



Australia China Business Council
澳大利亚中国工商业委员会

Australia China Business Council

Submission to the 2017 Foreign
Policy White Paper

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The Australia China Business Council (ACBC) is a membership-based, non-profit, non-governmental organisation comprised of more than 1500 representatives from over 900 Australian companies who do business with China.

We welcome the chance to contribute to this Foreign Policy White Paper. Our focus will be on Australia's relationship with China, though it is important to note that opportunities exist throughout the Asian region. As IMF Managing Director Christine Lagarde said recently, two thirds of global economic growth over the next four years will occur in Asia. Australia is well placed to play an important role in this 'Asian Century'.

Examine the foreign, security, economic and international development issues and global trends shaping Australia's international environment.

Three related factors are shaping Australia's international environment: the rise of China, increasing globalisation, and growing populism and protectionism in certain parts of the world.

The rise of China is *the* defining geopolitical shift of the late 20th and early 21st centuries. It is the single most important global factor behind Australia's strong economic performance over the last 26 years—a period which looks likely to see us overtake The Netherlands as holders of the world record for the longest ever period of unbroken economic growth.

Since 1979, China has lifted 700 million of its own people out of poverty and grown by an average of almost 10 per cent each year. Today China is the

world's second largest economy (the largest in Purchasing Power terms) and Australia's largest two-way trading partner by far.

The central claim of our submission to the Foreign Policy White Paper is that the single most important factor in Australia's future prosperity will be our relationship with China:

- China has an ever-growing demand for Australia's natural resources and agricultural products;
- 15.6 per cent of our services exports go to China, and this is likely to rise considerably over the next ten years;
- 1.2 million Chinese tourists visit Australia every year, and our research estimates that this could result in \$140 billion worth of benefits to Australia by 2025;
- Education is Australia's fourth largest export, and China is Australia's largest source of international students;
- China spends unprecedented amounts on R&D, and their willingness to partner with Australian researchers is beginning to have an important impact on our own R&D capabilities. For example, Chinese funding is advancing Australian solar panel technology at the 'Torch Innovation Precinct' at the University of New South Wales.

Given the rising level of interdependence, challenge and opportunity in the relationship with China, government investment in the relationship via official representation in China and support for business and people to people ties should be lifted significantly to improve our capabilities, understanding and connections in and with China.

Globalisation has changed, and continues to change, every aspect of our lives. It is also changing the way business is done. For example:

- Supply chains now stretch across the region and around the world: a product might be designed in Australia, manufactured in China, and assembled in Malaysia.
- Global supply chains bring about greater interconnectivity across borders, including within ASEAN.
- It is easier, faster and cheaper to move goods and data around the world. For example, the Wuhan-Hamburg rail link has cut transport time for goods between China and Europe in half.
- The free flow of capital has allowed for massive global economic growth, but it also has the potential to do enormous damage if not managed well, as we saw during the Global Financial Crisis of 2008. With a relatively small population Australia has almost always been a net importer of capital, and it is therefore essential that we maintain an open and welcoming stance to Foreign Direct Investment (FDI). As the world's second-largest economy, and as a nation of savers, China will be an essential source of capital for Australia's future development.

The reality of globalisation, and the importance of our relationship with China, together mean that Australia should be wary of the rise of:

Populism and protectionism. Populist short term politics always occurs at the expense of sustainable long term policy. Worrying signs can be seen across the world, from Brexit to President Trump; from the threat of nationalist candidates in the upcoming French presidential elections to the return of One Nation in Australia.

The foreign policy choices made by the Australian Government today will shape the wellbeing of Australians for years and decades to come, and we believe it is important to keep Australia's values, principles, and *long term* interests at the heart of foreign policy. To succumb to populism now would severely compromise the wellbeing of future generations.

Define Australia's interests and policy priorities in response to that environment.

Australia must define its own national interests. How those interests are pursued will be shaped by current geopolitical realities, but should not be defined by them. Historically, international trade has been primarily responsible for our prosperity. If this is to continue, then our relationship with China will be of prime importance.

