First, let me congratulate Griffith University for its early recognition of, and continuing commitment to, the importance of Asia as a crucially significant factor in Australia’s future well being. In pursuit of that commitment the University’s Asia Institute, in collaboration with the Queensland State Government and Peking University, has established a fund “to develop a future oriented partnership between Australia and China”.

As part of the proposed structure of “Australia-China future dialogues” it is intended to have an annual Leader’s lecture. I am honoured that you have asked me to deliver the first of these lectures today.

I am not simply being polite in saying that for I have had the conviction for many years that no relationship is more important to the future of Australia than that with China. This reality has emerged as a result of what I regard as the single most important peacetime decision taken by any political leader in the twentieth century, i.e., the decision in 1978 by Deng Xiaoping to move China towards a market economy and open up to the outside world.
For China the period since that momentous decision has been characterised by two constants:

a) The constant of historically unprecedented high and sustained levels of real economic growth, and

b) The constant scepticism of much of the outside world as to the sustainability of this phenomenon.

As to the first point the facts are, by any standard, truly remarkable. Real economic growth has averaged virtually 10% per annum and China is now poised to pass Japan to become, in absolute terms, the second largest economy in the world.

I have been in a fortunate position to witness personally the fleshing out of the bare bones of these statistics. My first visit to China was in 1978 and my 83rd just a couple of weeks ago – so my experience coincides exactly with the emergence of Deng’s New China. I can remember sitting in a makeshift shed in the rural surrounds of Pudong across the river from the city of Shanghai listening to and looking at the projections of the Manager responsible for the creation of a vast new city as part of a greatly enlarged Shanghai.

Could this be possible I wondered in the proposed relatively short timeframe? Most of you have seen the answer – of course it was, just as it was replicated in varying degrees all over China. I was reminded again of this staggering rate and dimension of transformation a few weeks back when I was in Shenzhen – in the early 80’s a small fishing village of merely 25,000, now a thriving metropolis of some fourteen million (including floating residents).

I have seen in the faces of a more confident and prosperous people some evidence of the fact that 400 million Chinese have been lifted out of poverty over this period.
As to the second point, how to explain this constant scepticism bordering in many cases on thinly – or not at all – disguised antagonism? With many people it is simply a matter of racial prejudice; but, more generally, I believe it reflects a fear and apprehension about the unravelling of existing power structures – in particular the now fairly long standing superpower pre-eminence of the United States.

When my American friends express their concern about China becoming, in absolute terms, the world’s largest economy – as it certainly will well before the middle of this century – I try to put it into perspective by pointing out that when this happens China will simply be resuming the position it has occupied for most of the last two and a half thousand years.

Perspective always has to battle prejudice, but the undeniable fact is that whenever that point is reached China has already achieved a position where what happens in its economy is critically important for the world, the Asian region and particularly for Australia. To a considerable extent the recent lifts in projections by the IMF for global growth reflect an upgrading of their forecasts for China towards the 8% growth figure for 2009 that the Chinese leadership has consistently asserted as an achievable target.

Before considering in more detail the current and future implications for the world, the region and Australia of this New China revolution let us remember – for it is insufficiently remarked upon – this correlated an absolutely fundamental fact. The spectacular growth of China in the 1980’s spooked the Soviet leadership. It eroded their confidence in the state command model of economic management and was a significant element in the prelude to the collapse of the Soviet system.

As Prime Minister I had the opportunity to absorb this reality from both ends of the equation. During discussions with the Chinese leadership during the 1980’s they observed in responding to my questions that Soviet officials and farmers in their thousands would cross the long border with China, see for themselves the remarkable growth in output and income of the Chinese farmers and enterprises and return home with glowing reports of what they had seen.
The impact of all this was starkly apparent in a very lengthy meeting I had in Moscow in December 1987 with Gorbachev. China was the subject he wanted most to discuss and, knowing my close and ongoing association with the Chinese leadership, kept plying me with questions about my assessment of what was happening there. I was very frank, saying that in my judgement the Chinese had got it right and he had got it wrong. The Chinese, with very considerable and continuing success had concentrated on economic reform knowing that at some later stage – in the broadest sense – political and social change would follow. In saying to Gorbachev that I thought the Soviet system would be caught short by his misplaced priorities I think he understood that I would not be heartbroken by such an outcome.

In any event it is beyond dispute that the Chinese transformation after 1978 added considerably to the other factors that cumulatively were leading to the Soviet collapse. And of course the global significance of those related events had even wider ramifications. The close ties between the Soviet Union and India had been influential in maintaining restrictive, illiberal economic and trade policies in India. The Soviet collapse was a vital factor in creating the environment for a gradual reversal of those policies enabling India to become for the first time part of the Asian economic growth pattern.

