

China: Its Growing Importance for Australia, the Region, and the World

Hon RJL Hawke AC

Former Prime Minister of Australia and member of the SA Economic Development Board

Address to CEDA, Adelaide, 28 July 2005

These have been the fundamental factors underpinning China's economic growth. Let me list them. Commitment to change, labour force considerations, the readiness to embrace foreign investment and new technology, four, the question of market size and fifthly a relatively peaceful regional and world environment. Now let's go through those, if you look at the first one, the commitment to change. It must be remembered that when Deng Xiaoping launched this transformation, a move towards a market economy and the opening of the outside world in 1978 there was a great deal of opposition within senior ranks of the party leadership, not only centrally but throughout the country. A great deal of opposition, because it did mark a remarkable change of direction. Now the fact is that now there is just no question about the general acceptance of the process of reform and change. So that factor, that basic factor of commitment to reform is a much stronger force now than it was in the earlier stages of reform

The second, if you look at the question of labour force, now obviously the Chinese leadership had the advantage of this enormous pool of unskilled labour, cheap labour in 78 and in the period that showed this unparalleled expansion in the period after that. But if you look at the question of the labour force and the advantages that go with that, you have to understand that now they still have vast reservoirs of unskilled and semi skilled labour, but as distinct from the period at the beginning of the change in 78, there is now a much greater body, larger body of technically and professionally trained people. The Chinese have added to their reservoir of professionally and technically trained people in two ways, one with their own education system that is being expanded tremendously and I'm pleased to say that there has been some association with the development of the Chinese education

system with some of our own institutions, including the University of South Australia, but they have developed an education system now. They're turning up more engineers per year than the United States does, but not only have they developed their own education system and turned out many many more technically and professionally trained people, but they have also had hundreds and thousands of them going to other countries, including our own in increasing numbers I'm pleased to say. So that you have a situation now that in terms now of labour force considerations you still have the advantage of large numbers of unskilled or lower skilled people, but a greater number of technically and professionally qualified people who are adding to the competence of the Chinese advance, both in the public and private sector. There are more people in the public sector and government service who understand and are competent in operating in a market economy and within the private sector or within the Australian enterprises, many many more people now of technical and professional competence. So that factor is a plus up as compared to the previous period as is the first commitment to change.

The third factor, the readiness to embrace foreign investment, which embodies new technology, of course you know the figures, that China is now the largest destination for FDI. There is a continuing and increased willingness on the part of Chinese to welcome foreign investment, which embodies not only technology, but also human skills as well. So that factor is up and the positive is compared to the earlier period. Fourth, market; of course the situation was that the Chinese had an enormous domestic market, but their growth has also been facilitated by an enormous growth in exports, but of course as compared to that earlier period their export potential now and their market potential is much greater, because they are now members of the

WTO. And they are also, as I'll be saying later, engaging in a number of negotiations for free trade agreements both bilaterally and multilaterally. So in terms of market that factor is up. So if you look at those first four, those four sort of factors, the only sensible rational conclusion is that China will continue on a significant growth path into the future and indeed if you look at the statistics that have just come out in the last couple of days from the central bureau looking at this year at a rate of over 9% they've throttled back in certain areas, but the growth rate is running now still at 9%. And there is no reason to believe when you analyse the factors that have underlined their growth in the past, to have any view other than China is going to continue to have a substantially high rate of growth.

Now the fifth factor which I referred to was the relatively peaceful regional and world environment and that's the one about which one can be the least dogmatic. But I believe that the following observations are relevant. Before dealing with the more complicated question of Taiwan, let me make these general points which I think are relevant. The first point is that China has consciously within the last two years or so made the decision, sensibly in my judgement, to assume a stance on the regional and global political stage, more in line with its growing economic significance. Up until two years ago it had not matched on the international and regional political stage. It hadn't matched its growing economic significance with a political role in those areas, but it's made a conscious decision in these last two years or so to do that. Interesting to note in terms of its relations with its immediate neighbours that China has a 22,000 kms of land border and 18,000 kms of coastline with 14 immediate neighbours, with all of whom its relations are in considerably better shape than when it began its economic transformation a generation ago. I'll come later to the question of Japan.

