]ranscripts from the Foreign Broadcast Information Service (known as FBIS, the U.S. government’s monitoring of radio broadcasts, issued by the Department of Commerce) do show that Vietnam Radio initially described the Chinese army’s attack in terms so neutral that they could be construed as being tacitly supportive. But there was no government statement and later in the week the Vietnamese

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<sup>4</sup> ‘Anxious Neighbours’, *Asiaweek*, 23 June 1989, p.31.

<sup>5</sup> See the investigative report by Alexander Cockburn, ‘Nicaragua, Vietnam and Cuba Praise China? Dead Wrong’, *The Wall Street Journal*, 15 June 1989, p.A13. I am indebted to David Marr of The Australian National University for bringing this article to my attention. Cockburn is a columnist for *The Nation* magazine and *L.A. Weekly*. On Cuba, see also Reuters and AFP dispatches from Havana, ‘Cuba Blames “anti-socialist elements”’, *The Australian*, 7 June 1989.

<sup>6</sup> I have not been able to locate equivalent reactions in the Lao and Cambodian media.

foreign minister held a press conference deploring the bloodshed and saying his government hoped for a 'peaceful' and 'democratic solution'.

Vietnam's first media reports of the massacre on 3 June in Tiananmen came on 4 June in domestic radio reports.<sup>7</sup> A FBIS transcript records the Vietnamese reaction as follows:

According to Beijing Radio, on 3 June, the Beijing Martial Law Headquarters issued an emergency message saying that the situation in Beijing was very serious. A number of hooligans and ruffians insulted or beat up soldiers, injuring many of them. They even robbed soldiers of their weapons and destroyed military vehicles. Many people tried to break into Zhongnanhai and the Great Hall of the People. The Army could in no way refrain itself from taking action...

Also according to Beijing Radio, on the same day, the Chinese People[s] Liberation Army Command issued an emergency message stressing that the situation had reached an unbearable point, that soldiers have the right to take necessary action against those trying to prevent them from carrying out their duties, and that stern punitive measures would be taken against the master-minds of the turmoil.

According to many Beijing-based sources, very early on the morning of 4 June, Chinese troops, supported by tanks, moved into Tiananmen Square. Three hours after troops had completed their occupation of the square, gunfire continued to be heard in downtown Beijing and other parts of the city. Troops used their equipment to destroy obstacles set up by demonstrators in various streets leading to

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<sup>7</sup> Hanoi Domestic Service in Vietnamese 2300 GMT, 4 June 1989 in US Foreign Broadcast Information Service, *Daily Report (East Asia)*, 89-106, p.53. Excerpts were carried by *The Times* in a dispatch from Hong Kong reprinted in *The Australian*, 6 June 1989, p.8.



Tiananmen Square. According to initial reports, there were many casualties during this attack.

An AFP review<sup>8</sup> of Vietnamese media commentary as of 5 June noted that only 'short reports' were carried and these 'avoided any reference to the heavy death toll and steered clear of comment'. The army's newspaper, *Quan Doi Nhan Dan* relied on unnamed 'news agency dispatches'. The AFP media review stated: 'The troops captured the square after firing on demonstrators and turning Beijing into a battlefield' and added that first reports indicated 'about 30 people had been killed'.

In contrast, *Nhan Dan*, the party's official organ, closely paralleled the domestic radio service in noting that 'gunfire had been heard' and 'according to a first report there have been some victims'.<sup>9</sup> *Nhan Dan* citing Beijing Radio described the demonstrators as '*con do*' (a term meaning ruffian, hooligan or hoodlums) who had 'insulted, beaten and wounded soldiers on duty'. *Nhan Dan* also noted that there 'were many casualties' ('*co nhieu thuong vong trong cuoc tien cong nay*'). A radio report in English on the same day stated '3 hours after the armed forces occupied the square, gunshots were still heard. Big casualties were reported in these clashes'.<sup>10</sup>

Subsequent Vietnamese media reporting could only be described as low key, and uncritical of official Chinese sources. A domestic radio account on 6 June generally took a sympathetic view of events<sup>11</sup> although foreign sources were also cited:

In the course of advancing into the square the Army troops were intercepted and attacked. Many Army trucks were burned and soldiers kidnapped and killed. Preliminary statistics issued by the Beijing authorities showed that 31 Army trucks, 20 police trucks, 2 armoured trucks, and 31 public conveyance

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8 AFP dispatch from Hanoi in English 1106 GMT, 5 June 1989.

9 'Tinh Hinh Bac Kinh Cang Thang', *Nhan Dan*, 5 June 1989, p.4. AFP translated the term *con do* as criminals.

10 Hanoi International Service in English 1000 GMT, 5 June 1989.

11 Hanoi Domestic Service in Vietnamese 2300 GMT, 6 June 1989.

trucks were burned and destroyed. Although the number of casualties was not disclosed, foreign sources reported that it was up to thousands of people.

On the same day, the *Liberation Army Daily*, Beijing Radio and Xinhua announced that the camouflage of the so-called democracy, freedom, and patriotism of some rioters has been removed. Facts have indicated that this is a counterrevolutionary riot aimed at usurping and overthrowing the regime.

Public opinion holds that the entry of Chinese Army troops into Tiananmen Square has created a stifling and bewildering atmosphere in Beijing. Meanwhile, demonstrations protesting the Beijing authorities' use of force and calling for a general strike have taken place in many other cities such as Shanghai, Nanjing, Wuhan, Guangzhou, Xian, and Tianjin.

The first official Vietnamese reactions to the killings in Tiananmen were issued on 7 June. VNA, the official news agency, quoted a Foreign Ministry spokesman as stating that 'Vietnam regrets the bloodshed in Beijing and wishes for early return of the situation to normalcy'. The VNA account continued:

Answering question of Vietnam News Agency about reports by the BBC television and a number of other Western televisions and radios that Vietnam supported the actions of the Chinese Government against the demonstrations in Beijing, he [the Foreign Ministry spokesman] said: 'These are pure fabrications. Vietnam has never expressed its attitude in this matter'.

Vietnam's official position was then stated: 'This is an internal question of China. The bloodshed is regrettable. May the situation in China return to normal soon'.<sup>12</sup>

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<sup>12</sup> Vietnam News Agency in English 1445 GMT, 7 June 1989; see also *Reuters*, AP and UPI dispatches, 'Eastern Bloc Joins the Global Outcry', in *The Australian*, 9 June 1989.

