

Hon Julie Bishop MP

Rebuilding Relations: Australia's ties with China

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The Coalition believes that Australia must have a clear and predictable foreign policy – focussed and effective, practical and principled.

Our foreign policy must advance our security and our prosperity and be underpinned by strong bilateral and multilateral relationships that will benefit the lives of Australians.

It must extend our reach and influence in the Indian Ocean Asia Pacific while recognising that our interests are global.

As a long standing democratic country we need a foreign policy with a conscience that is based on our values of democratic freedom, rule of law and universal human rights.

We must promote human rights consistently and vigorously while recognising that other countries will and do develop differently.

Our ability to promote our values, to advance greater political and economic freedom and to assist in poverty reduction and economic self-reliance in developing countries, is essential to our long term survival and our security and our prosperity.

Economic diplomacy is also a vital part of foreign policy and while it does not rest on trade alone – for our nation's interests are wider than that – it is our success as a trading nation, with an open export-oriented economy that has made us the country we are today.

These are the principles that will guide me, should I be honoured to be Foreign Minister of Australia, in repairing what I believe to be one of our most important foreign policy priorities – that is our relationship with China.

This year Australia and China celebrate the 40th anniversary of the reopening of diplomatic relations between our two countries.

The statistic that perhaps best highlights how our relationship has developed is that over that span of four decades, the value of our trade with China has increased from around \$113 million to well in excess of \$100 billion today.

China is now our largest trading partner.

Who could have imagined four decades ago that China would become the world's second largest trading economy, with a 140-fold increase in trade and with at least half of the world's economic growth over the past 10 years coming from China?

Today China stands as the world's largest exporter and manufacturer.

In 2010, it overtook Japan as the world's second largest economy. Should its current rate of growth continue, it will overtake the United States as the world's largest economy in the not too distant future.

For the Chinese people, these reforms in China have brought immense benefits. China's economic miracle has lifted hundreds of millions of its citizens out of poverty.

The decline in its poverty rate stands as one of the greatest humanitarian achievements of the modern era.

The rapid expansion of China's economic base has resulted in a large increase in the size of its middle class, estimated to be around 137 million people but just 12 per cent of its population in 2010.

It is land of incredible social, economic, cultural and demographic complexity and diversity.

For us to broaden, deepen and diversify our relationship we need to take a keen interest in what can be described as the "China story".

Will the next chapter in its history be a continuation of the past few decades of phenomenal growth? Will future political reforms match the economic reforms of decades past?

There is of course no single China story.

During a number of visits to China over the past 12 months, I have been struck - time and again - by the enormous development challenges confronting the Chinese leadership to ensure the nation's economic transformation flows through the population from the south east to the north west.

The Chinese Government is acutely aware of the growing income disparity and the potential for social unrest.

The road ahead for China will have its challenges, and undoubtedly her policy makers will have some great successes – and some failures – as does every nation.

The pace of economic and political reform will be guided by the dual imperatives of continuing the pace of economic growth of the past three decades while ensuring the benefits of that growth are more evenly shared to guard against the potential for social unrest.

This balance will not be easily achieved.

For example, the United Nations Population Fund has reported that China's one child policy over the past three decades has brought serious distortions to demographic distribution, and concluded that should the projections prove correct China will become old before it gets rich.

A World Bank report released in recent weeks and titled, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society* finds that China has reached a critical point in its development and that the model for growth over the past three decades will have to be changed so that China avoids a hard economic landing, which would of course not only have implications for the rest of the world but have implications internally for the holy grail of social stability.

While there are more economic reforms under way within China, the warning of the World Bank that

its current growth model is unsustainable should serve to place greater urgency into reform efforts, if China's leadership decides to continue down that path.

What we are currently seeing in China is the inevitable tension that has been building from the decision 30 years ago to introduce greater competition and freedom to the Chinese economy, while maintaining the strong influence of the Communist Party.

Now, I do not encourage China to undertake political reforms because I wish to impose our values on another nation. I believe, respectfully, that it is in China's long-term interests to become a more open and free society that encourages debate and can embrace dissent.

I believe respectfully, it is in China's long-term interests to play a role as a key international stakeholder promoting greater freedom around the globe.

While China's economic re-emergence is reshaping the way the international system operates as we have known it, for Australia, the way in which we adapt to this situation will have a significant bearing on our future prosperity and security.

Australia has been amongst the greatest beneficiaries of China's economic re-emergence.

For all our successes however, Australia's relationship with China has stalled in recent years.

Much of the work of broadening and deepening and diversifying our relationship has fallen on the shoulders of Australian businesses and state governments eager to expand their trade and investment ties.

The Australian Government, first under Kevin Rudd and now under Prime Minister Gillard, has failed to provide the strategic leadership that is needed if the bilateral relationship is to grow over the long-term.

When this Government came to office in 2007, neither the Prime Minister nor the Deputy Prime Minister nor indeed most of its front bench had any previous Ministerial experience.

In the field of foreign policy a few diplomatic blunders from a new and inexperienced government are inevitable. But Kevin Rudd had promoted himself as a China expert and much was expected of him.

Yet stung by a media suggestion he was a self-styled Manchurian candidate, Mr Rudd appeared to set out to distance himself - and Australia - from China at every opportunity with a series of clumsy diplomatic blunders.

On his first visit to China as Prime Minister, Kevin Rudd's over confidence led him to publicly lecture the Chinese on human rights making a direct appeal to the Chinese people before he had met with the country's leadership.

To the best of my knowledge, Australia is the only country with which China has agreed to a human rights dialogue at the Ministerial level. Yet Mr Rudd ignored the Australia-China Human Rights Dialogue, the very mechanism which had been created by the Howard Government to provide an official forum for raising such concerns.

