



National President's Forum
Australia and the Chinese Century?

19 October 2010

Rapporteur's Report

Prepared by Mr Geoffrey Miller AO

Session 1: China Now

China's Current Challenges and Opportunities

It was noted that “perception” and “context” are words that are relevant to efforts to understand and describe what is going on in and in regard to China now.

In economic terms, the scale of China's rise is huge; for example by 2030, if the present rate of growth persists, China's economy will be four times its present size. There are many other equally impressive statistics and projections. So far, growth has exceeded even very well-informed expectations.

Will these projections eventuate? There are many positive factors. It was stated that “the future is already here”. However serious problems were also outlined. They include continuing access to an adequate supply of essential raw materials. It was noted that China is already importing 55% of its oil, water and food; and environmental issues.

There appeared to be a consensus that although China's demographics will change, neither population nor the “one child” policy and possible changes to it need be limiting factors on Chinese growth.

It was noted that although China will remain dependent for a long time on coal for energy, it is at the same time making very large investments in clean and renewable energy. China is ranked third in the world for wind power, is the biggest solar manufacturer, has made significant gains in hydro-electricity and is building the largest number of nuclear power stations.

Politically, China was described as stable, with a competent government – merit-based to a considerable degree, 70% public approval of the government, strong popular identification with the State, strong social control and no dissident movement. It was capable of dealing with crises such as the Sichuan earthquake, and major events such as the Olympics. Nevertheless the situation was perhaps one of “stable disequilibrium”, with the system having to cope with the changes required of a monolithic political system dealing with an increasingly pluralistic society.

These changes are of various kinds, and even include some leaders behaving in populist ways; there is increasing political institutionalisation, and also movement in regard to the legal system, and in the relationship between the party and the government. It was stated that some possible future directions are being trialled in Shenzhen, which had recently been the scene of important announcements.

The internet is also a very important factor. Media censorship certainly exists, but on the other hand the internet is used by senior officials to keep in touch with developments and with public concerns, and some senior officials even go on-line themselves.

Over time, the basis for legitimacy may shift from economic growth to more overt political participation and choice. Managing this will clearly be a difficult task: without free expression the system may crack; but free expression could cause the system to crack.

Session 2: China Rising

China's Long-term Policy and Strategic Interests

In regard to foreign policy, speakers described China as a “reluctant giant”, conscious of its own vulnerabilities and having responsibilities thrust upon it, particularly as a result of its success in coping with the Global Financial Crisis, that it didn't really welcome and hadn't sought. This situation had perhaps contributed to a perceived tendency to over-react at times, both to events and to outside portrayals of circumstances within China, for example in Xinjiang and Tibet.

The point was made that for China, as for other countries, foreign policy is a function of domestic circumstances, which remain the prime focus for Chinese leaders. These circumstances now contain many more players and power centres – Ministries, State Owned Enterprises, local governments, the People's Liberation Army – and policies can evolve out of the interplay between them.

This is a reminder that China is not only rising but changing!

Participants heard differing descriptions of China's foreign policy stance, or perhaps stances. On the one hand, it was stated that China would continue to seek to be sensitive to neighbours' concerns; on the other, it was noted that there was now a feeling that, in some cases, China should be able to act in the world on its own terms.

It was stated, by an Australian participant, that “it is no longer possible for China to adopt a low posture”.

The point was made that China's policies can seem very different from the viewpoints of its neighbours. It was contended that China's sustained efforts to establish good relations with them had been vitiated, at least to some extent, by some recent actions and statements, for example in regard to the Diaoyu Senkaku Islands and the South China Sea. It was asked whether China now had a problem with “soft power”.

In regard to relations with the United States, it was noted that China does not seek to challenge or confront the US, which will remain ahead of China in regard to military capacity. It was also stated that, needing a stable international environment to achieve its domestic goals, China has in fact been well served by the US presence in the Pacific. On the other hand, the point was made that in regard to a number of issues to which China attaches high importance – regime survival, access to essential resources, role as a major regional and global player, Taiwan – the US selects itself as China's most likely adversary. There are obviously areas of possible tension, which can impact on each country's domestic politics, and can also affect other major countries like Japan and India, which have a stake in the outcomes.

