



**LEADER OF THE OPPOSITION
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FEDERAL MEMBER FOR WENTWORTH**

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**TRANSCRIPT OF THE HON. MALCOLM TURNBULL MP
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E&OE.....

“Power Balance in Asia: The Coalition perspective”

Well thank you very much, David. It’s great to be here today – and congratulations to David for what you and your family do in so many ways, but particularly in establishing the Lowy Institute – it’s an enormous contribution to the extent and the quality of public debate in Australia.

Well, ladies and gentlemen, let me begin today with a story about a spectacular Australian success in the export markets of Asia.

It is about a milestone very recently achieved, but scarcely acknowledged.

In 2008, Australia’s merchandise exports to one Asian market grew by a spectacular 50 per cent.

And, for the first time ever in a calendar year, Australia’s exports to that same market surpassed the \$50 billion mark – more than four times greater than our exports over the same year to the United States.

So which of our customers am I talking about?

If you think the answer is China, think again

The dramatic jump in exports growth to Japan in 2008 rated barely a footnote in a statement by Trade Minister, Simon Crean, on February 3 despite the fact that, in the months of November and December, the value of our exports to Japan exceeded the value of our exports to China, the US and India combined.

Is anyone as surprised as I am by how little attention this has received?

You might have thought this stellar performance in our trade with Japan would have figured more prominently in government efforts to keep up the confidence of Australians about our capacity, at least initially, to withstand the difficult global economic conditions we face.

Instead, a front-page report in the *Sydney Morning Herald* had the Prime Minister seeking to calm Australians with news of how he had received a personal assurance from Premier Wen Jiabao that, “China’s demand for exports would remain strong enough to prop up the Australian economy in the face of the global economic slowdown.”

I raise this simply to make the point that sometimes we tend to become a little too fixated on China in our strategic thinking, to the exclusion of other nations and other issues.

For all the inevitability of its expanding strategic footprint, we need to remind ourselves that China is but one major power among several major powers in the region. In that context, our strategic partnership with our great ally, the United States – and the web of other US alliances across the region, including Japan, as the second largest global economy – will remain absolutely critical as far into the future as the eye can see.

Yet such is the extent to which China has become the headline story in our foreign policy, economic and strategic debates that I feel duty bound to devote much of our time here today to setting out the Coalition's perspective on how relations with China should best be managed within our broader foreign policy.

Australians must always think clearly and objectively about our foreign relations and those with China in particular.

For it is not helpful either to exaggerate fears or expectations of China's role as the coming world power.

In this, I subscribe to the formula articulated by my good friend, and a great Australian foreign minister, Alexander Downer, who said our approach to China's re-emergence as a great power should be characterised by "a spirit of ambition without illusion."

Above all, relations with China must be rigorously guided by the same principles that guide China's relations with us – national self interest.

I spent some years of my business life pursuing mining ventures in China.

These found me not so much in the big cities, but in provincial cities and towns negotiating access to mineral resources.

As a result of that work I established what was, I believe, the first Sino-Western mining venture, a zinc-gold mine in Zhangbei Country in Hebei Province at a place called Caijiaying.

As I travelled around dealing with provincial and municipal governments, geological bureaus as well as central ministries in the capital, I learned to respect how different Chinese perspectives were to our own. Yet there were also some fundamental similarities.

I found the keys to business success were straightforwardness, clarity of expression and above all, strength of commitment and purpose.

There were many moments of great insight into the realities of Chinese administration.

On one occasion, I was spending a lot of time in Shenyang, the capital of Liaoning Province, discussing gold mining joint ventures with the local geological bureau, which had of course access to all the relevant geological data.

The Director of the Bureau and I had been looking closely at some deposits in the hills behind Dalian when he said we should jointly develop the Paishanlou gold deposit.

I told him I had seen the then Premier, Li Peng, sign a joint venture to develop that deposit with the largest gold mining company in the world, Barrick Gold Corporation, in Beijing and in the presence of the Canadian Prime Minister, Brian Mulroney.

The Director said, yes, that had been done. But the people in Beijing had cut him out of the deal – and so he had refused to give them any of the data.

How do you get away with that? I asked.

“*Shan gao huangdi yuan*” he replied “The mountain is high and the emperor is far away.”

I stayed out of that one – but I also noted some time later, Barrick pulled out of the deal complaining they couldn't get the data and the Liaoning Geological Bureau developed the mine themselves, opening it in 1998.

However against that reality of considerably more local autonomy in fact than most people realise or recognise, you have to set 3,000 years of a highly centralised and elitist administrative culture.

China has a sense of itself, and its exceptionalism, that is unique.

The Chinese know that three hundred years ago they were the wealthiest and strongest nation in the world.

Then they became weak and vulnerable.

European nations a fraction of their size plundered China and carved out concessions – be they territorial, political or commercial.

