

## **THE EMERGENCE OF SUBSTANTIVE SINO-AUSTRALIAN RELATIONS, 1983-88**

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Sino-Australian relations in the nineteen eighties developed in the context of far-reaching policy reform and structural change in both countries. The internationalization of the Australian economy and its re-orientation towards the rapidly expanding opportunities in East Asia was of historic importance for our own country. The market reform and internationalization of China that emerged powerfully in the 1980s was of historic importance for the global economy. The coincidence of these Australian and Chinese policy developments in the 1980s helped to reinforce the new trends in both countries.

Earlier sustained rapid growth in Japan, Taiwan, Korea, Hong Kong and Singapore, and its extension in the 1970s to Malaysia and Thailand, was in itself of large importance to Australia, and notable (if not everywhere noted) on a world scale. But it was the extension of this powerful phenomenon into the mainland of China in the 1980s that promised a

long period of sustained growth for East Asia, extending well into the twenty first century, and transforming the architecture of global production and trade.

The story of Sino-Australian relations in the 1980s was therefore the story of a reforming Australia's relationship to a tectonic shift in its neighbourhood, involving not only mainland China but other parts of East Asia, and through them both, the global economy.

The changes in China and Australia, and their relations with each other had economic phenomena at their center, but extended into all aspects of national life in each country. Sustained rapid economic growth in China continuing into the twenty first century has increased China's strategic weight in the Asia Pacific and the world and is bound to force readjustments in foreign and defence policies in many countries including Australia. This is a reality to which Australians will adjust slowly.

The changes have been part of a cultural adjustment in which many members of a new generation of Australians are growing up with more respect for and familiarity with the cultural and social dimensions of the lives of people in their Western Pacific neighbourhood. They have been part of a transformation of Australian educational institutions which has increased their importance in Australian life and improved the prospects for the best of the Universities making world class contributions in advanced teaching and research.

The story of the emergence and subsequently the spectacular growth in substantive Sino-Australian relations in the 1980s is especially a Western Australian story. Several of the Australian export industries that have flourished through the expansion of the China trade are centered in Western Australia (iron ore, non-ferrous metals, and the natural gas which will be making perhaps the largest contribution to trade expansion over the decade ahead). The others are disproportionately important in Western Australia (wool, grain, university education for fee-paying students and increasingly tourism). This has helped to make Western Australian Governments and some

citizens at once more aware of the importance of the growing China relationship, and prepared to make larger efforts to get the most from the relationship in all its potential dimensions. Perhaps this has contributed to the unusual fact that six successive Australian Ambassadors to China, so far spanning two decades from 1985, were from Western Australia.

The intense Western Australian interest in China certainly made the position especially attractive for Ambassadors from this State. For example, on the eve of the first game of a new season, I recall with pleasure that traveling back with a senior Chinese official at an important stage of the negotiations to establish the Channar iron ore joint venture allowed me to see the first West Coast Eagles game in the Australian Football League, the historic victory over Richmond in the Autumn sunshine at Subiaco Oval in 1987!

My own appointment as Ambassador in the Chinese Autumn of 1985 followed two and a half years as the main economic adviser to Prime Minister Bob Hawke. In the Prime Minister's Office, my contributions had related first of all to the development of the programme of economic

reform that saw increased Australia's integration into the international economy. The economic reforms of the Hawke period were from the beginning seen as involving, as an inevitable consequence, much greater integration into the Asian and especially the East Asian economies.

In this context, I helped to shape the large effort that the Australian Government made to link this country to the reforms in China. While my personal involvement with the visit of Premier Zhao Ziyang to Australia in the first month of the Labor Government was somewhat diluted by the coincident demands of the National Economic Summit Conference, I worked closely with the economic Departments of the Commonwealth Government in giving substance to the aspirations that emerged from the Hawke-Zhao conversations. I accompanied the Prime Minister on his 1984 visit to China; and the General Secretary of the Chinese Communist Party, Hu Yaobang, throughout his 1985 Australian visit including to Perth, Mt Tom Price and Mt Channar.

During Hu's visit, I recall the arrival of the official party, including the General Secretary, the Australian Prime Minister and the Western

Australian Premier, to a temporarily empty community hall at Tom Price. The siren sounded to mark half time at the adjacent football ground, and the whole population of the town poured out of the gates to welcome the visitors enthusiastically. Leaving Tom Price for the East in an RAAF craft, Hu Yaobang for a considerable period looked into the awesome colour and scale of the Pilbara landscape, asking challenging questions about the relationship of aboriginal Australian civilization to the environment in which it had grown.