In other words, bringing all these factors together, the post 1978 Chinese transformation has been involved in bringing some two and a half billion extra people into the ambit of the market economy. This, together with the technological revolution in production and communications has been an integral factor in the rate and scale of globalisation we have witnessed in the past quarter century.

Against that background I now want to examine briefly what I see as some of the more important implications of China’s growth for Australia, the Asia-Pacific region and the world.
First, Australia. When I held my first Prime Ministerial press conference in 1983 with Australian and international foreign affairs correspondents and said that Australia’s increasing enmeshment with Asia in general and China in particular would – more than any other external factor – determine Australia’s future wellbeing there was considerable scepticism expressed by the media and others. Not any more. Almost two thirds of our exports go to Asia and China has just become our largest trading partner.

When I look at the massive growth in trade between our two countries my mind goes back to a long conversation in 1984 in Beijing with then Premier Zao Ziyang. He had responded positively to my initiative to intensify the potential synergies between our iron ore and steel industries by offering the Chinese a joint venture at Mt Channar in the Pilbarra, but then expressed a concern he had about the future i.e. that over time the trade balance would work unfavourably against China.

I countered that in my judgement this would not be the case because I was committed to lowering our tariff barriers and would facilitate Chinese exports into Australia. The following table tells the story.

AUSTRALIA CHINA TRADE

<table>
<thead>
<tr>
<th></th>
<th>1983 ($b)</th>
<th>2008($b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Merchandise Goods</td>
<td>M.G.</td>
</tr>
<tr>
<td>Aust Exports</td>
<td>.467</td>
<td>32.5</td>
</tr>
<tr>
<td>China Exports</td>
<td>.253</td>
<td>35.2</td>
</tr>
<tr>
<td></td>
<td>.720</td>
<td>67.7</td>
</tr>
</tbody>
</table>
The massive increase in Australian merchandise exports to China has been more than matched by the growth of Chinese exports to Australia. Australia’s slight deficit on the merchandise account is offset by our relatively greater level of exports of services which produces a virtual equilibrium in the latest current account relationship between the two countries. If there is an afterlife I can look Zao Ziyang in the eye with confidence.

The importance of China to the Australian economy has been emphasised in the most recent period. Australia’s performance in coming through the global financial crisis better than any other developed economy was a function of good economic management and strong Chinese demand on our resource sector. Despite a depressed global economic and trading environment, two way merchandise trade between our two countries in the period January - August in 2009, increased by 24% over the same period last year.

The inexorable process of China moving to become our major trading partner has occurred within the context of warm government to government comity extending back many years and under governments of opposing political persuasions. As a result of a number of unrelated issues arising over this year this comity came under a cumulative pressure that threatened to destabilise the economic relationship. There is no time now to go into those issues other than the perception which developed within parts of the Chinese bureaucracy that Chinese investment was not welcome in Australia.

Fortunately, as a result of much patient work that went on behind the scenes, the positive attitudes of the past are being restored. This fact was reflected in two major speeches at the end of October. On the 26th October our Foreign Minister, Stephen Smith, addressing the ANU China Institute did an excellent job of restoring normality to the relationship. In particular, he emphasised how Australia had welcomed and would continue to welcome Chinese investment in the expansion of the Australian economy.
“Since November 2007, the Australian government has approved over 100 investment proposals from China to acquire Australian businesses. Ninety-six were approved unconditionally. The current government has approved Chinese investment, including Chinese investment in both business and non-business sectors of over $38 billion. We welcome this investment.”

Four days later, Vice-Premier Li Keqiang – expected to be either the next Premier or President of China – delivered an equally compelling and genuine speech in Sydney. In what was an eloquent and deliberate rebalancing of the relationship the Vice Premier said:

“The purpose of my visit is to deepen mutual trust, improve collaboration, fix the future course of the relationship, seek common development, consolidate the China-Australia friendship and further develop an all round collaborative relationship in a mutually beneficial manner so that everybody becomes a winner. I am full of hope and confidence that this can be achieved.” He concluded on an extremely positive note for the future: “I believe that as long as both sides adhere to the overall direction of peaceful development and mutually beneficial collaboration; look at the overall relationship from a long term perspective; are prepared to help each other in times of difficulty; and are sincere in our co-operation, new vitality will be injected into the continued development of the relationship … the all-round mutually beneficial and win-win relationship will almost certainly continue to be advanced to new levels in the twenty-first century.”

I have to this point in my remarks dealing with the China-Australia nexus concentrated on the economic dimension. However, to appreciate fully the potential for even closer and more beneficial relations in the future we should not forget the people-to-people factor mentioned by both Stephen Smith and Li Keqiang. While cultural exchanges are growing in importance, this factor currently has three significant components:

1) The 600,000 people of Chinese descent who now call Australia home – great citizens so many of whom provide a continuing vibrant connection with China;
2) Education. Some 125,000 Chinese students, approximately 25% of all foreign students in Australia today, will become ongoing ambassadors in China for our country, as have many hundreds of their predecessors I have met on my many visits;

3) Tourism. China is our fastest expanding market for overseas visitors.

