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Australia and Asia and the new order after the financial crisis

JCPML Anniversary Lecture presented by the Hon Paul Keating on 2 July 2009.

I last gave the John Curtin Prime Ministerial Library Anniversary Lecture at this university on 5 July 2002, seven years ago almost to the day.

And as a former Labor Prime Minister of Australia, I am returning to speak about Australia and the world again.

While this event is not exceptional, it is somewhat unusual. There have not been too many Labor Prime Ministers of Australia, so for one to address national and international issues in a Labor context and then readdress those same issues, seven years later and to the same gathering, is somewhat out of the ordinary.

Out of the ordinary, not simply because I am appearing here twice, but rather that I am viewing the very same issues through the same prism; a model I developed in my own mind as to how the world might better work. Any lecture at the Curtin Library is given with reference to John Curtin's own life and experiences as Prime Minister. As we know, he only held one ministry during his lifetime and that was that of Prime Minister. And we know that his service in that ministry was had entirely during a war. Curtin was a wartime Prime Minister and the dominant issue of his Prime Ministership was the salvation of his country. Something which he accomplished by adapting himself and the country rapidly to changing events and circumstances.

We know at the time, Curtin's urgent task was to find Australia's security from Asia; principally, then, from Japan. But we also know that Curtin believed that our long term security could only be found in Asia. That Australia had been dragged to Asia by war when it had thought that the strategic guarantee of Great Britain was sufficient to insulate it from peril. And while he rapidly put together a new strategic

partnership with the United States, his government and that of Ben Chifley's which followed, was working towards a new rules-based, multilateral world order to better guarantee long term peace and security. That world order, with Bert Evatt's help, became the United Nations and the order included the magnanimous reconstructions of Europe and Japan by the United States. It also included the lifting of the colonial yoke from over half the world's population.

The enlightened view at the time was that security in the future was only to be had through partnerships and by the congregation of societies within multilateral institutions. That is, it could not be secured by resort to isolation and defensiveness or, in the case of smaller states, by the quest for yet another strategic guarantor.

You would have thought this lesson was a fairly obvious one, but not so obvious as to deter people in this country, even today, from still thinking in terms of our exceptionalism: finding our security from Asia, by dint either of our own resources, both economic and military, or by way of association with great and powerful friends.

The seven years since I was last here offers two important snapshots of the world then and the world now. The world then was coloured by the attacks on New York City in September 2001 and by the forces of unilateralism which that event unleashed within the United States, with international consequences like the unilateral attack upon and war with Iraq. July 2002 was also eight months before the American economy burst back into life in the biggest growth and wealth phase in world history. Between that time and April 2008, we witnessed these events as the world then began its steep slide into recession and near depression.

And we saw during that same period, the United States transform itself from the largest creditor country to the largest debtor country, fuelling its economy with consumption and rising living standards that were had by resort to borrowings, including from the largest of the world's poorer countries, China.

That binge of debt and spending brought havoc to the central and largest Western financial centre, New York City and Wall Street, such that the knock on effects

towards a depression of international capitalism has only been avoided by a rapid and timely swing back to multilateralism.

President George W Bush was obliged to convene a meeting of the Group of Twenty countries in late 2008, a meeting which reconvened in April this year, with the attendance of President Barack Obama. Those meetings were held to garner urgent coordinated international fiscal and monetary action to save the world from another depression. And time will show that that timely action did save the world from the horrendous effects of a second depression.

But before the convening of the Group of Twenty countries at head of government level, the world had been run in a completely unrepresentative way, by the Group of Seven countries, which with the exception of Japan, hailed from the Atlantic. And that group, save for Germany and Japan, was collectively a group of debtor states.

Yet, despite all that had happened in the post-colonial history of the world following the Second World War, in places like India and China, continental Africa and South America, the conceit prevailed that the world could be run without reference to these places or to their interests. And run essentially, by the victors of World War Two; with outrider roles for Germany and Japan.

The Group of Twenty meeting in London last April finally nailed that conceit. Now the great surplus states like China sit at the head table, as do the large demographically young states like India and Brazil. So finally, the world is being remade, to replace the uncooperative and unrepresentative structure I spoke of in this forum seven years ago.

