

**Book Launch  
China Matters  
State Library Victoria  
30 March 2017**

My first high-level visit to China was in 1997 – twenty years ago – when we sought to open the Chinese market to Australian insurance providers. This required the issue of a licence by the Chinese Government. I went to Beijing to negotiate with my counterpart, the then Vice Premier of China, Zhu Rongji.

Like so many others I found him to be urbane, witty, colourful and tough in negotiations. He was a serious economic reformer and he was in the process of changing China's economic model. A few months later he became the Premier. We were successful in our efforts.

Over nearly 12 years in Government I had the opportunity to deal with the senior leadership in China including all the Premiers and Presidents over that period. I have kept up high-level contact since.

During my period in office Australia's interaction with China on the economic front was positive and frequent. We met in the APEC Forum, the G20 Forum, The International Monetary Fund, The World Bank, the Asian Development Bank, and in bilateral exchanges.

During this period, Australia was a strong supporter of giving China a proper and commensurate place, reflecting its importance, in the international financial architecture. The international financial architecture still represents the weighting of various economies as they stood after World War II, rather than as they stood in the 2000s or indeed stand today. The China of today, of course, is quite different to the China of the late 1940s.

Over the last 20 years China has become Australia's:

- Largest export market;
- Largest source of imports; and
- Fastest growing source of Foreign Direct Investment (FDI).

The economic rise of China has changed Australia and indeed changed the world. Most Australians know that somehow – they would not be sure how – the economic health of China is critical to the economic health of Australia. Most Australians would have an idea that our mining boom is in some way related to China and that mining booms are good for Australia.

But it is not just the Australian exporters that have done well in trade with China. Australian companies have done well importing manufactures from China. This is a reason why our retailers are able to offer cheap clothing and hardware to Australian consumers.

Australian service companies have been active and successful in competing for business arising from Chinese investment especially our lawyers and investment bankers.

The business relationship between Australia and China has been a very successful one. On the basis of this experience, many Australian businesses conclude that the Chinese are just like us, they want to do business and get on and make a profit. Many Australian business people talk with admiration about the way Chinese business is able to do that.

And then, just as everyone is getting on well and making money, something is liable to happen to remind Australia that, in fact, China is not just like us.

In October last year Crown Casino's VIP International Executive Vice President was arrested doing business in China. He is still in a Shanghai detention centre. The charges are not clear but whatever he was doing in China would not be considered a crime in Australia. China is not just like us. Gambling is illegal.

Nor is the legal system of China just like ours. The Courts are not open nor independent in the way they are in Australia.

Other things remind us of the difference between our country and China. Each time I go to China I try to stay in contact with Australia through my favourite websites. Whilst I can access Australian newspapers, I can't search on Google because that is somehow blocked by the Chinese authorities. It is always a mystery why some sites are blocked. On my last visit The New York Times was unavailable. For many years Andrew Bolt's blog was blocked by the Chinese authorities. On my most recent trip I found it is now permitted. I took great pleasure in telling him that he is losing his punch!

The differences between China and Australia recently came to the fore when the Senate Independent, Senator Corey Bernardi, gave notice that he would move to disallow the ratification of a mutual extradition treaty. After his announcement Labor announced it too would oppose the ratification. The parliamentary support for the ratification collapsed overnight. This was a Treaty that had been signed 10 years before. All it took was one independent Senator to voice concerns about human rights and support for ratification was completely swept away.

Few Australians would have heard of the Kidman outback cattle stations, let alone visited them. When Chinese businesses showed an interest in acquiring them recently, this became a touchy political issue and two Chinese bids were ruled as being contrary to the Australian national interest. Incidents like this show that Australia does not really regard China as being "just like us".

Our differences were highlighted again last year when a Chinese State Owned Enterprise sought to acquire the electricity network in New South Wales – Ausgrid. The bid had been widely foreshadowed and taken a long period of time. It had cost tens of millions of dollars but was ruled as contrary to the Australian national interest at the final hurdle.

Each of these issues raises different questions and illustrates different concerns that attach to relations between Australia and China.

There is another concern, perhaps held by a much smaller but nonetheless highly sophisticated group in Australia, who warn about the strategic ambition of China. This group sees the rise of China as undermining the security arrangements of the Asian Region which have been in place since the end of the Second World War. These arrangements operate through a network of U.S. alliances of which Australia is part.

With the rise of China, and its potential rivalry with the United States, some say Australia is being torn between its economic interests and its strategic and defence interests.

Let us remember how China sees itself. China sees itself as a great power which was subject to historical humiliation at the hands of the West in the 19<sup>th</sup> century when it was forced into a series of unequal treaties. It sees itself as emerging from that period of humiliation to reclaim its rightful

status, again, as a great power. China, like other great powers, has every right to peaceably assert that claim.

