

Australia's Engagement with China
P J Keating
Australia-China Business Council, NSW Branch
Sheraton on the Park Hotel, Sydney
17 October 2001

Since September 11 it has been hard to focus on anything other than the horror of the terrorist attacks and the scope of the necessary military and security responses to the new environment.

Immediate actions to strengthen our own security measures in the air and elsewhere, and the military moves against the terrorists and their support bases, have rightly received the highest priority.

But beyond the current actions a larger task looms for the international community.

That is the difficult job of providing a basis not just for short-term security but for sustainable security.

It was a challenge we failed in the last century. The result was two world wars and innumerable other conflicts.

We managed our way through the dangers of the Cold War but at times we came perilously close to mutual destruction.

For more than ten years, since the end of the Cold War, the international system has been in a period of drift. But the sharp message from recent events is that we need to fill the void by establishing a more inclusive and cooperative global order, one which reflects the realities of the world.

Our current international institutions are largely an outgrowth of 20th century wars. They are totally inadequate to the new challenges we face.

We won't get far in the 21st century with a UN Security Council whose only permanent members are the victors of 1945.

Or with a G8 structure that fails to include the two most populous countries in the world, China and India.

We won't get far unless we acknowledge that a world in which we try to ban the possession of nuclear weapons by some countries while continuing to assert the privileged right of others to have and to hold them is unsustainable.

And we won't get far if we believe the fantasy that it will be possible for us to perch in prosperity and safety behind an impregnable missile shield, peering at a Mad Max world outside.

It has been encouraging to see the Bush Administration move rapidly away from the unilateralism it seemed to be flirting with in its early months.

It has recognised that not even the mightiest state is immune from violence and that even the largest country needs to build coalitions if it is to achieve its aims.

And Tony Blair has set out an ambitious international agenda from Britain's perspective.

China, which is the subject of today's talk, is going to be central to the sort of world we must build.

This is one of those rare periods in history in which we are seeing the emergence of a new great power. We know from the experience of Germany one hundred years ago, and the Soviet Union fifty years ago, that such times can be dangerous.

We need to bring China into the international community in a way which acknowledges its size and importance.

And we need China itself to understand the responsibility that goes with its size and to exercise responsible regional leadership.

By creating APEC and its leaders' meetings, the last Australian Labor government worked hard – and believe me it was hard work – to build an architecture that would assist this aim.

We wanted to create a trans-Pacific community that would bring China into the world within a multilateral framework that would limit the chance of the world dividing into competing blocs.

One that would help the United States, China and Japan to find a point of natural equilibrium in their vital triangular relationship.

That regional architecture is still serving its purpose, as we will see when President Bush and President Jiang meet in Shanghai at the APEC Leaders' Meeting in a few day's time.

One positive outcome of the attacks on September 11 – if it is possible to say such a thing – is that China is less likely to be chosen for the role of Evil Empire Mark 2, in auditions the American Right seemed to be conducting earlier in the year.

China was never going to be right for the part; but it looked like getting cast anyway.

When Deng Xiaoping introduced the reform program in 1979 to rural areas of China, then to the cities in the 1980s, his vision and determination influenced more than China's future alone.

A twenty-first century world whose most populous nation is economically prosperous and engaged with the international community is very different from one in which China is isolated and poor.

The problems Chinese leaders face are daunting:

- feeding and resourcing more than one billion people, 270 million of whom still live on less than a dollar a day
- addressing growing economic disparities between the coast and the inland provinces
- managing reform of the State-owned enterprises, from which 45 million workers have been laid off in the past five years
- dealing with a banking system in which an estimated 20 per cent of total bank assets are bad loans
- confronting the corruption which has accompanied growing prosperity
- fixing, if that is still possible, profound environmental problems, the result of decades and sometimes centuries of abuse of the land and the air.

And implementing the policy is very difficult.

The economic policy levers available to Chinese reformers are often rudimentary (although the quality of China's senior policy makers goes a long way in dealing with the handicaps that policy implementation poses.)

The outcomes of reform can never be exactly predicted and the results will have implications for political control in the country.