From the time of Japan's accelerating reconstruction in the 1960s, along with similar developments in South Korea and South East Asia and following Deng Xiaoping's economic revolution in China from the late 1970s, we have been speaking of world power shifting from the West to the East. Indeed, in so much of the commentary over the last fifteen years, the weighty point has been that power is moving inexorably to the East.

Well, the fact is, it has now arrived. No longer just moving there, it has actually turned up.

China's economy is now the other powerhouse economy outside the United States. Growing on average at around 8% and contributing roughly \$400 billion of new wealth annually, it outstrips new wealth creation in the United States, an economy nearly three times its size, by a factor of two to one. The United States at \$13 trillion of GDP will be battling to sustain a 2% GDP growth rate into the near future, producing roughly \$250 billion of new growth. Meanwhile, Europe as a zone, will be struggling to average 1% growth or slightly better.

Population is a principal driver of GDP. India has a population slightly smaller than China's but it has no ageing. More Indians are being born than are dying and India is yet to experience its great wealth spurt. Together, India and China represent just on half the world's population.

I think we can safely say that the pendulum point of world economic activity has shifted and settled upon East Asia. It has settled, not with any particular comfort, but it has settled.

That being the case, how should the world adjust to this transformation?

Power is alighting in an altogether new world; a new place. But a place riven by deep and unanswered questions; structural, political and strategic.

Let me mention a few.

For instance, can China, on which so much now depends, manage and balance its economic growth within the rigidities of its one party autocracy? Can Japan, China's wealthy near neighbour, cope with its rapid ageing in a political system which is fundamentally broken? And the Korean peninsula: which throws up a unique set of issues. Unification with the North is an unspoken anathema in the South, as the South fears the crushing economic and social burden of the kind Germany experienced in its reunification with the East. North Korea seeks to preserve its remote wayward status, by garnering economic support and sustenance by a

combination of illegal international commercial activities and threats against neighbours, with China fearing a North Korean exodus across its borders in the event it fails to keep the North Korean regime socially solvent. And all the while, with Japan worrying, and not unreasonably, that any eventual reunification will see a united Korea in possession of nuclear weapons.

These are issues of concern which arise among the states where the new economic weight has settled.

And then we have the great uncertainty of the United States itself: a country undergoing a fundamental shift in its global status; its financial mendicancy, its economic structure and its social and demographic problems.

During my last speech here, I mentioned the then great discontinuity that affected the international system and that was the end of the Cold War. Now, seven years later, there exists a second great international discontinuity: the Global Financial Crisis.

These two events and their aftermath have changed the way the world works. The first saw the dissolution of that fracturing bipolarity that had set the world into two competing camps, ushering in a new era of cooperative regionalism and integration. The extension of the European Union into the countries of the former Soviet Union is perhaps the most obvious manifestation of that change. But so too, in our part of the world, the development of the APEC Leaders' Meeting, was a similar manifestation of that change. A body which as Prime Minister, I helped design to take advantage of that great detente, by instituting a structure which, at a time of Chinese weakness, gave it inclusion with the United States and Japan and other Pacific powers like Indonesia and ourselves. Remember, this happened seventeen years ago, at a time when thoughts of China's strengths and importance were remote to most people's minds, including to many in the United States.

The second discontinuity, the Global Financial Crisis, has forced changes in international cooperation flowing from economic and financial necessity. Earlier I mentioned the fiscal and monetary coordination that has arisen from the Group of

Twenty countries. But this recent discontinuity is going to have more profound effects than that. It will give rise to a fundamental repair of the international trade and savings imbalance: the imbalance between the savings rich, trade surplus countries and the savings poor, trade deficit countries. A change which will have huge effects on the way these countries develop, both domestically and internationally into the future. For instance, surplus countries like China, Russia and the oil states, will have to save less and consume more, while deficit countries like the United States, Britain and Australia will have to save more and consume less.