The value of the yuan is one other current source of tension. But it was contended that the RMB's revaluation could not solve the United States' deficit problem, which has deep structural causes. One is that the US is very energy inefficient, another that the post-GFC stimulus in the US should have been bigger. Also, China's trade surplus with the US is in a sense a surplus with Asia as a whole, since the goods that China exports to the US are to a large extent assembled in China from components imported from other Asian countries; the US is not calling on those countries to revalue their currencies.

It was noted that the unemployment rate in China is the same as in the US, with great inequalities of income. This makes the Chinese leadership attach a high priority to domestic repercussions in considering changes to economic policies.

Session 3: The China Effect

Australia's Current China Policy

In regard to Australia-China economic relations, “complementarity” and “interdependence” were seen as key concepts. For Australia, the supply and price of raw materials, and the regime that applies to overseas investment in the mining industry, are all first-rank aspects of its relationship with China. One participant said that the price of iron ore could completely over-shadow China's relationship with Australia.

One speaker wanted to see more value-adding within Australia in the resources industry, including in regard to the construction of infrastructure, but believed that for such projects to be viable they would need to have access to Chinese contractors and labour.

A speaker argued that Australia's relationship with China has been fraught with challenges, and that Australian governments have been unable to manage the relationship effectively. The political relationship in particular has been challenged over the last few years in the light of events including the Stern Hu affair and the visit of the Uighur separatist leader Rebiya Kadeer to Australia. There has been a shift of public opinion in China about Australia, to a position of greater ambivalence, characterised by the perception that Australia needs China but also fears it – this despite the fact that Australia has no historical quarrels with China, and is one of the few countries to enjoy a trade surplus with China.

Speakers stressed that there is a need for Australia to find a China policy that is sustainable. In his dealings with China, Prime Minister Howard had been pragmatic and interests-based, but had not indicated a sustainable way forward as regards a balance between the United States and China. Mr Rudd had been more ambitious and had tried to be “a true friend” to China, but his approach had not produced the hoped-for results.

In regard to the question of Australian “fears of China”, one speaker believed that quite apart from particular concerns or incidents there was an underlying cause for such fears, namely the deep differences between the two political systems and societies. Another speaker commented that Australian strategists were very attached to unilateralism, and were nervous at the rise of another great power; though it may be a peaceful rise, it is still a rise.

Other speakers queried the notion of widespread fears of China in Australia. It was maintained that the relationship is not bad; that it is steadily becoming broader – and therefore more difficult in some instances – but it was productive and mutually beneficial. There are valuable interactions in many fields and at many levels. There are by now many Australians living and working in China, and enjoying it; and a large, high quality and increasingly influential Chinese community in Australia, which could be an important bridge between the two countries.

Session 4: Australia's Response Australia's Future Policy Options on China

There were two challenges identified for Australia: one to have a consistent and good relationship with China, the other to find a mechanism to deal with periods of tension and potential flashpoints. It was argued that Australia will have to face the reality that China may have different interests in the region, and it may be necessary for Australia to respect those interests. Specifically, it seemed likely that China's “rise” will include the establishment of a blue water navy.

While it was noted that China had to accept its share of responsibility for the health of the relationship, suggestions were made for what Australia and Australians might do to improve it – apart from following what was described as the traditional Australian policy of wanting to have our cake and eat it!

One speaker recommended that Australia search for “a new strategic framework” to cope with the evolving situation in the Asia-Pacific, involving China, North America and Asia. One Chinese speaker believed that Australia could be more sensitive to Chinese strategic viewpoints, while another thought that it would be harmful to the relationship for Australia to become involved in attempts to “contain” or even “balance” China.

There was considerable discussion of the need for more “social investment” in languages, education and government services, and concern expressed that earlier emphases on the teaching of Asian languages in Australia had not been maintained. The advantages of multiple lines of communication and dialogue were stressed.

It was stated that China has so far spent US\$50 billion in Foreign Direct Investment, and half of that has been in the resource industry in Australia. Nevertheless it was contended that the Government needs “more sophisticated” policies towards Chinese economic activities, for example, on the part of the Foreign Investment Review Board in reviewing Chinese investment proposals, and in regard to new ways of guaranteeing security of supply of resources and adequate infrastructure. On the other hand, it was stated that of the last 200 investment proposals from China all had been approved, only six with conditions.

Climate change was identified as one field for potentially fruitful future cooperation. Other suggestions included developing a common energy policy in light of Australia's and China's complementarities; clean and agricultural development in the Northern Territory using Chinese labour – which other speakers thought would be a bridge too far for much Australian opinion.