

## Foreword

This Report is the product of a joint study undertaken by the East Asian Bureau of Economic Research (EABER) in the Crawford School of Public Policy at The Australian National University (ANU) and the China Center for International Economic Exchanges (CCIEE) in Beijing. We were privileged to guide this work through to its completion over the past year.

There are few more important economic relationships for Australia than the one it has with China. Merchandise and services trade with China now accounts for more than a quarter of Australia's overall trade. Chinese investment in Australia is growing fast. For many Australian businesses, the Chinese market represents an enormous potential growth market. For China, Australia has been a reliable provider of high-quality inputs from iron ore to education. But as China's growth model and policy focus changes, there are big adjustments that will have to be made in the relationship and new opportunities that are emerging for both countries.

Capturing the economic potential of the relationship will depend on how both the public and private sectors in Australia and China engage up close and shape the relationship. Getting the most out of the relationship for both countries will require a functional understanding among policymakers, corporate leaders and the broader community of the changes that will shape China and the regional and global environment in the next 10 years.

This is a critical moment in a once-in-a-generation transition. This is a vital opportunity for both countries to think about how to shape the future course of our relationship in a deliberate way, establishing some common reference points rather than simply muddling through.

What are the dynamic forces within China that are driving its new growth model? Our joint study looked both back at what has worked in the past and forward to what might yield the best results for the future of the Australia–China relationship, after the conclusion of the China–Australia Free Trade Agreement and in the context of the big changes that are taking place in the relationship.

This Report seeks to define the potential of our trade and investment relationships, economic cooperation efforts and other interactions, and to produce a tangible macro- and micro-level roadmap of the future relationship. We have also tried to identify where the economic relationship is likely to develop, looking at the sectors and activities in which trade and investment ties are likely to concentrate, and which industries will thrive and which will decline under China's new growth model.

The kinds of economic interactions and government policies that have underpinned the bilateral relationship thus far are the starting point: whether these are appropriate or sufficient as the economic relationship changes and diversifies is the question on which this Report has focused.

The Report identifies key policy changes in China and Australia that will be necessary to promote a deeper economic partnership, not only bilaterally but also through their regional and global cooperation. Situating these reforms within the broader context of the Chinese reform agenda (for example, financial and capital account liberalisation and deregulation) and the economic challenges facing Australia, this Report has set out detailed conclusions for Chinese and Australian policymakers, with clear priorities for action.

This is an independent joint study by leading think tanks in China and Australia, but it has also had the warm support of both governments and the cooperation of the key economic ministries and other agencies in both countries. It also marshalled broad Chinese and Australian participation and input from business, from governments at all levels, from leading research institutions, and from the wider communities of both countries.

The Report also engaged a top team of experts in both China and Australia to guide and assist in the preparation of the Report and its argument. We are very grateful for the support and advice of these very busy people in the completion of our work.

The Australian Group of Experts included: Dr Ian Watt, formerly secretary of the Department of the Prime Minister and Cabinet; Professor Gary Banks, Chief Executive and Dean of the Australia and New Zealand School of Government and formerly chair of the Productivity Commission; Professor Allan Gyngell, Director of the Crawford Australian Leadership Forum at the ANU and formerly director-general of the Australian Office of National Assessments; Dr Heather Smith, Secretary of the Department of Communications and the Arts; and Dr Phil Lowe, recently appointed to be the next Governor of the Reserve Bank of Australia; and with advice from Professor Ross Garnaut and Dr Geoff Raby, both former Australian ambassadors to China, along with other expert inputs.

