

## **China and Australia**

### **Luncheon Speech at the Committee for Economic Development of Australia (CEDA)'s annual Canberra Conference**

Fu Ying, Canberra 2006-5-24

Thank you Chairman Mr. Brian Redican,

Mme. Catherine Baldwin, Chief Executive of CEDA,

Distinguished guests, ladies and gentlemen,

Thank you for inviting me to speak here.

Today I will mainly talk about China, its development and the relations with Australia.

The world sees in China a rising power. We see ourselves as a big developing country.

There are undoubtedly impressive figures about China's growth.

From 1978 to 2005, China's GDP grew at an average speed of 9.6%, from 147 billion US\$ to 2.2 trillion, 15 times increase. The ranking in the world rose from No. 15 to No. 4.

External trade grew by 16%, from 20.6 billion US\$ to 1422 billion, increased by over 70 times and is ranking the 3rd in the world.

By the end of last year, there are 530 000 foreign investment companies in China, totaling 620 billion US\$.

However, there is another side of the coin.

China is at very early stage of industrialization and is confronted with many difficulties and constraints.

China's per capita GDP ranking in the world is No. 112, only 1700 US\$, less than most Australian's earn in a month. Many in this room earn more than that in a week.

Two thirds of the 1.3 billion people in China are in the rural area with very low living standard. Over 20 million people live under the poverty line of 1\$ a day.

It is a major challenge for China to address the disparity between the urban and rural development, while not slowing down the urban growth.

A serious of measures is being taken, the most significant being the waiver of agricultural tax.

In China's long history of thousands of years, farmers paid tax to feed the central kingdoms, and then the successive governments. Now for the first time, the farmers are paying no more tax. Its significance can't be over stated.

This is an important policy effort of the government to share the benefit

of reform with the largest group of Chinese population. It's also an indication of China's economy tilting from agrarian-based towards industry-based economy. It will undoubtedly unleash new vigor in rural development.

This year marks the end of the 10<sup>th</sup> Five-Year Plan and the start of the 11<sup>th</sup> Five-Year Guidelines.

The new guidelines were adopted in March at the National People's Congress. It reflects the policy and investment direction and can give a clear indication of where the economy is heading for.

Let me give you an outline of its 9 major targets.

The first is to maintain stable macro economic growth. The target of GDP growth is 7.5%, and the per capita GDP is expected to double. 45 million new jobs will be created. Measures will be taken to improve current account balance.

The second is to improve the production structure and upgrade the pattern of growth.

As you are aware, one of the main strength of China's economic growth is its huge manufacturing power. China is often referred to as the factory of the world.

There is obviously some truth in the name. China is the world's number

one producer of many consumer goods such as television sets, bicycles, furniture, air-conditioner, shoes etc. It is No. two in ship making, and No. three in producing machineries.

Looking back at the history of world economic development, UK, US and then Japan all had their share of the title: world factory. They lead the world at different times with their advance technology and high quality manufacturing skills. They still own the majority of the brand named products.

China is far from fitting the title. It may be a big but not a strong manufacturing country. China's products are mostly at the low value added end. In spite of the huge volume of goods China is exporting, the value takes up only 5% of the global market. Japan takes up 15% and US 20%.

We've keenly realized that we can't expect to keep the pace of growth by staying at this level. We need to give greater science and technology input into our manufacturing industry. That is why renovation and technology are given priority in the new Five-Year Guidelines.

The third target is to raise the efficiency of resources consumption. For example, the per unit energy cost will be reduced by 20% for the new GDP growth. There are also specific targets for the reduction of water consumption as well as industrial waste management.

Energy and mineral resources supply is clearly the bottleneck for China and the global price increase is not a helpful trend for China.

Tough measures will be taken to increase the efficiency of production, the development of new technology as well as to look for more sources of supply both domestically and internationally.

The fourth is the balance of urban and rural development. The target is to increase the urbanization level up to 47%. There is a new drive to build “socialist new rural community”, which is focused on improving health, education and welfare system in the rural area.

The fifth is improving the national public services. Compulsory education is raised from 6 years to 9 years. General public services will be given priority and the poverty population will be further reduced. There will be strong investment in improving public security and work safety.

The sixth is to strengthen sustained development. The populations level is expected to be at 1.36 billion and arable land 120 million hectares. The deterioration of the ecological environment will be curbed and gradually addressed. Total forest coverage will be extended to 20% of the land.

The seventh is about market reform. Further steps will be taken to reform the administrative management, as well as reforming the state owned enterprises. Financial and budget reforms are expected to continue. There is also emphasis on market monitoring mechanisms.

The eighth target is to increase the urban and rural income by 5% annually, with the hope to significantly improve the quality of life by increasing housing, transport, education and other facilities.