But the welcome thing is that the Chinese government under Jiang Zemin and Zhu Rongji have continued to push forward.

The result has been one of the great transformations in economic history

- China's GDP grew by 9.7 per cent a year on average between 1989 and 2000 and real urban incomes doubled. China is now the second largest economy in the world by Purchasing Power Parity measurements.

- With reform of the state owned enterprises, the private sector has grown to the point where it now produces 45 per cent of China's output.
- Communications have exploded. 70 million people now have access to mobile phones and 30 million are able to use the internet on personal computers
 - China's leaders know that the country missed out on the industrial revolution and they are determined not to miss the information revolution as well.
- The economy has become more open and internationalised
 - international trade quadrupled between 1989 and 2000
 - At \$US350 billion, China's stock of FDI is now third highest in the world

And we're still seeing growth of 8 per cent in the first half of this year, driven by high capital expenditure, a resurgence of domestic demand and a strong inflow of FDI.

The Chinese government understands that an economy this big cannot grow by adopting the export-focussed model of the other East Asian economies. Domestic demand has to be the major driver.

That is why areas like housing reform, in which Macquarie Bank here in Australia has been involved, are going to be so important.

The most obvious sign of China's continuing commitment to reform has been the government's decision to press ahead with membership of the WTO despite the competitive pressures and disruptions this will impose on Chinese industries and farmers.

WTO accession will spread competitiveness through the Chinese economy. It will give China a much stronger economic base and the Chinese people a much better deal.

There is nothing good to be said about the Asian financial crisis of 1997/98 except this one big thing: it came just in time to prevent China going down the route of Japan or Korea in its reforms of the State-owned enterprises.

It was a close-run thing, but China will not now be tempted by the Korean Chaebol model of state capitalism or by Japan's tight network of links between the big banks, the government and the manufacturing companies which for decades have conspired against the interests of the Japanese consumer.

I have been saying at every opportunity to Chinese leaders from Zhu Rongji downward that however daunting the problems China faces may be, they would be more daunting still without continuing reform.

Because if you've got the burden of feeding and providing resources for 1.3 billion people then you need the advantages of unleashing all their creativity as well.

I believe Zhu Rongji and his colleagues understand this well.

Australia and China

Australia's great advantage in dealing with China is that our economies are naturally complementary.

The result of that complementarity is that China is now Australia's third largest trading partner and our fifth largest export market.

Our investment links are important too. Australia has been an important destination for Chinese investment, which is now worth \$3.4 billion.

Australia has \$1.6 billion invested in China. (This isn't good enough, by the way.)

We've been talking for decades about complementarity in terms of our traditional resource exports of coal, iron ore, LNG, wool, wheat and so on.

But we are now discovering a new complementarity in services. In things like health, financial services, environmental technology and education.

Australia's population may be small but our country – as President Jiang noted in the first comment he made to me when we met – is large.

That size has one important consequence in our relationship with China. It means that Australia matches some of the diversity of China.

We have experienced problems of dry land farming. We have to deal ourselves with salination and deforestation. On the other hand we also have extensive experience in tropical agriculture. And, as one of the world's most urbanised countries, in urban planning.

In other words, Australia has experience to offer in a surprisingly large range of the areas in which China might be seeking assistance.

One obvious area in which we have been there before China is with the Olympic Games.

I met Mayor Liu Qi in Beijing a couple of weeks ago. Almost the first thing he said to me was to volunteer obviously genuine appreciation for the support Australians had given Beijing over the course of the bid and since.

China will require an estimated \$3 billion in goods and services and goods in the lead up to the Olympics, so the prospects for Australian companies in construction, transportation, urban planning, logistics and so on are excellent.

In-bound tourism is another area with enormous potential for Australia. Chinese tourism will eventually – and not too far in the future - dwarf the experience we had with Japan.

We have the advantages of similar time zones, reasonable costs, diverse environments and the experience of wilderness, which is going to be such a rare and precious thing in an increasingly urbanised Asia. We need to be preparing for this prospect now.