I believe that these elements, together with the opportunities for growing economic synergies provide a solid rational basis for the optimism into the future expressed by both Ministers.

And if I may introduce, at this point, a local flavour into this analysis, Queensland is demonstrating that it is an important element in these grounds for optimism. As the following facts indicate, the relationship is already very strong:

- **Merchandise Trade**: China is Queensland’s major trading partner after Japan. Queensland’s merchandise exports to China grew by a remarkable 23% per annum over the ten years to 2007-2008 and the temporary setback last year is being reversed in 2009.

- **Services Exports**: In Education, Queensland plays a roughly commensurate role with the rest of Australia in hosting Chinese students, but when it comes to Tourism, the story is vastly different. On the latest break-up available (2007), Queensland received 161,000, or 47% of all Chinese visitors to Australia – a remarkably high proportion, but not surprising when you consider the wonderful range of attractions this State has to offer.

- **State and Municipal Links**: This year is the 20th anniversary of the Queensland-Shanghai Sister-State Memorandum of Co-operation. Queensland also has, since 2008, a Friendship State Agreement with Guandong Province. Ten cities, including Brisbane with Shenzhen and Chongqing, have sister-city co-operative agreements with Chinese counterparts.
Second, the Asia Pacific region. China’s dramatic rise has on balance been undoubtedly good for the region. The fact that imported parts and components constitute two thirds of the value produced in China’s processing sector is reflected in China running a current account deficit with the rest of Asia. Economic realities have shaped outcomes on potentially dangerous political situations in the region. The increasing inter-dependence of the Japanese economy with China has meant – and will continue to mean – that the occasional vocal outbursts on contiguous maritime resources and other sensitive matters will remain just that.

Nowhere has this fact of the dominance of economic realities been more apparent than in regard to Taiwan. I have long expressed the view that the increasing enmeshment of the Taiwanese economy with the mainland would mean that the Taiwanese business elite would not tolerate adventurism by their political leadership that could precipitate armed conflict. It is reassuring to see these realities now being translated into a range of increasingly positive contacts between the mainland and Taiwan.

In looking to the significance of China’s rapid development in relations to the United States, it is useful to start with a brief historical context. During the Cold War period US policy towards Asia was essentially a residual of its broader strategy of containment of the Soviet threat. The Asia “Tiger” economies were held up as shining examples of competitive market systems. There was a happy coincidence between strategic imperatives and sensible trade policies with the US opening its markets to the products of these burgeoning economies.

China was viewed through the same Cold War prism and President Nixon’s famous visit to China in February 1972 was calculated to establish not an alliance of bosom friends but a basis of understanding between two nations each with a very real apprehension about the hegemonistic intentions of the Soviet Union. And when its transformation developed in the 1980’s China, like the “Tiger” economies, benefited from relatively open US markets.
When the Soviet Union collapsed the US game plan changed. The East Asian nations that had been held up as exemplars were now often posed as threats to US economic prosperity as was China which again came to be viewed in the more normal ideological antagonistic terms of the past. The US-China relationship of the last decade of the last century could be best described as one of uneasy co-existence with the voice of the growing presence of US companies operating in China acting as a counterweight to protectionist prejudices and pro-Taiwan independence sentiment within the US.

The dramatic emergence of a new commonly-perceived threat to their respective national security injected a warmer more positive note into the relationship early in the new century. The US appreciated the immediate and supportive concern with which China reacted to the events of 9/11, 2001. China had its own concerns about Islamic extremists particularly in regard to the Xinjiang region in the East. A measure of its commitment to co-operate in the fight against terrorism was its preparedness to accept what previously would have been inconceivable – the presence of American armed forces in the central Asian republics.

However, as in the earlier period of shared apprehension of the Soviet Union this new bonding element has existed alongside an evolving set of economic realities carrying their own implications for Sino-US relations. Within a fortnight of 9/11, China’s terms of entry into the World Trade Organisation were finalised with US agreement thus setting the stage for a further acceleration of China as a major player in the international economy, a process that has continued throughout this decade. While China’s exports for 2009 are significantly lower than 2008 as a result of the world downturn it is increasing its international market dominance – this year passing Germany as the world’s biggest exporter and, within the US, China has this year displaced Canada as the largest supplier of imports with 19% of the total (Canada 14.5%). In this context, increasing sentiment against Chinese imports forced President Obama, reluctantly to raise tariff protection on tyres.

