

Australia. Disrupted.



Will Australia maintain its dynamism and be an integral, active and agile member of the Asian community of nations? Or will it let itself be shaped by external forces and drift to the periphery, watching the unfolding drama of power and wealth playing out northwards?

Everything is changing. An undeniable Buddhist concept comes alive on anniversaries, when continuity and change inevitably clash. When John D. Rockefeller 3rd founded Asia Society in 1956, a continent-sized country in the southern flank of the Indo-Pacific was refusing to recognise its geography and destiny of proximity to Asia. Australia emerged

from World War II with a conviction that it needed more people to defend itself and prosper, but it also wanted those people to be European. The fear of an Asian population influx manifested itself in the so-called White Australia Policy that favoured migration from the English-speaking and Western European countries.

But the 1950s also saw the first steps of Australia's long and continuing journey to form its new Asia-bound identity. In 1957, Australia and Japan – the country Australia had fought only a decade prior – signed the landmark Agreement on Commerce which paved the way for what is now a remarkable bilateral partnership. The agreement was possibly our first step towards a realisation that Asia matters to our future prosperity. In 1950 the Government instigated the visionary Colombo Plan scholarships, which enabled students from Asian countries to study at Australian universities – the project that would ultimately shape Australia's highly globalized and entrepreneurial higher education sector.

Over four decades later, in 1997 when Asia Society Australia was founded, the Government's Foreign and Trade Policy White Paper *In the National Interest* proclaimed: "Australia has interests across the globe but its most important strategic and economic interests lie in the Asia Pacific", solidifying the new orthodoxy of Australia's thinking about its place in the world.

In 2017 Australia is unrecognisable. Its gaze is directed northward where the global centre of gravity has shifted in the last two decades. Australia's identity – always a work in progress for any young multicultural nation – is being reshaped by the power of proximity to a dynamic Asia. The Colombo Plan has been reborn as the New Colombo Plan – an equally farsighted project by foreign minister Julie Bishop – but this time it works in reverse, sending Australian students to Asia.

The proximity and engagement debates have been largely resolved, in part by the forces beyond Australia's control, as economic and strategic power shifts to Asia. But one question remains – what kind of nation Australia wants to be and what role does it want to play in Asia?

Asia has arrived

Sixty years after the Asia Society's founding, the world is preoccupied with disruption, technological revolution and acute political and economic uncertainty. These forces are ubiquitously felt – in the way we vote, trade, work and communicate. They are threatening to unravel established political structures and business models, while creating new alliances and conflicts, but also generating new fortunes and breathtaking economic prospects. They are transforming human and social ties, keeping us constantly connected to each other, in defiance of distance or cultural and linguistic hurdles, while creating isolated, self-sustaining political tribes and eco-chambers of opinion.

But for Australia Asia's current renaissance is a disruptive force of a more profound variety. And there is no better living observatory to witness it than in Sydney. Walking the length of Pitt Street

in Sydney's heart reveals a story of growing economic and social connectivity between Australia and its northern neighbours. It feels like Asia has arrived in Australia.

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But behind the streetscape, flavours and sounds, there are more powerful forces at play. Asia's resurgence and urbanisation are fuelling a voracious appetite for energy and resources and an unstoppable quest by Asia's new middle class for better lifestyles, services and experiences.

The statistics reflect the dramatic transformation of a country which found itself at the right time and place, but also with the entrepreneurial spirit and foresight to recognize this opportunity. By 2017, six of Australia's top ten two-way trading partners were in Asia (excluding the US and New Zealand), with China leading the pack with a staggering trade value at \$150 billion in 2015-16, representing almost a quarter of Australia's total global trade.¹ In the last three years, Australia has struck free trade deals with China, Japan and Korea, smashing tariffs and barriers and providing further incentives to business to unlock these markets. In 2015, seven of Australia's ten highest-value countries for inbound tourists were in Asia, and Asian markets are expected to continue driving growth in tourism.² Meanwhile, as the commodity boom withers, Australia's fortunes will depend on how connected, innovative and responsive it can be to Asia's shifting patterns of growth and consumer demand.