On the same day, Wednesday 7 June, the Vietnamese media began to cite western news agency reports and official western reactions to events in the PRC.<sup>13</sup> Vietnamese domestic television broadcasts also began carrying scenes of the student demonstrations in Tiananmen provided by Soviet television.<sup>14</sup>

Since these initial reactions, Vietnam has maintained this position and has endeavoured to portray its relations with China as continuing normally. For example, on 17 June Xinhua reported that the Chinese Ambassador to Vietnam briefed Vo Nguyen Giap on China's 'swift crack-down on the counter-revolutionary rebellion' in Beijing. Giap, who holds the post of vice chairman of the SRV Council of Ministers, was reported to have responded that 'Vietnam hoped ardently that calm would soon return to China, and said he believed that China would surely restore social stability, under the leadership of the party and government'.<sup>15</sup>

Quite clearly the Vietnamese have adopted the view that the suppression of pro-democracy students in China is an internal matter which should not interfere with the process of Sino-Vietnamese normalisation. In late June no less a figure than General Le Duc Anh, Minister for National Defence, was quoted in an interview (in a Soviet army newspaper!):

We are presently seeking ways to normalize Vietnamese-Chinese relations. We must believe that Peking also realizes the need for rapprochement. Steps are now being taken to remove the barriers dividing our countries. I believe normal relations between China and Vietnam and between our parties will be restored... I would like to stress that the normalization of Vietnamese-Chinese relations

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13 'Tinh Hinh Trung Quoc Tiep Tuc Cang Thang', *Nhan Dan*, 7 June, 1989, p.4.

14 Reuters, AP and UPI dispatches, 'Eastern Bloc Joins the Global Outcry', in *The Australian*, 9 June 1989.

15 BBC *Summary of the World Broadcasts*, (*The Far East*), 20 June 1989, FE/0487/i.



answers the hopes of Vietnamese communists and our armed forces personnel.<sup>16</sup>

In perhaps the most revealing statement of all, *Nhan Dan* reacted to adverse western criticism of China, articulated at the summit of the seven industrialised countries in Paris, by characterising these statements as attempts to pressure China and to interfere in China's internal affairs.<sup>17</sup>

### **Background: Changing Vietnamese Attitudes**

What factors account for Vietnamese reactions to the May/June events in China? The answer lies in part in the changing nature of Sino-Vietnamese relations from extreme enmity to a relationship rapidly moving towards normalisation.

Over a decade ago in 1978 the Central Committee of the Vietnam Communist Party declared that 'China was the dangerous and most direct enemy of the Vietnamese people'. The 1979 Sino-Vietnamese border war bore out this assessment and for nearly a half decade relations were at an all time low as China pursued a policy of 'bleeding Vietnam white'. By 1981, and particularly in 1982, Vietnamese attitudes began to change. No doubt Brezhnev's attempts to reopen a dialogue with Beijing greatly influenced Vietnamese thinking. At the March 1982 5th Party Congress, the Central Committee's *Political Report*,<sup>18</sup> while containing numerous references to China as expansionist and hegemonist, also called for the normalisation of relations:

We advocate the policy of friendship and good-neighbour relations towards the Chinese people. We

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<sup>16</sup> Interview with General Le Duc Anh by Senior Lt. S. Sidorov, *Krasnaya Zvezda*, 27 June, 1989.

<sup>17</sup> Commentary in *Nhan Dan*, 18 July 1989 carried by Hanoi in English for abroad 1000 GMT 18 July 1989.

<sup>18</sup> Text of Central Committee Report to Fifth VCP Congress, Hanoi Domestic Service 0630 GMT, 0600 GMT, 0400 GMT 27-29 March 1982.

advocate the policy of restoring normal relations between the two countries on the basis of the principles of peaceful coexistence...

In late 1986, at the VCP's 6th National Congress, all hostile references to China had been dropped. Now the *Political Report* repeated an earlier offer to meet anywhere at any time with China in order to normalise relations. By this time a sea change had occurred in Vietnamese thinking about its northern neighbour.<sup>19</sup> In late 1988 the SRV National Assembly moved to delete all hostile references to China from the state constitution.

As Vietnam moved to seek a negotiated end to the Cambodian conflict following its 1984/85 Dry Season Offensive, China turned down its shelling of Vietnam's border provinces, in effect decoupling the situation in Cambodia from the situation along its frontier with Vietnam. It soon became evident that the Vietnam-China border conflict was a 'phoney war',<sup>20</sup> and that a thaw in the relationship was underway. This was signalled by the appearance of Nguyen Co Thach at Chinese National Day celebrations held at the PRC Embassy in Hanoi, and the exchange of prisoners. Messages of sympathy have

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<sup>19</sup> In 1985, on the tenth anniversary of reunification, Nguyen Van Linh, the then secretary of the Ho Chi Minh City party committee, presided over a ceremony awarding recognition to the Overseas Chinese (Hoa) for their contribution to the struggle. Later, in October 1986, in an address by Linh to the congress of the Ho Chi Minh City party committee, he singled out the Hoa, Catholics and members of the former regime as persons who had been subject to discrimination by communist authorities.

<sup>20</sup> Carlyle A. Thayer, 'Security Issues in Southeast Asia: The Third Indochina War', Paper delivered to Conference on 'Security and Arms Control in the North Pacific', co-sponsored by the Peace Research Centre, the Strategic and Defence Studies Centre and the Department of International Relations, Research School of Pacific Studies, The Australian National University, Canberra, 12-14 August 1987.

also been exchanged by people's representatives from both countries on the occasion of natural disasters.<sup>21</sup>

In late 1988, after Vietnam made a number of significant gestures towards China, a senior Vietnamese diplomatic official told a foreign journalist that Hanoi was now ready to 'do a bit of kowtowing to the Chinese' and that as far as withdrawal of military forces from Cambodia was concerned '[Vietnam was] waiting for China to tell us the price'.<sup>22</sup>

### Sino-Vietnamese Border

Over time the situation along the Sino-Vietnamese border has turned to somewhat normal conditions. Cross border trade has developed to such an extent that smuggling and the collection of customs excise are now acknowledged as problems by Vietnam. Also, many of the Vietnamese asylum seekers who arrive in Hong Kong have done so after crossing the land border into southern China and then journeying to the coast by rail or by bus before continuing by sea. All of this appears evidence to support reports of a 'secret five-point agreement' reached in late 1987 between Beijing and Hanoi which included *inter alia* a cease-fire along the border, the cessation of hostile media campaigns, the monitoring of military activity along the border, an end to shelling and harassment of peasants, and the liberalisation of border exchanges to allow trading and visits.<sup>23</sup>

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21 See, for example, messages sent by the National Red Cross Society of China to victims of a typhoon in central Vietnam, and by the Vietnam-China Friendship Association to flood victims in Sichuan province; Vietnam News Agency in English 0615 GMT 12 June 1989 and VNA in English 1449 GMT 14 July 1989.

