

China Australia Tie

Australia's newly elected prime minister must guide crucial China policy
By Kerry Brown



VICTORY: Australian prime minister-elect Tony Abbott (center) waves to supporters with his family after claiming victory in the 2013 Australian Election in Sydney on September 7



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A new government was elected in Australia on September 7, bringing an end to six years of Labor Party rule. This was an election fought, and won, almost wholly on domestic issues. But it is also widely known now that some of the most pressing demands for the new Coalition government led by Tony Abbott will be in the area of international affairs.

The simple fact is that Australia, uniquely amongst developed nations, has enjoyed 22

years of continuous growth. This is unprecedented. Young people in Australia under the age of 30 have no real memory of what an economic downturn looks like. The last government's best achievement is probably the fact that it was able to avoid any major impact on Australia's economy of the global economic crisis since 2007. Its own internal arguments and disunity, however, meant that even after Kevin Rudd returned to power in June they were unelectable.

Abbott's aim

For Abbott, the issue is not so much about changes in foreign policy, but being able to get on top of a number of new issues that will confront his relatively inexperienced administration. Firstly, the size of government debt has risen sharply in the last few years. Australia has made

a lot of money selling resources to its largest trading partner, China. But it has saved none of this, spending the receipts on the very comprehensive and generous social welfare and public goods that Australians enjoy. As China's growth rate has fallen to around 7 percent this year, there has been an immediate impact in Australia. For the first time, unemployment is creeping up, and there is renewed awareness both in state and federal governments that a period of austerity similar to that experienced in the United States and the EU over the last few years is now in view.

Abbott has made it clear that he does not think the resources boom is over, and that there is still business to be done in trading in Australia's rich resources with China and other Asian neighbors. But the brute fact is that there now needs to be a diversification of this economic relationship. The Gillard

administration in April signed a renminbi trading deal between Sydney and Shanghai. This move into the services sector presages a new strategy, one which was started under the last government but now needs to accelerate and deepen. Placing Australia as a services provider to the vast potential market across China has been an aspiration for some time. Now with resource trade diminishing a little, there is added urgency to this strategy.

The previous government introduced two important documents setting out policy toward China. The first was the Australia in the Asian Century White Paper issued in October 2012. The second was the China Country Strategy Paper (CCS Paper), which flowed from the first, and which was issued in August, only days before the election. Both these documents spell out a positive, collaborative, constructive bilateral relationship. Both were produced after extensive public consultations. It is extremely unlikely that Abbott's administration would want to change these announcements dramatically.

What is much more likely is that priorities between China and Australia might be reordered slightly, to address this issue of how to get maximum economic benefit from each other despite a time when economic challenges for both are becoming clearer. For Australia, a key issue is to move forward with some urgency on the Free Trade Agreement (FTA), discussed with China over for 15 years, and something which, as much for symbolic as practical reasons, needed to be completed. New Zealand, Switzerland and Iceland have all signed deals in the last year or so. Abbott's administration is one which has placed economic issues at the heart of its program. A strong FTA deal finalized as soon as possible after coming into power, while demanding, is a prize worth going for.

Increasing exchanges

At the center of such a deal will be two important issues. The first, set out in the 2013 CCS paper, will be to improve skills and expertise amongst Australians in their knowledge about China. Language skills need to be developed

and greater support given to those who want to pursue careers in government, business or academia where China lies at the center—jobs which will almost certainly increase in the years ahead. 120,000 Chinese students now study in Australia. There is likely to be serious consideration given to schemes that place more Australians studying, working and living in China, so that they get firsthand experience to bring back and use in Australia.

The second issue is for the new government to start a public debate, and then make serious decisions, about how to allow more Chinese outward investment into the country. Chinese investment directly into Australia has increased dramatically in the last decade. This is a pattern that has been observed across the globe. But the striking issue is that Chinese investment in Australia in, particularly in, the mining sector, has created good-quality jobs and made a significant impact on growth. There is awareness now that this needs to diversify away from mining and resources, and into areas like agribusiness and services. In both these sectors, there will be discussion and argument, because they present different challenges. For agribusiness, in particular, Australian public opinion is very sensitive. Less than 1 percent of Australian agricultural land is owned by foreigners. Sales of larger amounts immediately start arguments about the country being bought up by non-Australians. There is already awareness though that sale of meat, grain and foodstuffs to China has the potential to replace the shortfall being created by a drop in mineral and energy resources that is now occurring. Abbott's administration is very likely, therefore, to be presented with a strategic choice—see trade fall with the country's largest trading partner, or liberalize investment in a sensitive sector.

On larger geopolitical issues, there is unlikely to be significant change. Julia Gillard and Rudd created a larger role for Australia in international affairs through its gaining a seat on the UN Security Council for two years, and also by increasing the country's involvement in multilateral affairs, from the G20 to ASEAN.

Abbott has said that he will focus more on traditional allies like the EU and United States, but this means little more than going for continuity. Despite words from some Australia-based experts like Hugh White, an academic in Canberra, about Australia needing to choose between the United States and China, there is little expectation that this will be something the Abbott administration needs to do. The departing U.S. ambassador to Australia stated on September 10 that it is in Australia's interests to have strong relations with China and the United States, and that the United States and China separately support this. That seems sensible.

There will be questions about the sort of areas where Abbott as a new prime minister will wish to show leadership. His choice of the terrain where he can mark himself out as different from his predecessors is important. Almost all leaders in any country are usually keen to do this. Former Prime Minister Rudd combined a good knowledge of China and ability to speak Mandarin with an inability to bring many of his ideas and initiatives to the implementation stage. This frustrated many inside and outside the country. With Abbott, his opening statement on the night he was elected made it clear he wanted to be lower key, and get on with delivering what he promised. He said that China is the first country he will make an overseas visit to. He inherits a newly created high level dialogue with China, which he can now propose ideas for. It is likely that at the center of this will be issues of how to improve and deepen economic links between the two countries so that they can be positioned as partners for growth. Focusing on a strong partnership in financial services, for instance, between Shanghai and Sydney would be one specific area that would be manageable and realistic. The other would be supporting Australian companies getting the best access to China. Australia had enough of the big-picture approach under Rudd. Now it is down to detail. And it will be on detail that Abbott will be judged in the years ahead. ■