



THE PEACEFUL RISE OF CHINA: WHAT DOES IT MEAN FOR AUSTRALIA AND THE REGION?

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China's economic development is one of the most significant transformations in modern history, all the more remarkable in that it is occurring in such a short space of time and in a relatively smooth manner. Given this growth, it is common today to hear people talk about "the rise of China".

Of course this "rise" is not just about China's economic growth, it also about China emerging as a fully-fledged great power and playing a more active role in international affairs. Broadly speaking, the rise of China can be seen as having three elements: domestic economic development; international trade; and foreign and strategic policy.

The discussion about China's rise or China's emergence is not new. China's leaders, thinkers and patriots have been debating this subject for a long time, ever since China's relative weakness in relation to the industrialised world became apparent. The process has been a difficult one, with a number of phases. In 1949, Chairman Mao was able to announce that the Chinese people had now stood up. That was correct in a political sense, though even it took some time for it to be universally accepted internationally. Today, following 25 years of non-stop economic growth, China's emergence has been portrayed in Beijing as a "peaceful rise", in order to project to the world an image of a constructive, positive and engaged China. The idea of "peaceful rise" is being used in part to counter the so-called "China threat" theory.

China's rise, and how it is managed by the leadership in Beijing, is one of the top global developments of the present time, comparable to the emergence of the United States as a great power a century ago. And its rise will of course have important implications for Australia as well as for the region and the rest of the world.

ECONOMIC DEVELOPMENT

This "peaceful rise" has become a reality because of China's remarkable economic growth.

The emergence of China as an economic powerhouse has occurred at a remarkable pace. China's GDP in 2003 was about US\$ 1.4 trillion, making it the seventh largest economy in the world, and the second largest measured by purchasing power parity.

It is the world's largest recipient of foreign direct investment. Its contribution to world economic growth is second only to that of the United States. And China's development is driving world demand for energy, minerals and agricultural products.

It is rapidly moving up the ranks to become one of the world's largest trading nations. Its share of world trade has grown to about 7 percent, almost triple what it was a decade ago. It is currently the world's third largest importer. Assuming China's reforms stay on track, over the next few years its economy (measured by GDP at market exchange rates) could expand to approach the size of Germany's by 2010 and rival Japan's by 2030.

We at the Australian Embassy In Beijing think that China is capable of growing at between 7 and 9 per cent for at least the next few years. This will bring substantial benefit to both Australia and the region. Of course, there are short and long-term risks that need to be taken into account. There has been a great deal of concern this year, including in Australia, regarding overheating of China's economy. China's official economic growth rate for the first quarter of this year reached 9.4% year on year. Some say the real figure may be as high as 12-13%. The Chinese Government is certainly concerned about overheating in sectors such as steel,

concrete, aluminum and real estate. It wants to smooth out economic cycles to the greatest extent possible.

Our assessment is generally optimistic.

We see that the tightening measures introduced since last year are working. A range of production and monetary indicators are slowing. The risk of a hard landing is low due to a range of factors. Most importantly, consumption continues to grow strongly, driven by urbanisation, and the Government still has the ability to intervene quickly if activity slows faster than expected.

China's growth also faces some risks. Problems with the financial sector are often cited. Securing a supply of resources, including energy, water and minerals, will be a major challenge for China. There is also a growing realisation that China's economic structure, dominated by manufacturing, will make it difficult for China to maintain its current high levels of growth. China will continue to grow but it will also have to continue to reform.

INTERNATIONAL TRADE

There is no doubt that China's strong growth and large economy has huge implications for our region and beyond. China has become an engine room for growth for the region. Over the past five years it has been the fastest growing market among the major East Asian economies. Its imports have grown by more than 15 per cent annually.

It has generated some amazing statistics. It now produces 20% of the world's refrigerators, 30% of its televisions and 50% of its cameras. To produce more technologically advanced products, China mainly assembles imported components. For developed economies, therefore, the rise of China presents opportunities for exports of specialized, advanced components and capital equipment. This compensates for losses in labour-intensive manufacturing sectors in those economies.

Of course, there are concerns that replacing labour-intensive industries with capital-intensive industries costs jobs. But there should be additional compensation in the form of growth in services. Consumers are also benefiting from cost competitive Chinese consumer goods. Regional businesses benefit from access to China's competitively priced production inputs.

CHINA'S REGIONAL TRADE POLICY

As China's trade has grown, so too has its focus on regional and global trade bodies. China has placed a high priority on negotiating an FTA with ASEAN. It has also completed a Closer Economic Partnership Arrangement with Hong Kong, and announced it will start FTA negotiations with New Zealand, Singapore and South Africa. Other mid-term possibilities for FTA negotiations include Australia, Chile, and most recently, the Gulf Cooperation Council (includes China's big energy partners- Kuwait, Oman, Qatar, UAE, Saudi Arabia and Bahrain). Long-term FTA partners include Japan and Korea as part of a "plus three FTA".