22 Nayan Chanda, 'Taking a Soft Line', *Far Eastern Economic Review*, 8 December 1988, p.27.

23 Reported by *Yomiuri Shimbun*, 20 January 1988; see also AFP dispatch from Tokyo, *The Hindustani Times*, 21 January 1988; AP dispatch from Tokyo, *The Nation* [Bangkok], 21 January 1988; and WP dispatch from Beijing in *The International Herald Tribune*, 22 January 1988.



## Cross Border Trade

On 13 May this year, the Chairman of the SRV Council of Ministers issued Decision No.133-CT on the collection of taxes on goods authorised for cross-border exchange. This decision states in part, 'goods authorized for cross-border exchange and circulating will be subjected to the newly promulgated tariffs for commercial and noncommercial import-export goods, and industrial and trade taxes'.<sup>24</sup> Reports indicate difficulties in implementing Council of Ministers Directive No.84 (on urgent measures to rectify the problem of goods traded across the border) in Lang Son province along the China border. Instead of one intersectional checkpoint, a newsreporter discovered three additional ones on Route 1A leading to China, causing difficulties in the transportation of goods to the border.<sup>25</sup>

In further developments, the Council of Ministers issued a decision on the assignment of more customs officers to help oversee customs services and the collection of cross-border import-export taxes in Lai Chau and Hoang Lien Son provinces. The Council of Ministers also established a number of anti-smuggling police units in Lai Chau, Hoang Lien Son, Cao Bang, Quang Ninh and Lang Son - all border provinces with China.<sup>26</sup> That same month the Ministry of Home Trade convened a conference in Lang Son town to review the management of goods exchanges across the border. One account revealed:

The representatives reported on the real situation of merchandise management, tax collection, and contraband suppression. They also dealt with the fact that many economic sectors and organisations have flocked to the border to buy or sell goods, causing a chaotic situation...<sup>27</sup>

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<sup>24</sup> Hanoi Domestic Service in Vietnamese 2300 GMT, 19 May 1989.

<sup>25</sup> Hanoi Domestic Service in Vietnamese 1100 GMT, 21 May 1989.

<sup>26</sup> Hanoi Domestic Service in Vietnamese 2300 GMT, 17 May 1989.

<sup>27</sup> Hanoi Domestic Service in Vietnamese 1430 GMT, 29 May 1989.

### Sino-Vietnamese Consultations

China and Vietnam have held two rounds of private consultations at deputy foreign minister level<sup>28</sup> aimed at reaching common ground on a number of issues, mainly including Cambodia. The first was held from 16-19 January, 1989 and the second from 6-11 May. After the first round it was reported by that the talks had been marked by frankness and friendship and although the two sides had reached 'some agreements', 'remaining problems' would be discussed later.<sup>29</sup> Press reports indicated that agreement had been reached on two key issues, a timetable for the withdrawal of Vietnamese forces and the phased cessation of Chinese military aid to the Khmer Rouge.<sup>30</sup> Perhaps significantly, the rumoured impending visit by the Vietnamese Foreign Minister to Beijing did not eventuate.<sup>31</sup>

On 27 April it was announced that the second round of Sino-Vietnamese normalisation talks, at the deputy foreign minister level, would be held in Beijing from 6-10 May 1989. Radio Hanoi reported that the agenda for this round included the question of the normalisation of relations and 'other questions of mutual concern', including Cambodia.<sup>32</sup> The announcement was made during the course of Sino-Soviet talks between deputy foreign ministers Igor Rogachev and Tian Zengpei.<sup>33</sup>

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28 That is, between Dinh Nho Liem and Liu Shuqing. Liem was also received by PRC Foreign Minister Qian Qichen on both occasions. These were the first senior level public contacts since the 1979 border war.

29 Trevor Watson in dispatch from Beijing; Report from Asia, ABC Radio 2CY, 15 January 1989, quoting a statement issued by the Vietnamese Embassy in Beijing; and Hanoi home service 0500 GMT, 20 January 1989.

30 Reuters dispatch from Beijing, *The Canberra Times*, 26 January, 1989.

31 Reported by Trevor Watson in a dispatch from Beijing; Report from Asia, ABC Radio 2CY, 15 January 1989.

32 Hanoi Domestic Service in Vietnamese 1430 GMT, 27 April 1989.

33 Voice of the Khmer in Cambodian 0430 GMT, 26 April 1989.

On 3 May foreign minister Nguyen Co Thach held a press conference. In response to a question on the likely outcome of the forthcoming second round of Sino-Vietnamese talks, he replied:

There are the three possibilities. We insist on having two topics, one is normalisation and [the other is] Cambodia. They insist that the first thing is Cambodia and after solving Cambodia then they go to normalisation. So there is not, how to say, identity on the agenda. Now they are insisting on the formation of a quadripartite coalition government and quadripartite army and United Nations control... The first (possibility) is to drag on, the second is that we can solve the problem and the third and last is that we must be prepared for the worst - that there is no more talks between Vietnam and China. I think it is in the interest of both countries to continue their talks. We can say that there is no total failure.<sup>34</sup>

On 4 May a Vietnamese foreign ministry spokesperson announced that on the following day first deputy foreign minister, Dinh Nho Liem, would leave for Beijing 'to discuss with the Chinese side on the normalisation of relationship between the two countries and other issues of mutual concern, including the Kampuchean issue'.<sup>35</sup> During a stopover in Bangkok en route to China, it was reported that topics expected to be covered by the talks included Cambodia, the forthcoming Sino-Soviet Summit and the possible visit to Beijing by foreign minister Thach.<sup>36</sup>

The second round of Sino-Vietnamese talks was also held in Beijing.<sup>37</sup> According to a Vietnamese account:

During the talks, the two sides tabled their own proposals, and each side considered the other's views and took note of each other's proposals on

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<sup>34</sup> Interview with Foreign Minister Nguyen Co Thach, *The Bangkok Post*, 4 May 1989.

