

China's seeking client states, not ideological conquests

Diplomacy
Australia can't sit in the slipstream of the G7 or the US. We need our own engage and constrain strategy as Beijing seeks to dominate the Indo-Pacific.



Peter Varghese

Australia came away from the G7 meeting in Cornwall comforted by the support of others. But joint statements tend elegantly to fudge differences and do not absolve us from reaching our own conclusions and crafting our own strategies.

Australia's China policy cannot simply sit in the slipstream of US or G7 policy. We have our own distinctive interests to protect and advance. That demands clear-eyed thinking about what China is and is not.

The starting point of foreign policy is to take the world as it is. China is a one-party Leninist state led by a party absolutely committed to its retention of monopoly political power. That is unlikely to change in our lifetimes, and nor is it likely that China will lose its position as the largest or second-largest economy with a matching military capacity. This was the essential message of Singapore's Prime Minister Lee Hsien Loong to Scott Morrison.

None of this makes China our enemy. It does not have designs on our territory. To the extent that China seeks to covertly influence our decisions or to infiltrate our institutions, we have the capacity to deal with that and we are doing so.

China is the strategic competitor of the US but that does not automatically make it the strategic competitor of Australia. We would like to see the US retain its position as the pre-eminent global power but that does not mean that any country that seeks to dislodge the US from its perch of primacy is our adversary.

So if China is not an enemy, adversary or competitor of Australia does that mean we can be relaxed about its strategic ambitions? No. For Australia, the strategic rub arises from China's ambition to become the predominant power in the Indo-Pacific, if not beyond.

China wants to reach back to the Middle Kingdom where harmony was a hierarchy with China at its peak. Other states knew



China wants to make the world safe for autocracies. PHOTO: ADAM TAYLOR

100 Years of the Communist Party of China

Financial Review series



their place and they would quickly see the logic of not acting in ways that ran counter to China's interests. For China, the future is the past, broken only by a century of humiliation and four decades of extraordinary economic catch-up.

The pull of the Middle Kingdom is not an ideological long march. Ideology does play an important role in the thinking of the Chinese Communist Party. But it relates more to the role of the party, its leadership in reversing the century of humiliation and

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its claims to legitimacy than to any ambition to crush democracies.

These will be large themes during the carefully planned celebrations of the Party's centenary on July 1.

Yes, China wants to make the world safe for autocracies. But this is essentially a defensive interest. China cannot win the battle of ideas in well-established democracies such as Australia. If this is an existential threat then it is also a phoney war. The West's greater democratic

challenge comes not from China but from the urgency to renew our capacity to deliver liberty, prosperity and social stability.

US President Joe Biden understands this. Australia does not want to see a return to the Middle Kingdom because we have no interest in being a tributary state. That is why balancing arrangements such as the Quad is important. They help blunt the re-creation of the Middle Kingdom. They offer a platform for pushing back when China's behaviour crosses the line in terms of coercion or breaches of international law and norms.

The Quad and a more China-focused G7 signal that China must be both engaged and constrained. It cannot be ignored. It cannot be decoupled from the global economy. Nor can it be excluded from the search for solutions to big global challenges such as climate change, pandemics and the proliferation of nuclear weapons.

China's pragmatism seems to have deserted it for now. Its wolf-warrior diplomacy is completely counterproductive but plays to a domestic audience. China also has its own version of neocons who believe the time has come for it to use its power more overtly to secure its goals. The risk of overreach is high.

In China and Australia, domestic compulsions are playing a large role in the execution of foreign policy. Ours are easier to see than in the opaque Chinese system.

Australia cannot change China's calculations but we can do more to set out how we see China, where we differ, and where we can work together.

Holding true to our values is a given, not a strategy. We need a clearer sense of what we want from the relationship and how we might get there. The diplomatic ball is never only in one court.

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For Labor, the next election is 1983 all over again

Reform
The fight for the minimum wage is already won. The ALP must focus on how capital and labour can work together to lift productivity and living standards.



Richard Holden

The recent decision by the Fair Work Commission to increase the minimum wage in Australia to \$20.33 an hour was announced with little fanfare. A modest increase in the minimum wage, and a 2.5 per cent increase in award wages, will be welcome but not earth-shattering news for most workers.

Yet behind this seemingly small step is the end of a long ascent. In some ways it marks the full integration of the goals of the labour movement into the mainstream apparatus of government – regardless of the political persuasion of that government.