But I ask you to consider the following facts of how China has intensified its relationships with the countries of the region. Firstly China has signed a code of conduct on the South China Sea with ASEAN. You've all heard if you read the papers about the Treaty of Amity and Cooperation which our government seemed to have some trouble understanding, but in respect of China, it's signed the Treaty of Amity and Cooperation without any problem at the ASEAN Plus Three Summit in Bali in 2003. thirdly it's initiated a process of discussion with ASEAN about an FTA, as well as with individual countries in the region, including Australia and New Zealand. In October 2003 it signed a joint declaration on the promotion of tripartite cooperation with Japan and South Korea. In June 2003 on the occasion of the then Indian Prime Minister's Vajpayee's visit to China, the two

countries signed a declaration on principles for relations and comprehensive cooperation. It's interesting when you talk about the development of India to remember that one of the very wise observations of Deng Xiaoping was he said "there will be no century of Asia without an improvement in China/India relations". Now that development in June 2003 of course was strengthened in the second week of April this year when Premier Wen Jiabao went to India and his rhetoric, and I quote was he said "the flower of India/China has bloomed again today. India/China are brothers, we want to elevate the strategic relationship." And that rhetoric was matched by the announcement by a number of joint initiatives and agreed principles for settling a long running border dispute.

And finally in respect of neighbouring countries, relations with Russia have improved, including through Russia's membership, together with some of the central Asian republics, in the Shanghai Security Cooperation Agreement. So you can see my friends that looking at the situation now as compared to 1978, there is a much greater intensification of activity successfully by China in improving and strengthening its relationships with its neighbouring countries around that great border of the 22,000 kms that I referred to.

At the more global level two extremely significant developments are occurring, which seem to me to be not sufficiently widely understood. First China is considerably extending its presence and its relations in the middle east and northern Africa and it's doing this basically in an attempt to consolidate and extend the security of its energy supplies. I've been there in the last year or so through these regions and it's very interesting to just see the intensity of the Chinese extension into this area and it stands in rather stark contrast, its growing stature on these regions. Stands in some contrast to that of the United States. The second one is that there's been a very distinct acceleration in the relations between China and Europe within the last two and a half years or so. The top ranks of the Chinese leadership visited Europe and this has been reciprocated by a number of senior European leaders. Now obviously there were two factors at work here, one economic, the other political. The economic factor is obvious. The economic opportunities for trade and investment between the 450 million strong high income European area and the burgeoning economy and the market of 1.3 billion Chinese economic opportunities there are obvious and help to explain this growing closeness of the relationship between Europe and China.

The political factor is not so transparent, but is nonetheless real. China and much of Europe share an apprehension about the broad thrust of American foreign policy and see their combined

strength and influence as a potential counterweight to what they may perceive as the more egregious expressions of that policy. Now that brings me directly and I'll try and cover it very briefly to the issue of Sino-US relations. The quality of which more than any other single factor will determine whether we can look forward to a relatively peaceable regional environment. In many ways the relationship between China and the United States is currently in better shape than it's been for many years and paradoxically that's got a lot to do with the tragic of events of 9/11 2001, because China's immediate and sympathetic and genuine expression of reaction was deeply appreciated by the United States. But it was more than just words. China made it clear that it would join with the United States in the fight against international terrorism and as I said before, the best measure of the preparedness of China to work with the United States was that it was prepared to accept something that it would never have previously accepted with equanimity and that was the stationing of the United States armed forces in a number of the central Asian republics. But such was the commitment of China to join in with the United States and meeting this challenge that they were prepared to do that.