<sup>35</sup> Hanoi International Service in English 1000 GMT, 4 May 1989.

<sup>36</sup> AFP dispatch from Bangkok, 5 May 1989.

<sup>37</sup> Vietnam News Agency in English 1507 GMT 10 May 1989.



normalisation of relations between the two countries... Differences remain on the question of the Pol Pot genocide and the settlement of the internal aspect of the Cambodian issue... The two sides' viewpoints still differ... However, they considered that this round of talks has been useful and has increased the understanding of each other's position. The Vietnamese side proposed that the third round be organised at an appropriate date. The Chinese side said that the two sides should resume their talks when necessary.<sup>38</sup>

The second round of Sino-Vietnamese consultations followed on the heels of the fourth meeting between Sihanouk and Hun Sen. After three days, according to Liem, the consultations had failed to yield any results.<sup>39</sup> China had reportedly adopted a tough stance designed to pressure the Soviets on the eve of the Gorbachev-Deng summit. According to Qian Qichen, '[o]riginally we hoped to achieve a fair and reasonable solution to the Cambodian question, but, regrettably, we did not make any progress, or reach any understanding... We do not wish to see civil war in Cambodia after the withdrawal of the Vietnamese troops... Vietnam should show its sincerity and do something practical'.<sup>40</sup>

A comment in the party newspaper *Nhan Dan* declared:

We want the Sino-Vietnamese talks to progress more and more positively and this first of all for the basic and long-term interests of the two peoples and do not want to raise the problem of a third country as a prerequisite to hinder the talks. The talks are useful in that it has enabled the two sides to better understand each other. The two sides have basically agreed on some points regarding the international aspect of the Cambodian issue... However, during the talks the Chinese side made an overall solution of the

<sup>38</sup> Vietnam News Agency in English 1507 GMT, 10 May 1989.

<sup>39</sup> Peking home service 0930 GMT, 10 May 1989.

<sup>40</sup> *Ibid.*

Cambodian issue a condition for the normalisation of relations between China and Vietnam.

The impasse in the Sino-Vietnamese dialogue was clearly indicated in public commentary issued afterwards. A Xinhua report stated that a political settlement of Cambodian problem was now at a crucial point and '[a] just, comprehensive and fair settlement of this realistic issue, and preventing of a civil war breaking out in Cambodia are the unshirkable responsibility of Vietnam...' Vietnam's view was published that day in *Nhan Dan* (12th May) which stated that China 'urged Vietnam to agree to the composition of a transitional government to be set up in Cambodia during the time between the total withdrawal of Vietnamese troops and the holding of a general election in that country, and to resolve the question of the armies of the Cambodian factions.' It would appear that the third round of consultations must wait the outcome of the International Conference on Cambodia.

## CHAPTER TWELVE

### SOUTH EAST ASIA

Leszek Buszynski

I was in Jakarta when news of the Tiananmen Square massacre filtered through. I was in the process of interviewing people and officials about security issues. I took up this issue with a number of academics, officials and military men, and I had a variety of responses, not just from officials, but academics and others. I am going to categorise and analyse exactly what I found there.

There are broadly three responses I came across. One was the obvious one, moral outrage, and that surprisingly enough I found in Indonesia. The students of Gajamada University in Jogjakarta criticised the Foreign Minister Ali Alatas for not condemning the massacre. That was because their response was very much related to their own position in Indonesia, that is if the Indonesian government does not condemn the massacre in China then does that mean that it would treat its own students in the same way? A second response I came across - I tended to find this response among officials - I call the 'realist' response. They asked what can you expect of a Communist Party, moreover the Chinese Communist Party? The Chinese have dealt with centralised power for thousands of years and when it comes to the security of the State, so I was told in various ways, human life is a matter of indifference. You could not expect anything more. Now this second response I will pick up later because it links up with another theme that I want to raise today. The third response was justification for the massacre. and I found this, surprisingly enough, amongst some older Chinese. I want to talk about that in terms of the position of Singapore.

I want to extract three themes from the responses I came across. One theme was that as a consequence of the massacre, or the political shift towards the hard-liners within the Party, China would withdraw into itself. That is to say the Chinese leadership would be preoccupied with domestic problems, and there would be a reduction of the role for China in Southeast Asia with certain security



consequences for countries of the region. The other theme was the opposite. No, China would not withdraw. Now that the Army has a pivotal role in Chinese politics, this would have consequences for Chinese definition of security interests within the region, for example, the Spratly Islands, the Kampuchean issue. On the contrary, China would become more assertive: so went that theme. And sometimes I found these two responses in the same country.

The second response, the other theme, was that this will mean the end of western and in particular American romanticism about China. This latter theme links up with the second response, that for too long the Americans have tended to personalise their relationship with the Communist Party leaders. That romanticism has now died with the students in Tiananmen Square. What Southeast Asia can now expect from the US will be a more balanced approach. In that sense people within the region see benefits from events in China, insofar as the US will develop a more even-handed position in the Asia-Pacific region. There will be inhibitions, natural inhibitions when it comes to the selling of arms to China, and there will be concern about the effects of events in China upon Southeast Asia, particularly with regard to the South China Sea and the Spratly Islands. In that sense the US, or the west in general, may be more sensitive to the security predicaments of some of the states in the region.

With those themes in mind, I want to examine a number of key security issues. One is Kampuchea which is, of course, on everyone's mind. In Thailand I found that the Foreign Ministry tended to adhere to this idea that China would withdraw into itself, and as a consequence there would be a reduction of the Chinese role on the mainland and Vietnam would have greater freedom of manoeuvre over the Kampuchean issue. So I suppose there are a number of implications that arise from this. One is that the Vietnamese would probably be less willing to withdraw by that magical deadline, September this year. They may try to negotiate with Thailand, for example. They may try to split Thailand from the rest of ASEAN because of Thailand's fears, despite what some people in the Thai Foreign Ministry think. Within Indonesia, I came across the opposite idea, and that is that China would become more aggressive and as a consequence would dig in its heels on the Kampuchean issue. There will be more support for the Khmer Rouge, which is very different from what the Thais fear in this respect. Some in Indonesia thought

that there would be stronger support for the Thai position *vis-a-vis* Vietnam. However, within Indonesia I found this view in the minority.