Australian society in 2017 also looks markedly different from 1956. Asian-born migrants now make up a third of the overseas-born population.³ Over the last two decades Australian education has been transformed by globally nomadic students – mainly from Asia – seeking education opportunities outside their high-pressure competitive societies. Australia now educates almost half a million international students, and almost ten per cent of all Chinese students abroad.

¹ Department of Foreign Affairs and Trade (2015-16)

² Tourism Research Australia (2016)

³ Australian Bureau of Statistics (2012)

Strategic weight is shifting with economic activity

As the economic centre of gravity shifts eastwards, so does a strategic weight. Australia, which often considered itself to be on the periphery of the global power distribution, now finds itself in the middle of the greatest geopolitical rivalry of the 21st century. A close ally and security partner of the US, Australia's fortunes are increasingly dependent on China, its largest trading partner and a global and Asia-Pacific power willing to reassert its dominance of the region and challenge the decades-long American supremacy. Many of the Asian nations find themselves in a similar dichotomy, responding with hedge and engage strategies – balancing their significant economic interdependency with China with closer security

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relationships with the US. As the US-China competition in Asia intensifies, nations like Australia will be forced to do much more deal-making and alliance-building than in the past decades of a benevolent China and a dominant US. 2016 marked a curious milestone in this shifting paradigm – with the revelations of China's sustained political, business, media and community efforts to influence the Australian elite and public opinion on China's stance in the South China Sea. It is not the first effort and only the beginning of a new cycle in Australian history when we'll be living in the region, strongly influenced by a major power with values and a political system markedly different from ours. Learning to push back against interference in our political process and standing up for our interests and values will become a new dimension of our political life and diplomacy.

From the first steps towards greater political and economic relations with Asia in the 1950s to Ross Garnaut's seminal report *Australia and the northeast Asian ascendancy* in 1989 and Prime Minister Julia Gillard's comprehensive *Australia in the Asian Century* White Paper in 2013, Australia's engagement with the region has been framed as one between a distinct outsider and a culturally and politically different region. In 2017 – it seems – the choice has been made, and Australia is becoming an integral part of the changing Asia, albeit a distinct one at that.

It is unlikely that other regions will replace Asia as our key trading partners and investment sources in the foreseeable future. It is also difficult to imagine that China's influence in our region (and therefore on our own strategic and political outlook) will diminish. Our migration and demographic patterns point to a different cultural make-up of our society in the future, although it is not yet reflected in our political, intellectual and business elite. While we are still debating our place in the region and how best to connect with it, our neighbours have recognised the value and potential of our market, the uniqueness of our natural environment, and the power of our democratic and open society. Asia has arrived.

Outpost or hub?

So what kind of an Asia-Pacific nation does Australia aspire to be? What can Australia – undergoing social, economic and cultural transformations – do to prosper in this brave new world of shifting power, unravelling order and greater co-dependency?

A smarter and more pragmatic Australia, plugged into Asia and proud of its multiculturalism and diversity, confidently and skillfully utilising the economic potential of the region and our own strengths, while being an activist, agile, well-

informed and creative diplomatic player in the region, will have a good chance to prosper in the Asian Century.

What does it involve in practice?

First and foremost, it will require strong leadership from our politicians, public service, business and non-government communities, recognising that our engagement with Asia is a national, long-term and multidimensional project. Our connectivity with the region is not a distant, foreign policy

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issue, but a domestic policy imperative, inseparable from our national political and economic agenda.

Second, Australia needs to be committed to economic reform and a reinvention of its economy, despite the diminishing opportunity to reach a political consensus on the directions of these reforms. A strong, open and resilient economy will remain our number one global asset. It was evident in the Hawke-Keating-Howard eras when

our leadership strategically and politically linked a closer, more activist engagement with Asia and the opening-up and reform of our economy. We need to reimagine and invest in the globally competitive sectors of our economy which can respond to the demand of Asia's rising new middle class – education and health services, tourism, agriculture and niche advanced manufacturing and technology industries.

