

Why I remain an optimist about China

Dr. Geoff Raby

I am delighted to be here this evening at the Bank of Melbourne's Chinese New Year celebration.

I would like to thank Scott Tanner, CEO bank of Melbourne, for the invitation, Tony Ellwood, Director of the NGV, for hosting us so splendidly, and to acknowledge distinguished guests from the Chinese Consulate.

Melbourne is my home town, although I now live in Beijing. I am also honored to be a member of the Board of the NGV's Foundation, and next month marks the 30th anniversary of when I first went to the Australian Embassy in Beijing to establish a professional economic reporting capacity at the Embassy – at the time, the first in any Australia Australian Embassy.

It is also exactly nine years since I returned to Beijing as Australia's Ambassador. At the time of the Chinese New Year, it is perhaps apposite to note that "9" is one of China's numerological lucky numbers. It sounds like the word for "longevity".

The organizers of tonight's event set me an unenviable task – to share my views on the challenges China is facing, the outlook for the economy, my own personal experiences of living in China for many years, my engagement with China's contemporary arts scene, and, as if that were not enough, to be humorous as well.

Not much left here, except fortunately they did not ask me to do it all in Chinese, which had they it would have resulted the shortest speech ever given at the NGV. Having done the joke, I will now attempt to tick these boxes, but in reverse order.

The NGV's remarkable and hugely successful Ai Wei Wei/Andy Warhol exhibition, which you have had the opportunity to view this evening, in many ways sums up why I am optimistic about China.

For me, Ai Wei Wei's work embodies the struggle against adversity for a modern Chinese identity; huge creativity and intelligence, navigating complex relationships, especially with the political system, privilege and punishment; accountability and lack of it; but always progress, although rarely linear.

The outstanding curatorial work of Max Delany, highlights the symbiotic relationship between the Chinese and the foreign. Influencing but never imitating. It reminded me again that no matter how much China, with its rising prosperity, ever expanding, vast English-speaking population, and western-style modernity, may superficially look like the west, it will never be like the west.

When I first went to Beijing, the Chinese contemporary art scene was in its infancy. Much of it was derivative of western art, if often technically accomplished. Reflecting the poverty of the artists, materials used were usually poor and crude.

Some artists such as Ai Wei Wei soon found themselves in western centres of contemporary art, like New York, and so began the process of internationalizing Chinese contemporary art.

Most, however, were still in China and many of those in Beijing became friends of the foreign community there. A famous cluster formed at Yuan Ming Yuan, or the Garden of Perfect Brightness - the Old Summer Palace ruins. Huang Rui was then one of the most identifiable figures of the group, which later became known as the Stars.

It is difficult to imagine today, but foreigners in Beijing had almost no social contact with local Chinese. Foreigners lived in guarded compounds, there was no private market in real estate, and local Chinese could not enter hotels without special permits, available only to the Party elite. Most restaurants were state-owned and closed by 7 pm and bars had not yet made their appearance.

In those days, most adult Chinese belonged to a dan wei, or work unit. Dan wei could be an administrative unit, a production unit, or a grass-roots unit. Whatever type of dan wei Chinese belonged to, it controlled your life – everything from education and work choices to marriage and child bearing. It was utterly suffocating but a key to the Party's political and social control.

By the mid 1980s, following the chaos and utter exhaustion wrought by the Cultural Revolution, the dan wei system was fraying at the edges.

Artists were among the first to fall outside the system. Many had been trained in respectable academies or in the PLA for the purpose of mass producing, laboriously by hand, propaganda art, but had no dan wei. By the mid 1990s, a unique contemporary Chinese genre had emerged under the rubric of Cynical Realism. Its roots were in both Soviet socialist realism and western pop art.

The artists became our friends. We had money and freedom. We held parties, smoked cigarettes and drank warm beer (refrigeration was a novelty) and most important of all danced to pop music. For the Chinese artists, all this was magic.

During those days, it was easy to imagine what it might have been like living in Paris in the latter decades of the nineteenth century when the Impressionists began to knock on the doors of the tradition-bound, established academies.

