

PERSPECTIVES

AUSTRALIA'S CHOICES IN 2011

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The Lowy Institute for International Policy is an independent international policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia’s international policy and to contribute to the wider international debate.
- promote discussion of Australia’s role in the world by providing an accessible and high-quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Perspectives are occasional papers and speeches on international events and policy.

The views expressed in this paper are the author’s own and not those of the Lowy Institute for International Policy.

Australia's choices in 2011

Michael Wesley

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Ladies and gentlemen, thank you for joining us this evening.

In particular, thank you to Price Waterhouse Coopers, a most valued corporate supporter of the Lowy Institute's work, who have provided this beautiful venue for tonight's event.

The Lowy Institute exists to do the hard thinking about how the world is changing, and how this challenges a small, Western, resource rich continent anchored to Asia's southern rim.

It exists because the two traditional sources of hard thinking about the world and this nation's future in it, government and universities, are losing their capacity to do so.

Events to our north in Asia are reshaping the world as we speak.

As an Australian think tank, the Lowy Institute is perfectly placed to investigate and interpret these changes for Australians and for other powers outside the region with interests in Asia.

After only 7 years of existence, we are ranked 27th worldwide outside of the US by the most prominent Global Think Tank survey.

In January last year the Lowy Institute held a reception like this to tell our most valued supporters and stakeholders about our plans for the year ahead.

In 2010 we promised, and produced, path breaking studies on the adequacy of Australia's instruments of international influence, from international broadcasting to the new social networking media, and the equipment our diplomats need in the twenty-first century.

We published a major report, *Power and Choice*, on the future of power relations in Asia.

We conducted a comprehensive analysis of China's tactics within the United Nations system.

The Lowy Institute blog, *The Interpreter* was a leading forum for commentary and debate on Afghanistan, geo-economics and war, Australia's relations with China and the United States, and the value and consequences of WikiLeaks.

In 2010 we identified three major global trends that will shape the world for the remainder of our lifetimes:

- a great convergence in wealth between developed and developing countries that is ushering in a major shift in global power;
- the dawning of a new era of geo-economics where the world economy will be increasingly shaped by strategic calculations; and
- the arrival of a new age of crisis, in which growing integration is matched by growing vulnerability to sudden shifts in perception and fortunes.

We thought 2010 would be a pivotal year, and we were right.

2010 saw profound political shocks in Australia, Britain and the United States.

It was the year China seemed to tire of Deng Xiaoping's injunction that the rising giant should "bide its time", and began to assert its interests aggressively – as we anticipated in our report, *Power and Choice*.

It was a year of cascading debt crises, rioting in the streets of Paris and Athens, and cracks appearing in that great symbol of European unity and confidence, the Euro.

It was a year in which the American President and Secretary of State were feted like rock stars across Asia in ways not seen for a quarter of a century.

Ladies and gentlemen, I believe 2011 will be just as momentous.

Three big questions about the world and Australia's place in it will underpin our research and events in 2011.

We want to start a lively conversation with you and our other stakeholders – and hopefully more broadly in the community – about these questions and what they mean for the nation.

The first is perhaps the biggest question of our time: whether the West is in enduring decline.

It's a question that has been posed many times, going back almost a century to Oswald Spengler's pessimistic post-World War One forecasts.

Since that time, the West has been written off, first against the Soviet bloc and then again following the rise of the Japanese-led Asian tiger economies.

We think there are three important differences from past episodes.

First, the economic data tells the story of a pronounced shift in global production, consumption and wealth; a shift that the Lowy Institute's Mark Thirlwell calls the great convergence.

By the great convergence he means that the world is well on the way back to a state last seen before Europe's industrial revolution, in which societies' contribution to global economic activity is more proportional to their share of the world's population.

By the mid-1970s, two-fifths of the world's population (the combined populations of China and India) produced less than one-tenth of global economic output.

But according to International Monetary Fund forecasting, by 2015 developing and emerging economies will contribute over half of all world output, up from just one-third in 1980.

In the coming decades, the lists of the world's largest economies will be increasingly dominated by middle income economies from what used to be the third world.

Indeed, the global financial crisis has only served to speed up the great convergence and the emergence from that crisis of a two-speed world economy.

Among the wealthy economies – present company excused – it's a depressing tale of high unemployment, sluggish growth, high debt, low interest rates and anemic currencies.

But among the former third world, it's a story of booming growth, plummeting poverty, investment surges, rapid uptake of new communications technology, inflation fears, and under-priced currencies.

Will the declining *significance* of the West in the world be accompanied by a decline in the West's *authority*?

For centuries, the West's lead in stability, prosperity, health, technology, education and research and production was taken as evidence, by Westerners and non-Westerners, that it possessed the best model for how things should be done.

The sheer power lead of the West allowed it to create a global system reflecting its values and interests; and the institutions the West designed outperformed all alternatives for centuries.

This belief led Western countries to advocate that others adopt their models of markets and democracy, while millions of non-Western students flocked to Western universities.

