

Chapter 2

Economic developments in China

China has only been carrying out its 'reform and opening' policy for twenty years. It has only trod the path of the market economy for ten. The changes that have swept China were unimaginable twenty years ago. The changes to take place in the coming twenty years are even harder to imagine.¹

Background to China's economic development

2.1 China has taken just over two decades to make the successful transition from a closed economy to one of the leading trading nations in the world. Economic reforms were central to this transformation and have paved the way for China's integration in the global trading system.

2.2 Prior to 1979, China followed a policy of socialist economic development where the country's economic output was directed and controlled by the state. According to one analyst, by 1978 nearly three quarters of industrial production in China was 'produced by centrally controlled state-owned enterprises (SOEs) according to centrally planned output targets'.² Another noted that the State Planning Commission's import plan covered more than 90 percent of all imports.³ In this highly protected and planned economy there was little room for private enterprises and foreign investment firms.

2.3 In the late 1970s, however, China began to open its doors to foreign trade and to reform its SOEs. In 1978, the Deng Xiaoping-led government promoted the 'opening-to-the-outside world' principle as its national policy. China's integration with the global economy started in earnest with the implementation of this policy and the introduction of market oriented reforms. Since then, China has begun to dismantle the planned economy apparatus and has allowed the private sector to assume a more prominent part in the economy.

2.4 Although slow at first, the pace of reform quickened during the 1990s. In 1993, China revised its constitution to include the statement that 'the State adopts [a] socialist market economy mechanism'. This declaration recognised the role of the non-state sector as an important and legitimate activity of the nation's economy and

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- 1 Wang Zhan and Huang Renwei, 'What will the World Gain from China in Twenty Years?', *The China Business Review*, March–April 2003. Wang Zhan is President, Shanghai WTO Affairs Consultation Center and Huang Renwei is Director, Pudong Institute for the US Economy.
 - 2 Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 21 September 2000, p. 2; Update, 5 April 2005.
 - 3 Nicholas R. Lardy, Senior Fellow, Institute for International Economics, Washington, D.C., 'Trade Liberalization and its Role in Chinese Economic Growth', prepared for an International Monetary Fund and National Council of Applied Economic Research Conference, New Delhi, 14–16 November 2003, p. 4.

provided 'a legal basis for the continued development of a market economy in China'.⁴ The rate of change accelerated in the lead-up to China's accession to the World Trade Organization (WTO) in 2001 and has continued.

2.5 In moving from a centrally planned economy to a market-oriented one, China has increased competition in its domestic market and emerged as a major force in international trade. At the moment, China is one of the major drivers of global growth and has also become a magnet for foreign direct investment.⁵ The Organisation for Economic Co-operation and Development (OECD) has predicted that China 'could become the largest exporter in the world by the beginning of the next decade'.⁶

Recent economic performance

2.6 Over recent years, the Chinese economy has been growing at rates hovering around the nine per cent mark. This trend shows little sign of abating with the prospect of rates remaining above 8 per cent for 2005.⁷ Indeed, China has set itself a gross

4 *Submission P19*, p. 3. See also OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

5 There are numerous sources quoting figures and commenting on China's rising prominence. See for example, Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Paper* WP/05/79, April 2005, p. 1; Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper* 232, 2004, p. 4.

6 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

7 The Reserve Bank of Australia records China's GDP growth at 9.5 per cent for 2004 with a predicted 8.4 for 2005. Malcolm Edey, Assistant Governor, Reserve Bank of Australia, 'Notes for a Talk to CEDA/Promina Economic and Political Overview', Sydney, 25 February 2005. In August 2005, the World Bank Office, Beijing, recorded a stronger than expected 9.5 per cent real GDP growth for the first half of 2005. World Bank Office, *Quarterly Update August 2005*, p. 3. Numerous commentators have made the point about China's growing importance in the world economy. See for example, Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005; Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper* WP/04/36, March 2004, p. 3; Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper* 232, 2004, p. 4; Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 21 September 2000, p. 1; *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005; ABARE predicts economic growth rates of 8.7 in 2005, before easing to 8.2 per cent in 2006, *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 277.

domestic product (GDP) growth target of around 8 per cent for 2005.⁸ The World Bank is of the view that the external environment and domestic macroeconomic conditions suggest 'a favourable outlook for 2005'.⁹ Looking longer term, the Department of Foreign Affairs and Trade noted that official projections of real annual GDP growth over the next decade continue to be in the 7–9 per cent range.¹⁰

2.7 As China's participation in global trade increases so its influence on the world economy grows. Its overall share in world trading was 1 per cent in 1979, 1.9 per cent in 1990: 4 per cent in 2000 and by 2003 had reached 6 per cent.¹¹ China's share of world imports has also increased from 1.5 per cent in 1990, to 3.6 per cent in 2000 and 5.7 per cent by 2003.¹² China's exports and imports have grown at an average rate of 15 per cent each year since 1979, compared with a 7 per cent annual growth of world trade for the same period.¹³

2.8 In 2004, China's foreign trade 'leapt to a new level'.¹⁴ The volume of China's imports and exports totalled US\$1.15 trillion, an increase of 35.7 per cent, moving China to third place in the world from fourth.¹⁵ China is confident that the domestic

8 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

9 World Bank Office, Beijing, *China Quarterly Update*, February 2005, p. 6.

10 *Submission P19*, p. 4. The OECD also suggested that China's economic growth 'seems likely to continue at that pace [9½ per cent] for some time'. OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

11 See for example, Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper 232*, 2004, p. 1; Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005, p. 2.

12 Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005, p. 2.

13 Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper 232*, 2004, p. 1.