To deal with Indonesia - as we all know, President Suharto announced his intentions to normalise diplomatic relations with the Chinese in February 1989. I found considerable concern in Indonesia about diplomatic relations with China - after the normalisation announcement. Within Indonesia, you have people such as the Head of the State Secretariat, Murdiono, who said that the normalisation process with China would go ahead; Ali Alatas, the Foreign Minister, who said that Indonesia would not condemn China; but you also have people in the military, such as the Governor of the National Defence Centre, Subiyakto whose regional outlook was very much representative of the military, and he has a very good relationship with President Suharto. It was he who said that normalisation should not go ahead right now under such conditions. He has expressed a definite fear of China: you could, he said, only expect China to be Communist, and you should not forget that.

So I think that the process of normalising diplomatic relations with China will be slowed down on the Indonesian side and the debate and discussion will carry on. Another point is that even before 4 June there was a continuing debate within the military, not within the Foreign Office, not outside the military, but within the military. This 4 June event acted as some kind of a trigger, and made it more difficult for the proponents of normalisation within the inner circles to defend their case.

Moving away from Indonesia to my last point - Singapore. I did mention that amongst some of the Chinese within the region I found justification for the massacre. I came across that in Singapore among older Chinese. Surprisingly enough, some people I spoke to thought in the following terms: a mighty country such as China cannot afford to be humiliated by student demonstrators. Well, there is a certain identification of the status and power of China there, but at the same time I must add that within the National University of Singapore there was considerable alarm and sympathy expressed with the plight of the students. What I want to say in regard to the response I found in Singapore is that it relates very much to Singapore's strategic predicament in Southeast Asia. Excessive and overt identification on



the part of Singapore with the plight of the students in Beijing would have alarmed to some extent the P.A.P. government. Hence we can observe the effort on the part of some Singaporeans to place distance between themselves and the events in China. That effort was evidence that this process of nation building in Singapore was indeed successful, to show that the Chinese in Singapore do not immediately react or respond or associate with events in China.

There was meanwhile virtual indifference in Manila. I found the Philippines somewhat less concerned with all regional security issues other than those relating to the bases and to the US. Discussions in Manila tended to always come back to the US and the bases.

But some of the responses that I did come across in the Philippines were very similar to those I came across elsewhere - in Malaysia and Thailand - and that is, that whatever happens the region has to live with China. China will become the regional superpower, especially if the US leaves, or is compelled to leave, or is asked to leave, or phases out its presence. Whatever one should do, therefore, one should not criticise China.

Perhaps here I should introduce the idea of 'sitting still' as that to some extent describes Southeast Asian attitudes towards China. There is at bottom this fear in Southeast Asia of the consequences of domestic turmoil in China which could spill over and affect the rest of the region, as it did during the Cultural Revolution. There is a fear of taking sides in any domestic conflict in China and there is a very real fear, as expressed to me in Malaysia, that domestic turmoil or an unstable regime in China might resort to expansionism or foreign adventure in order to bolster its position at home.

In the Philippines, however, that kind of fear was much less and certainly not as strong as I found in, for example, Malaysia. The idea was not to criticise China over its internal affairs. The Philippines has other outstanding issues to resolve in its relationship with China, so criticism of Beijing for a domestic event is the last thing Manila wants. For example, Taiwan is the number one investor in the Philippines. There has been some criticism of this because it might somehow come to be seen as a two-China policy, particularly if Manila agrees to a request from Taipei for investment guarantees enshrined in legislation. So I found that when the China issue came up in the Philippines it was always in the context of these other issues.



# CHAPTER THIRTEEN

## ECONOMIC ISSUES

Ross Garnaut

An important historical process has been going on in China from about 1977, generating sustained high growth and very close economic integration with the international economy, but especially the regional economy. Has this been derailed or substantially affected by what has happened in Beijing, and by the international reaction to that, over the last couple of months?

The record of China's economic growth since 1949 is marked by periodic convulsions. If you line China's economic performance up against other northeast Asian economies - Japan, Korea, Taiwan, Hong Kong - or against other parts of the world - two characteristics stand out. First, China has from time to time experienced extremely strong economic growth on the pattern of its northeast Asian neighbours. Second, whereas growth elsewhere in northeast Asia, once it has been established, has tended to be maintained more or less continuously over long periods (with some exceptions), China's growth since 1949 has been characterised by stops and starts.

China achieved very strong growth performance - one of the strongest in the world - in the early 1950s, in the period of reconstruction. At this time the development journals were replete with comparisons of China's superior economic performance with India's. Then followed the disaster of the Great Leap Forward in 1958 when there was no growth for a number of years. Subsequently there was a resumption of very strong growth from the early 1960s until the slump of the Cultural Revolution, followed by the restoration of economic growth as some semblance of normality was restored after the Cultural Revolution.

Since 1977, China has achieved consistently strong growth averaging over 9 per cent per annum. We usually think of the change in gradient in this latest growth period starting from the third plenum of 11th Central Committee in December 1978, but in fact the policies that were entrenched then began to appear in the previous couple of years according to statistics from 1977.

So with that history as background, one has to ask: Are we seeing another break of trend? Has that extraordinarily strong growth performance between 1977 to 1989 come to an end in 1989? Will the developments of mid-1989 show up in the economic history as a major episode, or, looking back from the year 2000, will it disappear in the longer-term trends?

That is the big question on which our assessments about the effects of recent developments on China's international economic relations must hang. The key question is: What does all this mean for China? The effects on foreign economic relations will fall out of that.

Since 1977, especially since 1978 and strongly through the 1980s, we have seen the entrenchment of what came to be known as the open door policy. For the first time since 1949 China deliberately made use of foreign aid and foreign credits. It began to see foreign trade as an integral and normal part of its economic development rather than the filling of gaps in domestic productive capacity, as foreign trade had been seen in the earlier Maoist period. Direct investment by private enterprise became acceptable for the first time. The cumulative effects since 1977 have been very large. I should add that an important part of the open policies, as they related to Chinese leadership perceptions of economic development, was the absorption of technology from abroad, and the sending of numerous students overseas. This was regarded by Deng Xiaoping and others as an integral part of the new open-door policies.

Since 1978 we have seen a huge increase in the foreign trade share of China's economy. Foreign trade now accounts for a substantially higher proportion of the Chinese economy than for example the US economy. It is not dissimilar in proportion to the Japanese economy on standard statistics. Leaving aside questions about how you measure GDP, China is in fact substantially integrated through foreign trade with the international economy. Since 1984, direct foreign investment has played a major role in the development of coastal, particularly southern coastal, cities and provinces. From time to time foreign borrowing, either official credits, on concessional terms, or commercial credits have become important, so that in years of balance of payments weakness, the net capital inflow has amounted to a couple of per cent of GDP. In terms of the whole economy, this is significant.