Also and it's worth understanding and remembering, it was only some six months before September 11th that you'd had relations between the two countries at one of their lowest ebbs after the spy plane incident, but September 11th turned things around. And of course the other factor and a very important factor in the improvement of relations is the fact that without necessarily I think being as open as they might have been publicly in recognition of the fact that the United States does know how important the role of China is in coming to some resolution of the problems concerning North Korea. China has been playing a very positive role in this regard and the United States understands that no resolution of that issue will be possible without the active and positive involvement of China. Of course the potential flash point remains Taiwan and on this I want to spend a little bit of time, because this is critically important. Not only as far as China and the United States are concerned, but it is very important as far as Australia is concerned, because remember that there has been a view put by the representatives of the Bush administration in the last couple of years that if conflict breaks out between the United States and China over Taiwan, they would be expecting, and these were the exact words, they would be expecting us to be there doing their dirty work with them. now I think that it's therefore important that we understand what are the basics of this issue and also this is where I'm giving my view of what the likely outcome is.

I think the thing that we've got to understand is the intensity with which China views this question and how it views this question and may I say how it rightly views this issue. Now the starting point for any consideration of the question of China, Taiwan and the United States, the starting point for any consideration of issue must be the Shanghai Communiqué of the 28th of February 1972 signed by President Richard Nixon. And it was signed my friends in these terms and listen intently to what President Nixon signed in 1972. "The United States acknowledged that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States does not challenge that position." You can't have it much clearer than that. Now that fundamentally important statement simply reflected the fact that Taiwan was recognised as part of China in international law by the Cairo Declaration of 1943, position which was confirmed in the Potsdam Declaration of 1945. and you must understand this point; the fact that the communists under Mao Tse-tung defeated Chiang Kai-shek and established the People's Republic of China in 1949, does not alter that basic fact of international law. Indeed I always suggest when I'm talking to my American friends about it, it's interesting to ask the question, right put it again. What would the attitude of the United States have been to the reunification of Taiwan with the mainland if it had been the communists who had fled to Taiwan and taken control of the island? Do you think they'd have the same view of the United States in that position? Of course you wouldn't and the fact of international law would be recognised straight up and that is that Taiwan is part of China.

Now the position recently legislated by China does no more than reflect those realities and it should be remembered that this is a situation where China accepts Taiwan exercising much of the functions of an independent entity, but it draws the line understandably at any unilateral declaration of independence or equivalent action. Now personally I tend to be an optimist on this issue and think that economic considerations will lead to good sense prevailing. The Taiwanese economy is becoming increasingly enmeshed with mainland China. More than 50,000 Taiwanese enterprises have relocated to the mainland in something in the order of, we don't know the exact figure, but it's something in the order of a million Taiwanese working in those and other Chinese firms. And all of that being reflected in a huge and growing Taiwanese investment across the straits, I believe that powerful Taiwanese business interests will operate as a successful counter to any tendency to political adventurism on the part of Taiwanese politicians. And incidentally I make somewhat similar observations in regards to Sino-Japanese

relations. At the political level those relations are to say at the least cool and at a lower ebb than they've been for several years. But at the economic level China has become increasingly, increasingly important to Japan. Japanese businesses made huge investments in China and China has now surpassed the United States as Japan's largest trading partner.

Japan's Professor Norika Hama recently observed and I quote "it's almost as though the Japanese business cycle is made in China. It's been China that has helped pull Japan out of its deflationary cycle." So while there'll continue to be I believe private and public argument between Beijing in Tokyo over a range of issues, including disputed sovereignty over the Senkaku islands and the particularly important energy reserves in the area, the fundamental and growing importance of China to the Japanese economy will I believe prevent the escalation of these differences to a danger point. Now I think I've gone probably up to the limit of my time so I'll just quickly conclude by saying I don't want to leave you with the impression in terms of what I've said about the way in which China is going to continue to grow. I don't want to leave you with the impression that there are no difficulties. The Chinese leadership realises that there are difficulties and challenges. The gradual dismantling of the state owned enterprises and the social role that they played, as distinct from just being economic industrial units has created levels of unemployment and there isn't yet a national system yet of social security which underpins the Chinese society. And you've got very substantial levels of unemployment drifts from the country into the city. These are real problems which are understood by the leadership. There are the problem also of the differential levels of economic activity income between the west and the north and the prosperous coastal regions. There are very significant environmental issues, including particularly of water quality.

