Remarks by Ken Henry

Launch: *The China Story Yearbook 2012*
Australian Centre on China in the World
ANU 10 August 2012

Thank you for the opportunity to be here this evening to launch *The China Story Yearbook 2012: Red Rising, Red Eclipse*.

In the early 1980s I was a lecturer in economics at the University of Canterbury in New Zealand. The economics faculty had a reputation for free market thinking. These were the last years of New Zealand’s Muldoon Government.

It is doubtful that any democracy in the post-World War II era has had a more statist regime than that established by Sir Robert Muldoon. Almost everything, apart from the press and the universities, was under central control, or acted as if it was. There was hardly a business anywhere in the country that didn’t consider that it owed its survival to the patronage of the Muldoon government – patronage delivered through such things as a managed exchange rate, politically controlled monetary policy, import controls, exclusive licensing and taxpayer subsidies.

So much has happened in the intervening years, especially in New Zealand, that it is hard to believe the degree of central control could have been so high. But it was. The Muldoon Government decided who could buy and/or sell any good or service you might want to name. And if they liked you, you not only got the licence to operate, you also got absolute control over your potential competitors – it was up to you whether anybody else could get a licence to operate in the same market – and you got a nice subsidy as well.

In the economics faculty of the University of Canterbury, when people spoke of the politbureau, they were not referring to the central organs of the CCCP or CCP; they were referring to the Cabinet of the New Zealand Government.

One day in these early years of the 1980s, into the economics faculty seminar room walked a senior Chinese academic. I attended the seminar thinking that I was going to get a lesson in an alternative model of socialist market economics. Along with everybody else in the room, I got a big shock. Our visitor outlined for us a vision of a future Chinese economy, and a set of pathways toward that vision, that all of us found both difficult to believe and very appealing. We were impressed. At the end of the seminar, one of my colleagues encouraged our Chinese visitor to seek an audience with the New Zealand Prime Minister, to give him a lesson in free market economics.

All of that is a long time ago.
The vision outlined to that group of academics 30 years ago has not yet been realised; there is still a long way to go. But China is much further down the pathways described for us than any of my colleagues would have considered plausible. Indeed, today, China is considerably closer to a model free market economy than was New Zealand in the early 1980s.

Now that doesn’t mean that the full vision will ever be realised. And, while in the early 1980s that would not have been considered an enormously important matter for anybody other than the Chinese people themselves, today it is a vitally important matter for all of the world’s people. With so many steps having been taken down those pathways, the direction in which the next set of steps is taken is now a very serious matter for everybody on the planet.

Today, China has the largest population and second largest economy in the world. It is by far Australia’s most significant trading partner. There are more than 30 other countries from all over the world that would list China as their largest export destination; and perhaps 40 that would list China as their principal source of imports – and, by the way, that includes New Zealand.

China has the world’s largest army and second largest defence budget. It is a nuclear weapons state.

China has the world’s second highest number of billionaires, measured in $US. The Shanghai Stock Exchange is ranked fifth in the world.

China also has, by far, the largest holdings of foreign exchange reserves, including $US denominated reserves – about three times the holdings of Japan, the next highest reserves accumulator.

It has taken the developed world a very long time to realise that these reserves constitute a strategic asset; and for those familiar with the debate about financial market manipulation that followed the Asian financial crisis of the late 1990s, there has been considerable irony in the spectacle of industrialised economies seeking Chinese support in bailing out their distressed financial institutions in the after-math of the global financial crisis – more accurately labelled the non-Asian financial crisis.

For reasons that are not at all easy to understand, a lot of the consequences of China’s re-emergence as a global power – in economic, social and strategic dimensions – appear to have caught a lot of people by surprise. My guess is that the surprises are not over, even if the Chinese development journey continues to proceed down those attractive pathways described 30 years ago. And, of course, if those pathways become obstructed, or deviations are preferred by those in power, then the surprises could be even larger, with much more serious consequences. There is a lot riding on this.

New Zealand has also changed a lot in the past 30 years. Even 20 years ago, within only a few years of ‘regime change’, New Zealand was widely regarded as having one of the world’s most liberal market economies.

As a subject for economic transformation, the New Zealand of the early 1980s had some obvious advantages: a small population spread across a relatively small landmass; a unitary state with a unicameral parliament; reasonable infrastructure connections; a world-class
education system; English language proficiency; a strong banking system; a strong and transparent legal system; low levels of corruption and so on.

For the economic reformer, China’s position today doesn’t look anywhere near as promising, on any of these capability metrics, as New Zealand’s did 30 years ago. On the other hand, China has achieved a good deal more than New Zealand in the intervening period. For example, while New Zealand’s GDP per capita has almost tripled in purchasing power parity terms, China’s has grown about 20-fold.

Indeed, China’s performance, on most of the aggregate economic metrics typically used by analysts, has been unprecedented. And it has had many, mainly very positive, spillover consequences for other countries, especially in the region – and that includes Australia.

But, as I have indicated, what really matters for all of us are the steps China now takes.

And the China Story Yearbook 2012, *Red Rising, Red Eclipse*, provides a sense of the enormity of the issues that will have to be managed – indeed, will have to be managed well – if the next 30 years of China’s development are to be as positive for the world as the past 30.

*Red Rising, Red Eclipse* assists with an understanding of a set of issues that the modern China has been grappling with for 30 years – in some cases, for a lot longer than that. These issues remain unresolved, and some are becoming more acute. Thus, for example: a more assertive foreign policy posture has a lot of people wondering about China’s territorial ambitions; rising income inequality as between the rapidly urbanising east and the still largely rural west poses a threat to social stability; rapid urbanisation has created a set of issues of congestion and other externalities; water security, food security and energy security now dominate policy thinking; demographic challenges loom; the digital age challenges the effectiveness of centralised control mechanisms but also provide leaders and aspiring leaders with a window on China previously not available; and who knows how good any of the numbers are anyway?

These are some of the issues highlighted in the China Story Yearbook 2012. It is a resource that should be of interest to anyone wanting to understand the trajectory of China’s future. And that really should be everyone who takes an interest in their own future.

It is with pleasure that I launch the China Story Yearbook 2012, *Red Rising, Red Eclipse*. 