The ninth is to strengthen the rule of law and build up democratic governance. One popular slogan in China is to build harmony, meaning harmony in people to people relations, harmony between the government and people, harmony in the society and harmony with the environment.

Those are the focus in China in the coming five years.

Where does Australia stand in the future development of China?

There are two points I want to make.

First, whatever we are doing, whatever is propelling our robust trading and investment relations, will surely continue.

The resources trading will grow as China continues its upward curve with its fast industrialization drive.

More Chinese students will find their way into Australian universities as more Chinese parents are able to afford overseas education for their children.

More tourists will come this way as more and more Chinese are touring the world.

Secondly, new areas of cooperation are opening up as China is upgrading

its productive force. Australia is strong in the services area. The new Five-year Guidelines have offered more opportunities. Australian science research result and technology, law and consultancy strength can all find a widening market in China.

We are already seeing more and more Australian companies and individuals entering into the China market.

Last month, Chinese Premier Wen Jiabao made a fruitful visit to Australia. Before leaving China, Premier Wen took an interview with the Australian before coming here. It was a very comprehensive talk by a Chinese leader on relations with Australia. Many are encouraged when he said: together our two nations have a prosperous future.

In his 53 hours in Australia, he had 19 official functions, including substantive talks with federal and state leaders, and visiting industry and research projects.

My feeling is that this visit will be recorded in both countries as an important political dialogue, at a key juncture of our relations, on how we understand each other, and where our relations is heading for.

It was very clear during the visit that, there is also consensus on both sides of the Australian political spectrum that the fast growth of China is seen as a positive development for Australia and for the world.

This gives the two countries a high degree of comfort in deciding where

our relations should go.

In his talks with the Prime Minister, Premier Wen proposed for the two countries: to build cooperation partnership in the 21 century.

He suggested for the two sides to have regular leaders meeting, to speed up FTA negotiations, to expand exchanges in science & research, education and culture, and to have closer coordination on regional and international affairs.

Prime Minister Howard responded positively and added his ideas about how to move our relations forward.

Their fruitful discussions were reflected in the 8 documents signed during the visit.

Among them, the one on the peaceful use of nuclear energy got most of the media coverage.

For China, the signing of the two documents has opened the way for commercial negotiations, which will take place at some later stage.

Australia has a good legal environment and rich reserves. It is therefore one of the options for China when considering uranium import.

According to the 11<sup>th</sup> Five Year Guidelines, nuclear power will grow from 2 to 4% in the national energy mix, which would probably need 30 new nuclear power plants in the next 10-15 years and the import of uranium will be arranged accordingly.



Premier Wen was also expressed interested in partnership with Australia on other renewable energies. I found there are often reports in China about research result in Australia on new energies.

The 6 economic documents signed at the meeting between Minister Vaile and Makai are of no less importance. They cover wide areas and the total value involved amounts to 5.4 billion Aus \$.

One is on the purchase by China National Chemical Corporation (CNCC) of Qenos producing polyethylene, which I visited in March.

I found this is a sound purchase. Apart from making profit, it is a well-managed plant. Its 1237 days of no casually record on the day of my visit was impressive. Its equipments and technology spread from 1960s to 1990s, and all of them are functioning well. Its environmental standard is high too.

By purchasing the plant, CNCC not only will make profit, but also learn and copy its management skills in CNCC plants in China.

The Harbin Power Engineering Company's agreement with HRL is on IDGCC power plant in Melbourne. It is a commercial test plant with the technology of cleaner use of brown coal. Its success will enable the partners to reproduce it in China and other parts of the world.

The Weppa Aurukun bauxite project will be the largest resources investment from China.

The significance of these deals is that they herald a new era for our

relations. I will not be surprise if investments grow in both directions in the coming years.

When Premier Wen was here, there was wide media coverage on the visit. I read many of them and had over 40 articles translated as excerpt for the Premier and his party. The coverage touched on almost every aspect of China and our relations. It is a good opportunity for us to know how Australian media and the public view China.

Of all the events, what I enjoyed the most was the jogging in the early mornings. In Canberra Premier Wen and Prime Minister Howard had a jogging diplomacy. They talked about many things including each other's families. The Prime Minister was obviously very proud of his daughter and two sons. Premier Wen also talked about his children and his pride all over the face at the mentioning of his three grandchildren.

According to Prime Minister Howard, the early morning walk was a major breakthrough in the Australian China relations.

To conclude, I agree with the Prime Minister that, of all the important relationships Australia has with other countries, none has undergone a greater transformation over the last decade or more, as has the relationship with China.

I hope the business world in both countries will grasp the opportunities offered at this important time of changes and build our relations to a new height. Thank you.