China's growing interests in regional arrangements can be attributed to a number of factors. First, China wants stable political and economic relations with its neighbours and to project its political influence in the region.

Secondly, China wants to use its FTAs and its general push for "fair trade" to increase the prospects for sustainable development.

Thirdly, China wants to increase trade and investment with the rest of Asia to balance risks in its US relationship. China has been working hard to strengthen its relations with the US. But the China-US relationship is going to be tested on many fronts - and the lead up to the Presidential elections in the US will amplify those voices concerned with job security and structural adjustment in labour-intensive industries. China's RMB peg against the USD, WTO compliance and protection of intellectual property, are other hot issues. Both sides will need to work hard to limit the potential for misunderstandings and continue to emphasize pragmatic over politicised approach to disputes.

Due to the combination of the above factors, in the next few years we expect to see China intensify its efforts to negotiate FTAs and closer economic partnership arrangements, particularly within the region.

It will not be an easy or smooth process. Negotiations with ASEAN, for example, have been protracted and difficult, given the very different interests of the 11 economies. Overcoming sensitivities in agriculture and political distrust will require a patient and steadfast approach. But in time, if China continues with its economic reforms and sustained economic growth, it is plausible that an East Asian hub based on interlocking FTAs will emerge. And China, with its trade policy activism, will have played a key role in developing this new regional architecture.

FOREIGN POLICY

China's economic and trade growth and its enmeshment with regional and global trade have not happened in a political vacuum. China's leaders have spoken over recent years of the need for China to have a benign regional environment in order to achieve its developmental goals. And China now realises that if it has a stake in regional stability, then it must also be an active participant in the bodies that shape and protect that environment - just as it is doing on the regional trade policy front.

Of course, on the international political stage, China already wields great influence. China is one of the five permanent members of the United Nations Security Council and a nuclear weapons state. This "hard power" is backed up by China's remarkable economic performance, a rich and distinctive culture, and the scientific and sporting achievements of its talented population. China's first manned space mission took place last year, and preparations are underway for a moon probe.

China is naturally a key player in the Asia-Pacific region and has shown growing interest in participating in international and regional forums, including peacekeeping operations. It is the driving force behind the Shanghai Cooperation Organisation, which brings together China, Russia and key Central Asian states. It has taken a

leading role in trying to find a peaceful solution to the DPRK nuclear crisis and its continuing engagement will be crucial to resolving the standoff. As the DPRK's neighbours, large provider of aid and historical ally, China remains the country with the greatest influence over the DPRK.

China is fitting more easily into the North Asian strategic landscape- a result of its growing self-confidence and economic (and military) prowess. China is now more comfortably part of the mainstream - it has shown greater interest in participating in international non-proliferation arrangements such as the Nuclear Suppliers' Group, the Missile Technology Control Regime and others.

China used to be on the defensive in the broader Asia Pacific region, but now is much more self-confident and active. China is putting a great deal of diplomatic energy into improving bilateral ties with ASEAN, sponsoring ASEAN+3 initiatives (ASEAN, China, ROK and Japan), and improving ties with India. It is playing a more active role in the ASEAN Regional Forum, which remains the primary forum for discussing the security challenges the region faces.

Importantly for Australia, China's leadership has continued to seek equilibrium in its relationship with the United States. It has taken a low-key approach to issues like Iraq. It has been keen to demonstrate that its ambitions as a rising power are benign.

Growing influence invites greater scrutiny of a country's actions. Countries in the region always watch closely the Taiwan issue. The Taiwan Strait remains a potential flashpoint. China is determined not to permit Taiwan to move towards independence, and is committed to reunification, including by force if necessary. Taiwan's emergence as a democracy is to be welcomed, but the risk of a miscalculation remains, and may have increased since Chen Shui-bian's election for his second term.

Australia takes every opportunity to impress upon both sides the need for a peaceful resolution and to avoid disturbing the status quo.

Overall, China's foreign policy has become more active in recent years in promoting regional integration and cooperation. China's rise is not just about rapid economic growth and the enmeshment of the Chinese economy with the global economy. It is as much a reflection of deliberate foreign policy choices in Beijing that emphasize engagement, in particular with China's immediate neighbours and its region.

IMPLICATIONS FOR AUSTRALIA

So what does all this mean for Australia?