China's economic leaders have always trodden cautiously in their foreign borrowing, to avoid problems of dependence on international debt. Nonetheless, the availability of foreign partners has been quite important in smoothing out what otherwise would have been sources of macro-economic instability through the 1980s.

China is a large enough economy for these changes in its international economic policy to have a noticeable effect on a number of other economies in the region, and even on the world economy. Most noticeable were the effects on Hong Kong where, since 1984 and the signing of the Sino-British Agreement, we have seen the far-reaching integration of the Hong Kong and southern Chinese economies. Some inhibitions about expansion of economic relations were lessened on both sides of the border by the Agreement. And because the future relationship seemed to have been settled, business people in Hong Kong and officials in China had less doubts about letting the relationship grow very substantially. Since 1985 as a consequence, we have seen the complete reorientation of the Hong Kong economy from one in which the main impetus to growth had been domestic manufacturing and internationally-supplied services to regional markets to a situation in which growth has come mainly from the provision of services of various kinds to China's development and modernisation. One important turning point was the realisation in 1987 that for the first time since about 1950, trade with China exceeded the domestic trade of Hong Kong. That has underpinned several years of extraordinary prosperity in Hong Kong. Incomes have risen rapidly, labour has been very scarce, there has been rapid structural adjustment out of low-value industries into high-value, especially service industries of various kinds, a process that I have described as the Manhattanisation of Hong Kong.

Elsewhere in the region the effects were not so dramatic but were still substantial. In both South Korea and Taiwan the policy barriers to trade and economic relations with China had been very important until the last few years. There had always been a trickle of illegal trade, but the substantial liberalisation of trading relations, although not always within the law, began to grow rapidly from 1985, so that between about 1985 and 1988 trading relations across the Straits of Taiwan, and across the Bohai Gulf came to be quite important for Korea and Taiwan as well as for mainland China. The value in each case now amounts to between \$US2 and 3 billion per annum worth of



two-way trade, each of which in total scale is bigger than Australia has with China.

Japan had played a central role in China's open policies from the beginning. It was an important source of direct investment, official credits and commercial capital. In fact alongside investors from Hong Kong, the most important businessmen were Japanese entrepreneurs. Although at times they showed caution in response to political development in China, they always came back and in the mid-1980s mainland China was for a brief period Japan's second largest export market. That came back a bit in 1987-88 under the effects of contractionary policies directed at reducing imports into China. But still, China contributed to a significant proportion of Japan's growth in foreign trade during the 1980s, and particularly in some industries. The Chinese market became the main international underpinning of the Japanese steel industry through the 1980s at a time when domestic demand had not been growing strongly.

Further afield, the impact of China's opening to the outside world was not so pronounced. It did significantly affect markets for some commodities in which China was important in foreign trade. Obviously in the labour-intensive manufactures, which were the mainstay of China's export growth through the 1980s, China quickly captured a major share of world markets. For example, in the supply of textiles, clothing and footwear, China vied with Taiwan and Korea, setting up protectionist responses in the US and to a limited extent in Western Europe. At the same time China provided increased competition for ASEAN and other developing countries that sought to develop exports of labour intensive commodities.

China's changing position in the world's raw materials and food markets also had an impact from time to time. China is such a large consumer and producer of many basic raw materials, like cotton and coal that small percentage variations in China's production or consumption have had very large effects on world markets. The overall trend was to strengthen international markets for industrial raw materials. Some of these were supplied competitively in major proportions by Australia and that was the mechanism through which Australia was most directly affected.

So the question is: Have all of those powerful trends been broken? Or looking back from the year 2000, will what has happened

this year be a minor break in the long term trend? It is difficult to judge and it depends on all the things that have been discussed during the course of the day. My view is that the short-term outlook is for considerable macro-economic difficulty in China: economic instability of a macro-economic kind. And my reason for thinking that is the link between the June massacre and its aftermath and the delicate state of the reform process. We are at a stage in the reform process where far-reaching deepening of the reform is required to maintain macro-economic stability. In the current stage, reforms are half-completed in a number of difficult areas, including in the financial system, reform of which is necessary to efficiently manage macro-economic demands; and in the prices system, reform of which is necessary if China is to maintain very strong growth in exports of manufactured goods without running into major protectionist reactions overseas.

At this critical time, predictably severe macro-economic problems were emerging - problems of demand control, manifested in inflation and a severe balance of payment problem. One important consequence of the events of May and June has been that the intellectual leaders of reform have found their positions weakened and diminished. At the same time the system of government feels a loss of legitimacy. In consequence, the need for an acceleration and deepening of reform is not clearly recognised. And there is a reduced capacity to press ahead with reform at the moment, even to the extent that the need is recognised.

We hear reaffirmation of a very strong commitment both to reform and to the open policies and there is no doubting that the intention within the leadership is to maintain economic reform and economic openness. But in practice there will be a failure to press on quickly with reform, the result of which is that there will not be the instruments available to manage China's macro-economic problems. That can, therefore, only result in an unstable situation. Whether this period of instability precipitates other political crises will be the main determinants of whether what happened in the last few months does represent a marked break in trends. One must concede the possibility that the leadership's current approach to reform and the open policies can be maintained for a period and that the need for a deepening reform will be recognised again. This might lead to movement within a few years back towards the type of atmosphere we observed in China earlier in the 1980s. That is one possibility. The timing of the



death of particular senior leaders will have an important influence on whether that is the outcome. Through the period of macro-economic instability that lies ahead, there is another possibility, I would see it as a smaller possibility, that attempts will be made to continue to maintain order, not through restoration and continuity of reform as in the early 1980s but with a greater repression and stronger military control. If so, China will probably slide into Brezhnevian darkness for a number of years.

The implications of that for the world? Well, I think the implications for Hong Kong are very substantial even in this temporary period of difficulty in creating problems of confidence in Hong Kong. These are not yet problems for the top business people who maintain opportunities for escape abroad and who continue to take business decisions to deepen economic relations with China. However, in managerial and professional classes there must be a risk that over this next couple of years there will be such fractured confidence that even if the reform momentum is regained in China in a couple of years time, Hong Kong will be in a much weaker position to respond to it. It is an open question, but it is a serious possibility. In the worst of outcomes for China itself then obviously there are constraints on Hong Kong's future role.

