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# The Asia White Paper: Key Priorities and Some Potential Pitfalls

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The extent to which the White Paper on *Australia in the Asian Century* makes a significant contribution to public policy will depend on the breadth and insight of its analysis and the practicality of the priorities for Australia that it identifies. In the context of those benchmarks, the White Paper will be operating in well-worked terrain. It can certainly add value in recommending relevant new ways of enhancing Australia's engagement with Asia but, in doing so, it will be building on the significant achievements of successive Australian Governments over the past two decades.

Where the White Paper can make an important contribution will be in highlighting in a focused and realistic way how Asia's changing dynamics are likely to shape Australia's national interests (in their widest sense) over the short and longer term, and in setting out the policy priorities and skills base needed to ensure that those Australian national interests continue to be advanced in practice. The White Paper will maximise its prospects of meeting these challenges if it avoids two potential pitfalls and if it keeps three specific priorities as guiding lights.

The first of the pitfalls to be avoided is what Henry Kissinger once called 'regional isolationism'—that is, a disproportionate focus by a nation on its regional priorities to the exclusion of its wider national interests and responsibilities.

Throughout its modern history, Australia has always been a nation with global interests and regional priorities. That reality will continue into the future. Wealth and power may be shifting from West to East—and that shift gives Australia new and exciting opportunities. But Australia's interests *beyond* its region will also remain critically important in trade, investment, defence and diplomacy. Furthermore, in a more general sense, the osmosis between regional and non-regional interests will continue to intensify for all countries. The White Paper needs to see Australia's diversifying interaction and widening sense of shared interests with Asia in this broader global context. A narrower, more introspectively regional focus will be both distorting and artificial.

The White Paper's terms of reference are a source of some concern in this context. They require the White Paper, among other things, to consider "the current and likely future course of economic, political and strategic change in Asia, encompassing China, India, the key Association of Southeast Asian Nations (ASEAN) countries as well as Japan and the Republic of Korea". The terms of reference do not mention the United States. Yet the fact is that the direction and pace of economic, political and strategic change in Asia will depend significantly on the ways in which the United States interacts with Asia, and its strategic competition with China in particular.

The focus of the White Paper on 'Asia' rather than the 'Asia-Pacific' does not change these realities. Asia's stability and economic growth over recent decades have been underpinned to a significant extent by America's regional engagement. That underpinning will continue to be a critical influence into the future. Any considered analysis, therefore, of economic, political and strategic change in Asia needs to take proper account of US policy and actions in terms of bilateral relationships and regional institutions in Asia. The exclusion of that reality from the White Paper's specific terms of reference is a strange omission, and all the more so in terms of the national interests in Asia of a US ally such as Australia.

A second potential pitfall which it will be important for the White Paper to avoid is a disproportionate focus on the forces of change in Asia to the exclusion of the significant continuities in particular areas. Change of all dimensions—political, economic, social, institutional and demographic—is not only transforming the countries of Asia but also shaping how Asia interacts as a region and how it engages with the rest of the world. The focus of the White Paper is, therefore, rightly concentrated on the nature and consequences of those changes, particularly for Australian interests. But together with transforming change in Asia, there are also important aspects of continuity reflected in the impact of competing nationalisms, historical animosities, religious conflict, ethnic and cultural divisions, rival economic ambitions, contested territorial claims, and different systems of governance.

These continuities have defined diversity and competition for influence in Asia for centuries. In a modern context and in different forms they will be significant ongoing influences in Asia's future. It is important, therefore, that the White Paper reflects the balance of change and continuity that is Asia's reality.

In addition to avoiding these potential pitfalls, the White Paper's value-adding potential in terms of Australian public policy will depend significantly on the extent to which it can achieve three key priorities.

The first is to convey the scale and complexities of Asia's transforming change, and the variables to which it is subject. The pace, direction and positive outcomes of change in Asia are without question, and in many

respects they are without precedent. Over the next five years, for example, around a half of global economic growth is projected to come from Asia, with much of it derived from the demands created by Asia's rising middle class and the pace of Asia's industrialisation and urbanisation.

In analysing Asia's future growth prospects, however, the dangers of linear projections are very real. Asia's economic growth outlook is certainly bright, but not in any unconditional or inevitable sense. As countries grow, further growth becomes more challenging requiring often difficult policy adjustments and triggering responses by and within other countries. Furthermore, the domestic social and political consequences of such growth strategies are not always anticipated or predictable.

The White Paper has a vital role to play in highlighting the scale of Asia's ongoing economic transformation and, in particular, the sectors where growth is likely to be most pronounced. But the White Paper has an equally important role in focusing attention on developments which may influence the accuracy of those projections.

For example, the White Paper will need to make judgements on China's capacity to implement (and the consequence of its implementing) major structural adjustments in wage and pricing structures, financial market liberalisation, improved tax/transfer systems and new approaches to social welfare policies—all of which will be necessary if China is to achieve its next 'great leap forward' from investment-led growth to consumption-led growth, from growth based on labour-intensive, low cost manufacturing to a more advanced growth model based on capital, knowledge and services. As part of that assessment, the White Paper will also need to address the future capacity of China to meet a range of other related challenges, including the challenges of macroeconomic management centred on rising debt, bank weakness, a property 'bubble', and inflation linked to an artificially low currency; the risks of a 'middle income trap'; the impact of regional disparities, social instability, an ageing population, access to resources, ethnic tensions, and environmental sustainability; and the most fundamental of all of China's challenges, maintaining economic liberalism within an authoritarian political system.