14 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

15 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005. See also *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005. See also National Bureau of Statistics of China, *Statistical communiqué of national and social development in 2004*.

economy will continue to grow rapidly and the demand for imports will also rise and expand.¹⁶

2.9 Although China's economic development over the past decade has been remarkable, it has presented the Chinese government with some challenges. Chinese leaders accept that as China moves from a planned to a market economy, the country will face 'thorny domestic issues as well as complicated and volatile international situations'. Indeed the Chinese Ambassador to Australia, Her Excellency, Madam Fu Ying acknowledged that China's development is 'not all rosy and is not without challenges'.¹⁷

2.10 Many China specialists agree with this assessment. While optimistic about China's economic prospects, they maintain that the country faces a variety of problems in maintaining its economic growth. Some questioned whether China could sustain the momentum and identified factors that could undermine China's steady economic progress.¹⁸

2.11 The following section examines some of the challenges to China's growing economy. They include: the Chinese government's ability to manage effectively a rapidly expanding economy; the potential for social and political discord as the country opens up to new ideas and its people's expectations change; the disparity between rich and poor; China's growing demand for energy resources; and environmental degradation.

Maintaining economic stability in a rapidly changing economic environment

2.12 A booming economy brings many advantages, but one expanding at a rapid pace can pose particular problems for a government. China is aware of the importance of managing its rapidly growing economy in order to avoid disruptions or distortions in the market place. In the first quarter of 2004, the Chinese government took steps to slow growth to a more sustainable pace. In particular it introduced measures to strengthen and improve macro regulation with the intention of addressing 'the problem of overheating especially in fixed asset investment'.¹⁹ By mid-year, the fast growth in the problem sectors had eased and China was confident that it could maintain economic growth at a sensible and healthy rate.²⁰

16 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

17 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

18 See for example, Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, updated 26 May 2005 p. 9.

19 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

20 See Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

2.13 The actions taken in 2004 to manage the expanding economy continued to produce positive results in 2005. The World Bank noted that investment was shifting away from 'sectors previously considered as overheated such as steel and cement'.²¹ It found that the risk of China's economy overheating had declined, as domestic demand growth and consumer price inflation had come down in the wake of measures taken to cool the economy'.²² In April 2005, it reported:

A rebound in investment in early 2005 raised concern among analysts, but the trend remains one of a slowdown. Indeed, while investment remains high, also as a ratio of GDP, the changing composition should give some comfort to policy makers that the policies introduced in 2004 are working.²³

2.14 ABARE similarly noted a 're-acceleration' in fixed asset investment and industrial production in early 2005. It suggested that while growth in money supply and inflation had slowed from the high rates in 2004, 'excessive investment spending could lead to further bottlenecks in China's economy, as energy and transport are still in short supply'. It surmised that China could introduce further tightening measures to ease economic growth to more sustainable levels.²⁴

2.15 China acknowledged that it had had some success in keeping the economy progressing at a steady pace. Premier Wen Jiabao told a press conference in March 2005, that China avoided 'major ups and downs in the economy, preventing excessive price hikes, keeping prices at a stable level and maintaining steady and fairly rapid economic growth'.²⁵ The Chinese government, however, realises that careful management of the economy is needed.

2.16 In March 2005, Premier Wen presented a report on the work of the Government to the 10th National People's Congress. This report recognised a number of problems that had emerged in China's economic activities over the previous two years. They included tight grain supply, overheated investment in fixed assets, excessive money and credit, and shortages of coal, electricity, petroleum and transportation.²⁶ The report noted that China had entered a period of important strategic opportunities in which the economy should grow rapidly but should 'not be allowed to overheat'. It stated:

Maintaining steady and rapid economic development is an important issue that the government must successfully handle...Both drastic upturns and

21 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 2.

22 World Bank Office, Beijing, *China Quarterly Update*, February 2005, p. 2.

23 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 2.

24 ABARE, *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, pp. 271–272.

25 'Premier Wen Jiabao's press conference', 14 March 2005.

26 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

downturns in economic growth are bad for economic development, reform and opening up, and social stability.²⁷

2.17 Premier Wen recognised the need to find a sensible balance:

...a slow economic growth rate won't do, because it would make it more difficult for us to create jobs, increase revenue, and engage in necessary undertakings for society. Yet too fast economic growth rate won't do either, because it may make the economy to stretch out for a long time in an unsustainable situation.²⁸

2.18 The Chinese government made a commitment to follow prudent fiscal and monetary policies in 2005 to ensure the 'correct orientation of macroeconomic policies'. Its objective was to cut the budget deficit and keep in check increases in general spending.²⁹ It was determined to 'improve coordination of macroeconomic policies and to continue to curb excessively rapid growth of fixed asset investment'.³⁰ The government intended to control the supply of money and credit appropriately in order to support economic development while guarding against inflation and financial risks.³¹

2.19 The World Bank was of the view that the prudent monetary and fiscal policies announced by the government were appropriate, 'if this means that there is flexibility to adjust the policy stance to changing circumstances'.³² An OECD report stated that China's fiscal policy has been 'run in a stabilising fashion'.³³

2.20 Witnesses to the inquiry also noted the cautious approach adopted by the Chinese government to manage the economy. Observing China's changing economy over time, Dr Stephen Morgan told the committee that even Deng Xiaoping talked about crossing the river by grasping stones—'moshi guohe'. In his opinion, China at first really muddled through; there had been no plan. He maintained that:

If you look at the original documents from late 1978 when the so-called plenum committee of the CCP launched economic reform, you will not see

27 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

28 'Premier Wen Jiabao's press conference', 14 March 2005.

29 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

30 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

31 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

32 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 4.

