



**THE HON RICHARD MARLES MP
MINISTER FOR TRADE**

Speech

**ANU China Update, Canberra
11 July 2013**

It is great for me to be here and it is a pleasure to open the 2013 China Update. And the ANU has a rich history of scholarship on China and on our region, a history that has been a huge asset for Australia as we've grappled with the unprecedented changes that have taken place to our north in the last few decades.

And I'm conscious – very conscious - of the depth of scholarship which is represented here today.

Extraordinary, committed minds who have worked on China for many years. People like Ross Garnaut and people like Peter Drysdale. And the book launched last night, China: A New Model for Growth and Development, by Professor Garnaut, Cai Fang and Ligang Song, is the latest contribution to that scholarship. In my remarks

today I'd like to make some comments about the China reform challenge that this book studies.

The task of international engagement

But for me, it's only been a week or two since I became Minister for Trade. I'm excited and honoured to take on this role – conscious of how important economic reform – both domestic and international – is for everyday Australians. When I look at the great economic reforms of our past, I'm struck by the degree to which those economic reforms 20 and 30 years ago set us up for the prosperity we enjoy today.

We really are the legacy of the vision of our mothers and our fathers and that has helped us survive the global financial crisis. But that in turn makes it clear how important our work is today in terms of understanding the work correctly for the future, because our work will help establish the prosperity of people in another 20 or 30 years' time from now.

For me, ahead lies a massive task of engaging, with all countries, with business, with all industries, on Australia's behalf, on helping to build international engagement, for

our national benefit. Not least with China, our biggest trading partner, the country with which the future of our region is particularly closely tied, but with all the major economies in Asia as well as increasingly with other regions, including Africa and Latin America.

In 2011, I was honoured to be Kevin Rudd for 11 days when I joined with Craig Emerson on the Australia-China 2.0 business delegation. The trip gave me an invaluable perspective on the unprecedented transformation taking place in our world. I think it's often hard for people in Australia to grasp the immensity of the Chinese economic machine. What struck me most was its scale and its energy. We went to Guangzhou, but we also went to some of the tier two cities, Changsha, Chongqing and Wuhan – as well as - Craig went to Shanghai and I went to Weifang.

Four of these provincial cities, as well as more than a dozen others in regional China, are bigger than London. In 2011, for the first time in China's history, its urban population was larger than its rural population. Calling that a dramatic change in life in China is really understating it, because in 1950, nearly 90 per cent of the

Chinese population lived in the country. Even in 1980, 81 per cent of mainland Chinese still lived in rural areas.

Of course this change is intimately known to everyone here, but I also think it's now fair to say that Australians at large are becoming increasingly aware of China's urbanisation and developing a keener sense of how much our economic success has been tied to Chinese growth. Australians are aware, of course, of the mining boom. As the Prime Minister has made clear, though, 2013 marks a turning point in our economic relationship with China.

We are no longer enjoying the unprecedented boost to minerals prices with those flow-on benefits of revenue of recent years. But at the same time, we should also be conscious that all the benefits of China's transformation for Australia have not disappeared. Much of the intense investment phase of the resources boom is behind us, but as we outlined in the Australia Asian Century White Paper, many opportunities remain there to be grasped.

I think it's fair to say that compared with the mining boom, Australians are less aware of the potential lying in the continued economic growth of China's inland cities. Of the rising Chinese middle class, and the opportunities it offers

for countries all around the region. Opportunities that we, in Australia, can take up. Growth is only just taking off in China's second and third tier cities.

In economic terms, the 50 secondary and tertiary Chinese cities are roughly equivalent to Germany according to Jones Lang LaSalle. A decade ago, there were virtually no Chinese billionaires, now there are 212 of them. Middle class spending power is growing rapidly. China is now Australia's number one tourism market, worth around \$4 billion dollars a year. And agriculture exports are higher to China, \$7.2 billion, than Japan \$5.1 billion in 2011-12. Australian bottled wine exports to China are growing strongly as middle class Chinese develop international tastes.

In this respect, I'd also like to point out golf and the power of golf. On that trip that Craig Emerson and I embarked on was a representative from the Australian PGA, which works hand in hand now with the Chinese PGA in developing trainee pros who help build the elite Chinese golfers today. And this again is a sport which is the single biggest growing sport in China today, and its Australians who are at the heart of it. And I am a real believer in the power of sport and the power of its ability to allow our

connection, and golf is a great sport in that context. It is a fantastic tool for diplomacy, it is obviously a fantastic tool for business and for doing trade, and I'm quite positive that there were literally millions of people in China who felt exactly the way that I did when 14 year old Guan Tianlang, the youngest person ever to play the US Masters, was penalised a stroke for slow play.

I can tell you I was gutted, but there was something else that struck me deeply about Guan Tianlang that day. He was interviewed after the event. He was poised, he was relaxed, he spoke flawless English. The youngest person ever to play the US masters, an eighth grader from Guangdong. In the age we live in, our success is inextricably tied to our ability to communicate, to interact with people from all around the world, to forge points of cultural commonality. Sport can be that. Golf is that for us in Asia.

Today, over 80 per cent of our exports to China are resources. Looking forward, however, China offers markets of enormous proportions for all the modern goods and services that a developed economy like Australia has to offer including wine, including golf teaching.