And indignity of indignities, tiny Japan, conquered and occupied much of their nation.

We should never forget that freedom from foreign ownership and control of China's resources was a key objective of Mao's revolution.

No wonder his first words as he stood, triumphant on Tienanmen, were “*Zhongguo renmin zhan qilai le*” – The Chinese people have stood up!

Then decades of communism saw China's potential suppressed and diverted. Catastrophic political measures like the Great Leap Forward and the Cultural Revolution devastated generations.

Chinese of our parents' generation would have been excused for thinking that history was, for China, just a series of unrelenting humiliations and calamities.

Today, all that has changed.

The rapid growth in Chinese wealth and power that frightens many in the West is, from a Chinese perspective, simply a return to situation normal – a return to a time when China, once again, is standing up as the great power it has been for almost all of recorded history.

So with those reflections – both general and personal – let me now set out some of my views on how Australia can best position itself for ongoing success in the Asia-Pacific and in particular in terms of our relations with China.

In doing so, I want to stress the importance of Australia demonstrating consistency of purpose, a coherent set of principles, fidelity to the values of the Australian people and maximum transparency in the conduct of its relationships across the region.

The rapid economic growth in China and India, in particular, is giving both countries greater geopolitical clout.

China is stepping into the role of a great power more rapidly than India but it would be naive to imagine India is going to be far behind.

And given the spectacular impact on living standards of rapid economic development in China and India, as indeed across most of East Asia, we should regard these changes overwhelmingly as a positive.

If you take the APEC economies as an example, which together account for three billion people, poverty has halved in just 20 years.

By any measure of the human happiness index, that represents an astonishing quantum lift in prosperity and security.

This owes much to the embrace by Asia, including by the world's largest communist state, of many of the principles of economic liberalism.

For this reason, we in the Coalition approach our engagement across the Asia-Pacific with a sense of confidence and optimism.

This does not mean there will not be many challenges.

To our far north, Russia appears frustrated, and sometimes fractious.

North Korea remains dangerously unpredictable.

In central and south Asia, non-state actors such as al-Qaeda and the Taliban, through their campaigns of terror and insurrection, seek to undermine the very viability of nation-states, not only Afghanistan but, increasingly, and troublingly, Pakistan.

Nearer to home, Burma remains incorrigible, and Thailand divided.

Even in the Pacific, among the small states in our direct sphere of interest, and responsibility, we have seen democracies demeaned and diminished by resort to power through the barrel of a gun.

These are difficult times, made many times more difficult by the shock to the global economy. No longer can we count on the cohesive effects of the general lift in the comfort index arising from a lengthy global boom.

In Australia's case, one immediate effect is the fall-off in volumes and prices for our exports of coal and iron ore to the leading markets and it might be some time yet before we see a repeat of those record-breaking trade figures for 2008.

This changing landscape will demand that we demonstrate superior management skills to ensure our interests are protected and enhanced.

This brings me to the performance of the Rudd Government.

Anyone watching the Prime Minister's helter-skelter diplomacy in these past months might be left puzzled as to where exactly we are seeking to position ourselves in our relationships with the leading powers of Asia.

Several Asian capitals could also be forgiven for being slightly mystified.

What were the Japanese to make of Mr Rudd's baffling decision to exclude Tokyo from his first major trip to the region as Prime Minister?

What were Jakarta and Singapore to make of his rush-of-blood commitment to reinvent the architecture of the Asia-Pacific before consulting properly on the implications for existing regional fora?

What was New Delhi to make of the Rudd Government's talk of stronger and deeper ties when measured against Labor's boycott of uranium exports to India, for reasons owing far more to internal politics within the ALP than to principle or national interest?

Strength of purpose communicated with clarity and consistency should always be the hallmark of our foreign policy.

The Prime Minister's approach to China has not been as clear and consistent as it should be, or given his background, as we would have expected it to be.

His attempt to present himself, for example, as some kind of intermediary between the United States and China is neither helpful nor convincing. Nor does it seem to be particularly welcome on either side.

The relations between the United States and China are rich, complex... and very capably managed by experienced people.

The risk of Mr Rudd representing himself as some kind of trans-Pacific interlocutor is that he will be perceived by the Americans as being overly sympathetic to China and by the Chinese as a bearer of other people's messages, rather than an advocate of his own.

We must never forget that great powers, like great rulers, regard deference as their due.

So those who seek to earn brownie points, by flattering or favouring a great power are at risk of being seen as doing no more than what is expected, at worst as showing weakness.

I was disappointed, therefore, by the manner of Mr Rudd's recent very public advocacy of China having a larger shareholding in the IMF.

Now at one level this is no big deal.

After all, the Howard Government supported changes to the IMF to allow China to have a greater role at the G20 meeting in Melbourne in 2006.