33 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

reference to economic reform—'jingji gaige'. It does not appear in any of the documents. A number of initiatives were taken there that set in train developments that were in part already taking place.³⁴

2.21 Turning to the future, however, Dr Morgan noted the various incremental changes occurring and was confident that those ready to take over the reigns in China were well equipped to deal with and manage change.³⁵

Committee view

2.22 The committee notes the prudent approach Chinese leaders have adopted to ensure that growth remains steady and sustainable. Success in guiding the economy through this phase of rapid growth depends, in large measure, on the Chinese government's ability to prevent overheating in the economy. It has shown a readiness to reduce deficits and keep expenditure under control in order to maintain a stable macro-economic environment. The committee has studied closely China's Report on the Work of the Government and notes the commitment made by the government to continue economic reform in an effort to further open its markets and to make China an attractive place to do business.

Maintaining political and social stability as China opens up to the world

2.23 China is a country of great diversity: its economy is expanding rapidly, its social structures are undergoing reform and its people are being exposed to new ideas and changing expectations. According to the Chinese Ambassador to Australia, there are 80 million internet users in China, over 300 million cell phone users, 9,000 newspapers and 2,000 magazines in circulation, diverse TV programs showing on 70 channels and 'serious and sensitive social issues are openly debated on TV and in newspapers'.³⁶ Twenty million and more Chinese visit abroad each year. She noted

34 Stephen Morgan, *Committee Hansard*, 27 June 2005, p. 6. Dr Morgan appeared in a private capacity. He is from the University of Melbourne and is a member of the Department of Management and a research associate of the Australian Centre for International Business.

35 Stephen Morgan, *Committee Hansard*, 27 June 2005, p. 6. He stated: 'We are seeing a new sophisticated group of officials emerging, many of whom trained overseas and many of whom have PhDs from universities in the USA, Europe, Australia and so on who are as competent and confident working in English as they are in Chinese. Those sorts of people are giving governments of the West and businesses of the capitalist world great cause for optimism in terms of managing orderly transition, managing reforms to corporate governance, instituting more effective market framework mechanisms and so on. So on the economic front I am quite optimistic.'

36 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004. The August 2005 CRS Issue Brief for Congress recorded that China currently has the world's largest mobile phone network and one of the fastest growing markets. In 2002 it replaced Japan as the world's second-largest PC market and the world's second-largest Internet user (after the United States) with almost 94 million users at the end of 2004. Congressional Research Service, CRS Issue Brief for Congress, 'China-U.S. Trade Issues', Updated 4 August 2005, p. 3.

that the dynamics of a changing China have 'unleashed so much creativity and vitality'.³⁷

2.24 The Chinese government accepts that its people face many new situations as the country opens up to 'the outside world'. Maintaining stability in such a large country emerging from a tightly controlled and planned political, social and economic system is a major challenge. Premier Wen described the task most pointedly:

In China with 1.3 billion people, any small problem multiplied by 1.3 billion will become a huge issue. Any big amount of wealth divided by 1.3 billion will be reduced to a small amount of per capita figure.³⁸

2.25 How China manages the various social and political forces at work as the economy expands and the society becomes exposed to new ideas has generated lively debate among China specialists. Professor Ross Garnaut was of the view that the biggest test for China to sustain economic growth would arise as pressures grow within the country for democratisation of the political process.³⁹ Of the same view, Professor David Goodman noted the potential for conflict caused by a political structure out of step with the expectations of people living in a country undergoing significant economic and social change.⁴⁰

2.26 Mr Charles Woodard, former Australian Ambassador to China, also commented on the magnitude of the problems confronting the leadership in China. He observed:

But the range of difficulties within China, the range of vulnerabilities that the Chinese leadership themselves see within their own country, are very great...Holding China together is a fantastically difficult thing for a government to do...the range of problems that China faces every day is so vast compared with ours that it was really impossible for us to understand how the leadership there grappled with them. I think China will not advance as quickly in some respects as we would like it to. However, that is their decision to make and we cannot be too judgmental, because of the range of those difficulties that I outlined.⁴¹

37 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

38 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004, p. 15.

39 Ross Garnaut, Professor of Economics, 'India, China and Australia: Lessons from Different Paths in Economic Reform', The 2004, Sir John Crawford Lecture, National Council of Applied Economic Research, New Delhi, 28 September 2004, p. 17.

40 D. Goodman, *Committee Hansard*, 29 June 2005, p. 54. He stated: 'The Chinese people, Chinese society, have no problem in dealing with the pluralism that is quite clearly on the way. The problem we are facing from the outside now, particularly in government-to-government relations, is that there is an increasing tension between social and economic change in China and the unwillingness of the people who control the Communist Party at the moment to change along with those trends'.

41 C. Woodard, *Committee Hansard*, 27 June 2005, p. 27. He was Australia's Ambassador to China 1976-1980.

China's cautious approach to change

2.27 Mr Woodard shared with many other China specialists the view that the leadership in China would take a careful and considered approach to dealing with any elements likely to cause unrest. He stated further:

At the moment I think we have a very cautious leadership in Beijing, partly because it is tackling many other problems which are disruptive. It is tackling corruption, which applies particularly at higher levels of the party and affects the reputation of the party throughout the country. It is grappling with the uncertainties of unequal economic development and always fears an uprising of the workers, particularly when associated in some way with intellectuals. That is how significant changes have come about in China in this century and in previous centuries. In some respects it probably just does not know what to do in terms of whether, for instance, to revalue the currency, and I think it has genuine problems about how it makes decisions. With all those political problems I expect that the leadership will be cautious and will continue to put emphasis on stability.⁴²

2.28 Dr Robert Davis, Australian Chamber of Commerce and Industry, also thought that incremental change in the political system was most likely in China. He thought that political reform would be, 'in continued roll-out at the town and village level. You will see probably a bit more competition emerge for elected positions such as mayors'.⁴³ He was of the view that democracy is evolving slowly; that 'at the town and village level there is a choice between party members. There is progress now that entrepreneurs can become party members'.⁴⁴