But my point is that the Chinese leadership is aware of these issues, they've got significant increase in available technically and professionally qualified people to deal with them and on the record that they've shown in dealing with their problems in the period since 1978 we are entitled to the view, I believe, that they will successfully resolve these problems. Let me say that one of the canards that is pushed around by the anti Chinese lobby is that well people talk about doing business in China, but you know they don't make money up there. Just let me quote a statement by Patrick Powers the Chief Representative of the United States China Business Council in Beijing, quote "there is a lot of mythology about making and losing money in China. Most companies are in the black. They may not all be meeting all of their targets, but most of them are making money. If they weren't they

would be pulling out of China. Whereas the overwhelming majority is investing more in the market, they just keep quiet about their profits. There is no reason for a company to announce big profits in China. Why would they want to tell their competition they are making big profits in China?" The judgement, the American spokesman there is that it's good and profitable to do business in China.

Now in conclusion I would assert that what's happened in China's period of unparalleled economic development over the past generation has been good for the Chinese people, has been good for the region, has been good to the global community. As far as Australia is concerned it's been bloody good for us. We have benefited enormously from the growth in China to reach the position where China is now Australia's third largest trading partner and in terms of merchandise trade, both in terms of imports and exports, it's our second largest partner. And the evidence is clear that not only is it in terms of the basic commodities like iron ore and coal and so on, but increasingly there are companies going into China and doing business in a range of areas there. Now it's easy enough to be critical of aspects of life within China, but the indisputable fact is that on average the standard of living of the Chinese people has increased significantly. They've done something which has never before been approached in history; they've lifted 400 million out of poverty. Now while not a democracy in conventional terms, China is now a much more liberal society than it was 25 years ago with a more diversified media and opportunities for participation in elections of local government levels.

As far as the region is concerned the dramatic growth of this period has seen a huge demand for imports of raw materials and other components for China's burgeoning production, resulting in China running a trade deficit with the rest of Asia. This increasing economic integration will be enhanced by a successful outcome of a proposed negotiation of an FTA with ASEAN. This economic independence is being mirrored as I pointed out, by increasingly closer political relationships between China and most of its neighbours. At the global level, the earlier tentative steps to opening up the outside world have moved steadily towards a much greater involvement by China reflected both formally, for instance in the accession to the WTO in 2001 and in the more active international role that I've talked about earlier. I believe that these developments at the regional and global level are a positive factor for greater stability and a more peaceable environment, something which is seen by China as a necessary condition for it to successfully undertake the tasks and the challenges of

maintaining the country's positive economic growth path.

I make this final point. What has been and is happening in China is one of the most exciting and significant factors in the world today. We should understand the genuine and justified pride the Chinese have in their long history of cultural and economic achievement. There is no basis in logic, in history or on any other ground for bringing to the discussion about China any sense of

condescension or superiority, moral or otherwise. At some point before the middle of the century China will become in absolute terms the largest economy in the world. And as I've said before many people appear to be apprehensive about this, but as I've said and say again, I just ask you to remember when that happens China will simply be resuming the place it's occupied for most of the last two and a half thousand years.

End of transcript

Copyright: This transcription is copyright CEDA 2005

Disclaimer: This is a transcript of the speakers and discussion sessions at a CEDA event. Opinions and statements included in the transcript are solely those of the individual persons or participants at the event, and are not necessarily adopted or endorsed or verified as accurate by CEDA. The transcript may have been edited. CEDA does not warrant that this transcript is free of errors and omissions.