



MINISTER FOR FOREIGN AFFAIRS

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SPEECH AT CAIXIN SUMMIT

CHINA AND THE WORLD – THE THIRD WAY

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CHECK AGAINST DELIVERY

I have just come from the closing ceremony of the Shanghai World Expo. As I watched I thought back to the first time I visited Shanghai back in 1984.

At that time I remember meeting Mayor Wang Daohan, who complained that Shanghai was lagging behind the rest of the country.

Five years later I recall meeting then Mayor Zhu Rongji - we stood on the Bund overlooking Pudong, which then was simply farmland, as Mayor Zhu told our delegation of the ambitious plans for development.

Last Saturday night, touring the exciting Expo site and talking to local people, I can safely report as an interested 'laowai' that neither Shanghai nor China are lagging any more.

It is now 35 years since I began to study China at university: its language, literature, philosophy, history and culture.

In fact I first began studying in 1976 – as you know, a very significant year of change in China.

At the beginning of that year, China was still in the Cultural Revolution (and by the way all of our language textbooks at university were Cultural Revolution texts).

By the end of the year, political changes in China began to make possible a new period of major reform.

During China's long and rich history, one thing that is striking is the number of important periods of reform.

This year marks the 150th anniversary of the Tongzhi Restoration of 1860 -- the Self-Strengthening Movement that began in the 1860s leading up to the 100 Days Reform program in the 1890s.

Next year marks the 100th anniversary of the Xinhai Revolution of 1911.

Last year marked the 60th anniversary of founding of the PRC.

And most importantly for this generation, more than half of this 60 year history of the PRC has now been dedicated to the policy of 'gaige kaifang' launched in 1978.

The reform process has of course continued since then.

For example when I first came here to work in 1984, the Party was then convening the 3rd Plenum of the 12th Central Committee which took the principles of rural reform and began to implement them in urban areas – what was then described as 'reform of the economic system'.

The common characteristic of these major periods of reform was that they sought to retain China's essence (jingshen), while adding economic and political reform to China's national agenda in order to build national wealth and power and to build the livelihood of the people.

And the truth is, each period of profound reform, whether in this country or abroad, is inevitably restless and disruptive.

The alternative, as happened in the late Qing, is to stand still and be overtaken and overwhelmed by history.

Modern China has not chosen that course.

China now finds itself at another turning point, reflected in the Communiqué of last month's Fifth Plenum of the 17th Central Committee.

This sees a conscious move from the growth model that had served China well for the previous thirty years to a new growth model for the future.

The old growth model lifted hundreds of millions of people out of poverty, but was strongly reliant on external demand. It was characterised by the rapid expansion of exports of relatively labour-intensive goods and large scale surpluses in both the trade and current accounts.

The Communiqué from this year's Plenum points to China's leadership embracing a new growth model – one that increasingly shifts reliance for growth to domestic consumption, to

less energy-intensive growth, and one that values the quality of growth over the absolute level of growth.

To quote the plenum Communique: “the acceleration of the transformation of the economic development pattern marks a profound reform in both economic and social sectors and must proceed throughout every realm and all the course of economic and social development.”

And to reinforce this message, on the same day as the Plenum concluded, the State Council issued a new industrial policy outlining new focal points for growth - information technology; environmental and energy efficient technology; and renewable energy.

The new growth model’s focus on boosting domestic consumption will also inevitably drive wide scale reforms, including health; education; wage levels; the pension system; and public housing.

As renowned Australian economist (and former Ambassador to China) Professor Ross Garnaut has pointed out recently, China is at a turning point in its economic development as it transitions from a labour-surplus economy.

As Garnaut notes, “the period of labour surplus and reasonably steady wages for unskilled workers - supported by the continuing large-scale movement of people from agriculture to industry and from the countryside to the cities – has come to an end.”

The impact on real wages will be rapid and represent the fruits of 30 hard years of reform.

It will also have a real impact on income inequality – hence China’s new emphasis on welfare reform.

How China implements this transformation from the old to the new economic growth model will also profoundly impact China’s contribution to global growth.

As a great power and a great economy, China will therefore increasingly play a larger role in driving global economic growth.

As the Plenum acknowledges itself – over the last five years China has achieved a “marked rise in international status and influence.”

And of course, with this self-acknowledged increase in global influence, comes a parallel increase in global responsibility.

Of course the Communique does not just talk of transforming the economic growth model.

