Submission to the White Paper on Australia in the “Asian Century”

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Introduction

The White Paper is an important initiative as a whole-of-government review of Australia’s relations with Asia and to formulate policies with which to advance Australia’s interests in the “Asian Century”.

In Asia no country matters more to Australia than the People’s Republic of China. Since 2007, it has been Australia’s biggest trading partner, and since 2009 our biggest export market. The White Paper needs to recognize explicitly that, unless a major shock occurs, no country in the world will again replace China as Australia’s major market. The White Paper has the opportunity to update our national awareness and thinking to take account of the one thing that has changed our region more in the past decade than anything else: the inexorable rise of China.

China is also the biggest source of foreign fee paying students; and compared with other sources of students from the region more study to acquire quality university degrees.

China is the second biggest source of foreign tourists, but average expenditure per head from Chinese tourists is higher than all other sources of tourists.

China is the fastest growing source of foreign direct investment into Australia.

The White Paper needs also to give due recognition to the scale of China deriving from its population and continental size. If nothing else, scale makes China unique in our region and hence warrants special attention.

The Paper needs also to recognize that our relations with China are by far the most complex and challenging of all of our bilateral relations to manage and get right. If China were as small as it was just a decade ago, it wouldn’t matter so much. But today it matters enormously and will only do so more for us into the future.

China’s political system, values, historical experience (especially with respect to European and Japanese colonialism) and human rights standards – to mention just a few – sit distinctly at odds with our own and with the main currents of western, representative democracies with which we identify.
Never before in recent world history has a global economic power stood so far apart from the main streams of political and social organisation as does China today.

China itself is undergoing profound social change but it would be quite wrong to assume that it was inevitably on a path of convergence towards something closer to that with which we would identify. Management of our relationship is further complicated by our security relationship with the United States. Since 1945, this has been the cornerstone of Australia’s security. China knows and accepts this as a strategic reality.

The challenge for Australia is how to balance our interests. This is becoming both more urgent and demanding on policy makers as China assumes an ever greater importance for Australia’s economic well-being – the capacity to provide more and more jobs, pay for social services, our health system, educate our young and train our technicians and professionals.

For the purposes of the White Paper, on this question the only point made in this submission is to point to the complexity of managing our relations to China. It cannot be emphasised too much that the complexity and what is at stake - both commercially and in foreign policy – means the Australia-China relationship is simply like no other that the Australian Government has to manage.

A further policy challenge for the Australian Government is coming to grips with the continental size of China. It comprises just about all levels of development within its borders, from the high-income centres of Beijing and Shanghai, to desperately poor areas of Gansu or Guizhou provinces or poor and marginal minority areas of Tibet and Xinjiang.

Therefore, a “one-size-fits-all approach” to China misses the reality and needs of different parts of the country – always bearing in mind that, with the exception of Tibet, we are dealing with very big numbers of people – and for Australia different opportunities for influence and commercial benefits.

This Submission makes five recommendations to the White Paper:

- one is for the paper to recognize explicitly the singular importance of China to Australia’s interests in terms of both commerce and regional and global security matters;
- two is for the establishment of an annual high-level strategic and economic dialogue with China led by the Australian Prime Minister;
- three is for the paper to recommend to Government a substantial increase in resources to expand considerably our diplomatic footprint in China, bolster existing posts, and have the necessary resources in Canberra to support this diplomatic effort;
- four is to recommend a substantially increased commitment to cultural diplomacy with China;
- five is to reinstate a bilateral aid program concentrated on China’s poorer provinces in the west and south-west and also Tibet and Xinjiang, with an emphasis on health, woman and children, rural environment, and human rights.
China’s Growth and Australia

China’s growth has been an unqualified good for Australia. In view of the profound complementarities that underpin our commercial relations, this can be expected to continue as long as we remain a competitive supplier and have a strong bilateral relationship founded on mutual trust and ongoing, confidence-building policies.