But where once the Western way was seen to deliver gleaming cities, efficient societies and powerful, self-confident countries, now the Western way appears to deliver sclerotic and crisis-prone economies, government dysfunction and social unrest.

The West no longer is the mirror in which the rest of the world sees the future it hopes for. Will that mirror be increasingly Asian in the years ahead?

If you want a power station built, would you go to a country that built most of its power network half a century ago and struggles to upgrade it against a tangle of special interests and regulations, or would you go to a country that builds a new power station every week - cheaply and efficiently, using the latest technology?

And alongside the apparent ebbing of the West's significance and authority, there are real questions about its future as an *entity*.

Once – not so long ago – the West was defined clearly both by what it stood for, and what it stood against.

It stood for free markets and democracy, human rights and transparency.

It stood against authoritarianism, aggression, closed centralized economies and police states.

These values gave the West a clear sense of purpose in the world: a vision of how the rest of the world should look and self-confidence about promoting such a world.

But neither the vision nor the self-confidence are plentiful these days.

Politics and the markets seem increasingly at loggerheads in western societies.

It's like a bad marriage: government and business realize each needs the other to survive, but each increasingly regards the other with mistrust and contempt.

Politics has overwhelmed policy; opinion polls and the science of staying in power have sapped governments' ability to design and implement big and necessary reforms.

We saw it here in the policy-free 2010 election. A similar trend is apparent in America, Japan and Europe.

A culture of individual entitlement has eroded the society-wide visions and aspirations for the future that have always balanced the strongly individualist culture of western societies.

Meanwhile the number of unambiguously totalitarian, command economies is shrinking.

Instead we have a kaleidoscope of eclectic works-in-progress: bespoke cocktails of democracy and command, markets and state intervention, social freedoms and surveillance.

Nowhere is this more evident today than in the Middle East.

At the very least new social, political and economic bargains will have to be struck between rulers and ruled, with potentially major impact on the region's alignments.

And amidst all of this, it is no longer the case that even western countries will remain each other's most important or even most valued partners and friends.

In the world of the great convergence, the places to make waves are no longer Brussels, London or Paris, but increasingly Beijing, New Delhi and Brasilia.

Is the decline of the West inevitable?

Will these trends intensify in the future, or will developments occur that will re-establish the West's confidence and cohesion, significance and authority, in the coming decade?

And what should Australia, a country that has benefited enormously from a Western-designed world, do about these shifts?

How can Australia best work with like-minded countries to preserve what is best and beneficial about the way the world has worked, amid all the changes that are occurring?

So in 2011, we'll be looking hard at this question: in the realm of the global economy, strategy and diplomacy, international development, alliance systems and institutions.

As this convergence unfolds, the second big question is what Asia will look like.

All of the change to our north means that a big part of securing Australia's future must begin with re-imagining Asia.

For many decades, our mental maps of Asia have seen the continent as a stage on which the great forces of history have contended – forces originating from beyond Asia.

Asia has been the passive object – the whom – of international affairs, to which things happen, rather than the “who” that makes them happen.

A vast continent weighed down by teeming billions, poverty, ancient prejudices and chronic backwardness whose present and future were shaped by outside powers and forces.

Our mental maps structure the world and how we interact with it.

They tell us what's important and what isn't; what can be done and what can't; what we fear and what we hope for.

Asia is already becoming less the passive stage on which others compete and more an arena of enterprise, collaboration and competition among its own states and societies.

Asia houses two continent-sized societies – India and China – that will deploy economic, military, cultural and ideational power more commensurate with their size than for centuries.

Dozens of smaller Asian countries that simultaneously benefit from and worry about these two giants.

We will need to take the relationships that emerge among the countries of Asia – their agreements and rivalries, their institutions and preferences – much more seriously, because these will have a major effect on how the rest of the world works, rather than vice versa.

The mechanisms and understandings of security and stability within Asia will be central to the world's stability and security, which is why they are the focus of our MacArthur security project led by Andrew Shearer and Rory Medcalf.

Asia's systems of finance and trade will set the standards of the rest of the world.

Up to now, our mental maps have also divided up Asia into sub-regions, each connected more powerfully to other continents than to each other.

To this view of the world "Asia" is a variable geometry that depends on who's talking about it and what their interests are.

But this is a mental map that is in less and less use among Asians.

The countries of Asia are trading with each other, investing in each other, and relying on each other more with each passing year – and these linkages are rapidly outpacing similar linkages they have with non-Asian countries and regions.

East Asia's trade across the Pacific grew by three and a quarter times between 1990 and 2007 – while East Asia's trade with the rest of Asia grew by six and a quarter times.

And the trends have been accelerating: intra-Asian trade grew by 240 per cent during the 1990s, but by 280 per cent in the following decade.

East, Southeast and South Asia source over 80% of their energy imports from West Asia.

Petrodollars from the Gulf are pouring into the booming economies of eastern and southern Asia, while Japanese, Chinese, Indian and Korean money builds ports, pipelines, roads and even nuclear reactors through Southeast, Central Asia and the Middle East.