It also talks of political restructuring;

“Reform in every realm must be pushed forward in an all round way with greater resolve and courage. Greater impetus should be given to economic system reform, while vigorous yet steady efforts should be made to promote political restructuring.”

This statement finds echoes too in recent comments by Premier Wen Jiabao and others in the Chinese leadership.

Since 1978, the CCP has recognised the link between rising living standards and the personal choices available to the Chinese people.

Before the 1980s, in the China I remember, job allocations, housing and even marriage had to be approved by the work unit, or danwei.

The streets were a sea of blue and green jackets.

There was one voice in the media.

And people were still nervous about being seen talking to foreigners.

What a contrast today - the whole country is full of colour, and there exists more diversity in the media including the publications of the Caixin Group and an ever wider range of opinions in the blogosphere (Sina, Tianyi and Caixin's own blog).

Today, further economic reform will necessitate a continued expansion in openness and choice. This will have implications for the whole of society, including government administration.

The world is watching with deep interest how China, given its particular national conditions, will respond to this challenge.

I believe that China recognizes that its own fundamental economic interest lies in working with the international system that has served it so well in recent decades.

The GFC has hastened reform of the global economic system – no more so than the emergence of the G20 as the premier forum for international economic cooperation.

The G20 now has a wide agenda, including the new global development agenda; IMF reform (to strengthen the legitimacy, credibility and effectiveness of the IFIs to make them even stronger partners in the future), and global financial and economic regulation, including global macroeconomic stability.

Like China, Australia is also an active participant in the G20.

Australia and China have worked closely in the G20 to promote important initiatives.

We worked side by side at the G20 summits in Washington, London, Pittsburgh and Toronto to keep global markets open and trade flowing.

Our timely actions together at the London summit last year broke the fall of the world economy, as the IMF has acknowledged.

And the G20 Finance Ministers' agreement on the fundamental reform of the IMF – was the culmination of a consistent argument Australia advanced over the last 18 months, including through co-chairing the IMF working group with South Africa, to tackle IMF quota and governance reform – which accords China greater weight in the IMF commensurate with its economic size.

Indeed, cooperation between Australia and China (and other G20 members) was never stronger than in drafting the Framework for Strong, Sustainable and Balanced Growth, which was virtually unprecedented in promoting global macroeconomic coordination.

The Framework notes “Our countries have a shared responsibility to adopt policies to achieve strong, sustainable and balanced growth, to promote a resilient international financial system, and to reap the benefits of an open global economy.”

The Framework also proposed specific cooperation measures to give it effect.

Next week’s G20 Leaders’ Meeting in Seoul comes at a critical stage for the global economy.

One continuing challenge for the future is the balance to be struck between China’s need to boost its domestic economy to support global growth, and the wider global emphasis on fixing budgets and sustainably lifting growth.

This challenge is reflected in the recent debate between China and US on the valuation of the currency.

Australia’s view is that consideration of exchange rate policy should not be dealt with in isolation - it should be considered in the context of broader structural reform necessary to promote sustainable growth in all economies.

It should also be considered in the context of reducing global public debt and global budget deficits.

We therefore welcome G20 Finance Ministers’ commitment to move to more market-determined exchange rate systems that reflect underlying economic fundamentals and to refrain from competitive devaluation of their currencies.

The G20 is the appropriate forum to advance this agenda within this framework of cooperation.

I note the comments by the previous distinguished speaker, People’s Bank of China Governor Zhou Xiaochuan, made in Washington last month.

Governor Zhou told the annual membership meeting of the Institute of International Finance (IIF) that China would continue reform of the formation mechanism of its currency exchange rate to improve its flexibility, but will do so in a gradual manner.

Zhou said Westerners prefer quick and drastic Western medication methods, while Chinese prefer traditional medication that is slower and takes time to take effect.

He said; managing the Chinese currency issue was a ‘complicated art’ – taking into consideration domestic inflation, the unemployment rate, GDP growth, balance of payments and other factors.

As a simple foreigner, with some experience of China, I believe a combination of both Western and Chinese medicine can sometimes be helpful.

How China, the US, Europe and other G20 members manage this debate and implement a balanced response to it will have a profound impact on the global economy.

I note what Premier Wen had to say at the onset of the GFC that the most important thing that China could do for the world was to manage its own economy well, and return to strong growth and stability as soon as possible.

And that is what China did.

For the future, the economic logic is equally clear – that what is good policy for the Chinese economy is also good policy for the global economy.

So long as China maintains high rates of growth and investment, there will be pressure for the underlying value of the renminbi to rise.