On the economic front, our principal priority is to maximise Australia's economic gain from China's continued growth, including through the Trade and Economic Framework, signed during President Hu's visit. An important part of that Framework was agreement to conduct a joint feasibility study of a possible FTA with China, to be completed in the early months of 2005 - at its conclusions, the two governments will decide whether to negotiate an FTA.

China is now Australia's third largest overall trading partner, with 2-way trade in goods and services trebling since 1996, to \$23.3 billion in 2003. It is conceivable that China will overtake the United States and Japan and become our largest trading partner sometime in the next five to ten years. Investment links, though more modest, are also expanding, with two-way investment growing by an average 20% over the past decade.

There is strong complementarity in our relationship. China needs to secure adequate resources to maintain its economic growth. Australia is very well placed to assist China to meet this need. The 2002 deal to supply A\$25 billion of LNG to Guangdong Province over the next 25 years is an excellent start to our energy partnership. BHP Billiton recently signed a 25-year deal worth A\$11.6 billion to supply iron ore to four Chinese steel mills. We also expect there to be continued strong demand for Australian commodities, such as iron ore, wool, alumina, barley and coal.

People-to-people links are thriving. The dialects of Chinese are the most widely spoken foreign language in Australia. 3% of Australia's population (550,000) claim

Chinese ancestry. 53,000 students from China are studying in Australia at the moment, making it the largest source country for students. Many of these students maintain close academic, business and personal connects with Australia when they return to China. 176 000 Chinese tourists visited Australia in 2003, while 114 000 Australians visited China.

On the foreign policy front, we need to ensure that we are engaging with China as it rises to make our concerns and interests known. We have productive exchanges on a number of issues, including Taiwan, regional security, disarmament, consular issues and human rights. Our approach on human rights has been to seek to engage Chinese authorities in continuing dialogue, combined with practical assistance under the Human Rights Technical Assistance program. We look forward to continuing improvements as China's society evolves. At the same time, we acknowledge that the nature of China's political system is likely to continue to give rise to occurrences, which jar with our values and with international standards. These developments are of concern to the Australian community and form part of the backdrop to the relationship.

Australia and China share many strategic and security interests. We are enhancing cooperation on terrorist related matters, people smuggling, drugs trafficking and money laundering. We do not see China as a threat. We see that China has a major role to play in preserving and promoting peace and security in the Asia-Pacific region. We have found that our status as an ally of the United States has not detracted from this side of the relationship. If anything, it increases China's interest in us.

I believe Australia is well placed to meet the opportunities provided by China's rise, and to assist it meet the challenges ahead. But I would be misleading you if I were to pretend it would always be plain sailing.

IMPLICATIONS FOR THE REGION - HOW PEACEFUL IS THE RISE?

For the Asia-Pacific region, there are similar considerations. The region can derive economic benefits from China's increased engagement with the region. China is a big force in the region and it is crucial to have China engaged in regional bodies. As China continues to develop it will cause changes to regional architecture. The region will need to respond to this. It is for this reason that China's increased formal engagement with the countries of the region through various regional bodies and groupings is so essential. China and the region, including Australia, need to be in constant communication.

China will not only need to be engaged in the region, it will also need to manage carefully its own regional relationships. And foreign policy risks remain within the region. China still has territorial disputes with Japan, a border dispute with India, and has territorial claims in the South China Sea that overlap with the claims of a number of South East Asian countries. A key challenge for the region is accommodating China's emergence. A key challenge for China will be to demonstrate to the region, through both word and deed, that its increased role and profile are beneficial. Premier Wen Jiabao recently described China as a "friendly elephant". China will need to reassure the region that the elephant will continue to be friendly even as it grows in strength.

I mentioned before the importance of the China-US relationship. This relationship is another element of foreign policy risk that will need to be managed carefully by China (and, of course, by the United States too). Major powers will have differences - this is to be expected. But there is no reason that, if the relationship is well managed, these differences need lead to conflict.

CONCLUSION

The challenges facing China this century - domestically and abroad - are enormously complex. How China responds will have a major impact on Australia, our region, and the world.

What is happening in China is extraordinary, particularly if we remember that a similar process of industrialisation took approximately two centuries in Europe, and a century in the United States, while in China it is happening in just a few decades, faster than anyone thought possible.

The Chinese Government is managing a massive transition. And this transition will alter the regional architecture. The onus will fall on China to ensure that its rise is "peaceful". At the same time, it will also be a challenge for Australia and for the region. But we do not fear this rise. Indeed, we *welcome* both China's economic growth and its increased desire to be an active player in the Asia Pacific Region. An engaged, prosperous China will be a positive force in the region. On its part, China needs to be aware that as a country of its size rises it needs to be proactive in demonstrating that its is a "peaceful rise".