

**Restoring Old Threads: Deepening Relations in the
Era of Reform in Two Countries**

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The diversification and huge expansion in Sino-Australian relations over the past two decades has been restoring an old and natural order, on a vastly expanded scale in different circumstances. Australia and the coastal China of the treaty ports in the late nineteenth century were internationally open economies and societies, interacting increasingly closely with each other. This was natural from their location in the Western Pacific, together isolated from the world's main commercial and political hubs in the North Atlantic. It was supported by each being deeply integrated into the greatest commercial empire, in the world's first era of globalisation. Chinese Australian capital from the world's most prosperous cities, Melbourne and Sydney, was influential in building the exciting new commercial centres of Shanghai and Canton. British Empire capital supported the webs of shipping and finance that linked Australia and the Chinese ports into the same regional and global economy.

Australia and China each turned inward through the first three quarters of the twentieth century. The White Australia policy, trade protection and imperial preference blocked the continued growth and evolution of Australia's interaction with its Western Pacific neighbourhood. In China, a half century of political instability and war, and then the autarchy of the Communist Party under Mao, turned China away from the whole world outside.

Both countries underwent an historic opening to the international economy and community, from the mid-1960s in Australia and the early 1970s in China. The opening was tentative and uneven at first in both countries, building into widely based policy reform and large structural change in many areas of economy and society from the mid 1980s. The changes were larger in China, because the inward orientation was far greater at the beginning. But they were

considerable in Australia where the artificial barriers to interaction with Asia had been particularly strong.

So Sino-Australian relations over the past two decades, and especially economic relations, have been one dimension of more general policy reform and structural change in both countries. The internationalisation of the Australian economy and its reorientation towards the rapidly expanding opportunities in East Asia is of historic importance for our own country. Market reform and internationalisation in China is of historic importance for the world.

Earlier sustained rapid growth in Japan, Taiwan, Korea, Hong Kong and Singapore, its emergence in the 1970s in Malaysia and Thailand, and alongside China or later in Indonesia, the Philippines and Vietnam, was itself of large importance on a world scale. But it was the extension of this powerful phenomenon into the mainland of China in the 1980s that promised a larger process of sustained growth for East Asia, extending well into the twenty first century. (India's internationally-oriented reforms from the early 1990s is gradually turning an East Asian into an Asian growth story.)

The implications of sustained rapid growth in China for Australia are not mainly bilateral. China's internationally-oriented growth would be of large importance even if direct bilateral relations were slight, because of its positive effects on Australia's other East Asian partners and on global markets of importance to Australia.

The fact that the two countries have been able to build a productive bilateral relationship has increased the gains to each from the other's successful reform and structural transformation. In Australia's case, a productive relationship with China has strengthened its claims to participate in regional global leadership in economic, political, and educational matters where we have

particular interests and strengths. This is of importance at a time when there are powerful tendencies to relegation of Australia to branch office status in regional and global affairs.

Making a Difference to Each Other

Australia and China would each be different in some important ways if the other had not existed over the past three decades.

The point is more obvious in relation to the smaller country, Australia. In the year to September, China (the mainland, plus the Special Administrative Region of Hong Kong) eclipsed the United States as Australia's second largest market (after Japan) for merchandise exports. In 2002 mainland China has emerged as the largest single country source of fee-paying students. China is the most rapidly growing market for Australia's largest export industry, tourism, and the relevant Australian authorities expect it to become the largest market over the next decade. China has become a major source of highly educated migrants at a time when Australian immigration policy has focused more heavily on valuable skills and when the global market for well-educated migrants has been highly competitive. Continued economic progress in China and stability in its relations with its neighbours is the most important counterpoint to the general deterioration in Australia's security environment over the past 18 months. China has contributed indirectly to Australian prosperity and security through the positive effects of its internationally-oriented growth on other East Asia economies and societies.

There is a sense in which rapid internationally-oriented growth in the People's Republic of China, and Australia's access to the economic opportunities generated by the process, have underwritten Australia's own successful reform over the past two decades. Australia's successful reform, in turn, has made the past decade by far its most successful economically, relative to other rich countries, since Federation a century ago.

