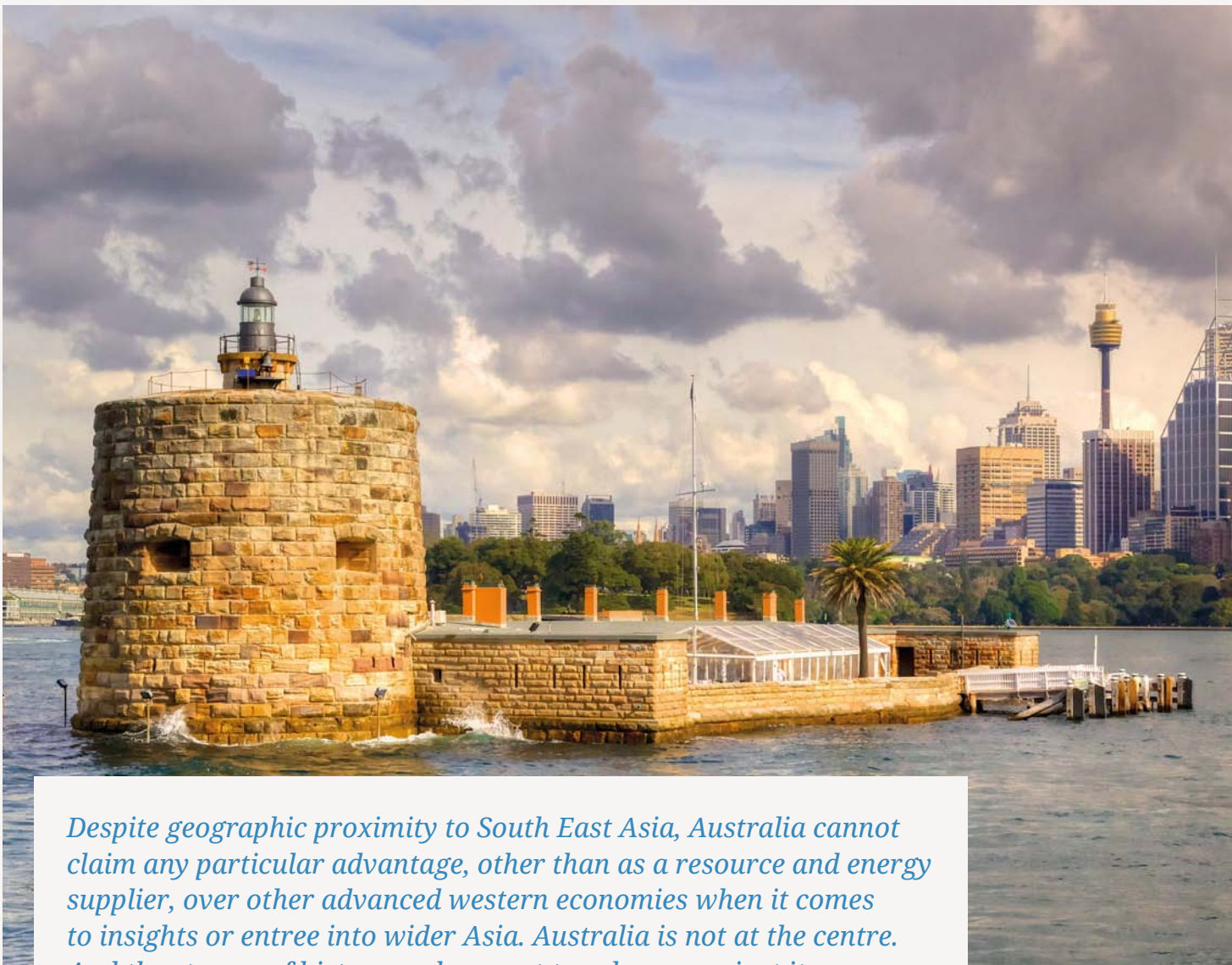


DAVID EPSTEIN

No longer at the centre: Australia's real relationship with Asia



Despite geographic proximity to South East Asia, Australia cannot claim any particular advantage, other than as a resource and energy supplier, over other advanced western economies when it comes to insights or entree into wider Asia. Australia is not at the centre. And the stream of history and present trends are against it.

Disruption and innovation are overused and abused words in the current lexicon of western elites. Similarly, with talk of a disruptive Asia, particularly in Australia.

Clayton M. Christenson's 1997 business study, *The Innovator's Dilemma*, propelled "disruption" and "innovation" to their present notoriety. Christensen's success was providing a plausible explanation for the effect of change on economic progress.

As Jill Lepore explained, in her sometimes brutal, 2014 *New Yorker* critique, the explanatory appeal of Christenson's "... 'innovator's dilemma' is that... 'doing the right thing is the wrong thing.'" Disruption is a convenient explanation of change and economic eclipse. It enables both to be explained with honour, because "the problem was the velocity of history, and it wasn't so much a problem as a missed opportunity."