So my official work on the new China-Australian relationship began with my appointment to the Prime Minister's office in March 1983. My professional work mainly based at The Australian National University had focused on economic development and international economic relations in Asia and the Pacific and on the implications of changes in these areas for Australian economic policy and performance. China entered this universe of interests as a major player only after the reforms, which had their modest but historically decisive origins in December 1978. I hosted a conference in Canberra in 1979, at which the Deputy Director of the Institute of World Economy at the Chinese Academy of

Social Sciences, Luo Yuanzheng, was the first Chinese social scientist to participate in an international academic conference in the reform era. This was followed by a visit by Professor Sir John Crawford, then Chancellor of The Australian National University, Peter Drysdale and myself to sign the first exchange agreement between Peking University and a foreign University under the open policies. This provided an occasion for detailed briefings on the new approaches to agricultural and other policies. Subsequent scholarly exchanges included an extended visit by Luo Yuanzheng to The Australian National University in 1981, at which he made a series of presentations on the new Chinese reforms to a small group of interested scholars. My own conviction that the new reforms were of fundamental importance to both China and Australia dates from these reciprocal visits.

China's central importance to Australia's economic prospects and to the framework of Asia Pacific and global international economic relations ensured that China has given it a much larger place in all of our lives over the past quarter century. For myself, after my return from Beijing in the Chinese Spring of 1988, my Report to the Australian Prime Minister

and Minister for Foreign Affairs and Trade in October 1989, Australia and the Northeast Asian Ascendency, had as a theme the importance of Australia building the policies and professional capacities to make the most of the opportunities that were arising from reform and economic growth in China. During the visit of Chinese Premier Li Peng to Western Australia in late 1988, I was asked to chair the board of the China Western Australia Economic and Technical Research Fund, the other founding members of which were the Western Australian Minister for Resources Development and the Chinese Vice Minister for Metallurgical Industry. I continued in this role for the years in which I was visiting Perth regularly as Chairman of the Bank of Western Australia, up to 1995. It was my pleasure to participate in the final meeting of this small and productive institution in Perth last month.

As the Chinese and Australian reforms and the bilateral relationship, once dominated by official exchanges, matured into large and multi-faceted relations between private individuals and institutions in the two countries, the balance of my own work in China shifted. Over the past decade I have been involved continuously in research on major

developments in the Chinese economy, jointly with scholars based at Chinese Universities and research institutions. A number of my business commitments over these years have had a Chinese component, reflecting the Chinese opportunity more strongly than my personal background. For example, as Chairman of Lonely Planet Publications, I have seen the emergence of China as the most cost-effective location for a wide range of manufacturing activity cause the shift into Guangdong Province of most of the book production for a major global publishing company that has its headquarters in Australia. At Lonely Planet, I am now taking a close interest in the emergence of China as the main locus of global growth in tourism demand, leading to the search for the most effective ways of distributing travel guides and other travel literature to the increasingly important Chinese consumer. Not much of this detail entered anyone's contemplation in the 1980s, although the foundations of official relations laid at that time and maintained by successive Governments since then have underpinned the fluorescence of the private relationships.

## **Australian Objectives in China 1983-88**

The Australian Government in the early years of reform identified a powerful Australian interest in the success of China's movement towards a market economy, deeply integrated into the international economy. There would be large economic benefits in the entrenchment of internationally-oriented growth. The benefits would be larger if this could be established in an international institutional environment that secured non-discriminatory access to China's expanding markets, on the basis of agreed international rules rather than through the exercise of power.

Australian interests in regional peace and security were also seen as being well served by successful reform and internationally-oriented growth in China. Obviously China would become relatively more powerful through a long period of successful economic performance. It was therefore important to engage China in discussion of the advantages of exercising power through its participation in multilateral discussion of security interests of global and regional importance. The considerable Australian interest in Chinese human rights, increasing in importance

with more intimate contact between the Australian and Chinese communities, was also well served by successful internationally-oriented economic reform, augmented by constructive dialogue on matters of substantive importance for the strengthening of human rights of various kinds.

Australia's economic, security and wider interests also extended to Hong Kong and Taiwan, with each of which Australia conducted substantial bilateral relations as large as those with mainland China in the early 1980s. Thus Australia had interests in a constructive resolution to the profound issues raised by the impending expiry of the British lease on the Hong Kong New Territories in 1997, which were the subject of intense negotiation between the British and Chinese governments in 1983 and 1984. It had substantial interests in the establishment of arrangements that would allow residents of Taiwan to participate in the affairs of the international community pending the ultimate resolution of the issues surrounding the international acceptance that there was one sovereign China.

It was recognized in the mid-eighties that Australia had exceptionally good access to the Chinese top leadership, due to the efforts of earlier leaders Whitlam and Fraser, a sustained professional effort of high quality from the Australian bureaucracy led by the department of Foreign Affairs (later Foreign Affairs and Trade), a history of meticulous care in relation to the treaty of diplomatic recognition on the status of Taiwan, the absence of direct diplomatic relations between China and several of its East Asian neighbours including Indonesia, Singapore and the Republic of Korea, the relatively early establishment of diplomatic relations (seven years before the United States) and the fact that the Australian relationship did not carry the overlays of history and big power dynamics that were a feature of relations with Japan and the United States.