China’s growth story is well known. Over the past thirty-four years of the Reform and Open Door Policies, China has maintained an annual average growth rate of around 10 per cent per annum. China has become the world’s second biggest economy, is likely to become over the next twenty years the world’s biggest, and some 300 million people have been lifted out of poverty.

In January this year, data were released showing that for the first time in China’s entire history more people now live in cities than in the countryside. Twenty years ago the figure was some 20 per cent. This massive urbanization has underpinned an unprecedented structural shift in world demand for commodities and energy. In the economists’ language: China’s demand schedule for resources and energy has, and continues to, move outward.

Barring some unexpected shock to the system, either from some external event or political implosion, a reasonable starting point for policy is to work on the basis that by 2030, China’s economy will be at least four times bigger than what it is today. An annual average compound growth rate of just 7.5% per annum will see GDP double in a decade and double again in the next decade. Such a growth rate is well inside China’s historical experience during the reform period, which included the major shocks of Tiananmen Square in 1989 and subsequent economic policy paralysis, the Asian Financial Crisis of 1997, the SARS epidemic in the early 2000s and the Global Financial Crisis of 2008 and subsequent global financial uncertainty.

For perhaps another decade as urbanization proceeds, GDP growth will likely tend to be resources and energy intensive. China’s per capita GDP is currently less than a fifth of the US’s. It still has many years ahead of it in building infrastructure, cities, expanding car ownership (China has about 30 cars per 1000 people, compared with Europe’s 600), and manufacturing white goods to fill the new apartments and houses.

While the current five-year plan (12th Five-year Plan) seeks to rebalance the economy by increasing the contribution of personal household consumption to GDP growth and reducing the role of investment and exports, this will take many years given China’s low per capita income (ranked outside the top 100 countries in the world according to the World Bank). As this occurs, however, services will begin to account for a greater share of expenditure and so the resource and energy intensity of growth will begin to decline.

As China’s middle class continue to grow, tourism and education as well as all manner of services exports from Australia will continue to grow rapidly. Unlike in our trade with Japan and South Korea and many others, in the case of China services exports are of major significance. Curiously, a couple of years ago when China become Australia’s leading services export market it received little public comment or notice.
So already China is like no other bilateral commercial partner of Australia. Not only is it by far the biggest in goods and services, but it has the potential to grow the greatest. In many ways, we are now only at the beginning of something that will change Australia profoundly because of China’s shear size. Yet it is by far the most complex and challenging to manage well.

And as China’s economic weight continues to grow, it becomes ever more important to our security and foreign policy concerns. China is a key to our aspirations to build and strengthen regional architecture, be it, for example, the East Asian Summit and APEC. China generally welcomes and supports our efforts in these areas. Beyond the region we must closely engage China in the WTO, on our Security Council bid, and in a host of other areas.

It is difficult to think of one major international issue of interest to Australia where either China’s support or, at least, acquiescence is not central to us achieving our objectives. Whether it is in the area of asymmetrical threats such as people and drug smuggling, terrorism, and money laundering, or the future of Pakistan and Afghanistan, or peace on the Korean Peninsula, or nuclear non-proliferation. Again, no other country in Asia matters as much to us as China.

**Bilateral Architecture**

Our formal government-to-government arrangements have not kept pace with the tremendous expansion of our interests in China and many have fallen into disrepair. Many date back to the 1980s when Australian Governments sought innovative ways to engage a China emerging from communist imposed isolation and suspicion and hostility towards the outside world.

In recent years, we have not reviewed comprehensively those arrangements to see if they’re still relevant to today, to dispense with those that are redundant and to seek to craft new arrangements to reflect the current state of our relations. Nor have we sought to keep up with what competitor and marker countries have been doing.

In recent years, many other countries have come to China with a new sense of purpose and interest. Many other countries – the US, Britain, Germany, Canada, France – have regular strategic and economic high-level dialogues that involve heads of government or very senior ministerial-level representatives.