This may be why some cite recent economic growth in Asia as an example of disruption, but is what has occurred in Asia really disruptive in historical terms? Evidence suggests otherwise.

Prime Minister Malcolm Turnbull, among others, has noted recent economic growth in China and India could be described as a return to historic norms; a resurrection after an unusual period of relatively lower rankings in economic league tables. In Turnbull's words: "...the Indian and Chinese economies growing to catch-up with developed nations, we should remember that from antiquity until as late as the mid 19th century, China and India were the two biggest global economies, typically accounting for 40 to 50 per cent of world GDP according to the economic historian Angus Maddison".

Asia's return to the centre is normal

There is a good case to be argued that Asia's economic development is and was predictable, and not particularly abhorrent or novel in terms of historic global relativities. It is the pace, not the fact, that major Asian economies have returned to significance relative to major Western economies that is unusual in historic terms.

This could have significant and unpredictable geo-strategic effects. If we want to be concerned about disruption we should be worried about the impact of geo-strategic rebalancing after such GDP growth has occurred or if Australia stagnates economically on a long-term basis.

We are not always as conscientious as we should be in securing our own economic well-being and stability. Nor do we like to recognise good fortune may be transient. Our relative standing globally could be viewed, in extremis, just an outcome of a two hundred year aberration. Luck might be another term for this, but only if we persist with the peculiarly Australian prism that good fortune is not linked inextricably to hard work.

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Chinese and Indian economic output has risen at a pace that has increased their share of the global economy close to threefold in the past two decades. By 2025, broader Asia will produce close to half the world's output and house the majority of the world's middle class.

Australia's present good fortune, together with its relative wealth and global stature since Federation, may be an unusual period of history not reflective of what others regard as the long-term. More concerning is that our extreme good fortune in the past decade is partly due to a massive upswing in

Australia's terms of trade as our resource exports have fed Asian economic redevelopment.

Former Reserve Bank Governor Glenn Stevens described this very colourfully in 2010: "Five years ago, a shipload of iron ore was worth about the same as about 2,200 flat screen television sets. Today it is worth about 22,000 flat-screen TV sets – partly due to TV prices falling but more due to the price of iron ore rising by a factor of six..."

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the general point is that high terms of trade, all other things equal, will raise living standards, while low terms of trade will reduce them."

A lot of what Donald Horne decried about Australia in *The Lucky Country* appears to persist while our economy remains heavily tied to commodity cycles. Only the dismal scientists, those pesky economists, argue persistently for the need to do something in the long-term about multi-factor productivity and sustainable economic diversity when commodity prices are high.

The bulk of us only talk about such things as booms dissipate, and then only after much gnashing of teeth and finger pointing. That is when talk of doom and disruption becomes fashionable, followed by urgings to place our faith in innovation to avoid a repetition of the cycle and a possible detour down the Argentine Road.

After World War II, and especially post the rise of the European Union and the European Commission, there has been a tendency for Australians to redouble their focus on Asia as a market and our proximity to the region in the dusk of commodity booms.

This is not, however, to dismiss the reality of the steady increase in our economic engagement with the wider Asian region from the 1950s on, nor the efforts of policy-makers on both sides of politics to adjust our foreign policy accordingly. As early as 1950, conservative Foreign Minister Sir Percy Spender said: "Geographically Australia is next door to Asia and our destiny as a nation is irrevocably conditioned by what takes place in Asia. This means

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that our future depends, to an increasing degree, on the political stability of our Asian neighbours, on the economic wellbeing of Asian people and upon the development of understanding and friendly relations between Australia and Asia...It is therefore in Asia and the Pacific that Australia should make its primary effort in the field of foreign relations."

Initially, however, the shift in focus for Australian foreign relations may have

been driven slightly more by fears about security threats in near South East Asia. The now dominant desire to pursue opportunities inherent in wider Asian economic growth came later with North Asian industrialisation.

Ramesh Thakur, of the Australian National University, highlights this well: "From the 1950s to the 1980s, the primary focus of Australia's engagement with Asia was Southeast Asia: managing the independence of Indonesia, the Malayan Emergency, the Malaysian-Indonesian Confrontation, the Indochina wars and refugees, the triumph of communism in Indochina, the consolidation of Southeast Asian identity under the newly created ASEAN, and the rise to middle income prosperity of millions of people in that region. This focus changed at the end of the 1980s, and Ross Garnaut's report, *Australia and the Northeast Asian Ascendancy* (1989), guided and shaped Australian policy parameters toward Asia-Pacific through the 1990s".

Australia has a long tradition of talking up special relationships or unique proximity to Asia. This often occurs when we turn our minds to the idea that achieving greater economic sustainability might require more than being very efficient suppliers of primary resources and energy to other economies in their economic development cycles.

This is where Geoffrey Blainey's *Tyranny of Distance* meets Horne's *Lucky Country*. Blainey was right to argue that Australia's geographic isolation, as a largely occidental society, from Europe, particularly Britain, has been a central determinant of its sense of self and will continue to be – for good or ill.