In Taiwan and South Korea, where the integration with China had not gone so far, I think that the effects of the crisis in China will not be so large. In the short term there may even be some opportunistic increasing of commitments to mainland China in a situation where other foreigners are less strongly committed. I do not see large adverse implications for Taiwan, except in the worst of scenarios for mainland China, and why that is important is that any large-scale instability in China must have ill-effects on Taiwan.

In Korea the links are more subtle. Through the 1980s the process of integration of China in the regional economy was contributing to a situation where South Korean leaders looked with some confidence to building relations with the North. Seoul had the feeling that history was running in the direction of generally reducing systemic tensions and it was ready to take some risks in building bridges with the North. The effects of events in Beijing must be to diminish the pressure on the North. Assessment of the effects of that in the South will slow down those movements towards North-South



dialogue. So for a time the diminution of tensions and the thinking about opportunities for economic links between South and North Korea will diminish.

Further afield, the effects on the wider international economy will depend on the overall economic growth in China. China will continue to grow at some rate that is not dismal by international standards even in the worst of scenarios. There is a lot of growth momentum in China fuelled by the high investment and high savings, even if the investment is not always applied efficiently. It is also fuelled by the continued flow of technology from abroad through all the many channels that have been opened over the last decade. These have not been suddenly cut off. Foreign official credits have become reasonably important to China and although they have been diminished they too have not been cut off completely. There is ambiguity in Japanese and European responses and there is a loss of new loans from the World Bank. All these things could eventually have a significant effect if they were maintained for long. But whether they are maintained for long depends on events in China, and whether or not there can in a few years be a gradual return to the reform momentum of the earlier 1980s.

# CHAPTER FOURTEEN

## THE IMPACT OF SANCTIONS ON CHINA

Peter Van Ness

The initial official reaction in the West to the Beijing massacre was a contradictory mixture of, on the one hand, horror at the killing and sympathy with the students and their supporters in China, and on the other hand, a pragmatic determination to preserve important economic and strategic relations with the PRC.

Six weeks after the massacre, however, the major Western powers and Japan had agreed to what was, in many respects, a model package of symbolic and material sanctions imposed in concert to achieve specific, limited objectives. They included a forceful condemnation of the Beijing government for the massacre as well as a high degree of multilateral cooperation among sanctioning countries (especially within the European Community and the G7 group of rich capitalist countries). Importantly, no significant relations with China were broken, but rather a wide range of economic and technology-transfer relationships were suspended. By placing these critical ties with China on 'hold', the Western powers maximized their short term leverage on Beijing.

The objectives of the Western sanctions were, at the outset, to condemn the Beijing government for killing unarmed demonstrators and to urge them to stop the killing. Later, sanctions focused on pressing Beijing to stop the arrests and executions of people involved in the democracy movement, to lift the countrywide repression that followed the massacre, to end martial law in Beijing, and to encourage the Chinese government to return to the pre-massacre path of political and economic reform.

Inevitably, there were substantial differences within and among governments regarding sanctions. Japan, China's largest trading partner and most substantial bilateral aid benefactor, was a reluctant participant. At a press conference held ten days before the G7 summit in July, Japanese Foreign Minister Hiroshi Mitsuzuka said that Japan would 'oppose criticizing China by name at the summit in Paris' and would try to convince the other countries to avoid further

isolation of China. But in the end, Japan joined the other six countries (the US, UK, France, Canada, West Germany, and Italy) in their joint 'Declaration on China', which condemned the repression in China, suspended official high-level contacts and arms trade with the PRC, postponed consideration of new loans to China from the World Bank, and extended the stay of Chinese students in their respective countries.

The Declaration also called on the PRC 'to do what is necessary to restore confidence in Hong Kong', where unprecedented public demonstrations had been held in support of the Beijing students, and public confidence in the Sino-British arrangement for the colony's post-1997 future had collapsed following the Beijing massacre. It concluded by urging the Chinese authorities 'to create conditions which will avoid their isolation and provide for a return to cooperation based upon the resumption of movement towards political and economic reform and openness'.

Australia was one of the leaders in the prompt condemnation of the massacre in Beijing. It instructed its officials not to attend the celebration of Army Day at the Chinese Embassy. These were on the whole symbolic sanctions which in China's case may be more important than economic sanctions.

In the US, the Bush Administration first suspended the transfer of defence materials and all visits by military officials. Later on it suspended all high level government contacts and took steps to postpone the consideration of new loan applications by international institutions, for instance, the World Bank.

Thus far, what has presented difficulties for China has not been the impact of sanctions on its economy (since the effect of economic sanctions is always slow to be realized, and in this case, no trade has been obstructed except in the military sphere), but rather problems of the Deng government's own making. Foreign investor confidence has been shattered by the Beijing massacre and political risk assessments by foreign companies adversely affected. China's credit rating has come under review by Moody's and is likely to be downgraded; and China's tourist industry which earned US\$ 2.2 billion last year will probably be US\$ 1 billion short of expected earnings for 1989, according to estimates in a recent CIA study of the Chinese economy. 'The key change', says one business newsletter, 'is in the West's perception of China. The West has been rudely



reminded of the speculative nature of doing business with or in China'. The forecasts in the CIA study presented to the Joint Economic Committee of the US Congress were generally pessimistic, concluding that 'The preoccupation of China's leaders with consolidating power, restoring ideological orthodoxy, and maintaining social order will probably prevent them from formulating new solutions to the country's economic problems. Consequently, China's reform program is likely to be bogged down for the next few years'.

Over the longer term, the links between official sanctions and business confidence in China will be critical. For example, the official suspension of new loans from the World Bank, IMF, Asian Development Bank, and Japan aid programs restricts China's access to foreign exchange as do declines in new private investment and new orders for PRC exports, and the sharp drop in tourist revenues. The US House of Representatives voted unanimously on June 29 to enact legislation enforcing sanctions already taken by the Bush administration, including continuation of the suspension of transfers of defence technology, and suspension of new trade and development funds and insurance for US private investment under OPIC. Other House sanctions called for included a continued suspension of the trade development program, suspension of licences for crime control and detection equipment and the elimination of grey areas in nuclear-related technology. In addition, the Congress has placed under consideration China's most-favored-nation trading status, the possibility of renegotiating the multi-fibre agreement that affects China's very important textile exports to the US and restrictions on new Export-Import Bank loans among other possible sanctions against China.