It was recognized that Australia would not enjoy forever the privileged access of the mid-eighties. As I said in a Convocation Lecture at The Australian National University in March 1987:

“At present we can engage China’s attention on issues of great concern to us. It will become more difficult to do so as China becomes a major

world economic power. We will therefore need to rely heavily on an even greater concentration of effort on the management of relations, backed by professionalism and real; depth in Australia in Chinese language and contemporary culture .We will be assisted by the continuation of an economic relationship built on natural complementarity and the success of our efforts to establish institutions that will stand the test of time”.

Neither Australian or Chinese interests at this time were seen as benefiting from any element of special or discriminatory treatment. No special privilege on trade was sought beyond an opportunity to compete, no security treaty, no formal rights beyond those available to other members of the Asia Pacific and world communities. Premier Zhao Ziyang did suggest and Bob Hawke accept in Beijing in February 1984 that China and Australia should strive to 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, that it would be sensible for anyone else to do the same.

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. Chinese leaders never dissembled their view that China's socialist system would continue to make it different from Australia—that Sino-Australian relations were and would continue to be between countries with different social systems.

### **Substantive Reciprocal Relations**

The intense official and then private activity in the Sino-Australian relationship from 1983 built on the friendly relations established from the time of diplomatic recognition and exchange of Ambassadors in 1983. Prime Ministers Whitlam and Fraser had both invested heavily in the relationship, before the reform eras in the two countries had vastly expanded the scope for substantive relations. Zhao's visit in April 1983 had been at the initial invitation of Fraser. As it turned out, this was a critical time, as the rural reforms were generating much higher incomes and production in the Chinese countryside, and one year before the Plenary meeting of the Central Committee of the Chinese Communist Party launched the urban, market and trade reforms from which vast new

opportunities would flow. Zhao described China's ambitions for reform to Hawke, and invited Australian participation. That was the first occasion in which a Chinese official had mentioned China's possible interest in investment in Australian iron ore mining. The Australian Government at that point resolved to make a large effort to build substantive advantage for Australia on the history of friendly relations.

At this distance in time it is necessary to restate a fact that was obvious at the time: the interest of General Secretary Hu Yaobang, Premier Zhao Ziyang and Prime Minister Bob Hawke in the period in which all three held high office (March 1983 to January 1987) gave large impetus to the development of substantive bilateral relations.

The Chinese who led Party and Government in the critical years in which the reform policies were given form and substance spent more time with Hawke than with any other foreign leader. For the first time in Sino-Australian relations, the Chinese top leadership reciprocated visits from the Australian Prime Minister. There were three visits to Australia

by the Chinese Premier or Communist Party General Secretary between 1983 and 1988, and two by the Australian Prime Minister to China.

British Ambassador Sir Richard Evans commented in 1986 that “the Chinese leadership spends more time thinking about the Australian relationship than about any other country other than the big three, the Soviet Union, the United States and Japan”. New Zealand Ambassador Lindsay Watt observed in 1992 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”.

The period in which Hu-Hawke-Zhao relations were of large direct importance gave way through 1987 to more routine but still productive official relations, after Premier Li Peng’s accession to the leadership in 1987. The lesser personal commitment of the new Premier was noted in Australian official reporting on the relationship at the time.

The personal exchanges between top leaders contributed directly to some important developments in bilateral trade and investment and in

the two countries' regional foreign policy. But there greater significance was to provide an umbrella under which special efforts could be made by officials, businesspeople, University-based scholars and entrepreneurs in the arts to break new ground in bilateral relations, to try new things, and in China to innovate with new approaches to implementing reform policies.

Certainly the exceptional quality of high-level political relations provided unparalleled access for an Australian Ambassador, along with opportunity to advance bilateral relations. During the Hu-Zhao period, I spent more time with the senior State and party leadership than any other Ambassador. I spent considerable time in close discussions of domestic and international economic reform with Ministers and senior Party and research personnel. I regularly hosted dinners explicitly for such discussion, which were reciprocated with dinners of comparable weight hosted by Chinese leaders of economic reform.

\*\*\*\*\***Aside on maintaining leadership links into the future: Hu Jintao and the Queen of England\*\*\*\*\***

Experimentation with new dimensions of economic relations was facilitated by the close relationship at the Embassy level. On several occasions in the course of the negotiations on the Channar iron ore joint venture, I had to raise issues that had become sticking points with the Premier and Vice Premier, and on several occasions discussed progress with the Communist Party's General Secretary. Invariably the sticking points in negotiation had arisen out of the novelty of what was being attempted, and was amenable to solution once officials at operating levels were in no doubt that their seniors were taking political responsibility for the required innovation.

Another example of the productive working relationship facilitating policy innovation emerged from the Australian educational reforms to allow fee-paying students at Australian Universities from 1986. The response in China to the opportunity to undertake study in Australia was overwhelming. "Australia is a paradise", young Chinese were telling each other. The switchboard of the Great Wall hotel was jammed by callers responding to the news that the representative of an Australian

education institution was in residence. China quickly became the largest source of fee-paying students, many targeting English language studies, some with immigrational motives more prominent than educational.