And, as this book describes, it will use its economic power to advance its diplomatic and national interests. There is nothing unusual about China seeking to exercise soft power, or for that matter hard power, in pursuit of its national interests. Other countries do the same. Australia does the same in areas where it has significant economic power such as the South Pacific Region.

It is important, however, that those who deal with China understand how this process operates.

Some years ago I was part of an Australian economic delegation meeting with Chinese counterparts. Although our delegation wanted to talk about trade and investment, the Chinese side persisted in raising the issue of the disputed Senkaku/Diayou Islands which are controlled by Japan but claimed by China. They would engage in long remonstrance about the injustice of the current situation.

The Australian business wouldn't have known where these Islands were, what the history dispute was, and certainly weren't going to let them stop one ton of iron ore being shipped to China. They were only too happy to agree with the legitimacy of the Chinese claims and urge the Australian Government to accept them. When they ran into resistance from the Australian Government one Australian confided in me that it was an example of how ignorant and short-sighted the Government could be in antagonising China and letting that interfere with business.

Australian business has a simple view of China:- diplomatic issues should never get in the way of selling more.

The Australian defence and security community thinks quite differently. It believes that political and diplomatic demands have to be dealt with, and in the case of China, dealt with in a way that will discourage further assertiveness regardless of the cost to business.

There is a bifurcated view of China in Australia between the economic community, and security community. The business organisations are in one camp and the professional diplomats mostly in the other.

You might expect the situation would be replicated by the Chinese, that is its business community would focus principally on business and show a lot less interested in diplomacy and security. But your average Chinese businessman, such as he is, is more closely attuned to official government thinking than is your average Australian businessman.

In my experience Australian business flounders when it comes to dealing with issues outside its area of safety and comfort. A book like this would be useful reading for business leaders. The only other group more interested in putting aside principle in the pursuit of profitable business are the Australian Universities. University Administrators dealing with China are extraordinarily flexible about principle when it comes to attracting a stream of fee paying students to their institutions.

This bifurcation in Australian views towards China is not good for Australia and does affect our policy.

An example of where it affected policy is when Australia was first invited to be a founding shareholder of the Chinese sponsored Asian Infrastructure Investment Bank (AIIB) back in 2014.

The Treasury and certainly the Treasurer wanted to be a founding shareholder of the AIIB. The Department of Foreign Affairs and the Foreign Minister were not in favour. Neither was the U.S. administration. It was argued that such an Institution would not have the high-level governance required, and would be a threat to the other global Multi-lateral Development Banks.

As the AIIB began to gather support from other countries it became untenable for Australia not to join. We joined - a little late - as we should have joined right from the beginning. Our hesitation was caused by the competing views of China – competing views which should have been reconciled a lot quicker.

There are two groups in Australia that think they know China. The problem is they know different Chinas.

Business has got to get a lot better educated and be a bit more clear eyed about the Chinese political system.

The defence and security establishment has to adjust to the fact that the global landscape of today is not the post-war order of the 1950s or even the early 2000s. This will not be a uni-polar world. China has been a great power and is entitled to be a great power in the future.

Whilst we should encourage China to democratise and to tolerate more dissent, we should not kid ourselves into thinking we can impose a different social structure on China. Yes, we would like China to be more democratic but we must deal with it as it is, not as we would wish it to be.

When we deal with it we should deal with it with our eyes open.

There is a lot of posturing going on at the present on the way in which Australia should conduct its Chinese relations. Some say we must choose between our economic and our security interests – we must choose between China and the U.S. This is like saying we must choose between a Doctor and a Dentist. The truth is we need them both. If our Doctor comes to blows with our Dentist we might be forced to choose but we do not have to do so unless that unfortunate eventuality arises.

There are others that have grandiose notions of Australia's potential to play broker between China and the U.S. This is the kind of thinking that people who run for the job of U.N. Secretary General engage in. They think they can better manage relations for countries than the countries themselves. In the real world neither China nor the U.S. needs Australia to manage its affairs with the other.

Instead of trying to look after other countries' relations with China we should focus on building better relations ourselves.

We do not need to kowtow. We do not need to delude ourselves about China and the Chinese system any more that we would delude ourselves about other countries which have different systems to our own. We can afford to be realistic. Realism means avoiding the delusion that we can change the internal social system of the country to one that more closely replicates our own.

China trades with us because it is in China's interests. It is not some special favour. We trade with China because it is in our interest. Our countries trade because it benefits each of us.

China always has a clear-eyed and long-term view of its national interests. So too should Australia.

This book "China Matters" will help the readers understand the nature of the interaction between the two countries without illusion and with some deeper understand about the different facets in the relationship. It is my pleasure to launch the book this evening – "China Matters" - "Getting it right for Australia" I wish it well.