

2018 Social and Economic Outlook Conference
Session 7B: China- Australia: Bumps in the Road
Professor Ross Garnaut's Introductory Remarks

2pm -3.15pm

Friday 12 October

Savoy 2, Grand Hyatt Melbourne

Ross Garnaut AC

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Session Participants:

Senator The Hon. Penny Wong, Leader of the Opposition in the Senate, Shadow Minister of Foreign Affairs, Australian Labour Party

Mr Andrew Michelmore, Former Chief Executive Officer, MMG Ltd

Mr Richard McGregor, Senior Fellow, Lowy Institute

In this session we are discussing an immensely complex and important subject. How we manage these matters in the years immediately ahead will have large consequences for our democracy, our security and our prosperity. Prime Minister Morrison told us yesterday that he is confident that we will be able successfully to sustain both our immense economic interests in the China relationship and our strategic alliance with the United States through the bilateral tensions between the two great powers. We will be discussing whether and how we will be able to do that.

I must begin by correcting an error in last Saturday's Weekend Australian. I do this because views wrongly attributed to me could be used to weaken the position of Australian leaders and diplomats seeking to secure the national interest in the China relationship. The paper ran a story by David Uren on page 2, carrying comments by me about the contents of this session. The article had a headline "Fix China Mess Warns Garnaut". I did not say that anything had to be fixed, and did not warn about anything. I accept David's assurance that he was not responsible for the error.

We have three excellent speakers to raise and discuss the issues, who come to the subject from three different perspectives. The discussion will be opened by Leader of the Opposition in the Senate and Shadow Minister for Foreign Affairs and Trade Senator Penny Wong. Senator Wong will be sharing her thoughts on the challenges that she will face should the fates take her into Ministerial responsibility for the China Australia relationship next year. She will be followed by Richard McGregor from the Lowy Institute: experienced observer of Chinese politics and international relations as a journalist with the Financial Times and Fairfax; and authoritative author of books on China, Japan, the US and their relationships with each other. Richard will focus on the US-China relationship, which sets the context for the challenging period in our own relationship with China that lies ahead. The third speaker will be Andrew Michelmore, who has recently stepped down as CEO of a large, successful, Melbourne-based, Chinese-owned mining company with assets in Australia, Southeast Asia and Latin America. Andrew will share some of the lessons from his experience with Chinese perspectives on international business.

Australians have become aware in recent times of the projection of foreign state influence in our political system. The Turnbull Government has taken firm measures to protect the autonomy of our democracy against specified kinds of foreign influence. The legislation was not specifically directed at China, although some participants in the discussion have unhelpfully sought to portray it as having that direction. In my view, the Government has taken legitimate action to cover a weakness in our political system, and there is no reason why it should be a continuing source of tension in relations with China.

Recent developments in the US-China economic relationship, with US restrictions on economic transactions, have the potential to disrupt our relationships with both countries. The developments contain complex interaction of economic and security concerns. It is not possible completely to separate security and economic interests.

Some elements of US policy are simply protectionist, mirroring but going beyond similar Trump Administration restrictions and threats of restrictions on trade with a number of other countries. Max Corden and I discussed these matters in a recent article in the Australian Economic Review, "The Economic Consequences of Mr Trump".

Other elements of US restrictions on China economic relations relate to US security. In some cases, such as the manipulation of critical computing hardware, as recently reported by Bloomberg, it will be difficult for outsiders to the US intelligence system to evaluate. As we are an ally of the US, our leaders and officials can seek information and explanation, but in the end may have to accept the judgement of the US on the intervention.

We will be under some pressure to join the US in restrictions on Chinese economic relations, both for protectionist and security reasons. There is good reason to decline to join protectionist interventions. The question to be asked about security interventions is whether they are effective and efficient means of meeting the security objectives.

Some of the recent news from the US suggests that our ally is contemplating major interventions to break down supply chains that involve Chinese value added. If the US sought to engage us in such intervention, we would need to question whether it was an effective and necessary means of securing our shared security objectives. I would not rule out in advance the possibility of an affirmative answer in some areas of high technology. We should be in no doubt that acting on such an answer would be costly to the Australian standard of living and to global development.

Some recent commentary from the US suggests that some senior figures in the Trump administration see advantages in truncating Chinese economic growth and blocking the emergence of the more populous China as a much larger economy than the US. I cannot see how a failure in Chinese development—even if it could actually be achieved by US intervention—could be helpful to US or Australian security. There is little doubt that a failure of Chinese development would be damaging to US prosperity, and hugely damaging for Australian prosperity and for global development.

In all cases—writ large across the relationship—the question is not whether to engage with China but how to do so while managing risk. This is the new era we find ourselves in.

These issues require knowledge, analysis, care, objectivity and a firm understanding of Australia's security and economic interests. As we will learn in this session, anyone who thinks that the reconciliation of our economic and security interests will be easy, does not understand the issues.