But the persistent way Mr Rudd advocated this agenda on his recent overseas trip begged at least two questions.

First, why single out China? What about India? What about Brazil or Russia? The membership of the IMF reflects the economic order of a generation ago, that is true, but China is not the only country whose economic stature has dramatically grown.

Second, why was the Australian Prime Minister running this line so relentlessly?

On his most recent trip to New York, Mr Rudd became so seized by the imperative of greater global engagement with China that he forgot he had a great story to tell American audiences about the strength, stability and security of our own economy and financial system, as an attractive destination for business and investment

Then came the controversy over his Defence Minister's receipt of substantial gifts of travel to China which he had not disclosed.

All of a sudden, Mr Rudd became very sensitive to criticism about his approach to China.

This led to his refusal, on a television set, to sit next to the Chinese Ambassador to Britain, Fu Ying, who was previously Ambassador in Australia and well known to many of us.

Let me say, I will never decline the opportunity to sit next to and converse with Ambassador Fu.

Now if this episode appears erratic, what are we to say of the recent high-level briefings to the media about the strategic underpinnings of the Government's Defence White Paper?

Let me state this plainly: it makes no sense for Australia in 2009 to base its long-term strategic policy on the highly contentious proposition that Australia is on an inevitable collision course with a militarily aggressive China.

For our own part, Australia should be proactive, working with our allies, in encouraging China's constructive engagement with the region and globally, across the whole gamut of economic, environmental and security challenges facing the world.

We are at our best when we are honest, upfront and true to ourselves.

Neither an intermediary, nor an apologist, but a straightforward, respected and distinctively Australian voice in the great debates of our time.

Given China's experience through its history of unwelcome foreign intervention, it is important China be reassured that we in Australia have no interest in policies of containment, directed at China or anyone else.

In longer-term defence calculations, we must be extremely careful not to confuse our analysis of China's aspirations for a credible modern military with an assumption that building more sophisticated defence systems will necessarily translate in the decades beyond into an aggressive mindset of force projection. China has shown no inclination since the 1970s to export its ideology.

Having spent some time working in both China and Siberia and knowing a little about the strength of feelings on both sides of the border, I must say that I have been very impressed by the way China has recently confirmed its borders with Russia.

Very large Chinese territories in the north east of China were acquired by the Russians following the unequal treaties of Aigun (1858) and Beijing (1860).

China's pragmatic acceptance of these historical wrongs is not indicative of a nation intent on a program of global expansion.

So while it would be unwise to discount entirely any contingency which may arise from a shift in the regional balance of power, nonetheless I believe the Prime Minister would have been wiser and stayed closer to the facts, if he had avoided rhetoric about an Asian "arms race".

Let's be very clear about this: there is no conceivable security challenge for Australia in the foreseeable future – be it border protection, preventing the spread of swine flu, or indeed any emerging regional tensions – that will not involve Australia working closely and co-operatively with key allies such as the US and Japan as well as our other friends and partners across the region.

We need China to be a responsible stakeholder in helping meet these challenges as they arise, and over recent times China has demonstrated an increasing readiness to step up to this responsibility.

We welcome China's broader engagement and look forward to China playing a leading and constructive role.

As Alan Dupont, reflecting on the recent media leaks about the strategic calculus of the Defence White Paper, pointed out in *The Australian* (April 14, 2009): "It makes no sense to allow worst case assessments of China's intentions and capabilities to determine the next 20 years of Australian defence spending and strategy, especially when these views are based on prejudice rather than informed analysis..."

Under the Howard Government we had enormous success in building a much stronger, broader and deeper relationship:

- opening dialogue at the highest levels across the issues of security, defence and human rights;
- better using people-to-people links going back six generations,
- and developing mutual understanding through the tens of thousands of young Chinese students choosing Australian universities for their further education.

What's more we did it while at the same time also strengthening our ties with the United States, Japan and India – a very significant diplomatic achievement.

This was a commonsense approach to the conduct of relations between two countries so vastly different in traditions and values while never forgetting that a readiness to stand up resolutely for one's own interests is a respected quality, in Asia as elsewhere.

Which brings us to the question of China's investment strategy – a strategy which offers opportunities and risks for a country like Australia.

A key Chinese strategy today is to acquire access and, preferably, control of natural resources around the world.

China knows that as its economy continues to grow it will need to import more and more of the world's natural resources.

Its growth, and demand for those resources, in recent years surprised everyone and this surge in demand resulted in a spike in prices before the recent downturn.

So it is in China's interest to be able to secure as much of these natural resources and do so in a way that ensures it will have enough supply in the future when growth returns to keep prices low.

And that is why China's state owned companies are busy buying resource assets on every continent, including our own.

In this sense there are parallels between China's strategy today and Japan's in the 1970s – but they only go so far.