The Chinese artists were rejecting both the rigid classicism of traditional art and the stultifying artistic dictates from the Communist Party's propaganda department.

Our lives were parallel universes, but we connected and friendships were formed that last to today. And when I returned to Beijing as Ambassador, many of those friendships had endured.

I was enormously fortunate to have had a group of friends among the artists to help reintroduce me to the vastly changed and expanded Beijing cultural scene. By 2007, it was bewildering compared with when I had left at the start of the 1990s.

Beijing was now almost unrecognizable. China had change beyond what even the most optimistic of us could have possibly imagined.

It is hard to know now how poor China was at that time and how unlikely and fanciful it seemed that China would, within just three decades, become the second largest economy in the world and resume its standing among the world's leading nations.

In 1986, China's total GDP was a bit more than twice that of Australia's. By the mid 2000s, it was nearly 4 times as great, and this year is expected to be ten times greater.

Or looked at another way, bearing in mind that China's population is some 50 times greater than Australia's, per capita GDP in China has risen from just one-fortieth of Australia's in 1986 to one-sixth today.

By the early 1980s, Australia was almost alone among the western democracies in recognising the significance of what was happening in China. Bob Hawke's 1986 visit to China occurred a few weeks after I started work in Beijing.

On that trip, Hawke spent the unusually long period of eight days in China. He travelled to what were then regarded as remote and exotic places, such as Chengdu.

Remarkably, he was always accompanied by someone from the Communist Party's senior leadership group. At the Embassy, he played tough doubles' tennis matches with the Chairman of the National People's Congress, Wan Li, the second most senior figure in the government.

Hawke listened to the plans and vision for China from Party Secretary General, Hu Yaobang, and Premier Zhao Ziyang and believed, like them, that China had no option but to change profoundly –to open its economy, and to introduce market economic reforms and private property.

All understood that the challenges and risks involved in this were immense and would never be easy, neither smooth nor linear. China's leadership embarked on a journey of incremental reform.

One senior leader and principal architect of China's reforms, Deng Xiaoping, said it was to be like crossing a river on foot, stepping on one stone at a time.

As it was then, so it is today, policy change was based on continuous efforts at experimentation, trial and error, pushing at the boundaries of what could be tolerated politically as well as in terms of economic dislocation.

Australia's Ambassador during these early years was Ross Garnaut, Hawke's former economic adviser and close confidant. Together, Ross and I studied closely every announcement and policy development, no matter how nuanced.

We wrote copious reports back to Canberra to feed the Prime Minister's insatiable appetite for news and updates. And we began briefing the trickle of Australian business people beginning to pass through Beijing. Soon they were to become a flood.

We weighed and analysed all the statistics starting to be released by the Chinese Government, no matter how incomplete or suspect. At the time, no bank, brokerage house, and nearly all universities had not a single analyst looking at China.

Ross and I were convinced that China had no option but to continue its self-chosen path of economic reform and opening to the outside world. The regime's survival would depend on it.

We were not Sinologists, but trained economists. The Sinologists were often quick to dismiss us as naively optimistic about China's future. But not only were the majority of Sinologists pessimistic, or at best highly skeptical, many others also shared their views.

The pessimist case had three main, predictable and well-practiced strands.

First, the Sinologists from their deep study of China's history understood that China was trapped by dynastic cycles of rise and decline, centralization and unity followed by fragmentation, disunity and conflict. For them the Chinese Communist Party was just the most recent in China's long history of dynastic rule.

The second strand held that sustained economic growth and authoritarian political systems were inherently incompatible. At some point they would collide and either the political system would collapse or economic reform would be retrenched. Markets and Mao could not co-exist and so it would all end in tears.

The third strand in the pessimists' case was that much of what we were witnessing in terms of economic growth was an illusion. A deeply held belief that it was all a fraud perpetrated on gullible foreigners, just as the notion of a happy harmonious China, united as one family under the Communist Party, had been during some shocking periods in China's modern history such as the Great Leap Forward and the Cultural Revolution.