China will have to change the focus of its industrial development away from exports and import replacement to an altogether better mix of growing domestic consumption with a focus on housing and services. On the other hand, the industrial structure of the United States will have to adapt to lower consumption and lower household expenditure with a greater emphasis on net exports. That is, import replacement and exports. Manufacturing in American cities will have to come to life again, as American ingenuity is turned back to productivity, away from the mindless fizz of ever more consumption with its attendant depletion of savings.

These effects will promote profound changes in the character of employment and social development in these countries.

And the same will be true of Australia. In the aftermath of this crisis we too will also have to save more and consume less. This will mean also returning to the well of net exports: earning our way out of our current account deficit imbalance by replacing imports at home while growing export markets abroad. It will also mean, as we grow our savings away from dependency on overseas savings and overseas debt, that household balance sheets will need to adjust as debt is reduced and spending curtailed. It will also mean that in things like our great savings scheme, national superannuation, that mandatory contributions will need to grow, including rising above the current static nine percentage points of wages.

It is obvious that these two great discontinuities, the end of the Cold War and the Global Financial Crisis, will change the way our own country functions as it must change the way we look at the world around us.

And that world will be changing as we change, which will force us to view it dynamically.

With all that has happened and is happening, it will make absolutely no sense for us to think of our security in isolationist and defensive terms. The notion of Australia's security being found from Asia is as absurd now as it has always been since we were dragged to Asia during John Curtin's time.

Yet obvious as this may seem, it is still not obvious to all.

When I became Prime Minister at the end of 1991, I knew I had come to the head of a government in a rare period of strategic still; one of the kind which follows a storm.

That storm was, of course, the pervasive uncertainty and contingent threat of annihilation which hung over the world during the Cold War.

But having some sense of opportunity arising from the fact that the great powers had been taken aback and stunned by that epiphany, I moved as quickly as I could to propose a new piece of political architecture in the Asia Pacific. One to include regional powers in a new regionalism of a kind rendered impossible during the Cold War.

That piece of architecture was and is the APEC Leaders' Meeting. And in proposing it and pulling all those states into it, I always had in my mind that by thought and cooperation, we could make the East Asian hemisphere a better, safer and more cooperative place altogether. And by we, I mean Australia.

In other words, I had taken to doing that which I had always believed: that Australia's security was best found when it was searching for and seeking to divine it in the region in which we live; the East Asian hemisphere.

And more than that, doing it at a time when China, still emerging, was registering its first blip on the international radar, following the post-Mao revolution initiated by Deng Xiaoping.

I possessed then and possess still, the overwhelming conviction that the future prosperity, peace and security of the Asia Pacific would best be realised if China was included in any new strategic construct following the Cold War and encouraged to play an active role in world affairs, including a multilateral one subject to rules and disciplines.

In the popular commentary during my time as both Treasurer and Prime Minister, my frame of reference was referred to almost daily as 'the big picture'. That big events and long time lines always provided the longitude and latitude from which contemporary circumstances might be best assessed. That commentary was true then and it remains true for me today.

It was from that standpoint that I saw the inevitability of China's rise and the renewal of its power.

Until the early nineteenth century China was the world's largest economy and had been since the Middle Ages. It was knocked off that perch by a much smaller country, Britain, with its industrial revolution and the innovations that that had brought: a cornucopia of wealth, with the productivity of Britons exploding as they were taken from manual labours and put in front of machines. And the same thing happened in Germany and then in the United States with an even larger population.

This had to happen in China. Only Mao's primitive view of Chinese society had stopped it happening earlier. But once Deng Xiaoping opened the gate to the freer rein of Chinese industriousness, China was able to leapfrog the old legacy systems of western production. Almost in an instant, the basis of Chinese production became cutting edge, while in the same instant, hundreds of millions of workers left their farms to operate the new capital intensive technologies.

In the aggregate, China was slated to win the big economic race because China had five times the population of the largest economy, the United States. And more than five times the pent up demand. It was also putting into place new infrastructure and new productive capacity.



That was apparent to me in 1992, as I encouraged President Clinton and Prime Minister Miyazawa of Japan to join with Australia in giving China a seat at a major leaders' table. The first it had enjoyed since 1949.

As I said earlier, at that time, seventeen years ago, China was weak and barely on the world's radar. An Australian Prime Minister could have done what most other Australian Prime Ministers had done and head to Washington to discuss in familiar terms, our mutual interests with reference to the otherwise complicated world around us.