China's acquiring companies are all state owned enterprises. They are in every respect agents of the Government and their activities, their access to finance are dependent upon their acting in accordance with the strategic direction of Government.

The global financial crisis offers enormous opportunities for China in pursuit of this strategy as it does for every cashed up investor.

While the rest of the world is deleveraging and asset prices are plunging, China is there with the largest cash stash on earth ready to take its pick of cheap assets.

So in a nutshell what is China's national interest? It is to use the opportunity of the global financial crisis to acquire as many premium resource assets around the world so that it emerges with a global portfolio of sufficient scale and diversity to enable it to secure long term and low cost access to the natural resources it needs.

Now, what then is our national interest?

Australia's national interest is to ensure wherever possible that the control of its major natural resource assets remains in the hands of companies that will pursue the development of those assets in a way that will maximise the economic returns for Australia.

We should be very wary of acquisitions where the commercial interests of the would-be purchaser may be at odds with the Australian national interest.

Peter Costello's decision to block Shell's acquisition of Woodside in 2001 was a good example of such an approach. Mr Costello took the view that Shell, owning a number of competing natural gas assets, may have had a commercial motive not to fully develop the Woodside resources.

Does it matter that a Chinese company is a state owned enterprise?

In my view it does matter a great deal.

One may well ask – why would we allow the Government of a foreign company to acquire assets in Australia we would never contemplate an Australian Government acquiring?

The hot issue in this context at the moment is the proposed Chinalco/Rio transaction, currently before the Foreign Investment Review Board.

Rio is in need of cash to pay down the debt it ran up when it bought Alcan at a massive premium to its share price in July 2007, just a month or two before the sub-prime crisis hit financial markets.

Chinalco had earlier staged a raid on Rio buying 9% of its shares on market as a means of blocking BHP's now withdrawn takeover offer for Rio.

The Chinese Government plainly saw it as not in its interest, as a big and growing buyer of iron ore, for the two largest iron ore producers in Australia to get together.

The financial crisis delivered an opportunity to go a lot further and the Rio/Chinalco deal will deliver to Chinalco interests in Rio which will not simply block any other party from taking over Rio, but which will give Chinalco direct management involvement and a high level of influence right down at the operating level of Rio's most important assets including in Australia its Hamersley iron ore operations as well a range of its aluminium assets.

The object of the Chinalco acquisition is plainly strategic. This will give Chinalco, and hence the Chinese government, the seat of greatest influence and access to information about production, costs, pricing and marketing strategies of our second largest resource company.

Rio promotes the transaction on the basis that Chinalco is paying a big premium to the current market value of the assets. That only serves to emphasise the strategic nature of the transaction.

This could be described as a classic case of "same bed different dreams" or "*tong chuang yi meng*". The shareholders of Rio are dreaming of selling commodities at the highest possible prices. The Chinese side is dreaming of securing long term, reliable supplies of all those commodities at what they would call reasonable, and what others may regard as low, prices.

I have three major concerns about acquisitions of this kind.

First, there is the matter of state owned enterprises. Assurances that they act the same as private companies are not persuasive.

After all we know that even Australian government owned businesses do not operate in the same way private companies do!

In China the chief executive and senior executives of the major SOEs two or three rungs or below are appointed directly by the Central Organisation Department of the Communist Party.

The architect of the Rio deal, Mr Xiao Yaqing, is now a Vice-Minister in the Government.

Indeed it is worth noting that the transaction documents would allow Chinalco to transfer its interests in the operating joint ventures including the Hamersley iron ore mines to another Chinese Government state-owned enterprise. The deal therefore is, for all practical purposes, between Rio and the Government of China itself.

Second, there is the matter of conflict of interest. It is obvious that there are concerns with a major purchaser of our commodities acquiring a position of considerable influence and access to information in the operations of a leading producer of those same commodities.

Third, there is the matter of mutuality. There is no prospect that an Australian or any foreign company would be able to acquire a stake of this kind in a major Chinese resource company – not least because they are all state owned.

Based on what we know from the public domain, it is the view of the Coalition that the Chinalco/Rio transaction should not be approved by the Treasurer in the form in which it has been presented.

None of these remarks should be regarded as being unsympathetic to Chinese investment per se.

And indeed there are growing concerns about, and opposition to, Chinese state owned corporations' acquisitions in other countries including the European Union and the United States.

One ready solution for China, of course, is to privatise these state owned corporations so that they can be seen to operate entirely independently of the Government. Given that the fastest growing and most dynamic firms in China are invariably, privately owned, that should be in China's interests as well.

So in summary; in dealing with China, as with all great powers, we should be straightforward and strong in clearly articulating our own national interest.

If we wish to express our approach in Chinese, then we could paraphrase Mao Zedong and say: "*Aodalia renmin zhan qilai le*" – The Australian people have stood up.

[ends]