None of us who have been involved in the Chinese market would pretend that it is easy. It requires hard work, careful planning, good professional advice, clear thinking and a commitment for the long haul.

And if we thought the Chinese market was tough before, WTO membership will make it even more competitive. I'm not just talking about competition from foreign companies but from more efficient and canny Chinese companies.

But the Chinese market will be competitive in more predictable, rules-based, ways. That will be an enormous step forward.

Over the past year or so I've been telling Chinese policy makers that they will be surprised by the speed with which the system reacts and adapts to the new WTO commitments.

As was the case with economic reform in Australia, I think it will happen faster than the agreements say. Chinese businesses will factor in the change much earlier than they are required to do by the WTO commitments. So I expect change to come fast.

If part of Australia's future lies in being the English-speaking regional service centre for China and the rest of Asia, as I believe it does, we cannot rest.

Both government and businesses have to take quite deliberate investment decisions.

We need to maintain the quality of our education services, to continue investing in Asian-language and cultural skills.

To make better use of the young people coming through our universities with these skills now.

To advise Australian businesses, as the ACBC does so usefully, so we avoid the pattern of Australian companies flitting in and out of China and the rest of the region according to market fashion or the whim of the current CEO.

We need to use the invaluable asset we have in our overseas-born Australians better.

Above all, we need to project ourselves to the world as an open, tolerant and welcoming society.

When I accepted this invitation no election was in sight, but now that it is I hope you will permit me to make just one final political point.

Kim Beazley and his colleagues can speak about their policy, but from my perspective, if there is one point of difference between the coalition and Labor in the area of external policy, it lies less in the attitudes the two sides have towards the outside world than in their attitudes towards Australia.

Strangely, but consistently over nearly six years, the Howard government has put the emphasis on what Australia is not.

You will recall that on his first overseas visit to Jakarta as Prime Minister John Howard repeated time after time that Australia was not Asian.

For my part, I never believed it was. It seemed quite enough to me to be Australian.

But the interesting thing is how important the Prime Minister thought it was to emphasise this negation.

Similarly, Alexander Downer spent much of his speech to this forum a couple of years ago emphasising that Australia did not have a special relationship with China. Again, who thought we did? And why did the Foreign Minister think it mattered?

And five and half years after I left office it is flattering – almost touching - to find that both John Howard and Alexander Downer devoting large sections of their most recent speeches on Australia's place in the world to asserting that their foreign policy was not mine (or at least the caricatured version of it they put forward.)

I can reassure them that I doubt there was ever much chance of confusion.

I find this sad. I would genuinely prefer to be acknowledging in Australia's national interest genuine achievements of coalition foreign policy.

The Government's tendency to define itself by negatives stems I believe from a defensive and uncertain view of Australia and its place in the world. A belief that we should know our place; that we shouldn't get ideas above our station.

We saw it clearly in John Howard's agreement to the assertion that Australia's role in the region was to be the Deputy Sheriff.

The Deputy Sheriff!

I'd have more respect for him if he'd wanted to pin the silver star on his own lapel and gallop off at the head of the posse.

Labor's tradition, on the other hand, is to emphasise what Australia is: a strong, culturally diverse, open society which has a lot to offer the world and the skills to help shape the region around us. To find our security in Asia, not from Asia.

A policy that in the past delivered Australia and the region APEC and its leaders meetings, the ASEAN Regional Forum, the Canberra Commission on the Elimination of Nuclear Weapons, the Cairns Group. And which can deliver a great deal more.

Even before September 11, I thought the world was a dicey, dangerous place.

How much more so it now seems.

And, as a result, how much more important it is to press ahead with our engagement with Asia in general and China in particular.

In a world of strategic uncertainty we need a better understanding of what is happening in China so we can work with it in shaping the regional environment.

And in a tougher economic climate, we need to work more effectively and consistently to take advantage of our economic complementarity.

If you've got that natural complementarity with an economy that is becoming an important engine of growth in Asia you neglect it at your national peril.

I thank the ACBC and its members for this invitation. Your work is about to become more vital than ever.