An Asia once disaggregated vertically is now linking horizontally, as the Lowy Institute's Anthony Bubalo and Malcolm Cook published in a groundbreaking article last year.

And as it does, our "Asia Pacific" mental maps are becoming less useful and relevant, while a new "Indo-Pacific" commercial and strategic dynamic unfolds around us.

The waning of the Asia Pacific condemns a range of regional institutions and diplomatic strategies that have served Australia well to irrelevance.

The dawning of an Indo-Pacific age challenges this country, which has always looked at the world from a Pacific lens because of where 95% of its population lives. We will need to develop a countervailing west-coast view of the world.

So expect to see from the Lowy Institute in 2011 research and events that interrogate just how Asia is changing and challenging our mental maps. Studies that:

- examine great power competition in Asia, starting with the crucial maritime and cyber domains;
- chart how countries in the Middle East and Central Asia are responding to China's growing presence;
- investigate the complex relationship between India and China;
- track China's activities and rising influence in the South Pacific.

The third big question – and the really big one, which will determine our future security and prosperity – concerns what all of this means for Australia.

This third big question is actually a series of vital choices this country faces.

Much of the Australian community is not yet aware that we face these choices – or that actions taken or not taken today have profound implications for our future.

All of these choices flow from a single, intensifying logic: that more and more of our choices, as individuals, corporations and societies, are framed by their global context; and that more and more of the decisions we make are judged by their global context.

That global context is rapidly becoming more congested, contested and complicated for Australia to navigate.

The world of the great convergence imposes profound challenges and choices on Australia.

If a Western community of values and loyalties is really dissolving, it will force Australia as a society to confront the question of what values and interests it holds most important in dealing with the world.

And it will need to think hard about its capacity to protect and promote those values.

To take one example, there is a big question posed by the slow state take-over of the global resources economy, and where that leaves an Australia which is deeply philosophically committed to private ownership of its resources sector.

In an energy-constrained world concerned about climate change, how should Australia exploit and distribute its massive reserves of uranium while maintaining high non-proliferation standards?

How long can we as a country continue to duck serious debate about nuclear power?

What should Australia, a major food exporter, be doing about a world food trade that is threatened by surging demand, tightening supply, and short-sighted government responses?

Where will Australia's development aid program fit in the new two-speed world economy?

The government intends to double Australia's foreign aid program to over \$8 billion by 2015.

Such a huge investment will require a different aid program from the one we see today.

How will the money be spent, and where? How will its impact be measured and how will wastage be minimised?

Doubling the aid program will raise Australia's international profile and thus enhance our international responsibility to deliver aid more effectively.

Measuring the effectiveness of Australia's development activities will require an enhanced investment in rigorous evidence-based research.

The aid program will become an increasingly powerful instrument of Australia's international engagement – how then will it complement our diplomatic, military or trade interests?

At the same time, Australia will be competing for influence in a crowded field of emerging donors, including China, Brazil, India and South Africa, many of which have different interests to advance in regions of great importance to our interests.

In the year ahead Jenny Hayward-Jones has plans for a range of studies of the internal and external challenges to our nearest neighbours in the Pacific.

Perhaps the biggest choice will be over how Australia reconciles its two core interests – its security which is tied to the United States, and its prosperity which is ever more closely tied to China.

Australia does not face this choice on its own – similar choices confront Japan, Korea, Vietnam, Taiwan, Malaysia, Singapore and other nations.

Whether we can work with them in shaping our choices will be a key test of this country's diplomatic maturity and will further stretch an already under-resourced diplomatic service.

How Australia chooses to fit – or not fit – with the emerging Asia will play a major part in its international fortunes strategically, economically, diplomatically and culturally.

There are other big, difficult choices that are staring at us.

How will climate change alter the patterns of international migration, and can Australia's policy frameworks account for these changes?

What are the implications for population policy, and can we really pull down the shutters and put up the “no vacancy” sign?

How do we leverage our vast resources in our international policy? Or do our resource holdings also pose vulnerabilities?

How do we maintain our international competitiveness and make sure that the resources blessing does not turn into a resource curse?

How do we navigate Asia's increasingly turbulent strategic waters? Do we have the diplomatic, development and economic instruments we need to steer our way through?

And if all else fails do we have the type of defence force we need to maintain our security?

The fate of the West, the shape of Asia, the choices facing Australia: these are big questions.

That's why we've decided to make them our major themes for 2011.

A society that has taken the time to think, research, discuss and debate the future is a society that is better prepared to handle the future with confidence and make the right choices.

That's what we do at the Lowy Institute.

That is why we are confident that the work we do is relevant to more than what is sometimes referred to as the "foreign policy club".

The diversity of our audience this evening demonstrates that.

I thank you for your support for the Lowy Institute and its work.

We want you, our key stakeholders, to be very much a part of these debates and active participants in our work as our agenda unfolds for the year ahead.

Thank you.

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