But of course, for the US administration, dealing with the phenomenon of China’s unprecedented rapid economic growth is a much more complex issue. As of September China officially held US$800 billion, or 23%, of all US treasury
securities on issue – making it easily the largest holder with Japan second, some US$150 billion behind. (This figure of $800 billion is closer to US$970 billion, or 26% if account is taken of securities purchased on China’s behalf by agents in London which, in the statistics, appear under the UK).

The global financial crisis did not project many images giving rise to mirth but I must say the picture of Secretary of State Clinton pleading with the Chinese leadership to keep buying US Treasury bonds caused me some merriment. Here was the Chinese Dragon, going from strength to strength as it moved away from socialism to a market economy being implored to lend money to the US so it could socialise General Motors and some of its leading financial institutions.

In a way this delightful paradox encapsulates the essence of where the Sino-US relationship has been, where it is now and what can be the basis for a reasonable and productive relationship into the future. Since the establishment of the Peoples’ Republic of China in 1949 there has never been any ideological basis for agreement between the two countries. When they have come together it has not been by way of mutual attraction but by a mutually shared perception of threat by another entity. But while this politico-strategic factor has varied in intensity there has been a steady growth in economic interdependence between the two countries.

The US takes approximately 30% of China’s exports. China has no interest in seeing a collapse of the US economy a fact reflected in the increase of US$180 billion, or approximately 30%, in the official purchase by China of US Treasury Securities in the 12 month period September 2008 – September 2009.

There is no stronger basis for any relationship than mutual self-interest and the leadership of both countries is intensely aware of this interdependence. But at the public level it is another matter; it is disturbing to read of a November 16th CNN poll in America that showed 70% of respondents said they considered China to be an economic threat. As I have often said ignorance is always the enemy of good policy. The challenge for President Obama is to enlighten his own citizens and thus create a climate within which he can legitimately pursue discussion with China on relevant economic issues such as exchange rate policy.
I have spent some time on the US dimensions of China’s growth for I believe that nothing is more vital to optimise our chances for a peaceful, prosperous and environmentally sustainable world than a sound relationship between the US and China. The ideological chasm of sixty years ago has narrowed; China is a significantly more liberal country. The fact is that the US and China are, in different ways, both great countries. Talk of the G2 is, I think, rather over the top. But, without a doubt, we have a vested interest in these two countries reaching common or compatible positions on issues which affect our global economic, strategic and environmental future.

That brings me naturally to the third aspect i.e. the implications of China’s growth for the world as a whole. The economic implications are implicit in much of what I have said to this point, but there are three aspects I would mention briefly.

First, the Chinese leadership has clearly made a decision in recent years to assume a role within the conduct of global affairs more in tune with its greatly enhanced economic status. This is a perfectly logical development and is part of the reason why the G20 has now been recognised as the most relevant international grouping.

Second, the pursuit of resource security has now become a foundational element of China’s foreign policy. This has meant a very considerable expansion of Chinese influence into areas where it had not before been a significant player; this is particularly true of the African continent.

Third, China will be a critically important player in any successful attempt to deal with the pressing challenge of climate change. China with the US is the world’s largest contributor to global warming and its leadership is acutely aware of both the growing dimension of the problem and, I believe, of China’s responsibility to make a meaningful contribution to creating a sustainable environment.
China is caught in the pincer of the degradation, on the one hand, of its environment caused by its own rapid economic transformation and, on the other, by the grave threat to its water supply posed by an emerging change in the pattern and rate of glacier melting. China is not saying to the developed world: “You polluted your way to prosperity. It’s your problem – you fix it”. Rather China is making it clear that it will be a positive partner in negotiations with a developed world committed to establishing the massive funds required to assist China – and other developing countries – make the changes which will enable them to make their contribution to meeting this existential challenge.

I make no apology for the very positive approach I bring to my assessment of China and the implications of its rapid economic development for us and the rest of the world. I do this because I believe it and also because of my reaction against what is often the negative and prejudiced analysis of China we see in so much of our and the US media.

By the ideal standards of western democracy it is of course easy enough to find things to criticise. But my view is that if you are really serious about wanting to help, the sensible thing to do is to raise issues in private discussion. Preaching from the public pulpit is counter-productive and indeed there is a faint sense of the obscene when one hears American politicians publicly fulminating about human rights in China. I can’t help thinking about the World Bank report which found that a child born in Beijing or Shanghai had a better chance of reaching the age of 12 months than a child born in Washington or New York.

This leads me to conclude as I began. I congratulate all those responsible for the concept of Australia-China future dialogues. Dialogue – not the public parade of prejudice – is the way to go. Our two countries are unique in the economic synergies open to us and the lack of historical baggage we bring to the table. Australia and China, Australians and Chinese, have so much to learn from each other. There are so many ways we can help one another and, together, play our part as nations, and as peoples, in helping to shape a more prosperous, equitable and sustainable world. I thank you and wish you well in your endeavours.