The reciprocal value of Australia to successful reform in China is less obvious, but nonetheless real. Australia's diplomatic recognition of the People's Republic of China, relatively early for non-communist States in the Asia Pacific region, gave an early pay-off to Premier Zhou Enlai's re-orientation of Chinese strategic policy in the early 1970s. Australia, as an advanced country in the Asia Pacific region without the political weight of the United States or legacy of Japan, was a suitable partner as China sought to make its new open policies work after December 1978. China entered its first development cooperation agreement with a developed country with Australia in 1981. The early open policies in education had a large Australian component, especially after the Australian education policy reforms, allowing fee-paying students, from 1985. Australia was the location of the first significant investments abroad from China, with the joint ventures in Portland aluminum smelter and the Channar iron ore mine in the mid-1980s. Australian companies, mostly operating on a small scale, were prominent in early responses when Chinese reforms of the urban economy first allowed direct foreign investment from 1984. Australia's relatively and increasingly open markets for manufactured goods, the absence of country quotas and official introductions made this country a useful test market for China's rapidly growing industrial exports from the mid-1980s. The Australian and Chinese governments held intimate discussions of China's entry into the GATT (later the WTO) from the mid-1980s, Australia provided technical assistance for China's application for GATT membership in 1986, and provided technical and diplomatic support consistently until WTO membership was achieved in 2001. Despite personal disappointment to Australian leaders and others involved in the relationship with China, steady Australian policy on engagement with reforming China after the Beijing tragedy of 1989 was helpful in avoiding counterproductive reaction amongst Western countries, including the United States. Australian leadership of Asia Pacific economic cooperation was important to securing APEC membership of the People's Republic alongside Hong Kong and Taiwan

from 1990, as well as Taiwan and Hong Kong membership in other regional economic activities.

Three Periods of Sino-Australian Relations

These substantial elements of mutual assistance at historically decisive times for both countries occurred in three distinct periods over three decades.

The period from 1972 until the 1980s is best described as one of friendly bilateral relations. Both Whitlam and Fraser put considerable personal effort into the China relationship. Whitlam's effort was appreciated by the Chinese leadership first of all because of its timing, early in the period of turning to the West, ahead of others. Fraser's were given a special quality by shared strategic perceptions of threat from the Soviet Union. The Whitlam and Fraser years saw the initiation of contact in many spheres, before either country was ready for broad-based bilateral relations.

The period from about 1983 until the early 1990s can be described as one of substantive bilateral relations. It built upon the friendly relations of the Whitlam and Fraser years. It was given its special quality by internationally-oriented economic reform in both countries which prepared each domestically to respond to rapid expansion of opportunities for interaction with the other.

The period from the early 1990s to the present was one of substantive multilateral relations. Close working relations among leaders were institutionalized within APEC in particular, and growth in the Chinese economy and to a lesser extent the Australian saw exceptionally rapid expansion and diversification of the economic relationship. The professional skills for close interaction between the two societies and economies had grown rapidly as a result of domestic reform (Chinese language skills in Australia through education and immigration, and English language skills in China). Particularly for China, the development of global economic relationships and

deepening of regional relationships diluted the intensity of the bilateral relationship, but the total scale of interaction continued to expand rapidly.

Each of these periods left strong legacies upon which the next was built, culminating in today's large and multifaceted economic, educational, social and political relations. The continued internationally-oriented growth in China, and the increased quality and extent of education with which it will be associated, holds out the prospect of expansion of substantive multilateral relations well into the twenty first century.

Australia was an international leader in recognition of and constructive response to reform in China after 1978. This gave Australia a disproportionately large role in Chinese affairs, the more so since it was late in the 1980s before normal relations were established with a number of other East Asian countries and economies — Indonesia, Singapore, South Korea and, incompletely and for trade, investment and personal communications and travel, Taiwan. The opportunity of this time was enhanced by the interest that the main reform leaders of this time in each country took in each other and their work — Premier Zhao Zyang and General Secretary Hu Yaobang in China, and Prime Minister Hawke in Australia.¹

Neither China nor Australia ever sought any element of special or discriminatory treatment, no special privilege on trade beyond an opportunity to compete, no security treaty, no formal rights beyond those available to other members of the Asia Pacific and world communities. There was an unusually close and productive relationship in these years, but neither side claimed the term "special" for it. Premier Zhao Ziyang did suggest and Bob Hawke accepted in Beijing in February 1984 that China and Australia should strive to

¹ British Ambassador Sir Richard Evans commented in 1986 that "the Chinese leadership spends more time thinking about the Australian relationship than about any country other than the big three, the Soviet Union, the United States and Japan." New Zealand Ambassador, Lindsay Watt, observed that "Reflecting personal warmth more than protocol, courtesies extended to Mr Hawke by Hu Yaobang on the former's 1986 visit to China went far beyond the conventional." (Watt, 1992, p.168).

make their relationship a model for countries with different social systems and at different levels of development. The goal was to establish a "model" relationship in the literal sense, in which it would be sensible for anyone else to do the same.