One of the challenges for Australia, unlike in the 1980s and 90s, is to have our voice heard now that the rest of the world has worked out that China is important and is rushing there to capture attention and engage. Regular high-level meetings are perhaps the most important way to ensure our voice and our concerns are heard and for us to build confidence and trust with a view to influencing China to our points of view.

While much needs to be done, this Submission recommends as the highest priority the establishment of a high-level, annual, Strategic and Economic Dialogue mechanism to be lead by the Australian Prime Minister on our side and the Chinese Premier when meetings are held in Beijing.
and alternately by one of the Standing Committee members (this of course could also include the President or Premier when they travel to Australia) when meetings are held in Australia. When meetings cannot be held at this level, then they should still occur according to the annual rotation but be led by the Deputy Prime Minister and relevant Vice Premier.

The recently convened Business Roundtable (first met in 2010 during Vice President Xi Jinping’s visit and again in 2011 during Prime Minister Gillard’s visit) could be timed to coincide with the Strategic and Economic Dialogue to give a solid business focus to the political meetings.

**Australia’s Diplomatic Footprint in China**

Notwithstanding the tremendous changes in China and the massive expansion of our interests there, Australia’s diplomatic footprint in China has not changed since 1995. At that time we added an additional Consulate to the Embassy in Beijing and the Consulate in Shanghai (opened 1985).

Since then, rapid economic growth and development have spread to all corners of China. In response to this many countries, including nearly all of those we would see as competitors (especially in areas such as investment, education, tourism) and also like-minded marker countries (particularly with respect to the provision of consular services), have extended their diplomatic presence.

Australia has been particularly slow to understand these developments at an official level and commit resources to its diplomatic network in China. Sixteen countries have consulates in the rapidly growing south-west China split between Chengdu, the capital of Sichuan Province (some 97 million people) and Chongqing (some 30 million people). These include the US, UK, Canada, Japan, Germany and many of these have had this presence for a decade or more.

Other places where full-service consulates have been or are about to be opened include Shenyang, Wuhan, Kunming and Qingdao.

Some years ago, the Lowy Institute recommended we open consulates in both Chengdu and Chongqing. In view of resource constraints that would not be necessary, but not to open one at all is negligent of our interests.

Several of China’s provinces would be among our top 10 trading partners if they were stand-alone countries. These would all be bigger than almost all individual European markets, not to mention all of Latin America or Africa.

For Australia to still have just three diplomatic missions in China, notwithstanding it’s vast geographical size and population, would be akin to us trying to service our interest in all of Europe and Russia from just London, Brussels and Berlin. The difference is that our commercial interests in China are very much greater than that area combined.
Austrade has had a network of so-called outrider offices for some years. These are haphazard arrangements, the value of which depends on the quality of the individuals employed and the attention given to managing them by Austrade’s A-based officers. But they can never substitute for official consulates, especially when our competitors are in town represented by consulates.

In addition to the geographical reach of official Australia in China, resources need to be added to our existing missions. While the absolute headcount may have grown over the past ten years, this has come from other departments of state adding a presence and not because of an expanded DFAT presence. In Guangdong and Shanghai, diplomatic resources have been squeezed over the years. Positions have also been removed from Beijing.

Curiously, in an age where a premium is placed on public diplomacy – managing media messages and promoting ourselves through soft diplomacy – and the internet and social networking have had explosive growth across China, the Beijing Embassy has fewer A-based resources in this area than in the early 1990s.

This Submission recommends that as a matter of urgency the government addresses Australia’s diplomatic presence and accord it the highest priority among calls for additional resources.

It should immediately commit funds to the opening of a full-service consulate in south-west China. This should be in Chengdu rather than Chongqing, not least because Chengdu is the capital of Sichuan Province and key marker and competitor countries already have diplomatic presence there.