The Embassy was concerned that many students were poorly prepared educationally and inadequately supported financially, and that, for some, the experience of Australia would be unhappy for them and for Australia. The Embassy recommended and the Australian Government accepted a number of modifications to policy. These included more thorough educational tests and a requirement to deposit living expenses for a period in an Australian bank account before issue of a student visa. An extensive media campaign was developed to inform young Chinese of the risks of setting out to study in Australia with inadequate preparation and resources. Assistance was obtained from the Propaganda Department of the Communist Party in spreading the message. My press conference was covered prominently in the Chinese media, including in the Party newspaper, the People's Daily.

The close working relationships at this time provided means of reassurance for many private Australians seeking to break new ground in their relationships in and around China. In 1987, Rupert Murdoch, for these purposes an Australian, sought in advance an indication of Chinese attitudes to his purchase of Hong Kong's leading daily newspaper, the South China Morning Post. Within a day of the request, the embassy was able to send an authoritative response at State Council level. The Chinese Government did not care what capitalist owned the South China Morning Post, so long as he obeyed the law.

The closer official working relationships of the reform era opened the way to more intimate relations in many spheres. Human rights concerns had been largely beyond the horizons of Australian interests and policy in the early years of diplomatic relations, but came to be raised routinely from 1983. Recognition that greater personal freedoms would need to be built on a stronger legal system led to active Australian interest in legal process and support for legal education. Cultural exchanges, active from the late 1970s under the management of a series of Cultural Counsellors of exceptional quality, pushed at the boundaries of Chinese tolerance

and comprehension. The institutional framework for a “normal” immigration relationship was put in place for the first time in China. Foreign policy cooperation became closer and more productive, with regular high-level official meetings on nuclear proliferation, Chinese support for the nuclear-free zone in the South Pacific and cooperation despite sharply divergent perspectives on the political future of Cambodia.

A major effort was made to raise the quality and scale of the relationship in education and research. In late 1985, in a dispatch to the Foreign Minister, I identified education as the most important weakness in the Australian bilateral relationship with China. The next few years saw the establishment of Australia as a major destination for graduate students from China, including a modest proportion of the best students going abroad. By the end of the decade, Australians were disproportionately significant in high-level analysis of the Chinese economy and contemporary society, often jointly with Chinese in the Academies, Universities and Institutes. These efforts were strengthened subsequently through the continuing contributions of the first generation of Chinese

graduate students in Australia. This qualitative improvement in 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.

### **Building a Sustainable International Institutional Framework**

China's reforms and growth were at least as important to Australia for their regional and global impact as for the direct, bilateral opportunities. They opened new frontiers for growth in all of China's East Asian neighbours, (including eventually even Japan,) which together account for over 40% of Australia's exports. They eventually transformed global market prospects for the rural and mineral commodities in which Australian comparative advantage remains exceptionally strong.

Australia needs a framework of regional and multilateral institutions in which China's trade expansion can be accommodated with a minimum of friction, and in which Australia can build productive relations with other East Asian economies alongside its relationship with China.

No country can be influential in Asia Pacific or East Asian regional affairs without a productive relationship with China. A productive relationship with China has been one of the assets that Australia has brought to its Asia Pacific diplomacy over the past two decades. It was a significant element in United States Republican Administrations' acceptance of Australia's credentials in Asia Pacific diplomacy in the 1980s.

It was important to Australia that China become a member of the General Agreement on Tariffs and Trade (GATT), which would provide a rules-based framework for constraining new interventions in trade and securing non-discriminatory access to China's growing markets, and within which China would participate in efforts to liberalise global trade. The Embassy in Beijing engaged Chinese officials in discussion of the merits of the GATT from late 1985, and in 1986 and 1987 provided an adviser to the Ministry of Foreign Economic Relations and Trade to assist in preparation of China's application for resumption of GATT membership.

As it turned out, GATT (by the time of China's joining in 2001, WTO) membership was a long time coming. It was delayed by international reaction to the 1989 Beijing massacre and then by the shifting demands of parts of the international community as awareness grew of the implications of Chinese trade expansion. By the time of China's membership, the system of non-discriminatory trade within the WTO was being challenged by the increased legitimacy of preferential trading areas. China's WTO participation nevertheless provided the occasion for further Chinese commitments to trade liberalization, for China's trading partners' acceptance of rules on restrictions of access to their markets, and remains the best available guarantor of non-discrimination.