Other small but telling incidents followed. Mr Rudd's refusal to be seated on a television show panel next to China's Ambassador to the United Kingdom, and using abusive if not colourful language to describe Chinese officials at a climate change conference and the like.

But a more serious issue was the Rudd Government's Defence White Paper which tacitly identified China as posing a conventional military threat to Australia's sovereignty. It was not smart – politically, diplomatically, strategically or militarily – to make such a call. And if were truly the government's view that China was our greatest threat, why did it broadcast its deepest fears for national defence to the entire world?

The reaction in Beijing was as one would expect.

As Linda Jakobson, the Director of the East Asia program at the Lowy Institute for International Policy and respected China expert stated, "The 'Rudd factor' has been an underlying tension in China-Australia ties for four years."

After the demise of Kevin Rudd, it was expected that Julia Gillard would take steps to restore the mutual respect and sensitive diplomacy that were the hallmarks of the Howard Government's relationship with China.

At best she has attempted to ride on the achievements of the Whitlam Government, perhaps in the hope that China would overlook her increasingly apparent indifference.

Far too often the Government has been accused of failing to conduct communications with due regard for confidentiality and resorting to megaphone diplomacy.

The extent of the Government's complacency regarding our bilateral relationship is captured by the fact that there has only been one Prime Ministerial visit to China since the Beijing Olympics.

The failure of the Australian Government to send a representative to China to attend the Boao Forum for Asia, China's premier platform for discussing the pressing economic issues confronting the region, was seen as a deliberate snub on the part of the Chinese Government.

This decision led former Prime Minister Bob Hawke to declare that the successive Labor Governments (and I can assure you he didn't mean his!) had let Australia's crucial relationship with China languish.

The Coalition will invest the leadership, the commitment and the energy needed to put Australia's relations with China back on track.

We will adopt the fundamental principles of shared interests and mutual respect that existed under the former Howard Government.

As Prime Minister, John Howard brought Australia closer to China than any other leader, before or after, without jeopardising our close and enduring alliance with the United States. In doing so, he achieved a balance between Australia's strategic and economic interests that was the envy of many countries.

We need a comprehensive framework within which to balance our strategic interests. And central to the Coalition's approach will be building on Australia's trade and investment ties with China.

In 2011, Australia exported around \$72 billion in merchandise goods to China, consisting predominately of iron ore and concentrates. The export of services to China was worth a further \$6 billion, consisting mainly of education services.

But maximising the opportunities for Australia and Australian businesses – given the rapidly expanding Chinese consumer class, remember it's currently only 12 per cent of its population – means putting in place policies that increase our national competitiveness and open up new markets for trade

in goods and services, and investment.

Central to this is finalising a free trade agreement with China at the earliest opportunity.

As of this moment, there have been 18 rounds of negotiations. New Zealand, which commenced negotiations with China at the same we did way back in 2005, completed a free trade agreement in 2008.

A free trade agreement with China will assist Australia's manufacturing and services sectors to gain greater access to the world largest domestic market.

Clear opportunities exist in areas such as health and education, finance and tourism, as well as for high-end quality manufacturing that can feed into the growing network of supply chains in the region.

We must also put in place policies that increase our attractiveness as a destination for foreign direct investment. Australia has been a huge beneficiary of direct investment from China.

Emeritus Professor Peter Drysdale said that, "Australia is the largest single ultimate destination for Chinese direct investment, bigger than the US and as big as all of Europe or any other single country in the world".

Given our limited capital reserves, Australia needs foreign investment to underpin project development that will drive economic growth.

ANZ has reported that Australia will need around \$1.8 trillion of investment over the course of the next 20 years to support the expansion of the resource sector. This will create, over that period, around 1.5 million jobs.

The Coalition has established a working group, I am the deputy chair of that group, to consider the impact of foreign direct investment and a Coalition discussion paper will be released publicly in the very near future.

The Coalition will also give greater support to strengthening Australia's soft power in China including growing the audience share for the Australia Network. And I have many ideas on how that can be achieved.

The Coalition will also look at ways in which we can support greater levels of two-way student exchange. Our initiatives will build on the spirit of the Colombo Plan devised by the Menzies Government.

We reached out to the world, drawing in the best and the brightest in the region to universities in Australia. Menzies believed that education was one of Australia's great competitive advantages and an asset for peace and development in the region.

The Colombo Plan created a legacy of enduring friendships and understanding between people and countries in our region. I am often struck by the number of Colombo Plan alumni that are in positions of influence and power in countries in our region.

I believe the time has come for the Australian Government to assist young Australian to undertake educational exchange opportunities at the region's top institutions and today that includes a number of universities in China including Peking University.

Increasing the number of two-way student exchanges between Australia and China will not only help

promote greater understanding and awareness, but also open up a new generation of networks - people to people links - that Australia can draw upon in the future.

If we are to capitalise on the opportunities arising from China's re-emergence, the ability to speak a second language particularly an Asian language will be increasingly important.

As Tony Abbott has put it in a policy announcement recently, if Australians are going to make their way in the world we can't rely on other people speaking our language.

I was the Minister for Education in 2006 and 2007, I recognised the strategic importance of building up our foreign language capacity particularly foreign language teachers if Australia's national interest were to be advanced.

In 2009, the last statistics I could find, only 300 non-Chinese heritage students studied Mandarin at a Year 12 level in Australia.

The Coalition is committed to work urgently with our state governments to ensure that at least 40 per cent of Year 12 students are once again taking a language other than English within a decade.

Ladies and gentlemen if elected, the Coalition will set about rebuilding Australia's ties with China. We will inject the leadership and the vision that will allow Australia to fully capitalise on the opportunities that China's re-emergence as an economic superpower will create.

The way in which this relationship is managed will have a significant bearing on our country's future prosperity and our future security.