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More investment in Asian competence

Firstly, we need to tool up. We have to reverse a terminal decline in the teaching of Asian languages and studies in our schools and universities, even if it requires some difficult top-down decisions, not initially corresponding with students and parents' demand. Understanding our neighbours' languages and societies, at least at a basic level, will undoubtedly boost our capabilities and

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competitiveness as a knowledge nation, and help us navigate a much less predictable region.

Australia will also need to invest in its diplomatic and public service capabilities to drive pragmatic policy-making on Asia. Our universities have been steadily building expertise on Asia and some of it is second to none, but the country focus and resourcing is often uneven, leading to diminishing capabilities in Indonesian,

Japanese, South and South East Asian studies. Surprisingly, Asia expertise in our think-tanks is remarkably thin. We should encourage and enable greater government and philanthropic investment in Asia expertise across education, government and the non-profit sector. A greater flow of talent and ideas between the public service, universities, think tanks and NGOs through secondments, fellowships and affiliations will also help in the ideas generation for building a national approach to our engagement with Asia.

Our approach to encouraging greater business engagement with Asia should be different. The previous significant government investment in

Asia business capabilities has not shown any demonstrable substantial increase in the Australian business engagement with Asia. Ultimately, it is the market (and a myriad of economic factors going into individual business decisions to invest, enter or retreat) and a mindset that will determine our business activity towards Asia. The government's role is to provide a policy platform to enable such activity, such as infrastructure, free trade agreements, in-country support, information and advice.

Where government investment is needed most is in building education, cultural and broader intellectual competences to understand Asia that will ultimately alter the mindset and cultivate new champions and leaders.

Harnessing Australian-Asian leadership

Secondly, Australia will need to continue building a multicultural, diverse and inclusive society and draw on the leadership and expertise of our vast and fast-growing Asian-Australian communities.

Australia is arguably the most diverse, multicultural and inclusive society in Asia. It is an achievement that we need to celebrate and showcase to our partners in the region and beyond. It is a foreign policy, economic and social asset. However, this diversity is not fully represented in the leadership of our institutions. Unlocking the Asian-Australian (and other non-European) leadership in our organisations will boost a diversity of perspectives, generate insights and new approaches to our relationship with Asia, as well as to our domestic challenges. We have a capacity and the momentum is building to harness the enormous intellectual and cultural potential of our Australian-Asian community

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in the same way Australia has mobilised to address gender inequality.

There is also a case for a national centre which will bring together education, community and policy dimensions of Australia-Asia relations – a prominent public space and a national hub celebrating Australia's geographic, cultural and economic connectivity with

Asia, and which will serve as our intellectual gateway to the region. The symbolism of such a centre will not be lost on our culturally-conscious neighbours.

Creative, open-minded diplomacy

Finally, Australia will need to ramp up its diplomacy in the region and accentuate the Asia focus of our foreign policy. The election of Donald Trump as the US president and a continuing consolidation of power in the hands of Chinese President Xi Jinping, against the backdrop of a fragile global economy, rising populism and nationalism, and the growing global mobility of people, technologies and capital is likely to mark a shift towards a more transactional and competitive regional order, in which deals and interests will matter more than values. This is not the world order Australia wants to see and help to shape, but it may be forced upon it.

If this is the era we are entering, looking after our economic interests will be paramount. Australia already has a strong and sophisticated network of bilateral free trade agreements in Asia. It should continue focusing on bilateral agreements that are achievable – including with India and Indonesia – to inject economic and political energy into key bilateral relationships in Asia. But our strategic focus should continue to be on high-standard, multilateral, comprehensive regional deals, including the Regional Comprehensive Economic Partnership. We should also examine alternative frameworks, including Chinese initiatives, and participate in those with which our interests align.