2.29 Mr James Harrowell, Hunt and Hunt Lawyers, posed similar questions about the ability of China's leaders to guide the country through its transformation. He supported the notion that there would be careful and steady management of the changes under way in China with the focus fixed on maintaining stability:

China has tried to have controlled development. I have to say that, yes, there are fundamental issues that have to be addressed by China but the most important thing for China and, I suspect, for us as their major trading partner, or one of them, and the region is to ensure stability as China moves through the process of change. We have to be careful of pushing our friend China too hard and too fast and destroy stability. One of the stark comparisons between China and some other countries in the region is that China does an extraordinary job of feeding its people, educating its children and in economic development. You do not see that desperate, desperate poverty in Chinese cities that you can see elsewhere. So it is a balance. It is certainly not perfect but it is a balance and it is working and there is enormous growth. For the first time in our history we have this major

42 C. Woodard, *Committee Hansard*, 27 June 2005, p. 29.

43 R. Davis, *Committee Hansard*, 29 June 2005, p. 19.

44 R. Davis, *Committee Hansard*, 29 June 2005, p. 30.

trading partner that is well disposed to us, in essentially the same time zones and very close. So there are huge opportunities there. There has been tremendous change...What has happened is quite breathtaking.⁴⁵

2.30 The Chinese government acknowledges the difficult task it has in navigating the nation through this period of transition. President Hu Jintao noted that 'social conflicts are emerging in great numbers and in more varied forms'. He told a high-level Party seminar that:

Independent thinking of the general public, their newly-developed penchant for independent choices and thus the widening gap of ideas among different social strata will pose further challenges to China's policy makers.⁴⁶

2.31 As with their cautious management of a rapidly growing economy, Chinese leaders are taking the same considered approach to political and social change. Internal stability is of paramount concern to Chinese leaders who equate stability with prosperity. For example, in noting that China's reform is 'unprecedented in its history', Madam Fu stated that given the country's size and complexity, 'it can only be carried out in an incremental manner'.⁴⁷ Premier Wen has indicated that the government would 'energetically yet prudently promote political restructuring and develop socialist democracy'. On various occasions, Chinese leaders have stated their commitment to paying close attention to social stability placing a heavy emphasis on building a 'harmonious society'.⁴⁸

Falun Gong

2.32 The attempt to suppress the activities of the Falun Gong is an example of actions taken by the Chinese government to shut down a group it perceives as a threat to the country's stability. Some commentators consider that China has over-reacted and regard the measures taken against the practitioners of Falun Gong as extreme and in some cases a violation of human rights.

2.33 A number of witnesses, however, who have lived and worked in China, place the actions of the Chinese government firmly in the context of a country undergoing rapid transformation. Rather than looking at the human rights issue from the outside, they try to appreciate the Chinese perspective.

45 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 41.

46 'Building harmonious society crucial for China's progress: Hu', *People's Daily Online*, 27 June 2005.

47 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004, p. 16.

48 *Report on the Work of the Government*, 5 March 2005.

2.34 Dr Rosita Dellios, an international relations analyst, noted that China is not the West and furthermore that it needs to move through this period of development where it still feels internally vulnerable.⁴⁹ In referring to the Falun Gong, she stated:

It is a human rights issue insofar as individuals feel that they have been targeted because of their beliefs. But China is not the West. China is transforming itself into perhaps a Confucian style democracy in the future, but it is going through a process and it needs to be assured of its security. In China there is a greater sensitivity to such cults as the Falun Gong.⁵⁰

2.35 She acknowledged that the arrest and torture of people are of great concern to the outside world and that China has a lot of work to do in dealing with the activities of dissident groups. In her view, China needs 'to match the excitement the world has about the Chinese market and the boom that China represents with some form of legitimacy in terms of human rights'. She stated further:

...it needs to get into political reform mode to get it out of the problem of legitimacy—but at a pace that it can sustain so that it will not collapse. If it is given time and if its pace is directed towards opening up and not overreacting to such groups as Falun Gong, it will be successful. I would say it is a mistake on the part of the Chinese government, but it is a mistake which is of the nature of the concept in the Chinese saying, 'We cross the river by feeling the stones with our toes.' They feel a stone, they draw back, and then they will move on again. It is this process of gradual transformation of the Chinese state that needs to take place. Falun Gong is perhaps a tutorial for China of how not to do things, but, at the same time, it cannot let groups such as Falun Gong run away with the political agenda and take over. China is experiencing that kind of balancing act at the moment.⁵¹

2.36 Mr Reginald Little, an experienced former DFAT officer, also looked at the suppression of the activities of the Falun Gong from the perspective of China's leaders. He told the committee:

I would also mention, in passing, that it is hard to be critical of the Chinese approach to Falun Gong at a time when they have seen the example of Aum Shinrikyo in Japan, which attacked the subway there with sarin gas. You also have Islamic movements very actively engaged in terrorism. I think the Chinese government would be somewhat amiss if it did not seek to follow

49 *Committee Hansard*, 1 August 2005, p. 61. Dr Dellios, International Relations Analyst, Centre for East-West Cultural and Economic Studies, Bond University.

50 *Committee Hansard*, 1 August 2005, p. 61.

51 *Committee Hansard*, 1 August 2005, p. 65.

very closely the activities of an organisation that was trying to use a form of religion for political purposes.⁵²

Committee view

2.37 The committee notes that Chinese leaders perceive the activities of the Falun Gong as a threat to their one party state and more generally to the stability of Chinese society. Their harsh suppression of Falun Gong practitioners highlights the extent to which they believe that dissidents within their society are a real danger and should not be tolerated. The committee understands the Chinese government's desire to maintain social and political stability as it moves from a tightly controlled planned economy to a country more open to world ideas and influences. It heeds the advice from some witnesses that Australia in its dealings with China must take account of the changes taking place in that country and appreciate the cautious approach taken by leaders, described as 'crossing a river by feeling the stones with its toes'. The committee is of the view, however, that Australia should not fall silent or ignore issues such as human rights abuses in order to remain in good favour with a major trading partner. It believes that any criticism of China should be informed and constructive. This matter is discussed further in chapter 14.