China risks

But there is a catch. China's own success in continuing to reform its economy is the topic of so much expertise at this conference. China's Government has demonstrated a remarkable capacity and a willingness to adapt. We've seen positive signs, like China's decision to work to stabilise the global economy in the wake of the Global Financial Crisis in 2008. Without the Chinese government's internal stimulus in 2008, the global economic outlook in 2013 could have been much worse. That comment holds particular resonance for the Australian economy, because it was a major factor, alongside the Government's own stimulus package, in keeping the Australian economy on track through the GFC.

The Chinese Government has moved to loosen financial restrictions. You only need to look at the move to allow direct currency trading between the Australian dollar and the RMB in April, and the Australian dollar continues to be among the top five most traded foreign currencies in the Chinese spot foreign exchange market, and last week's announcement that Shanghai will host a fully liberalised pilot free trade zone with virtually no capital controls, and

incorporating interest rate liberalisation. That is an important development. But major challenges remain.

The economy is still too reliant on investment. Too focussed on manufacturing, in a time when China's wage advantages are being eroded. By some measures, private consumption as a proportion of GDP has declined, rather than increased. The Chinese financial sector needs further reform. It needs to be more open, particularly to give Chinese citizens more confidence that they can earn market determined returns on their savings. Income disparity has grown dramatically. And China's social safety nets are still undeveloped. China has managed exceptional growth in recent years.

But if it is to maintain strong growth, it needs to undergo that critical domestic transformation – reshaping its economy to empower the growing middle class.

And critically – China faces huge environmental challenges. Its development has come at an extraordinary cost to its environment. And like all countries, it is gripped by the question of how to continue to support economic growth without further damaging local and global environments. These are the sort of topics that you will

explore in the conference. But one thing is clear. In our highly interconnected, globalised world, China's success in its economic reform program matters to everyone, not just China. We all have a stake in China's reform.

Today's web of trade and investment flows is more complex than it has ever been. We're long past the days of traditional north-south investment. Trade flows these days are north-south, developed world to developing world, and emerging market to emerging market. The extent of Chinese investment in Africa is something that would have been hard to imagine, three decades ago. Direct investment today is worth \$16 billion. The phenomenon of trade webs today isn't just focussed on China, although China is a central spoke of a huge amount of activity.

Lines criss-cross our region. As another example, Indian investment in Australia has jumped from \$105 million in 2002 to \$10 billion in 2012. But arguably, more countries have more at stake in China's economic reforms and growth model than they have ever had in the industrialisation of any other major country.

Australia, too, has a direct stake in China's future. With that in mind, I would like to announce a new collaboration between Australian and Chinese universities. New climate change research, led by the ANU. This joint research will tackle challenges like: pricing carbon in China's power sector; the impacts of a carbon price on electricity sector investments; factors determining energy demand and energy mix at the provincial level. And it will test the policy design options for China's pilot emissions trading schemes.

The findings of this research will be presented at an Australia-China Climate Change Research Forum, to be co-hosted by the ANU and China's National Climate Strategy Centre in Beijing early next year. This cooperation will foster the important long-term linkages between our academic communities in new areas of research. Just one example of Australia and China working together on our common challenges.

International integration

Which brings me to the final point I'd like to make today. Saying that we all have a stake in China's economic

reform is not an argument against globalisation. Being exposed to other regional and global economies is not a weakness. On the contrary, the last few decades have – in the main – been ones in which our region and our globe has learned to work together. Ours is a time when goods and services are rarely manufactured in any single country or market. Instead, we live in a world where ideas, goods and services are produced across national borders. Investment, trade, people and innovation are now all global.

That is an immense strength for the global economy. It has underpinned the almost unprecedented rise in prosperity over the past forty years. And remains a vital ingredient for international stability.

As Trade Minister, it is a central part of my role to help encourage the continued growth of that international integration and to represent Australian trade interests.

I'm excited by the opportunities we have in front us of to deepen our international integration, and drive economic reform.

The FTA and economic partnership negotiations we have with so many of our key bilateral partners – with China, Japan, India, Indonesia and Korea – all stand to deliver more prosperity and freedom to our region.

The major regional negotiations, too, like the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership – also offer huge potential for continued growth and prosperity.

Both the TPP and RCEP represent potential pathways towards APEC's vision of a free trade area of the Asia-Pacific.

Even further afield, there are big opportunities. Today's event is about China. But as I said at Asialink earlier this week - we also know that India is also really important. India is going to be central to our economic future and as central in a decade's time as what China is now. And when we talk about that growing Asian middle-class, we think about it in China, but it's very true in terms of India as well.

And if I can just step a little beyond Asia for a moment, I think in that regard looking even further into the future,

Africa is really important. The economic emergence of Africa is one of the contemporary stories of our age. We have thought of Africa almost exclusively in terms of it being a humanitarian story which of course it remains in many ways. But four of the ten fastest growing economies in the world today are in Africa.

So Australia's interests don't only lie in China, or even in Asia, but in developing ties all around the world. More broadly, representing Australian national interests isn't just about the specific partnerships we build, or the negotiations we have through regional institutions. It is also acting in a way that underpins the international order itself. At its heart, our most fundamental interest is in an open, transparent, rules-based international system.

Without an open, transparent international order – without the freedom of navigation and movement that it engenders – a maritime nation like Australia would find it very hard to advance its economic, social and political interests.

That has been the case throughout the four decades of Australia's formal engagement with China. It remains the case today, and in the Asian Century ahead.

I'd like to thank you for your efforts to help build understanding of the challenges facing China's economy, and our interest in the success of China's reforms.