Australians' leading roles in the development of ideas for Asia Pacific economic cooperation was at first, in the late 1970s and early 1980s, focused on the non-Communist countries. But from the beginning the Australian discussion attached high importance on the eventual participation of China and also Taiwan and Hong Kong. The Chinese Embassy in Canberra was invited as an observer to the 1980 meeting that led to the formation of the Pacific Economic Cooperation Council

(PECC). Asia Pacific cooperation was a major focus of Chinese interest on the Crawford-Drysdale-Garnaut visit of 1981. Australian persistence and diplomacy in Beijing and other Asia Pacific capitals was important to membership of all three of the Chinese economies in PECC in 1987, laying a base for the participation of all three in APEC in 1991. Since 1991, APEC has facilitated discussion of practical questions of economic cooperation amongst ministerial level representatives of the three Chinese economies and their trading partners. Taiwan leaders have attributed this valuable innovation to Australian intellectual and official contributions to the APEC architecture.

The most complex issues in managing a large and growing relationship with the People's Republic of China were in the 1980s and are now related to the management of interaction with Taiwan, and in the earlier period to Hong Kong as well.

In Hong Kong in the 1980s, a central objective was to support movement towards a workable Sino-British agreement on Hong Kong that would preserve the special character of Hong Kong social and

economic organization and interaction with the international community, and after 1984 to entrench support for the Sino-British Agreement and to demonstrate that it could be the basis of continued expansion of Hong Kong's external relation. The first international recognition of Hong Kong as a separate customs entity after 1984 was Hong Kong's participation in the Australian-initiated Western Pacific Senior Trade Officials consultations from 1984 on a proposed new round of multilateral trade negotiations. Australia's bilateral relations expanded considerably over this period, supported by high levels of immigration to Australia and the residence in Hong Kong of large numbers of Australian professional and business personnel. Australia's share of Hong Kong imports reached a peak in the mid-eighties.

The Taiwan challenge was and is more complex. Australia's 1972 treaty of recognition was more restrictive on Taipei relations than the corresponding agreements of several other Western countries including the United States. Important business relations could be maintained after the transfer of recognition, but were held back by many practical consequences of the absence of official contact. The post-1972 approach

came under pressure from the mid-eighties, from the Government's ambitions for closer economic integration with East Asia, from Taiwan's economic success, and after 1987 from political liberalization in Taiwan. Close dialogue was established between the offices of the Prime Minister and Trade Minister and the senior Australians who were playing representational roles in the absence of diplomatic recognition. For example, I met with Sir Charles Court in his role as Chairman of the Australia China Business Cooperation committee, both as economic adviser to the Prime Minister and as Ambassador to China, variously in Canberra, Perth and Hong Kong. From 1985, there was gradual expansion of official contact where there was a practical need for it. Arrangements were made for the facilitation of visa issue through "private" Australian offices in Taipei, and for direct air links in a form that did not move outside the boundaries of mainland Chinese tolerance.

These innovations in the management of Taiwan relations were broadly in line with developments in approaches by other Western countries at the time, but more effective than most. Australia's share of Taiwan

imports reached a peak in the mid-eighties, and has remained at a high level.

## **A Closer Look at the Trade Relationship**

Australia's central trade policy objective in the 1980s was to encourage a high international orientation in economic reform , supporting expansion of China's trade in line with its comparative advantage. The idea that China through free trade could economise on its scarce resources, and pay for then through exports of products embodying its relatively abundant labour, and therefore greatly expand its opportunities for growth, was new and strange to Chinese officials brought up on Maoist conceptions of self reliance. It was also exciting and liberating: this was a path to breaching what had been seen as binding constraints on Chinese development. It was also a strange idea to most foreigners engaged in China relations, who hitherto had accepted that a country as large as China would never be successful in embracing internationally-oriented growth in the style of successful East Asian economies. The credibility of Australia and its Ambassador in these discussions was greatly enhanced by Australia's own liberalization of trade at this time:

Australians could demonstrate that their own country was acting consistently with its prescriptions for China.

Many of my conversations at all levels of Chinese Government were built around variations on this theme. The Embassy focused on encouraging outward-looking approaches to development in four sectors, each of which was judged to hold the potential eventually to generate more than one billion dollars per annum of Australian exports: iron and steel; non-ferrous minerals and metals; wool; and grain.

In the mid-nineties, these sectors were still managed within the old framework of central planning, with production based in huge state-owned enterprises. The Metallurgical and Textiles ministries still employed directly millions of workers, and allocated capital to them through the Five-year plans managed through the State Planning Commission. Part of the challenge of encouraging reform was to understand complex decision-making structures, so that conversations could be held with the large number of people with effective veto powers over innovation.

There was evidence outside the expansion of trade and investment links that the Australian conversations were taken seriously. General Secretary Zhao Ziyang, having been elevated to this position from the Premiership after the dismissal of Hu Yaobang after the student arrest in Shanghai in December 1986, articulated a “coastal development strategy” in early 1988, through which enterprises in East China would be free to import raw materials and other inputs for export-oriented industries. This was a case in point. In January 1988, in a speech to mark the award of an honorary professorship at the Wuhan Iron and Steel University, I noted that the huge expansion of demand for iron and steel in the process of successful Chinese development could only be met if China relied heavily on high quality imported steel-making raw materials, some in processed form, as well as imported technology, and specialized steel products. I opined that successful development would see imports of iron ore in excess of 40 million tones by the end of the century, of which half would probably need to come from Australia. The recently appointed Chinese Premier, Li Peng commented soon after that “some foreigners thought” that China would need to import 40 million

tones of iron ore by the end of the century, but that they exaggerated the requirement.