It is not a great leap to suggest it might also be why Australians can be attracted to the notion that they somehow own a special piece of global real estate. This is the view that Australians own a unique gateway to Asia: a place that will give them and their fellow westerners, Europeans and North Americans, a privileged access to Asian-derived wealth.

Australia's misguided Asian exceptionalism

Such thinking may not be as prevalent as the notion of American exceptionalism in the USA, but it is our closest proxy. It is also self-deluding; Berlin is closer to Beijing than Sydney. Australians have to recognise that they are not at the centre of Asian economic development and they do not own a unique place on the doorstep of Asia.

It is not wrong to focus on the prospect of increasing Asian prosperity and how to share in it, but the focus has to be on the right aspects of it and it has to be a

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consistent focus. Despite that, even the most engaged Australians can be tempted to invoke the myth that we enjoy special proximity to Asia, broadly defined.

Andrew Robb is remembered with some affection as a dogged trade minister in Australia. This may allow us to excuse him for his 2015 speech to the Chicago Council on Global Affairs urging the US to use Australia as a gateway into Asia.

Robb said: "Australia... is increasingly seen as a beachhead or gateway to a region that will be fundamental to global

growth in the years and decades ahead." Remarks like this are understandable if they come from state or territory government trade missions, but we need to be more hard-headed at the national level.

Though it can be tempting to assert Australia has a special proximity to Asia, this really only applies to South East Asia. Nor, as an important aside, can we ignore the fact that we often pay less attention to our nearest and largest Asian neighbour, Indonesia,

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than we do to other Asian nations that competing western nations have comparable access to.

While it is no longer a truism that Asia is somewhere Australians fly over on the way to Europe, it remains the case we pay insufficient attention to Indonesia. This is although the Department of Foreign

Affairs and Trade has confirmed Indonesia among Australia's six most important relationships, with China, Japan, Korea, India and the United States.

It is also despite the notable exceptions, including former Prime Minister Paul Keating's efforts to engage with Soeharto. Similarly, security collaboration in the wake of the Bali bombings and links born of the rapport former Indonesian President Susilo Bambang Yudhoyono had with Australian officials who had been his contemporaries early in his career.

Former Foreign Minister Gareth Evans – who sometimes attracted criticism from his own colleagues for being too close to the Indonesian establishment – has bemoaned this, writing: "One of the many enduring mysteries of Australian public policy is why Indonesia simply hasn't (with only a few honourable exceptions) attracted the same level of attention, understanding, and sustained high-level commitment from our political leaders that other Asian countries have received, and which it so manifestly deserves."

The reality of Australia's prevalent inattention to Indonesia may not be the mystery Evans ponders. It seems in the end, money talks, or at least the more apparent riches to be had in shipping resources, and now increasing amounts of energy, to North Asia.

We are still a little short-sighted. Australian officials have estimated that by 2050, four of the five largest economies will be in Asia; China, India, Japan, and Indonesia. The fifth will remain the US.

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Expect no favours from Asia

Australia is not "at the centre", as it were. Therefore, it should not expect favours from its Asian partners or feel it need not work as hard as others do to engage with them. Nor should Australia delude itself it can profit significantly by assisting others to engage.

Europeans are more than capable of managing their relationships with Asians and Asian governments directly, without the need for an Australian launchpad. So are North Americans and others. Often, too, they devote more resources to doing so. When the Australian Government published its Asian Century white paper, for instance, both France and Germany had diplomatic posts in more Asian countries than Australia.

The reality of the relativities of Australia's depth of engagement with the broader Asian region is only part of the problem Australia faces to better secure a sustainable economic future and manage its strategic position geopolitically.

Former foreign correspondent Geoffrey Barker summarises the challenge well: "Regardless of its success in deepening and broadening engagement

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with Asia, Australia faces a problem of declining relative economic and strategic weight as the populations of Asian nations grow faster than the Australian population... it remains a challenge for foreign and defence policy planners".

The obverse side of the terms of trade phenomenon Glenn Stevens illustrated so colourfully is that Australia has neglected its productivity performance

during a mining boom fuelled by Asian growth, yet we maintain our expectations of personal wealth and increasing living standards.

Without sustained and dramatic improvement in productivity, the coming decade is likely to see much less growth in living standards than Australians have come to expect. Moreover, there is a real risk that in some years living standards could actually fall without a significant increase in productivity.

When contrasted against the likely continuation of Asian growth patterns, this will provide Australians with a confronting juxtaposition. It will illustrate that Australia is not at the centre of Asia or necessarily secure in the league table of high living standards. To add to the dilemma, we also have to recognise that the bulk of benefits of recent global wealth generation has rewarded two groups: plutocrats in western economies and the growing middle classes of Asia.

This could create a difficult scenario for the average middle-class Australian to contemplate. Asian societies are becoming wealthier, western economies are treading water and becoming more unequal, while our middle-class are feeling more insecure and being asked to become more productive.

David Epstein *has been an executive at Qantas, BHP Billiton and Optus, and senior adviser to three Australian Prime Ministers.*