Inequality between rich and poor

2.38 As noted previously, most analysts agree that China's economy will continue to expand. Even so, China faces a number of challenges to ensure that all its citizens benefit from reform and change. One of the most concerning developments is the growing inequality between various sectors in China, particularly the divide between the urban and rural areas, and possibility of such conditions creating social unrest.⁵³

Poverty in China

2.39 Official Chinese statistics show a steady decline in the number of people living in poverty since 1978. The annual decrease of poverty population, however, has slowed down in recent years. The Rural Survey Organisation reported that the population of rural poor fell from 250 million in 1978 to 85 million in 1990 and decreased further to 32.1 million in 2000. It noted that the poverty population increased 80,000 in 2003, due mainly to natural disasters, and stood at 29 million.⁵⁴ It stated that the disparity between different regions was 'huge' with 58.6 per cent of the

52 *Committee Hansard*, 1 August 2005, p. 45. Mr Little served for 25 years in the Department of Foreign Affairs and Trade, was taught both Japanese and Chinese in country by the department and who has subsequently regularly participated in conferences in China and elsewhere in East Asia.

53 See for example Dr Rosita Dellios, *Submission P52* and Ambassador Fu Ying, Address to the National Press Club, 28 July 2004. Also see chapter 5, paragraphs 5.9–5.13.

54 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004, p. 8 and Table 1, p. 9.

poor living in 12 western regions.⁵⁵ One group of analysts described the poverty population in the western areas as 'very large' and the degree of poverty 'very deep'.⁵⁶

2.40 Analysts tend to agree that China has achieved significant results in alleviating poverty since 1978.⁵⁷ A number of analysts note, however, that poverty decrease has not corresponded with economic growth and, as the above figures show, the rate of decline has slowed in recent years at a time when the economy is booming.

Potential for unrest

2.41 The committee took evidence from a number of witnesses who referred to the gap between rich and poor in China and its attendant problems. Dr Morgan noted:

If the WTO accession is going to work the huge mass of farmers and rural based people in China will have to get something out of it. Sixty-five per cent of the population are dependent upon agriculture and they are going to have to get something out of WTO accession not just those who live in East China, in the big cities of Shanghai, Nanjing, Beijing and so on. The committee, Australian businesses and the Australian government need to understand that incredible diversity and extremes from those who can afford to buy a Lamborghini, although they may not have much room to drive it, to those who cannot even buy a bus ticket to go and find a job.⁵⁸

Rural poor

2.42 Supporting this view, Dr Patrica Ranald, Australian Fair Trade and Investment Network, noted that China is still a developing country but that development is very uneven. She also drew attention to the contrast between the bigger and prosperous cities of China with the poorer regions.⁵⁹ Mr Harrowell drew a

55 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004, p. 8.

56 Hu Angang, Hu Linlin and Chang Zhixiao, *China's economic growth and poverty reduction (1978–2002)*.

57 See for example the recent OECD Economic Survey of China. It states that economic change in China has 'delivered higher incomes and a substantial reduction of those living in absolute poverty'. OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1,00h (accessed 19 September 2005).

58 S. Morgan, *Committee Hansard*, 27 June 2005, p. 10.

59 P. Ranald, *Committee Hansard*, 29 June 2005, p. 8. See also Dr Davis who stated: 'You have to bear in mind that you are going from areas like the south-east coastal provinces that are probably at 15, 18 or even 20 per cent growth rates—enormous rates—to the western districts, like Xinjiang, and the north-east provinces, where they are either very poor and backward or they have the old industrial dinosaurs which they are unravelling... We believe that they are probably likely to remain at a six to eight per cent growth rate.' R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

direct connection between the inequality between urban and rural areas and the potential for social unrest:

There is a major gap between the prosperity of eastern China, along the seaboard, and western China. In provinces like Inner Mongolia and out to Urumqi, near Kazakhstan, people are not getting the benefits. Two things are going to happen. Firstly, they are going to get very cross with the government and there will be political and social instability. In western China, in the city of Urumqi, for instance, there are ethnic groups. It surprises people sometimes that the street signs are in Arabic as well as Chinese. It is said that people cannot worship in China, but you will hear the Muslim prayer calls in the afternoon. That is happening in China right now. Secondly, people will all rush to the east and you will get slum dwellers there, as there are around the city of Manila in the Philippines, for instance. Everyone heads east to find their fortune. That means that you lose people who would otherwise work in the west. The Chinese government has a big program at the moment to try to help balance that internally by encouraging people in eastern China to invest in the west.

...To some extent, the Chinese government has got a tiger by the tail. That tiger has to keep running because that is what is getting them through the economic reform process. Some people are out of work but for a lot of people the standard of living is growing.⁶⁰

2.43 Similarly, Mr Edward Murphy, Australian Council of Trade Unions, drew attention to the poorer paid, underpaid or unpaid working class people, who are often transitory migrants to the cities, and the 700 million people who are still rural based. He noted the potential for social disruption should they become disillusioned with what they perceive as the uneven distribution of benefits. In his view if that were the case:

... in the absence of ameliorative action by the government, it will be the biggest cause of social tensions in China. It is probably the reason that recently the government ordered an increase in the remuneration of its peasantry for their products. That was partly designed to stop or limit or at least control the flow of rural migrants to the cities but was also designed in recognition of the fact that they were becoming relatively impoverished.⁶¹

2.44 Dr Dellios stated that, because of the rich-poor divide, China is highly focused on the internal dimension of its security.⁶² Dr Davis was also of the view that the Chinese government, aware of the differences between regions, was seeking to address emerging problems. He stated:

The principal benefit is that the Chinese leadership know the challenges they have. There is no denial of the problems. They are aware of and

60 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 43.