To bolster our presence in the region, and to reflect the entire area’s rapidly growing economic importance, Austrade should establish a properly staffed office in Chongqing with an A-based officer.

The White Paper further should recommend that the Government set down a forward plan to open, as funds become available, additional consulates in Shenyang and Qingdao, and possibly, beyond those, in Wuhan and Kunming.

The White Paper should also recommend supplementing DFAT A-based resources at our existing China posts. Of highest priority is to re-instate a separate A-based Cultural Counsellor position in the Embassy in Beijing and to strengthen the A-based resources in the public affairs section.

**Cultural Diplomacy**

China as a big country and now a big power whose attention the rest of the world is seeking to engage, needs to hear Australia’s distinctive voice. If China believes that Australia is merely a mouth-piece of others or that we do not have our own compelling original ideas, then it will not be interested in us. Misunderstandings in the bilateral relationship will be more frequent if the breadth of our perspectives is not well understood in China.
Competitor and marker countries spend substantially more than Australia on cultural activities. They understand that this underpins all other arms of diplomatic engagement with China. China is a country where people place great weight on cultural activities, reflecting deep pride in the country’s long and unique cultural traditions.

Support for cultural activities from both government and the private sector readily opens access to decision-making elites, a younger generation of entrepreneurs and officials, and the wider public. It burnishes our image, sending messages that we care about having a long-term relationship with China, that we are interested in China and its people, and that the relationship is much more than its utilitarian dimensions of trade and investment. To the extent that effort is successful it will also underpin interest in Australia as a destination for study and tourism.

This submission recommends, in addition to the creation of a new position in the Beijing Embassy of a separate Cultural Counsellor (recommended above):

- a substantial increase in funding for China cultural activities;
- the White Paper encourages business to do the same; and
- that the Australia China Council (ACC) receives a substantial increase in funding, and that the practice of allocating identical funding to all bilateral councils end.

**Restore a Bilateral Aid Program**

It was recently decided to phase out Australia’s bilateral aid program with China, with the exception of the very modest Tibet activity. This is an example of the “one-size-fits-all approach” to China policy. As noted above, China comprises great regional disparities in levels of development. While it may seem compelling to say that we have better things to do with our aid funds than allocate a small part to a country with over 3 trillion in foreign exchange reserves, this thinking doesn’t take into account of how we can advance our interests in China. Similarly, to say that others, such as the UK have ended their aid programs, is not relevant as Australia’s interests in China are very much different to theirs.

Well targetted programs in poor provinces and marginal ethnic areas of Tibet and Xinjiang would contribute to advancing a range of interests for Australia at a relatively low cost. It also contributes to Australia building deep links with future generations of Chinese leaders who are mainly trained and groomed for positions of national leadership in backward areas.

We had a community-based HIV and Aids program in Yining in the Kazak Autonomous Prefecture in Xinjiang. We worked jointly with the Clinton Foundation and Global Fund. This program gave us weight and standing in the province at the local level but also at the level of the provincial government. As a moslem area in central Asia, it also helped us engage with local imams and support our efforts to engage with moderate Islam. In Tibet, of course, our program advances our human rights interests and gives us credibility on these issues.
This Submission recommends that a modest aid program be restored, concentrating on the provinces of Gansu, Qinghai, Tibet, Xinjiang and Guangxi. Projects should be community based and support work in the areas of health, woman and children, rural environment, and human rights.

End of Submission

1 Geoff Raby is Chairman and CEO of Geoff Raby & Associates, Vice Chancellor’s Professorial Fellow at Monash University, and an advisor to the Business Council of Australia.

2 A more detailed account of why growth is likely to remain relatively high for the next twenty years can be found in the author’s: ‘Australia’s China Challenge’, CEDA Annual National Address, Brisbane, 28 November 2011, document available at http://ceda.com.au/media/180377/ceda%20ad%20speech%20nov%202011.pdf.