Hawke and others in the Australian Government always made it clear that Australia was an aligned country, that the United States alliance was central to Australia's defence policy. This was not a barrier to productive relations, and at times was explicitly welcomed and used by Chinese leaders.

The central objective of Australian economic policy in China in the 1980s was to encourage economic reform and a high degree of international orientation in that reform, supporting expansion in China's trade in line with its comparative advantage. The latter part of this objective required efforts to encourage internationalisation of several sectors of the Chinese economy in which Australia had strong comparative advantage but which had been traditionally autarchic and in which reductions in protection were politically highly sensitive — notably iron and steel and iron-making raw materials, textile fibres and grain.

A set of secondary objectives related to the building of links into China that would facilitate and support effective participation of Australian enterprises in China's trade and investment opportunities, and to building in Australia a professional capacity in business and the public sector for analysis of developments in China, identification of opportunities for Australia, and effective utilisation of those opportunities.

In late 1985, education was identified as the most important weakness in the Australian bilateral relationship with China. The next few years saw Australia establish itself as a major destination for graduate students from China, including a proportion of the best students going abroad. By the end of the decade Australia was disproportionately significant in high-level analysis of the Chinese economy and contemporary society, often jointly with Chinese in the Academies, Universities and Institutes, with its effort strengthened greatly by the continuing contributions of the first generation of students. This huge qualitative improvement of Australian educational and intellectual interaction with China tended to be overwhelmed in public perceptions by the

quantitatively larger presence, and later the problems, of English language and other short-term students, as Chinese became the most numerous respondents to Australia's new general policies on fee-paying students and export of education services from the mid-1980s (Jose, 1992).

The gains from the period of substantive bilateral relations, and China's open policies themselves, were at risk for a period after the Beijing tragedy of May, 1989.

Established aid commitments continued to be implemented although new commitments were suspended until 1991. In contrast to the United States, there was no consideration in Australia of withdrawal of most favoured nation treatment in trade, and China continued to receive developing country trade preferences. United States President George Bush found it useful to refer publicly to the Australian Prime Minister's position in defending his own, that Western including human rights interests would be served best by continued engagement with China.

The decision to allow permanent residence for the large number of Chinese students in Australia angered Chinese officials, although it was in line with responses in other major countries of overseas study, notably the United States.

Polling commissioned for and reported in my 1989 Report, *Australia and the Northeast Asian Ascendancy*, shows a dramatic change in Australian perceptions of China before and after the Beijing massacre. In May 1989, 22% of Australians reported a "warm" and 33% a "cool" feeling towards China (compared with 10% and 54% respectively, towards Indonesia). Two months later, in July, only 10% reported a "warm" and 70% a "cool" feeling (Indonesia unchanged on 10% and 54% respectively) (Garnaut, 1989, p.321).

Given the community reactions, and the personal feelings of many Australian officials and leaders, the steadiness of policy is remarkable. There is no doubt that the maintenance of substantive economic and community links with China served the interests of human rights in China, as well as Australian economic and strategic interests. It fell to Japan to lead the effort to moderate Western reactions to the massacre and tendencies to impose and maintain restrictions on economic and other relations, notably at the G7 Heads of Government meeting in Houston in 1990. But Australia's steady official and private analysis of

progress in reform and the steadiness of Australian policy were not without influence. Ambassador Sadleir's speech in Hong Kong in 1990 led Western official perceptions that reform and the open policies were continuing to move forward after the trauma of 1989.

In the event, reactions to the Beijing massacre affected the bilateral economic relationship in two main ways. First, while Australian enterprises maintained and expanded established trade and investment interests, new entrants, and those who had been testing the water, were discouraged. Second, East Asian enterprises - Japanese, more strongly Korean, and most powerfully Chinese from Hong Kong, Taiwan and Southeast Asia hugely expanded their trade and investment relations with China, going much further than filling the vacuum left by the diminished enthusiasm of Western enterprises. There was a decisive and permanent weakening of the relative position in China of Western including Australian enterprises.