The flagship of Australian efforts on bilateral economic relations with China in the mid-eighties was the China Action Plan, developed within the department of Trade to implement perspectives that emerged from the Hu-Hawke discussions in Canberra in early 1983. The China Action Plan was presented elaborately by Hawke to Zhao Ziyang in Beijing in February 1984. The China Action Plan has been described in detail in an article in Australian Quarterly by the Deputy Secretary for Trade responsible for its development, Paul Barratt. The Plan took account of Chinese aspirations to expand exports to Australia, through assistance in introducing new products to Australian importers. In internal documents, the objective on the Australian export side was to double the value of Australian exports to China within 5 years (the definition of achievement of the objective), and if possible in 3 years (the highest level of ambition). In the event, export values more than doubled in 2 years, including a substantial proportion of manufactured goods that had hitherto been unimportant in the trade.

For iron and steel, non-ferrous metals and wool, Joint Working Groups or Study Groups were established, the first in iron and steel during Hawke's February 1984 visit to China. These groups were led and provided with Secretariats by senior officials in Australia and from the relevant Chinese ministries, with participation by representatives of leading enterprises in the sector from the two countries. The iron and steel Joint Study Group supported intensive technological exchanges on use of imported raw materials, and provided a focus for on-going discussion of possible joint ventures in the sector.

\*\*\*\*Aside on the iron and steel efforts, including ambitions for Channar and Kwinana\*\*\*\*\*

Grain was the most challenging. This was the centre of the strongest Chinese commitments to the ideal of self-sufficiency, which had been reinforced by the United States embargo on grain exports to China in the famine of the early 1960s. (Australia's preparedness to supply grain in this period, at the initiative of the Country Party, had laid the

foundations for continued productive relations between the Australian Wheat Board and Chinese authorities. This distant history was mentioned to me with thanks by President Li Xiannian when I presented my credentials to him in Beijing in 1985).

Progress was slow, but Embassy officials took every chance. When I was interviewed at length by the Shanghai World Economic Herald to mark the fifteenth anniversary of Australian diplomatic relations with China in December 1987, I was asked if I thought that China would be able to meet its objective of self sufficiency in grain. I responded that that was an easy objective to meet. All that was necessary was for the Chinese reforms to fail, and for China to remain a poor, backward country. But if Chinese on the mainland were to enjoy the high living standards of their compatriots in Hong Kong and Taiwan, China would be a large importer of land-intensive products such as grain. It would not be possible to feed 22% of the world's population at the high standards of developed countries from 7% of the world's agricultural resources.

The Herald faithfully carried my comments. A few days later, I was invited to the great Hall of the people to discuss the interview with Du Rensheng, originally the leader of agricultural policy in the liberated areas before the final success of the Revolution, close adviser to Deng Xiaoping and Zhao Ziyang, and at the time Director of the State Council's influential Research Centre for Rural Development. With a recently returned PhD graduate from Chicago University as interpreter, Du advised me that the article had generated a lot of discussion within the Chinese leadership. He thought that there was much in the idea that I had put forward. A more detailed analysis would reveal that a Chinese agricultural sector open to foreign trade would emerge as a major exporter of labour-intensive farm products alongside large imports of land-intensive products. It was the first of a series of conversations on this topic.

\*\*\*\*\*Aside on Justin Lin, including the Australia-China funded Adjunct Professorship at ANU and the listing as a Nobel Prize candidate recently in the Economist).\*\*\*\*\*

It was a particular objective in bilateral relations to persuade China that its billion dollar annual bilateral trade deficit of the mid-eighties was a natural consequence of the structure of the two economies, and that China would damage its own as well as Australian interests if it sought artificially to reduce the bilateral deficit. The appropriate response to the deficit was for both countries to contribute to expansion of two-way trade by reducing protection and other barriers. General Secretary Hu Yaobang accepted and elaborated upon this approach in discussions with South Australian Premier John Bannon in Beijing in April 1986, clearing away the issue for the following month's visit by the Australian Prime Minister.

A great deal of effort was put into the encouragement of the building in Australia of a professional capacity in business and the public sector for analysis of developments in China, identification of opportunities for Australian trade and investment and trade, and effective utilization of those opportunities. China's trade and investment reforms of 1984 opened the possibility for the first time of major investments abroad. The first major investments outside China were both in Australia, in the

Portland aluminium smelter in Victoria, and more ambitiously because it involved a greenfields project, the Mt Channar iron ore mine in Western Australia. Australians were among the first investors in joint ventures in China.

