White Paper on Australia in the Asian Century: Parliamentary Library Vital Issues Seminar

Peter Drysdale, East Asia Forum, Crawford School of Public Policy, ANU, 17 August 2012

Welcome the Asian Century

The industrial transformation of Asia is a development on a scale unprecedented in human history. Following the industrial revolution towards the end of the eighteenth century, Europe and North America each in turn came to dominate the world economy and global power. Now economic weight is shifting towards population weight. Asia is re-emerging as the world's biggest element in the world economy. In 1960, Asia produced little more than 15 per cent of world output. Today that share is close to 30 per cent. This has happened in the space of a few decades whereas it took more than three quarters of a century for the industrial revolution to transform the European economy and political power.

The Asian Century is here. In the last twenty five years the economy of China, a nation of 1.3 billion, has grown by a factor of twenty.

Twenty years out, even ten years out, Asia's influence will be even greater.

By 2025, one in two of the world's population and four of the 10 largest economies will be in Asia. Asia will likely account for almost half of the world output and more than half world trade, with China accounting for half of that. In 2010, China's per capita income was 30 per cent of the United States'; by 2050 it will be 55 per cent and India's likely 42 per cent. The Chinese economy will likely be bigger than America's within the coming half decade.

Asia has never been of greater global significance, as global economic and strategic weight shifts from west to east. Global institutional frameworks are coming to reflect this, with six members of the G20 Asian countries, including Australia.

These changes have a particularly rapid and profound impact on Australia and its region. In little more than half a decade China alone has become Australia's major trading partner, largest source of overseas students and tourists, largest source of migration and third largest source of direct foreign investment. The resources boom associated with China's and India's industrial growth has lifted Australia's terms of trade to a hundred year high and strengthened the Australian dollar sharply. Australia has benefited from developments in the Asian economy at a time when the industrial economies continue to languish after the global financial crisis.

Little more than a decade ago, East Asia's trade with America accounted for 23 per cent of their total trade, with China less than 10 per cent; last year, American trade was 10 cent of East Asia's trade, China's over 23 per cent. By last year, China was the major trading partner for every economy in East Asia (including Australia) with the sole exception of the Philippines.

Time to Re-think National Strategies

These changes have barely begun and they are changes that will define Australia's future. They were the background to the Prime Minister's commissioning the White Paper on *Australia in the Asian Century*. The aim had been to understand the implications of the changes under way and to analyse the opportunities and risks. There are risks in maintaining the momentum of growth. Achieving forecast outcomes will require vast investment in and improving the quality of human capital in the emerging Asian economies. It will require deep reform and institutional change to systems of governance. And as growth continues it will require managing effects on environmental outcomes, climate change, and on food and energy security.

The change in the economic balance of power, between America and China, is leading inexorably to the emergence of a new order in Asia and the Pacific. China is set to overtake the US as the largest economy in the world in real terms within little more than half a decade, according to the IMF. This large and rapid shift in the structure of regional and global economic power is inevitably accompanied by shifts, not perfectly but nonetheless strongly correlated, in the structure of Asian Pacific political and military power and influence.

It is not that the US has lost, or will soon lose, pre-eminent global military capability or political influence. Rather, the shift in economic weight and relative military capabilities now means that the Asian neighbourhood is subject to contest and constraint on the exercise of that power in a way that was not the case previously. How can this new circumstance be managed in a way that preserves the stability that thus far US hegemony has secured in Asia and the Pacific?

What Broad Priorities?

The scale of impact of the Asian Century is global but Australia's endowments and proximity to the action in the region — mean that Australia, more than most countries, is in the middle of it.

Four priorities stand out:

- the need to get domestic economic and social policies right
- the need to act regional to deliver global outcomes, recognising the importance of the G20 opportunity and being proactive across the all the regional platforms, such as APEC and the East Asia Summit, including ARF and the defence ministers' dialogues
- the need to construct comprehensive economic and political arrangements with Indonesia, China and India alongside deepening our established relations with Japan, Korea and ASEAN
- the need to build national and Asia-relevant capabilities in business, the public sector, though our educational institutions and across the community. We have many assets. Almost a third of Australians are overseas born, 10 per cent of Asian origin. We have made investments in building Asian literacy over the years. But these assets are no longer adequate to the task.

The Lessons So Far

While the White Paper process still has a way to go, there are some important lessons from the process that are already clear from the submissions to the White Paper, the wide-ranging consultations across all the stakeholders and levels of government in Australia and with people from around the Asian region.

The first is that all sectors in the community palpably welcome the commissioning of the White Paper and there is a strong sense that it is a timely and important exercise on which to be engaged — as a serious effort at defining national goals and leadership. Second, there is understanding — from business, the education sector, in the community and across politics— of the importance of the study and its ambition to inform policy approaches going forward. This has generated extremely high expectations about the outcome of the process. And finally, there is strong sense that a national conversation has begun on what will have to be done in response to our new national circumstance, a circumstance that has changed not just in degree but in fundamental character.

This is a wise instinct. It recommends that the White Paper not pretend to provide solutions to all the questions have to be addressed eventually. That would be both impossible imprudent. Rather the task should be set to directions in policy development, engage community participation in the process and set the scene for a continuing national conversation that has goals to achieve and built-in disciplines that will encourage them to be achieved.

Contact: peter drysdale@anu.edu.au or joshua.wood@anu.edu.au (Telephone 02 612564121).