In what sounds very familiar today, it was said that you cannot believe the Party's rhetoric about economic reform, markets and private property, and most definitely you shouldn't believe anything the official statistics say about the economy.

Looking back over these past three decades, China's experience and achievements have far exceeded the expectations of the most optimistic observers. Back then, none of us could have imagined the China we have today in terms of its level of economic development, openness, integration into the international economic and political systems, the extent to which English is spoken and the numbers of Chinese travelling the world, be it as students, tourists or investors.

Viewed from this experience, it perhaps not so difficult to understand why, against all the background of gloomy information and reports on China, I can still be optimistic about China's future. It is hard not to be.

But it does go beyond merely asserting that China has surprised everyone on the upside for the past thirty years, so it will continue to do so for the next.

China today is in the process of yet another historic transformation, one that is being driven by the maturing of vast swathes of its economy as incomes rise and China takes on the characteristics of a middle-income developed economy. And as has been the case for much of the past thirty years, this transformation is being driven by necessity and the market, rather than policy.

Over the past seven years, China's per capita discretionary income – money people have left over to spend after paying taxes and unavoidable expenses– has almost tripled from just over RMB10,000 to RMB30,000 per annum.

Not surprisingly, total consumption expenditure (both private and public) has risen from 51 per cent of GDP in 2006 to 58 per cent last year.

The impact of this is felt most strongly in China's rapidly changing composition of GDP. Last year, the services sector, for the first time ever in China's history, accounted for over half of GDP (50.2%). In 1986, it was just 30 per cent and in 2006, 42 per cent. Clearly, structural change is now occurring very rapidly. And the "Workshop of the World" is becoming the "World's Services Centre".

Consequently, as people's incomes rise, demand is shifting towards higher value added services, such as tourism, entertainment, medical and health, education, design and architecture, environmental and urban amenities, and towards clean green high-value foodstuffs. Incidentally, this augurs well for an economy like Victoria's that has a relatively high share of these industries.

China certainly faces some big headwinds. We hear a lot about the build up of debt, high levels of non-performing loans, property over hang, and excess industrial capacity. These are, however, within the Government's capacity to handle so are manageable without a so-called "hard landing".

China also needs to keep moving with a challenging inter-locking agenda of reform, focusing on the financial sector, liberalizing capital flows further, and the SOEs.

The leadership has overcome other big challenges in the past. It most likely will do so again, not because it is any wiser than others, but because of the sheer necessity to maintain sufficient growth to ensure a high-level of political stability is maintained.

China's biggest risk, however, is not from economic failure, it is from its authoritarian political system. Under President Xi Jinping, the system has become more authoritarian, much less accepting of modest degrees of freedom of expression, and has moved away from protecting individual rights against the state.

The internet is more frequently interrupted. Social media is increasingly monitored and bloggers who attract big followings, who may be social critics or worse, critics of the state, are intimidated into silence or obscurity.

And the crackdown on corruption, now into its third year, promises to be a journey without an end. While this is necessary, it is also, in the way it is conducted, creating now a climate of fear that is beginning to damage decision making, especially in the state-owned enterprise sector.

At the same time, cross-currents are evident. One is here at the NGV with the Ai Wei Wei exhibition. Ai Wei Wei, after a period of harassment, is relatively free to pursue his work and travel. He was here for the opening last December.

While all artists in China need to be mindful of the red lines around political commentary, many continue to probe and test these. This is a key function of the arts in any society, but even more so at a time of increasing repression.

Throughout the 30 years of reform, the boundaries around what is acceptable and unacceptable political commentary have waxed and waned.

But today China is unrecognizable in its openness, compared with the days 30 years ago when on arriving at Beijing airport the cabin crew would collect foreign newspapers and magazines from passengers before they could disembark.

I am enough of an optimist to believe China will continue to evolve politically as its economy continues to grow. It will not, however, be by design so much as necessity. And it will definitely not be linear.

Thank you.