After 1987, there was a period of greater difficulty for Australian business in China, extending into the early 1990s. China entered a period of inflationary boom, and the policy response tightened access to domestic finance and foreign exchange. Competition increased as others focused on the China opportunity. A proportion of Australian businesspeople tired of dealing with a partially reformed economic system. Reform had gone too far for the Chinese government to be able to deliver on commitments made on behalf of many Chinese enterprises. But pure market exchange was weighed down by the uncertainty of poorly developed foreign exchange and financial markets and opaque commercial law.

Australia had its own problems of instability at this time. Inflationary boom conditions in the late 1980s reduced Australia's competitiveness

and temporarily diverted efforts from international to domestic markets. The stock market crash of 1987 heralded a period of weakness in Australian enterprises that had announced large plans and hopes to their Chinese interlocuteurs. Just as Western Australians were prominent amongst the success stories, Bond Corporation and Parry Corporation were amongst the over-extended Australians to disappoint their Chinese partners.

## **Retrospect and Assessment**

The doyen of American scholarship on Japan, Harvard Professor and Kennedy-era Ambassador to Japan Edwin Reischauer, commented in his autobiography on the divergence between expectations and realities in postwar Japanese political and economic development. He recounted that successive editions of his book “Japan and the United States Today” in the early postwar period were criticized strongly by academic colleagues and in the public media for their excessive optimism. And yet each year he was led by the evidence to be more optimistic than in the previous edition. Looking back, he was struck by how cautious the judgements that had been seen as over-optimistic had been. After several

new editions and negative reactions to them, the penny dropped: it was more scholarly to be pessimistic and wrong, than optimistic and right.

Looking back on my own extensive writings on Chinese development and China-Australia relations in the 1980s, I, too, am struck by how much the reality that has revealed itself as history has exceeded my stated expectation for it. I say “stated”, because I may sometimes have been guilty of understatement in public: to speak straightforwardly about the upper limits of the possibilities—the limits that in many areas have come to be exceeded by the realities—was to invite disbelief.

On Sino-Australian relations, Australia has continued to be able to attract the attention of the Chinese leadership on matters of great importance to it, despite the normalization of relations with East Asian neighbours and the increased efforts of others as China’s economic and political weight in regional and world affairs has steadily increased. We have continued to allocate the high quality professional resources that are necessary to relate productively to one of the emerging great power of our region. We have so far avoided the shoals of counter-productive

assertion of the priority of narrow perceptions of human rights over broader human rights concerns and competing Australian interests. Despite a few wobbles along the way, we have so far managed to maintain an Australian rather than a derivatively American perspective on the large political issues, first of all the status of Taiwan. When large and divisive questions have threatened the smooth functioning of the economic relationship, as on the anti-dumping question in 2003, we have been able to work through them to a mutually acceptable conclusion.

One consequence has been an economic relationship that has expanded beyond the upper end of what in the 1980s was considered to be the range of possibilities. China has been the most rapidly growing market for Australian goods and services over the period from 1983, and in the past three years the only strongly growing export market. It overtook the United States as Australia's largest market for merchandise trade in late 2003. The rapid expansion of tourism and education exports will ensure that before long China will occupy a similar position in services trade.

There has been export growth well beyond the expectations of the mid-1980s in three of the four commodities targeted for special effort in the 1980s. The Chinese market is the entire reason for the huge prosperity and expansion of the Pilbara iron ore region, with exports this year expected to be several times higher than the number for 2000 that provoked comment from the Chinese Premier in 1988. The Channar joint venture is being followed in the twenty first century by several others. Expansion of the Chinese market is the main reason for the current expansion of the non-ferrous metals industries, especially in Western Australia, but also elsewhere in Australia. China has emerged as overwhelmingly the largest market for Australian wool, taking about half of the total in recent years. China is now the largest market for final domestic consumption. It also helps to keep wool competitive as a fibre in the markets of the developed countries, through the low-cost processing of a troublesome natural fibre the preparation of which involves exceptionally large amounts of labour. These three industries have already reached the “billion dollars per annum” of which each was judged ultimately to be able to generate.

The fourth “billion dollar potential trade”, the grain trade, has not yet fared so well. This is partly due to subsidized competition from United States wheat, the removal of which awaits the successful completion of a new round of multilateral trade negotiations within the WTO. It is also partly because China in the mid-nineteen for a while retreated from market-based approaches to grain policy. But the terms that China agreed on entry to the WTO make it unlikely that China will follow Europe, Japan, Korea and the United States into egregious agricultural protection. This and the slight Chinese per capita endowment of agricultural land together will make China the main centre of world import growth for grains and oil seeds in the years ahead. And while the billion dollar mark has not yet been reached, success with barley, several feed grains and canola have been taking it close. The condition is the continued progress of the multilateral trading system and the restraints it imposes on preferential treatment of Australia’s competitors.