61 *Committee Hansard*, 27 June 2005, p. 77.

62 *Committee Hansard*, 1 August 2005, p. 62.

acknowledge the problems. I think they are working their way through what they can do about them.⁶³

2.45 Indeed, China has progressed through a number of phases since 1978 in its struggle against poverty. In 2001, the Development Orientated Poverty Alleviation Program was initiated with the aim of solving 'the subsistence problems of the remaining absolute poor and to help the low-income group to improve their development capability'.⁶⁴ In May 2004, Premier Wen noted that despite their achievements in alleviating poverty, China faced a daunting task in reducing poverty. He stated that China still had 'nearly 30 million rural citizens who do not have adequate food and clothing, over 20 million urban residents whose incomes are lower than minimum standard, and over 60 million handicapped in need of help'.⁶⁵

2.46 In March 2005, he told journalists that he was 'deeply aware of the paramount importance of agriculture, rural areas and farmers in China'. In his view, there would be no moderate prosperity in the whole country without moderate prosperity in the countryside. He stated that he had a long-term plan, made up of two phases, for rural reform and development. The first phase involved liberalising productivity in rural China through the introduction of a family contract system that allowed farmers greater autonomy in production and management. He maintained that China had since moved into a second phase in which 'we make industry nurture agriculture and cities support the countryside'. This second phase has four objectives:

- promote rural reforms with rural tax and administrative fee reforms;
- improve productivity in the countryside by building water conservation projects and promoting wider applications of agriculture-related science and technology;
- develop education, science, technology, culture and other social undertakings in the countryside; and
- promote primary-level democracy by ways of self-governance among villagers, direct elections at the village level and greater transparency in government affairs at the country and township levels.⁶⁶

2.47 President Hu Jintao noted that 'when the farmers can lead a good life and assume a higher overall quality, the vast countryside will be stable and prosperous'.⁶⁷

63 R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

64 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004.

65 Wen Jiabao, 'Work Hand in Hand for Global Poverty Reduction', Speech, Shanghai Conference on Scaling Up Poverty Reduction, May 2004, p. 2.

66 'Premier Wen Jiabao's press conference', 14 March 2005.

67 'Building harmonious society crucial for China's progress: Hu', *People's Daily Online*, 27 June 2005.

Urban poverty

2.48 The problem of unemployment and poverty is not confined to the rural areas of China. According to a report on economic and social development, the year 2005 will see 11 million urban residents, including those entering the workplace for the first time, ex-servicemen and college graduates needing to find employment. It stated:

There are now 13 million unemployed and laid-off urban workers, and large numbers of surplus rural laborers need to find work in urban areas. Employment pressure is therefore still intense. Estimates based on the relationship between economic growth and job creation show that by adhering to a vigorous employment policy, the country should be able to create 9 million more jobs this year. Given that we will basically incorporate subsistence allowances for workers laid off from state-owned enterprises into the unemployment insurance system this year, the registered urban unemployment rate at the end of 2005 is expected to be somewhat higher than last year.⁶⁸

2.49 Dr Davis told the committee that there are 400 million people floating or on the move [reserve labour pool]. He stated further that China does:

...have a major challenge in handling that unrest, but managing unrest is not unknown in Chinese history. We do not endorse the way it was done. It was a very heavy-handed militaristic approach, but they do have to bring them along. The best way they can do that is to sustain those growth rates.

...

...There are a great many people who would say that, within the Chinese culture, stability, the social order and the pressure to make commerce and entrepreneurship come first and politics is indulgent.⁶⁹

2.50 China does not shy away from this problem of reducing poverty and publicly acknowledges that poverty alleviation is one of the 'largest challenges in the developing process of China'.⁷⁰ Chinese leaders state forthrightly that the employment situation is gloomy. The 2005 report on China's economic and social development

68 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

69 R. Davis, *Committee Hansard*, 29 June 2005, p. 30.

70 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004. See also, Dr Rosita Dellios, *Committee Hansard*, 1 August 2005, p. 63.

plan recorded that the income gap between some members of society is 'too wide, and some low-income people lead difficult lives'.⁷¹

2.51 The Chinese government has stated its commitment to help people raise their standard of living and has set itself a target of creating 9 million more jobs for urban residents and containing the registered urban unemployment rate to 4.6 percent.⁷²

2.52 The World Bank surmised that much of the rise in inequality 'may well have been the result of a desirable growth strategy that maximised overall gains for the average Chinese'. It argued that inequality has become a major policy concern with authorities facing the task of finding policies that will moderate inequalities but at the same time maintain high growth and alleviate long-term poverty. It noted, 'perhaps most important in achieving this is to ensure that those that have become rich first do not capture the political debate to prolong their privileges that are no longer needed to sustain growth'.⁷³

Committee view

2.53 The committee recognises that China has made significant gains in alleviating poverty but that much more needs to be achieved. It notes further that although its economy has been expanding at a remarkable rate in recent years, the reduction in the number of poor has not been commensurate and unemployment remains a serious problem. The gap in living standards between the rural and urban areas, the extent of poverty in the country coupled with a people increasingly exposed to new ideas and higher expectations creates a major problem for China's leaders in keeping China on a steady course of economic and social development.