While politicians and activists in the United States continue the so-called "Fight for Fifteen" (a \$15 minimum wage), from July 1 Australians will witness what one might call the "Triumph of Twenty". This is essentially the same wage, in purchasing power terms, being fought for in the US – a fight that seems to have a long way to go.

But it has already been achieved in Australia, and through the administrative state rather than at the ballot box or in the streets.

And while this in some ways ought to be a moment for rejoicing in the Australian Labor Party, in many ways it is the party's "dog that caught the car" moment.

The ALP and the union movement have achieved a great deal for workers over decades of struggle and manoeuvring. But those achievements have left the union movement with an unclear future, and the Labor Party with a base in secular decline.

The labour movement is concerned about "insecure" and casual work – and there is good reason for that. But the threat seems significantly smaller than in a country such as the US. And between the Fair Work Commission and the courts, a compromise between capital and labour may well be made with relatively little union or Labor Party involvement.

The union movement, simply put, isn't

what it used to be. Fewer than 10 per cent of private sector workers belong to unions. For many workers, the Fair Work Commission performs the role unions once did.

This leaves the ALP with a reduced base – as reflected in its pretty dismal share of the primary vote in election after election. It's hard to see how chasing a shrinking base is a recipe for electoral success. And doing so by appealing workers in declining fossil fuel industries comes with its own political costs in major cities.

Rhetoric and policy aimed at clipping the wings of 'the big end of town' rather misses the point.

Former US vice-president Hubert Humphrey purportedly told Jesse Jackson three days before he died: "All of the speeches, the political conventions, the crowds, and the great fights are behind me now." Thanks to its own success, the great fights of the Australian labour movement are also behind it now.

That presents the Labor Party with a serious challenge. It needs to find a way to stay true to its values and fight to make workers better off.

That won't be achieved by backing a fossil fuel sector in global decline.

But as the upcoming Intergenerational Report is likely to highlight, we are facing a serious national productivity challenge.

It is how we respond to that challenge that will have the largest impact on the wages and conditions of workers of all kinds – male or female, permanent or casual, highly skilled or not.

As Paul Krugman put it in 1994:

"Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."

The productivity fight isn't an arm wrestle over what share of the economic pie workers get; it's a fight about how to get firms to invest more to make better use of workers' skills, and it's about how to get government to provide a modern education and training system that develops those skills in the first place.

For the Labor Party, rhetoric and policy aimed at clipping the wings of "the big end of town" rather misses the point. The modern Australian economy is not a clash of capital versus labour, it's a story of capital and labour.

Or at least it has to be if living standards are meaningfully to rise.

From the Productivity Commission to the Henry tax review, from Treasury to the Reserve Bank, there have been lots of inquiries with lots of good ideas about how to improve productivity. Relatively few of these ideas have been implemented by either side of politics.

Such reforms require effort and the use of political capital now for a pay-off that takes time to see.

But these reforms are the crucial determinant of living standards in the coming decades.

In a sense, it's 1983 all over again. And the next election will be an important test of whether Labor (and labour) can see a way forward to the battles of the future rather than keep fighting those they have already won.

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Inflation panic proves transitory

Paul Krugman

Remember when everyone was panicking about inflation, warning ominously about 1970s-type stagflation? OK, many people are still saying such things. But for those paying closer attention to the flow of new information, inflation panic is so last week.

Recent data and statements from the Federal Reserve have deflated the case for a sustained outbreak of inflation. For that case has always depended on asserting that the Fed is either intellectually or morally deficient (or both). That is, to panic over inflation, you had to believe either that the Fed's model of how inflation works is all wrong or that the Fed would lack the political courage to cool off the economy if it were to become dangerously overheated.

Both beliefs have lost most of whatever credibility they may have had.

Since the 1970s, many economists have tried to distinguish between transitory fluctuations in inflation driven by temporary factors and an underlying "core" inflation rate that is much more stable – but also hard to bring down if it gets high. The idea is that policy should largely ignore transitory inflation, and worry only if core inflation looks as if it's getting too high (or too low).

Since 2004, the Fed has published an estimate of core inflation it uses to fend off demands to tighten monetary policy in the face of inflation it considers temporary.

The Fed has been arguing that recent price rises are transitory and that this episode, like the inflation blip of 2010-11, will soon be over.

To be fair, government support for the economy is much stronger now, but the vehemence of the inflation rhetoric has been wildly disproportionate to the actual risks.

THE NEW YORK TIMES

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