Australia does \$150 billion of two-way trade with China each year, and the signing of the China Australia Free Trade Agreement (ChAFTA) means there is potential for this to increase substantially. But more than 125 other countries in the world also name China as their number one trading partner. We cannot assume that we have a special right to the Chinese market by default; we must not take our relationship for granted. Like any bilateral relationship, it must be nurtured through diplomatic and cultural exchange, and by a welcoming stance in relation to trade, investment and people flows.

China and Australia have some different values, and probably always will. This need not, and should not, preclude the strengthening of our bilateral relationship. Where important differences between our two countries exist, closer engagement serves our purposes better than isolationism.

In light of those interests, outline how Australia should advance relations with major international partners.

We should advance our relations with China and other major international partners by, first and foremost, supporting the sentiment expressed by Chinese President Xi Jinping at the World Economic Forum in Davos this year: 'Pursuing protectionism is like locking oneself in a dark room. While wind and

rain may be kept outside, that dark room will also block light and air.’ Australia should join China and other countries of good will to keep ‘light and air’ in the global system—by resisting protectionism and encouraging all countries to take a seat at the table.

Historically, Australia has shaped foreign policy around our relationship with a ‘great and powerful friend’: first the UK and then the US. This has served Australia well up to a point, but we should not think that engaging more closely in our region needs to involve compromising our relationships in either the US or Europe. Australia will benefit from a more independent stance in relation to each of our major international partners.

Identify approaches to support and better utilise multilateral and regional structures to promote and protect Australia’s interests and values.

An independent stance and the maintenance of good and respectful relationships with all major players will serve us well across regional and international structures. Australia should pay particular attention to the regional institutions that include our closest neighbours such as ASEAN and APEC. Stronger relationships with ASEAN and its members, especially Indonesia, may also assist Australia to protect its core interests when tensions or pressures rise over issues in East Asia or more broadly. We cannot influence the outcomes of these institutions if we are not closely engaged and included.

This is particularly important given the sluggish nature of the US’s ‘pivot to Asia’, which looks to be set even further back following their abandonment of the Trans-Pacific Partnership (TPP). There is a looming leadership vacuum in the world, and China looks set to help fill it by continuing to build and promote the Regional Comprehensive Economic Partnership (RCEP), the

Asian Infrastructure Investment Bank (AIIB) and the One Belt One Road (OBOR) initiative. Australia was right to join AIIB. We should be as closely engaged as possible in the development of each of these initiatives.

One important way Australia can shape regional institutions is by promoting international best practice. Australia's institutions have high integrity, high standards, and best-practice corporate governance. We should view these as a competitive advantage and promote them throughout the region.

Establish a roadmap to pursue Australia's economic interests as an open, export-oriented market economy to ensure we continue to capitalise on our competitive advantages, guard against economic risks and maximise national prosperity.

A roadmap to a stronger relationship with China and the region will include a bi-partisan commitment to clear communication both to and about Asia; Asia capability-building in Australia's schools, universities and businesses; deeper engagement with Chinese people in Australia, whether they are citizens or permanent residents, visitors or students; and closer governmental partnership with specialist organisations such as the Australia China Business Council.

Bi-partisanship and consistency across the various levels of government is very important when it comes to Australia's relationships in our region. When aspects of these relationships become politicised, we end up sending mixed messages to our international partners and in this way undermine our credibility.

We need clear **communication** from governments: to Australians about the region, and to the region about Australia. Debate within Australia about our role and relationships with other nations is legitimate, but it must be

conducted in a respectful and fact-based way. Australians cannot properly determine the best stance for our nation to take in relation to Asia unless they are fully informed of both the challenges *and* the opportunities involved. As identified in previous White Papers, the media has an important role to play here.

The Australian Government must also be clear and transparent when communicating to other countries in the region (and the decisions and actions we take *do* send signals, whether we intend them to or not). For example, a number of recent, high profile decisions by the Foreign Investment Review Board (FIRB), including the rejection of various deals involving China (Ausgrid and S. Kidman), were not adequately explained. A lack of good information about cases like these results in speculation and the spread of misinformation.