The Chinese Group of Experts included: Professor Huang Yiping, Vice-President of the National School of Development at Peking University and advisor to the People's Bank of China (PBoC) Monetary Policy Committee; Dr He Fan, Chief Economist of the Chongyang Institute of Finance at the Renmin University of China, Senior Economics Fellow at the Institute for New Economic Thinking in New York, and Chief Economics Commentator at Caixin Media; Professor Zhang Yunling, Director of International Studies at the Chinese Academy of Social Sciences and a member of the Foreign Affairs Committee of the Chinese People's Political Consultative Conference; Dr Chen Wenling, CCIEE Chief Economist; Mr Liu Zuozhang, former minister-counsellor at the Chinese Embassy in Australia; Dr Zhu Baoliang, Director of the Economic Forecasting Department of the State Information Center; and Professor Fan Gang, a faculty member at the HSBC Business School of Peking University and Secretary-General of the China Reform Foundation; with advice and input from Mr Zhao Jinjun, former president of the China Foreign Affairs University and former Chinese ambassador to France; Ms Hu Xiaolian, President of Export-Import Bank of China and former deputy-governor of the PBoC; and Mr Xu Chaoyou, Director of the CCIEE Department of External Affairs and formerly of the Ministry of Foreign Affairs (MFA).

The Report has benefited from the valuable support of the leaders of CCIEE and the ANU — Mr Zeng Peiyan, Chairman of the CCIEE, and Professor Brian Schmidt, Vice-Chancellor of the ANU.

This study would not have been possible at the Australian end without the generous support of business sponsors who first engaged with the ANU through an Australian Research Council Linkage Grant project on Chinese overseas direct investment. Our deepest gratitude goes to Rio Tinto, and especially Tim Lane; to MMG, and especially Troy Hey and Andrew Patterson; and to Corrs Chambers Westgarth, especially John Denton.

The success of this project has been made possible by the commitment and cooperation of public service leaders on both sides. In Australia, the Report received cash and substantial in-kind support from the Treasury, who took carriage of this Report in the Australian public service. Chris Legg, John Karatsoreos and Lachlan Carey were constantly involved in

advancing the Report, and we also thank Leesa Croke, Adam McKissack, Jyoti Rahman, John Swieringa, Nan Wang, Justin Lu, Vera Holenstein, Hui Yao, Adam Hawkins and Aaron Van Bridges for their support.

Key official supporters of the project in Australia also included the Reserve Bank of Australia, particularly Ivan Roberts, Eden Hatzvi and Chris Ryan; the Department of Prime Minister and Cabinet, particularly Martin Parkinson, David Gruen, HK Yu, Jason McDonald, Hugh Jeffrey, Alistair MacGibbon, Luke Yeaman, Jay Caldwell, Andrew Forrest, Erny Wah and Anna Engwerda-Smith; the Department of Foreign Affairs and Trade, particularly Peter Varghese, Jan Adams, Justin Brown, Brendan Berne, Graham Fletcher, Frances Lisson, Michael Muggliston, James Wiblin, Jason Robertson, Michael Growder and Kevin Thomson; the Department of Defence, particularly Dennis Richardson, Marc Ablong and Scott Dewar; the Office of National Assessments, particularly Richard Maude, Rod Brazier and Jonathan Orlrick; Austrade, particularly Bruce Gosper, David Landers, Mark Thirlwell and Kelly Ralston; Tourism Research Australia, particularly George Chen and Janice Wykes; the Australian Bureau of Agricultural and Resource Economics and Sciences, particularly Sheng Yu; and Frances Adamson in the Prime Minister's Office.

The Chinese side would like to extend their deep thanks to those who contributed to the success of the Report from the Chinese government. At the Chinese Embassy in Canberra, they include Ambassador Cheng Jingye, Charge D'Affaires Cai Wei, Minister-Counsellor Huang Rengang and First Secretary Li Fang. In China, they include Zhao Wenfei at the MFA; Li Chao at the National Development and Reform Commission; Fang Hao at the Ministry of Commerce; Qin Yuexing at the Ministry of Finance; and Huang Xinju at the PBoC.

This Report also benefited greatly from consultations conducted with a wide range of institutions and individuals in Australia and China undertaken throughout course of its writing. We would especially like to thank former prime ministers Bob Hawke, Paul Keating, John Howard, Kevin Rudd, Julia Gillard and Tony Abbott for their advice and support.

From Australian state governments we would like to offer special thanks to Martin Hamilton-Smith and Jing Li in South Australia; Simon Phemister and David Latina in Victoria; and Susan Calvert and Matthew Rudd in New South Wales.