This increase in the real or underlying value of the currency can emerge in two ways: through inflation, or through a rise in the nominal value of the RMB.

This is a choice for the Chinese government and its monetary authorities to make.

While we will all be affected by the outcome, no-one will be more affected than the Chinese people, as they wrestle with rising income levels while keeping inflation under control.

In the late 19th century, debate among Chinese patriots concerned about the nation's future centered on how China could attain 'wealth and power (guojia fuqiang)'.

Now, at long last, 'wealth and power' are within sight. How will China deploy it? In what kind of role globally? And what kind of role in our region?

China's leaders have set a domestic objective of building a harmonious society. Externally, they have talked about building a harmonious world. The two clearly fit together.

We all have an interest in a harmonious world.

China is an important stakeholder in maintaining a stable international system of peace, prosperity and sustainability based on a rules-based order – in this respect China's self-interest is inter-linked with the self interest of others, including Australia.

This means we must cooperate together in the UN, including addressing the challenges posed to the international order by a small number of difficult and irresponsible states.

It means we must remain fully engaged in efforts to address climate change in UNFCCC – both through domestic and international action, while recognizing the principle of common but differentiated responsibilities.

Regionally, Australia welcomes the new expanded EAS.

The East Asian region needs cool heads and patience to deal with a number of sensitive issues, left over from history.

We need a regional order which continues to embrace the positive and stabilising role of the United States.

Our region also needs to evolve confidence- and security-building measures as other regions have done in the past.

In the case of China and Japan and the recent debates on disputed islands– we believe diplomacy should prevail.

The vast, common interests of these two great powers and two great cultures should be the first consideration.

Australia believes that dialogue can contribute to calming the current situation, while recognizing that underlying differences on this territorial dispute will continue long into the future.

Australia believes that in the wider debate about China's future role in the world, we also need to get beyond the crude concepts of being fan hua and qin hua – of being either anti-China or pro-China.

The truth is, these are outdated, Cold War concepts.

They also tend to place foreigners only in either of two categories: opponents or sycophants.

Or as if there are only two ways for the world to deal with China – conflict or kow-tow.

Both China and the world need a different way of thinking about each other.

Not a zero-sum game.

But instead a third way.

As I said two years ago at Beida, such an approach should embrace mutual respect and mutual candour.

The sort of candour that can be had among friends.

This is best conceptualized in the traditional Chinese understanding of zhengyou.

It is what I discussed recently in the Morrison Lecture in Australia as the need for a 'new Sinology' – as we are now dealing with a new, complex and globalizing China in an equally new, complex and globalizing world.

That is also why in Australia recently we took the decision to establish a new centre at the ANU – 'The Australian Centre on China in the World'.

Our ambition is to make this centre the pre-eminent global institution for the integrated understanding of contemporary China in all its dimensions – and for the study of contemporary China's regional and global engagement.

So what particular value do we Australians bring to the international table – and to the great debates on China’s future in the international order?

We are founding members of the UN and have consistently defended the international order, including participating in 60 peace-keeping operations all over the world.

Australia is a member of the Group of 20 of the world’s largest economies.

We are the fourth largest economy in Asia, after China, Japan and India.

We are the fourth largest supplier of energy to the world.

We are a successful economy because in the 1980s and 90s we undertook, and continue to undertake, far-reaching economic reforms: we deregulated interest rates, exchange rates, eliminated most tariffs, introduced national competition policy and compulsory superannuation policy.

We continue to implement a vigorous microeconomic reform program, and are moving forward on education reform, infrastructure reform and business deregulation.

We too know that reforms are always politically difficult.

But equally, reform contributes to increasing productivity, higher living standards and increasing growth.

We also emerged from the GFC in better condition than any other OECD country with the fastest growth, lowest unemployment and the lowest debt and deficit of any of the major developed economies.

In the region we share (the Asia Pacific) we are also an active participant.

We are founding members of APEC and the EAS, and have recently joined ASEM, and we have long played the a leadership role in the South Pacific.

In recognition of the changing needs of the region, we are also working to develop our region’s architecture which can tackle the full range of challenges (political, security, economic and environmental) that need to be transacted at Summit level.

We have a significant regional and global diplomatic footprint, and are involved in most councils of the world, ready to act as a good international citizen.

We are aware that China is now in the process of reflecting again on its future regional and global role.

Therefore, in the spirit of zhengyou, Australia looks forward to working closely with China as together we help shape the future of our international order that underpins us all.

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