But the big picture told me that the rise of China was inevitable and that China's unity, while defined by Mao's nation state and disciplined by its Communist Party, owed as much to its own sense of civilisation as it did to its modern statehood.

Two decades on, notwithstanding that discipline, I still believe that observation to be true.

So this great state with its profound sense of self and the wherewithal to make a better life for its citizens, has eased itself into a major role in world affairs.

A role, which I believe, will be an altogether positive one for the world at large and for the world immediately around it.

But China's advent will cause adjustments. It will change the relative position of the United States, most particularly, in an economic sense. And as we know, the greatest strategic powers have invariably been the greatest economic powers. So this development will not be without strategic consequences. But this does not mean that at some singular moment there will be a bare transfer of the preponderant power of the United States to China. But we do know China will be a power in its own right and a big player.

I have often made a point as to the unusual position of Japan. The second economic power in the world, it has, for sixty five years, remained a strategic client of the first economic power in the world. China will not cast itself in this way.

So, we will live in a world of big powers including one big new one. And in time, that big new one may eclipse American power in our region. The issue will be how that eclipse will materialise. Will it be gradual, will the United States graciously cede the space or will it be taken up by a multiplicity of rising states?

In the meantime, that other great state, India, will also be on the rise with its huge youthful population. So in all probability we will be looking at some concert of powers in the Pacific and Indian Oceans, rather than a balance of power which has often been the device of an uneasy peace.

All of this should tell us that while developments of this kind are as uncertain as they are incapable of prediction, for a country like Australia, they nevertheless hold out huge opportunity.

This is why, I believe, we must always be outgoing. We must be alert, dextrous and positive: never defensive.

For these reasons, I found myself at odds with some of the text of the Government's 2009 Defence White Paper. Much of it is unexceptional, saying such things as our 'primary operational environment' more or less ends at the Equator and recognising that 'China will be the strongest Asian military power'. Nothing much wrong with that. But it goes on to discuss what it describes as 'the remote but plausible potential of confrontation' between us and 'a major power adversary', not suggesting who that power might be. Obviously it will not be the United States. You are then left to take your pick of China, Japan, India or Indonesia. And the Paper goes on to outline the kind of military capabilities Australia might need to respond to this contingent risk; foreshadowing an increase in our submarine fleet from six to twelve vessels, quadrupling the number of our bigger warships while acquiring cruise missile type offensive capabilities.

Taken as a whole, the Paper struck an ambivalent tone about our likely new strategic circumstances and what we should do about them. Including, for instance, failing to give us an indication as to whether it foresaw the growth of China's military capabilities as a natural and legitimate thing for a rising economic power or whether,

to the contrary, it was something we should regard as a threat and for which we should plan.

The fact is, Australia does not know and cannot divine what sort of new order might obtain as Chinese economic and military power grows in the face of relative American decline. And complicating that assessment, China rising in the company of other rising regional powers.

A region of this kind might turn out to be as peaceful and as prosperous for Australia as the one we have had since the end of the Vietnam War; a place where all powers have a role and where Australia is open to have whatever relationship it wants with any of them. But then again it might not turn out like this. The region may become more problematic.

This is why a defence policy is a must have contingency against adverse developments. But importantly, a defence policy is not enough on its own: it has to be woven into a view of the region and that view can only be encapsulated within a foreign policy.

Too often, Australia has created problems for itself when its defence policy has gotten ahead of its foreign policy; Vietnam and Iraq are prime examples.

Let me conclude on this point.

Cooperative regionalism was the idea that propelled me down the path of having Asia Pacific states meet at head of government level in 1992. That initiative was of its essence, positive, outgoing and alert to opportunity; carrying with it a message of participation with invitations to inclusiveness.

These characteristics must, I believe, be the hallmarks of an Australian foreign policy in these new times.

We should never return to a posture of fear or reaction of the kind that prevailed during the Menzies years nor should we look to position ourselves as a comfortable accessory tucked under someone else's armpit.

If John Curtin had lived in these times, I would be pretty sure he would be saying much the same thing.