One disappointment has been manufactured exports to China, including steel and non-ferrous metals. Chinese import demand has created opportunity, but problems in Australian competitiveness have held back

success. While the Kwinana blast furnace was not restarted in the 1980s, the facilities are now the locus of a major plant using new technology for reducing iron ore to metal. Rio Tinto, the joint venture partner at Channar, leads the effort, with Chinese alongside Japanese capital contributions, and with strong focus on the Chinese market. The BHPBilliton facility to produce directly reduced iron at Port Hedland is enjoying better days last year and this, after several years of difficulties, largely because of the strength of Chinese demand. Chinese demand is also central to the performance and prospects for expansion of the steel producers based in eastern Australia. More generally in manufactures, Australia's exports rose strongly for a few years, but made little headway after 1987 despite the prodigious expansion of Chinese imports in the years since then.

This one area in which the early promise has been mostly unrealized is balanced by others in which economic benefits to Australia were barely recognized in the mid-eighties. The Chinese demand for Australian tourism and education services was larger and came earlier than had been contemplated. More recently, natural gas has been added to the list

of potential billion dollar export commodities. The linkage of commercial to good official relations, the personal involvement of heads of government, the equity participation by Chinese state-owned corporations in Australian commercial entities, even the establishment of an Economic and Technological Research Fund; all follow in fine detail the successful model of the Channar joint venture of the eighties. This new success story of Sino-Australian relations in the twenty first century will contribute as much to trade expansion in the next decade as iron ore has to the last.

Australia's early efforts to secure Chinese participation in global and regional institutions, in ways that expanded opportunity for residents of Hong Kong and Taiwan, were realized thoroughly. The most important of many steps was the securing of Chinese participation alongside Hong Kong and Taiwan in Asia Pacific Economic Cooperation and the World Trade Organisation. That these organizations themselves have achieved less than their promise in no way obliterates the importance of Chinese participation.

On the more general progress of Chinese development, reading over old material, I am struck by how often I used the word's "pain" and "agony" and "trauma" to describe the process of economic reform and growth in China.

In my Convocation Lecture at The Australian National University in March 1997:

"The industrialization of a poor country is always painful. The modernization of China cannot in the nature of things be a smooth and steady process. But the experience of these last eight years make it very likely that the Chinese polity at each turn, will choose the pain of growth ahead of the pain of poverty..."

In the notes from which I prepared the Convocation Lecture:

"As our relationship becomes larger and closer, we will feel more of the pain of China's development. Development is always an agony. Economic development is constantly developing new elites, and discarding the old to whom we will sometimes have become attached."

Or in the Foundation Lecture at the University of Adelaide in July 1988:

“Rapid economic growth is destructive and disruptive...

...on balance, it seems more likely that China will become the first country to break completely with the Stalinist planning legacy. Not without trauma and disorder. Probably not without periods of stagnation associated with macro-economic instability”.

Bill Hayden, then Governor General, rang me from Yarralumla in the days after the Beijing Massacre in June 1989.

“I’ve been reading your Adelaide Lecture in Economic Papers. You predicted Tiananmen a year ago”

“Not really”, I responded. “Or not precisely. I was just saying that with change on this scale there will always be bumps in the road.”

The long-term perspectives were usually more confident. I usually said then as I say now that there were risks that Chinese reform and growth would receive some terminal blow before China was a developed country. The most likely blow was and is a failure of reform in the political superstructure in line with changes in the economic and social

conditions that are generating demands for citizens to participate more fully in policy decisions of importance to the quality of their lives. Nevertheless, it was more likely than not that sustained rapid economic growth and structural change would continue, until average Chinese living standards were not dissimilar to those in the world's advanced economies at that time. China was likely to reach the ambitious target set down by Deng Xiaoping in 1980, to double output by the end of the century. It is likely to continue to grow on average at rates that double output each decade—albeit with bumps in the road that, each time, raise doubts about the sustainability of the whole growth process. The arithmetic of national accounts methods meant that if rapid economic growth were to continue in China, catching up with living standards in the world's rich countries would occur more rapidly than would be expected from simple extrapolation from current GDP data. China would be the world's largest economy by the middle of the twenty first century.

Deng Xiaoping's target for the end of the century was comfortably met before he died in early 1997. Average growth rates since then have

exceeded those required to double output each decade. The hurdles policy, political and economic hurdles that remain in the path of sustained economic growth don't look as high now as many that have been crossed in the past quarter century.

It would not be a strange development in the light of past experience if China became the world's largest economy in a few decades, and if most of its (by then) 1.6 billion people enjoyed living standards comparable to those in North America, Europe and Australasia in the middle years of the twenty first century. It would be a natural development, but one that would require fundamental reappraisal of some contemporary verities of Australian foreign and economic policy.

But it is not inevitable. Australians, and above all the blessed residents of Western Australia, share with Chinese an interest in China's success in managing the awesome challenges that still lie ahead.