China's energy and resources needs

2.54 A number of analysts contend that China's growing appetite for energy resources presents a serious challenge to its economic growth rate.⁷⁴ Chinese domestic sources cannot meet the demand and China relies heavily on overseas suppliers. This

71 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005. Premier Wen informed the National People's Congress in 2005 that the 'development gaps between urban and rural areas and between different regions and the income gap between some members of society are all too wide. Some low-income people lead difficult lives and there are more than a few factors threatening social stability'. *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

72 See also *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

73 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 9.

74 Wayne W. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 26 May 2005.

reliance places China in a vulnerable position. Indeed, two researchers from the Hong Kong University of Science and Technology argued that China's access to foreign resources is 'necessary both for continued economic growth and, because growth is the cornerstone of China's social stability, for the Chinese Communist Party'.⁷⁵

2.55 Yet even with foreign supplies, China over recent years has experienced power shortages. ABARE noted that power shortages have become a major issue in many parts of China since 2003. It recorded that 24 of 31 provinces and regions suffered from power shortages in 2004, an increase from 19 in 2003.⁷⁶ The Energy Information Administration noted that in 2004 Beijing shut down approximately 6,400 industrial facilities for one week and then staggered their operations for the rest of the summer to avoid peaks in demand.⁷⁷ Power shortages have continued into 2005 and the demand for more energy sources is steadily increasing. Dr Davis highlighted the rate at which this demand is rising:

The old rule of thumb is that energy supply has to grow at about 2½ times the rate of your economic growth. It is simple arithmetic. Even if they got six per cent per year, their demand for energy is going to grow at 15 per cent. This is an economy that already accounts for about \$1 in every \$8 of total world production. According to this morning's newspapers, at the moment the Chinese economy is one-fifth of the size of Japan's economy. By 2050, it will be six times the size of Japan's economy. We cannot even contemplate that...It is the single largest source of growth in the world economy, outpacing the United States. Those threats are not just abstract.⁷⁸

2.56 China has acknowledged that economic expansion and growing prosperity has placed a significant strain on its energy supplies and infrastructure.⁷⁹ For example, Madam Fu stated that by 2010 China will have to import one third of its mineral needs and by 2020, half of China's consumption of oil and gas will depend on overseas providers.⁸⁰ As noted above, China has already experienced power shortages.

2.57 China's leaders also noted that stubbornly high international oil prices and the rising prices for the means of production could slow the rate of growth in the volume

75 David Zweig and Bi Jianhai, 'Feeding the Dragon', *Australian Financial Review*, 9 September 2005.

76 *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 277.

77 Energy Information Administration, *International Energy Outlook 2005*, Office of Integrated Analysis and Forecasting, U.S. Department of Energy, Washington, DC, July 2005, p. 67.

78 R. Davis, *Committee Hansard*, 29 June 2005, p. 22.

79 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

80 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

of trading activity for China.⁸¹ At a press conference in March 2005, Premier Wen stated that coal, electricity, oil and transportation were in short supply. He pointed out that in the first two months of 2005 power generation had increased by 12 per cent but that '25 provinces, autonomous regions and municipalities experienced blackouts'. He stated bluntly that the 'supply chain is overstretched'.⁸²

2.58 Securing its supply of energy resources by improving domestic productivity is a high priority for China. Coal in particular remains its major source of energy. As part of its economic and social development plan, the government stated in 2005 that it would 'organize and guide the efforts of enterprises to increase effective supply without compromising production safety'. The report went on to state:

Focusing on developing large coalmines, we will put more effort into expanding coal transport facilities such as railways and embarkation ports in the north, and we will continue to support renovation and upgrading of coalmines for production safety.⁸³

2.59 Determined to 'stay on the new road of industrialization',⁸⁴ the Chinese government also announced that it would:

- accelerate major projects for liquefying coal, exploiting petroleum and natural gas, generating power by natural gas, and utilizing renewable energy sources;
- rationally develop hydroelectric power;
- intensify the development of inter-regional power grids to continue to improve the demand side management of power;
- implement a principle of guaranteeing power supply to some sectors and restricting it for others to ensure the orderly supply and rational use of power;
- improve the policy of adjusting the charge for power in response to changes in demand and charging different prices for different users to promote power conservation; and
- rationally arrange transport availability, giving priority to transport of grain, coal, petroleum fertilizers and other key goods and materials.⁸⁵

81 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

82 'Premier Wen Jiabao's press conference', 14 March 2005.

83 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

84 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

85 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

Committee view

2.60 China faces a major challenge to relieve the supply shortages for its energy demands. There are significant opportunities for Australia as a major producer of minerals to assist China with its growing need for resources. This matter is considered in detail in chapter 7.

Environmental degradation

2.61 Environmental degradation associated with the increasing demand for resources and China's policy for developing its domestic sources also poses a threat to the economic prosperity and stability of the country. The recent OECD economic survey of China found that five of the ten most polluted cities in the world are in China.⁸⁶ The US Department of Energy noted that about 30 per cent of China's territory experiences acid rain precipitation.⁸⁷ According to Madame Fu, the negative effect caused by the excessive use of land, water and other resources 'is worrying'. She stated that 'Though tremendous efforts and money have been put into increasing forest and grassland, treating deserts as well as river and lake pollution, the problem is still serious and the pressure is mounting'.⁸⁸

2.62 China has placed a priority on strengthening environmental protection and ecological improvement as a task to be accomplished during 2005. The *Report on the Work of the Government* stated:

We must promptly solve environmental pollution problems that seriously affect the health of the people. Focusing on prevention and control of water pollution, we will intensify efforts to clean up industrial and urban pollution and rural nonpoint pollution and to protect potable water sources. We will implement a system for strictly controlling the total amount of pollutants discharged and increase monitoring and law enforcement relating to environmental protection. We will energetically promote clean production and develop environment-friendly industries.⁸⁹

2.63 In July 2005, Premier Wen urged China to become a 'resources-saving society':

...while promoting economic growth, we must strengthen environmental protection and improvement so that our people can drink clean water,

86 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1,00h (accessed 19 September 2005).