Foreign investment will continue to be one of the bloodlines of the Australian economy, and we should fully utilise the opportunities arising from the new, globally mobile Asian capital. It will be important to ensure Australia has the region's and one of the world's most attractive and competitive foreign investment regimes. But we also should be direct

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with potential investors about the areas of our economy in which foreign investment will be contrary to our national interests. We should test new and strengthen existing strategic alliances of interests in Asia. We should pursue a deeper and more imaginative engagement with the Association of Southeast Asian Nations (ASEAN) on economic and strategic issues. The upcoming ASEAN-Australia Summit in Sydney in 2018 provides a unique opportunity to upgrade Australia's engagement with ASEAN. We should seek comprehensive bilateral strategic partnerships with Indonesia, India and South Korea as well as continue improving the existing ones with Singapore and Japan. We should

not shy away from championing new ideas for increased dialogue and coordination on economic and security issues in Asia, using Australia's standing as a reliable partner and active contributor. By building deeper and more comprehensive relationships in Asia, Australia can achieve multiple objectives, foremost among them is diversifying our regional economic and security risks, while easing the rhetorical overload of being caught in the China-U.S. dichotomy.

The Australia-China relationship will continue to be our most important and complex. Over the years Australia and China have successfully built a wide-ranging bilateral architecture through the Comprehensive Strategic Partnership. Now is the time to redouble our efforts in making it work for us.

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While our differences on the vision for the regional order will remain, they should not be our single preoccupation. The relationship still has a significant untapped potential in both economic and political spheres. Australia and China can deepen their partnership in investment, global economic governance and security, trade, maritime economy and education.⁴ We share with China a commitment to

open global trade which was responsible for making both our nations rich, our economies open and our bilateral relationship so remarkable. Can our joint commitment to an open international trading regime be a building block of the relationship with China at a regional and global level?

There is also a case to strengthen and better resource the existing mechanisms of cooperation with China – such as the Strategic Economic Dialogue, Foreign and Strategic Dialogue, Australia-China High-Level Dialogue, Australia-China Council, Australian participation in the Asian Infrastructure Investment Bank and other bilateral and regional platforms – to build trust, grow and diversify our links with Chinese institutions and leaders and improve our understanding of Chinese thinking. A pragmatic and open relationship with China – based on the understanding of points of disagreements and areas of mutual interest – will be crucial for Australian interests in the emerging global order.

⁴ Peter Drysdale, Zhang Xiaoqiang, Australia-China Joint Economic Report (ACJER)

Australia's alliance with the United States has been the bedrock of Australian foreign policy since the World War II. But as with any other relationship, it evolves and its parameters are shaped by the leaders behind the alliance and the changing regional circumstances. Our key priority in the next four years will be using our influence and resources in Washington and Asia to prevent a conflict or gradual deterioration of the relationship between the United States and China. We should continue advocating a constructive American engagement with Asia, but also highlight the shifts in economic and strategic power in the region, China's evolving role and our Asian partners' and own interests. Ultimately, our foreign policy will be increasingly more independent, but it does not have to equate with the end of ANZUS. It should however emphasise a strong, comprehensive focus on Asia and include

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a healthy dose of good risk management, scepticism and interests-driven contingency planning.

In this regard, our diplomatic network in Asia will be increasingly important as a more competitive global order emerges. It will not just be about the number of diplomatic posts we have in Asia, but how many staff and what expertise and skills we have at these posts. As is the case of the

teaching of Asian languages in our education system, it might be the time for a bipartisan, budget-proof, multi-year consensus on a sustainable increase in funding for our diplomatic service with a strong focus on our region.

Everything is changing, and at breakneck speed in our region. As Australia becomes increasingly intertwined with Asia – strategically, economically and socially, we need to be clear-headed about our options and challenges. In the age dominated by technology it seems appropriate to borrow some of its terminology to describe Australia in 2017. Will Australia step up to the challenge of the Great Asian Disruption and come out as a nation reinvented? Will this vibrant, entrepreneurial and multifaceted community maintain its dynamism and be an integral, active and agile member of the Asian community of nations? Or will it let itself be shaped by external forces, cling to the familiar

'lifestyle nation' reputation and drift to the periphery, watching the unfolding drama of power and wealth playing out northwards? Is it our choice to make at all? These are profound questions for Australia, and the ones we ought to be asking ourselves now.

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