Hufbauer and Schott in their important, general study of the effectiveness of economic sanctions, *Economic Sanctions Reconsidered*, have concluded that one significant determinant of the impact of sanctions is the relative political and economic stability of the regime in power in the target country. This is the PRC's particular Achilles heel. True, Deng Xiaoping and Li Peng have both stated that China cannot be influenced by sanctions, and foreign 'friends of China' who should know better have echoed the official line. But in fact, China, whose foreign trade is now close to 20 percent of GNP, is immensely vulnerable to foreign economic influence, especially because the new ruling coalition of CCP leaders under the nominal leadership of the

new General Secretary, Jiang Zemin, is fundamentally unstable for five important reasons.

First, the CCP leadership built around Jiang Zemin, following the sacking of Zhao Ziyang, does not constitute a viable successor regime to 85-year-old Deng Xiaoping. The formal top leaders (i.e., members of the Standing Committee of the Politburo) have no independent bases of power in the party, army, and government; instead they hold their positions mainly because of their personal relationship with Deng. Deng has now failed twice to establish successor regimes in less than three years (Hu Yaobang in 1987, and now Zhao Ziyang); and, in fact, as Zhao told Gorbachev during his official visit to China in May, the Party itself agreed in 1987 that Deng was to have the last word on important decisions anyway.

Second, the Chinese economic reform process is stymied. The reforms cannot be continued without a basic restructuring of the economic system. This in turn requires major changes in the political system sufficient to provide new political institutions which can hold government and party leaders accountable for illegal activities, expose official corruption and abuse of power, replace incompetent leaders, and protect dissenters in policy debates from retribution (protection from being charged, for example, as 'counter-revolutionaries'). At the same time that Deng Xiaoping was trying to wipe out the democracy movement in China by force, the USSR, Hungary, and Poland have been pioneering the kinds of political reforms that are prerequisites for putting in place 'market socialism' in a communist-party ruled command economy. Without an independent news media, effective rule of law, or opposition political parties to hold the ruling party to account, it seems impossible to accomplish the controversial transformation of the economy to what is fundamentally a market system.

China's progress toward this kind of political reform was halted in September 1988 when the economic austerity program was announced and further market reforms were postponed. Since Deng had to call the Long March conservatives in the party hierarchy back from semi-retirement in order to gain sufficient support to oust Zhao and his reformers, the new coalition of forces in power in China is now even less likely to favor political reform. The Party purge presently underway is rooting out precisely those people who were recruited



into positions of power by Zhao to design and to implement political and economic reform.

Third, China has undergone a virtual revolution of rising expectations since economic reform began in 1978, but now the government cannot deliver on earlier promises without basic structural transformation. Deng Xiaoping promised the Chinese people a better life, and they have taken seriously his call 'To get rich is glorious'. Chinese consumers have found out how far they are behind the rest of the world, from tourist visits, news reports, and television advertisements; and the universal desire for a better material standard of living must somehow be satisfied if stability is to be maintained.

Fourth, Hong Kong, long a key source of foreign exchange, investment, and technology for China, has now become a potential source of instability because of the politicization of its people in response to the student movement and the Beijing massacre. Public distrust of commitments made by Beijing for the time after 1997, when China regains control, is so pervasive that some analysts have raised the possibility that Hong Kong could become ungovernable by 1991 or 1992.

And, finally, the legitimacy of communist party rule and respect for the People's Liberation Army have been seriously undermined as a result of the Beijing massacre and the continuing repression. Some analysts have detected a sense of fear among the CCP leadership that they almost lost control during the democracy movement in May-June, and an anxiety to maintain control at all costs. Train bombings, attacks on soldiers posted in Beijing to maintain martial law, and passive resistance by citizens are just some indications of continuing opposition to CCP rule. Beijing's decision to send all university graduates to work in the countryside, and the postponement of the beginning of classes this autumn at Beijing University until after the potentially volatile fortieth anniversary of the founding of the People's Republic on October 1, both provide evidence of the CCP's fear of continued student-led protests.

The Big Lie that the government has been propagating about what actually happened in Beijing on June 4 is in direct contradiction with the 'open policy' to the outside world which is so vital to the success of economic reform. It is difficult to see how propagating this lie can help the CCP regain sufficient authority to establish any real



basis for political stability in China. Many Chinese, especially in the cities, already know too much to believe what they are being told by the Chinese media, and if China is truly to be kept open, the truth will continuously be coming in from the outside. Hence, it is likely that China will close the door to the West bit by bit simply as a function of its commitment to domestic repression (note, for example, the recent Chinese withdrawal from the American Fulbright academic exchange program).

In sum, the Deng-Jiang regime at best can only hold together as long as Deng is able to maintain control, and in the meantime, it cannot solve China's basic problems or continue the necessary process of reform. The West should not seek to prolong the regime's existence, but should instead do what it can to encourage the evolution of a successor leadership.

Deng and the conservatives could, of course, decide to shut China off from the outside world, as Mao did during the Cultural Revolution, but that is only likely to sharpen the domestic contradictions. Alternatively, they could turn away from the West and attempt to build an accommodation with the East bloc. The problem there is that the Soviet Union and Eastern Europe cannot provide what China most needs (capital and high technology). Gorbachev, in any case, seems little interested in helping China, but rather has his own aspirations regarding cooperation with the West and participation in the world market economy. Moreover, an open door to the East would let in a different kind of 'spiritual pollution', since many of the political reforms already introduced in the Soviet Union, Poland, and Hungary are 'counterrevolutionary' by China's present ideological standards.

Finally, it seems to me, the sanctions that have been imposed, individually and collectively by the major Western democracies, have been appropriate, they have been measured, and by and large, I think there is good reason to expect that they will be successful. But it will take time. The key point, I think, is that this is a transitional regime for whom the sanctions are, in effect, saying that relations with the West should not be broken but should be kept on hold; and that they, (that is the countries that are imposing sanctions) do not intend to reward repression by renewing aid to the Deng government or that they do not agree to live with the big lie by attempting to return to business as usual under the present circumstances. They are continuing to call

what has happened in China for what it is, which is a very important thing, I think. And they are holding out for a leadership that will succeed Deng Xiaoping. I think the influence of these very carefully calibrated sanctions, if they are continued, will have some influence in producing the kind of leadership that once again can take China on the path of political and economic reform.

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