87 Office of Fossil Energy, *An Energy Overview of the People's Republic of China*, p. 21, http://www.fe.doe.gov/international/EastAsia_andOceania.chinover.html (accessed 23 September 2005). See also chapter 7, paragraphs 7.27–7.28.

88 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

89 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

breathe fresh air, have safe food, and work and live in a sound environment.⁹⁰

Committee view

2.64 Environmental degradation is a serious problem in China and one that is worsening as the country accelerates down the path of industrialisation. Australia needs to join the international community in helping China better manage its economic development in a way that will not only prevent further damage to its environment but help China repair damage already done. In the bilateral context, Australia can also make a contribution. It has the research and development capacity to assist China and should place a high priority in using this capacity to participate in joint ventures with China to combat its environmental problems. The contribution that Australia is making to assist China to better manage the environment is covered in greater depth in chapters 7 and 17.

External threats

2.65 China's emerging political and economic dominance in the region and its presence as a powerful force in world affairs poses a challenge for its nearest neighbours, its key trading partners and its major strategic allies. All confront the difficulty of managing a relationship with a country that is undergoing political change and rapid economic and social reform and whose influence is expanding. China's relations in particular with Taiwan, the US and Japan are fraught with difficulties. The recent flare-up of tension between Taiwan and China over independence and the demonstrations in China against Japan over the interpretation of history are most sensitive issues and indicate deep-seated potential for conflict in the region. The bilateral trade deficit of the US with China is also a factor that places strain on the relationship. The deficit rose from US\$30 billion in 1994 to \$US162 billion in 2004, the largest the US has with any single trading partner.⁹¹ Australia faces a serious dilemma should tensions mount between Australia's closest ally, the US, and one of its most important trading partners, China.

2.66 These matters encroach on the terms of reference dealing specifically with China's political and strategic influence and will be dealt with in full in the committee's second report which is to be tabled some time after the presentation of this first report.

90 'Premier Wen urges gov't organs to save energy', *People's Daily Online*, 4 July 2005.

91 Congressional Research Service, CRS Issue Brief for Congress, China-US Trade Issues, updated 4 August 2005, p. 2. It noted further that the US trade deficit with China in 2004 was 30.6% higher than it was in 2003. Further, that during the first five months of 2005, the US trade deficit with China was 34% higher than the same period in 2004 and averaged \$3.6 billion per week. See also *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 275.

China's growing importance and the need to understand the nature of change

2.67 Clearly, China is important to Australia which has a vital interest in the country maintaining its steady and sure economic growth path. As discussed above, there are potential social, political and environmental factors that could derail China's economic progress. Australia needs to monitor developments in China and have specialists available who are able to analyse events and accurately predict future trends. Dr Stephen Morgan looked at the importance of Australia having a pool of experts at the ready to advise decision makers in Australia on developments in China. He stated:

I guess my main concern is that we are struggling to maintain our existing capacity. This obviously presents difficulties if we have a major meltdown in China. For example, due to social or political disturbances creating a crisis in the legitimacy of the Chinese Communist Party, we may find that Australia would not have sufficient people able to provide advice to intelligence agencies, your committees and defence services, let alone provide advice to business and civilian interests wanting to work out how to deal with what is going on in China. It is important that we look at how to improve the number of Chinese-competent people coming through, but not only in language.

I would like to see more people primarily trained in disciplines such as law, economics, business, engineering and architecture who are competent to use Chinese and can conduct themselves effectively in Chinese when dealing with their colleagues in those areas. I do not think we have been able to properly develop that here. I made a couple of suggestions such as that we try to provide more support for in-country training. Across Australia we see innovations such as the modern language diploma at University of Melbourne, which encourages students to do a foreign language whilst also doing law or engineering or whatever. But I think we need those broader discipline areas to be married with competency in Asian languages and, in terms of the reference of this committee, in Chinese.⁹²

Committee view

2.68 Undoubtedly, China is of growing importance to Australia which is coming to rely increasingly on that country's continuing prosperity to support Australia's economy. The committee endorses the view that Australia should place a high priority on ensuring there is a highly skilled pool of China experts in Australia ready to advise government and business leaders on developments in that country. This message is repeated throughout the report and made most forcefully in chapter 15.⁹³

92 *Committee Hansard*, 27 June 2005, p. 3.

93 See also chapter 13, paragraph 13.31–13.32.

Conclusion

2.69 It is clear that Chinese leaders face difficult challenges in piloting their country through a period of rapid transformation. Guided by the desire for steady economic growth, political stability and social harmony, the Chinese government, to date, has taken a prudent approach to managing its economy. The committee shares the optimism of most commentators that although there are problems ahead for China, it will gain in influence and economic strength as it continues on the path of economic reform.

2.70 China's continuing economic growth and expanding trading activities offer new opportunities for its trading partners. It is a huge market for a variety of goods, services and investment. Its sheer size and the dynamics of its growing economy make it increasingly important to its trading partners. Against this background of a booming economy and rapidly expanding Chinese market, the following chapter looks at the nature of Australia's trading relationship with China and the effect that China's growing prosperity has on Australia as a trading partner.

Part II

Part I of the report recognised that China is now a force to be reckoned with in the global marketplace and is set to exert growing influence on world economic affairs.

Within this context of China as an economic powerhouse, Part II of the report focuses on Australia's trading links with China. It looks first at the overall trade relationship including incentives and impediments to trade before examining in greater detail the agriculture sector, the manufacturing sector, the minerals sector, and the services and investment sectors.