The post-1989 downside risks to the Sino-Australian relationship were not realised, partly because Australian policy of engagement remained steady, and partly because the Chinese leadership made special efforts to restore productive relations after a tense period. Most importantly of all, Chinese reform and internationalisation shifted into higher gear, greatly expanding opportunities for productive interaction, and the base of business, educational and interpersonal relations had placed people in the two countries well to take advantage of the opportunities.

Increasingly, official business and exchange was conducted in multilateral fora. Trade policy objectives were pursued increasingly through or with reference to the World Trade Organisation, including the important negotiations on China's entry. The annual meetings of APEC leaders from 1991 supplemented continuing bilateral meetings. It was reasonably said of Prime Minister Howard that he had met President Jiang Zemin more and more often than any other head of national government. Chinese leaders continued to find it worthwhile to put personal effort into relations with Australia: 9 of the 24 members of the Politburo that emerged from the 16th National Congress of the Chinese Communist Party in October 2000 had visited Australia — including new General Secretary Hu Jintao, in his case on an extensive visit one and a half decades before visiting any other Western country. The interest

in Australia was encouraged and facilitated by sustained good diplomatic work by Australian representatives in China.

The strength of the bilateral ties still mattered when Australians wanted to do something with China that was exceptional in scale or character or which required some innovation in public policy. The most important of these steps so far is the 2002 contract to supply gas from Western Australia to Guangzhou.

The current framework of China's interaction with the international community has all of the important characteristics sought by Australia in the 1980s. Reform is supporting sustained rapid growth, and even more rapid growth in the economy's external trade. Liberalisation of personal travel and communications is supporting rapid growth and deepening in educational and research interaction as well as tourism and migration to Australia of highly skilled Chinese. There is little exclusion from the liberalisation of sectors of special importance to Australia — with elements of high protection in agriculture now being eased by the conditions of Chinese entry into the WTO. There is no discrimination in Chinese trade policy that places Australia at a disadvantage in competition with other countries in East Asia or elsewhere — or, for that matter, any Australian discrimination against China that might encourage reciprocal exclusion.

Chinese Taipei and Hong Kong participation in Asia Pacific economic cooperation and full membership alongside mainland China in WTO has been helpful to Australian maintaining productive relations with these important economic partners.

China's support for the United Nations as the vehicle for managing international issues of war and peace, and participation in regional strategic for a, first of all the ASEAN Regional Forum, have been consistent with Australian interests.

More Substantive Multilateralism, or Different Trade Blocs

It would suit Australia well to have the current system of substantive multilateralism continue to provide the framework for Sino-Australian relations. It would be helpful to Australian security and prosperity at times when both, and particularly security, face new and daunting challenges.

The unfortunate reality is that the continuation of substantive multilateralism is currently under challenge.

The first threat is to the multilateral trading system itself. Since the East Asian financial crisis in 1997 and 1998, one after another country in the Western Pacific has abandoned longstanding commitments to non-discriminatory trade, in favour of bilateral or small group discriminatory free trade areas. The change in stance of Japan and Australia has been particularly influential. The change has its own regional origins in failures of analysis, policy and diplomacy, and has been encouraged by perceptions of threats and opportunities in the United States' increased sympathy for bilateral and small-group free trade areas.

China was reluctant and late to enter the Western Pacific enthusiasm for small-group free trade areas. Senior Chinese officials reiterate China's central interests in global trade, but feel constrained by the political momentum behind discriminatory blocs in Japan, the United States, Australia and elsewhere in the Asia Pacific. Unfortunately, the size and particularly the rapid growth of China's markets make it an attractive partner in discriminatory trade. Its early overtures for an ASEAN-China free trade area were received with enthusiasm, although the practical difficulties will be considerable. There has been subsequent discussion of discriminatory arrangements amongst the major economies of Northeast Asia.

Australia, for its part, has been enthusiastically seeking a free trade area with the United States, which would discriminate against its economically more important partners in East Asia. Here, too, the practical obstacles are large.

The worst result of all would be acceptance of incomplete free trade areas — which would be illegal under the WTO, but against which the rest of the world would not have effective remedies.

The end result of continuing naively down the paths upon which Australia and, with more reluctance, China, have carelessly trod, would be eventually membership of different trading blocs, within a greatly weakened multilateral trading system.

So there is no certainty that there will be a tidy end to the story of Australia and China restoring old and natural threads in the late twentieth and early twenty first century. The other possibilities would leave Australia a much less attractive home for the talented youths of future generations, for reasons extending well beyond economic matters.