Our principal supporters within the Australian business community were the Global Engagement Taskforce of the Business Council of Australia (BCA). We extend special thanks to John Denton, Lisa Gropp, Jason Chai and the many leading companies engaged with this process through the BCA both in Australia and in China, including the China Development Bank.

From the business community we would also like to thank: the Australia China Business Council, with special thanks to John Brumby, Sean Keenihan, Cameron Brown, Daniel Bisignano, Moyi Zheng, Aaron Duff and Jette Radley; Tracy Colgan, Vaughn Barber, Glenn Campbell, Nick Coyle and Oliver Theobald at the Australian Chamber of Commerce Beijing; Amy Auster and Martin Foo at the Australian Centre for Financial Studies; Stephen Joske at Australian Super; Paul Bloxham at HSBC; Andrew Charlton at AlphaBeta; Mick Keogh at the Australian Farm Institute; Nick Bolkus at Bespoke Approach; and Timothy Coghlan at the Australia China Fashion Alliance.

From the academic and research sphere we would like to thank: Jenny McGregor, Mukund Narayanamurti, Bernardine Fernandez and Clio Zheng at Asialink; Bob Carr, James Laurenceson, Thomas Boak and Hannah Bretherton at the University of Technology Sydney;

Hans Hendrichske and Wei Li at the University of Sydney; Christine Wong and Anthony Garnaut at the University of Melbourne; Peter Cai at the Lowy Institute for International Policy; Linda Jakobson at China Matters; Chris Heathcote, Bill Brummitt and Mar Beltran at the Global Infrastructure Hub; Julia Evans at the Australian Academy of the Humanities; Jean Dong at the Australia China OBOR Initiative; and John Lee at the Institute for Regional Security

We are especially thankful for the submissions prepared by the Australia China Business Council; Edward Kus, Ellen Egan and Merric Foley at the Australia–China Young Professionals Initiative; Henry Sherrell at the Migration Council Australia; Sally Loane at the Financial Services Council; and Belinda Robinson at Universities Australia.

The Report would not have been completed without the dedicated professionalism of the task forces at the ANU and CCIEE who assisted with drafting the Report. On the Australian side this included Shiro Armstrong, Amy King, Ryan Manuel, Paul Hubbard, Adam Triggs, Jiao Wang, Owen Freestone and Neil Thomas. On the Chinese side this included Zhang Yongjun, Liu Xiangdong, Chen Yingchun and Lin Jiang.

There were many other people within our respective institutions that provided important input during the drafting process. Academics at the ANU, including Dong Dong Zhang, Paul Gretton, Richard Rigby, Ligang Song, Hugh White, Philippa Dee, Peter McDonald, Zhao Zhongwei, Frank Jotzo, Stephen Howes, David Vines and Anastasia Kapetas, provided valuable contributions in their respective fields of expertise. The ANU secretariat including Tom Westland, Rosemary Tran, Alison Darby, Patrick Deegan, Rosa Bishop, Sam Hardwick, Michael Wijnen, Nawaaz Khalfan, Patrick Williams, Hitonaru Fukui, Owen Hutchison and Luke Hurst provided editorial advice, research support and logistical assistance.

We would be remiss if we did not extend our warm thanks to Neil Thomas, who coordinated the Australian end of the work on the Report, and Zhang Yongjun, Liu Jun and others who coordinated the project at the Chinese end. Their devotion to this task was essential to its successful completion.

This Report is the result of a significant and unprecedented exercise in bi-national collaboration. We have sought to provide common reference points in how we can conduct our relationship and principles to which we can appeal when facing the inevitable uncertainties that we shall have to manage around profound change. We are convinced that the effort that this Report has called forth in both our countries to think through the future of our bilateral economic relationship together is in itself an encouraging harbinger of what Australia and China can hope to achieve together over the coming decades.

**Peter Drysdale**

**August 2016**

**Zhang Xiaoqiang**

This text is taken from *Partnership for Change: Australia–China Joint Economic Report*, by East Asian Bureau of Economic Research and China Center for International Economic Exchanges, published 2016 by ANU Press, The Australian National University, Canberra, Australia.