Capability Building. It's not enough for Australians to understand the opportunities available in Asia; we must be capable of seizing them.

Capability building should begin in primary school and continue throughout the school years. This should include not only Asian languages (though an Asian language should be a compulsory requirement of a secondary school education) but also culture and history.

We acknowledge the value of the government's important 'New Colombo Plan' initiative, and suggest that in its next phase, it seek to foster deeper capabilities among students and perhaps be extended, to include secondary schools.

Australia's Chinese community is a huge asset, both in educating Australians about China, but also as an opportunity to create Australia-awareness and goodwill in China. Every one of the 1.2 million Chinese tourists who come to

Australia each year, and the 50,000 Chinese students who study here, becomes a potential ambassador for Australia on their return home. The Australian Government should find new ways of engaging these visitors, and ensure they have the best experience Australia has to offer.

The Australia China Business Council and other specialist organisations are uniquely positioned to practice Track 1.5 and Track II diplomacy. A good example is ACBC's bi-annual Australia China Economic and Trade Forum, which features attendees from the highest levels of business and government in both countries. The Australian Government should consider partnering more closely with organisations such as ours in order to forge deeper connections into China.

The Australia China Business Council has 43 years of experience in relationship building with China. Our capabilities include:

- Bi-partisanship—our board and membership spans both sides of the political spectrum;
- A demonstrated capability to deliver large scale business delegations in both China and Australia;
- A deep understanding of the trade and investment relationship between Australia and China;
- Experience as a bridge builder between business and government;
- And the ability to effectively communicate with governments in both Australia and China.

Examine how Australia should promote its regulations, institutions and standards in the region, and globally, to support our commercial interests.

Australia has stable government, a long-established rule of law, excellent corporate governance practices, and high professional standards. Our regulatory bodies and institutions were developed from the best traditions, and have adapted successfully to meet contemporary needs and realities. The Australian Stock Exchange (ASX), Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) are reputed for their integrity, transparency and legitimacy.

These are marketable assets. Governance can be taught, and by offering education in these areas Australia will also create a new generation of students in the region who will go on to work in, or do business with, our country. Australia should position itself as a leader in international best practice governance. CPA has expanded into Asia, and the Australian Institute of Company Directors (AICD) is embarking on a strategy to commercialise Australian professional standards. Bodies such as ACBC can play a role in promoting Australia's strengths in this area.

Examine how we should best use our assets to pursue our interests internationally.

Australia's greatest asset is our soft power. Australia Plus (formerly the Australia Network) is one important way of communicating this. We should not underestimate the appeal, especially in China, of Australia's social, cultural and environmental attributes:

- Australia was the first nation to provide bilateral aid to China. Our long history of assistance and capacity-building has created a legacy of goodwill which can be built upon;
- Australia's quality of life - and the factors underpinning it - are increasingly appreciated by Chinese policy makers and citizens;

- We are seen as a welcoming and multicultural society (another reason to resist the rise of a populism which would seek to compromise this);
- We offer high quality culinary, cultural and entertainment experiences;
- Our pristine environment is widely recognised and appreciated, from coastal wildernesses to the 'red centre';
- Our flora and fauna is unique—witness the many tourists from China and elsewhere who place seeing a koala or kangaroo high on their list of priorities;
- We have a passionate sporting culture. Sports diplomacy is an under-utilised way of creating and deepening relationships cross-culturally;
- Though it is under-recognised in Australia, we also have a history of considerable scientific achievement. Australians have won many Noble Prizes, and we are particularly strong in the life sciences. This is highly valued in China and across Asia. We are also well advanced when it comes to mining and agricultural technologies.

Conclusion

This year is the 45th anniversary of diplomatic relations between Australia and China. There is extraordinary goodwill between our two countries. The rise of China as an economic and geopolitical superpower has only just begun. ACBC's research has shown that China can continue to be the major source of Australia's future prosperity—but we must not take this for granted. Australia's future foreign policy must put the strengthening of the Australia-China relationship at its centre.