The White Paper's focus on future variables in Asia will not be limited to China. It will also need to address a range of other issues with the potential to influence the likely future course of Asia's transforming development. How appealing within Asia will be China's model of market-based authoritarianism, and what will be the consequences? Will Japan's future role in the region be one of rising strategic and economic influence (leveraged through its relationships with the United States and China), or one of decline under the weight of ongoing economic under-performance and political gridlock? Will India realise its economic and strategic potential, or be held back by development, infrastructure and education shortfalls, by

its reliance on domestic demand and growth in services, by the costs of doing business in India and by its deficiencies in effective governance? How likely is it that developments on the Korean peninsula will transform the regional outlook? Will the gap between Indonesia's ambitions and its capacity to deliver on them narrow or widen over the period ahead as Indonesia wrestles with its development needs, its geographic fragmentation, its religious and cultural divisions and a rising nationalist sentiment?

These and many other questions make Asia's future growth trajectory far more complex and problematic than many linear projections would suggest. The White Paper will need to address them directly. It has an important role to play in highlighting the well-founded optimism about Asia's ongoing economic transformation. But it has a responsibility also to highlight the variables to which such optimism is subject. That is a task which will call for informed judgment more than narrow arithmetic and for strategic insight more than straight linear projections.

A second priority to which the White Paper should aspire is to define the character of the engagement that Australia should pursue with a transforming Asia.

That engagement needs to be based on both a clear understanding of the forces of change in Asia and a clear sense of Australian interests and values. Such a framework is critically important. Without it, ends and means become confused and mistakenly interchangeable.

There are many particular skills and attributes that can enhance Australia's engagement with Asia, and the White Paper will no doubt highlight many of them including the development of language skills, the enhancement of cultural understanding, the expansion of on-the-ground diplomatic engagement and the consolidation of market niches (particularly in areas such as resources, food, education and training, tourism, finance, health care and legal services). None of these particular skills and attributes, either individually or collectively, is a 'magic key' to unlock Australia's potential in Asia. They will contribute most effectively to that goal if they are part of a broader national purpose: one committed to establishing an Australian economic infrastructure that operates at world-best practice; one that is clearly orientated towards, and actively promotes, openness in trade and investment arrangements; one that understands the linkages between Australia's regional opportunities and our global interests; and one that resonates with Australian values.

In my view, it is critical that the White Paper contextualises in this way the specific practical measures it will propose to enhance Australia's engagement with Asia. Better skills in Asian languages and enhanced cultural understanding of Asia, for example, are highly desirable but they will

only be effective in terms of Australia maximising its potential in and with Asia if they are part of a clear and broader policy agenda. That agenda needs to be focused on boosting national productivity, raising Australia's international economic competitiveness, strengthening our macroeconomic fundamentals (in terms of the fiscal framework, innovation, financial regulation and structural reforms), maximising the deployment of Australian labour and capital resources, addressing the adequacy of our immigration program and developing relevant skills within government, businesses and the wider Australian community that will enhance Australia's international economic and strategic engagement.

It is into these complex and contentious areas of policy that the White Paper will need venture, and on which it will need to come to clear conclusions. This is because these policy areas are the bedrock on which Australia's international economic competitiveness generally, and the quality of our engagement with Asia in particular, depend. And they are the policy areas that provide the foundation on which other specific initiatives (including those in relation to diplomacy, languages and culture) are most productively based.

A third priority that the White Paper should have as a guiding light relates to an intense focus on practicality. The diversity of Asia is an antidote to neat conceptual theories or grand strategies. The White Paper needs to keep an unerring focus on what works, or could work, in practice. It needs to look at specific policy options on their merits irrespective of whether they are bilateral or regional or more broadly multilateral, acknowledging there is value to be derived through all these avenues and recognising the varied forms that such co-operation can take—from intersecting institutional mechanisms to realities on the ground such as the production networks, investment corridors and transport/communication hubs that now characterise Asia.

The White Paper should highlight the hollowness of calls for “defining choices” to be made by Australia in its Asian engagement—whether such choices are presented as being between our security alliance with the United States and our economic relationship with China, or whether they are proposed in relation to our values and identity as a nation and ‘Asian’ values and identity. The reason why such “defining choices” are hollow and tired is because they are neither necessary nor desirable.

The fact is that the dynamics of change in Asia mean that the regional status quo will not hold, and adjustments in the regional strategic and economic order are needed to accommodate that reality. What is not needed, however, is a fundamentally new kind of regional strategic and economic order in relation to which Australian needs to make “defining choices”. The future in Asia belongs far more to a changing mix of co-operation *and* competition, of alliance co-operation *and* economic partnerships, of bilateral initiatives *and* multilateral co-operation, of transforming change *and*

important continuities. These are the realities of Asia's future to which Australia needs to keep adapting creatively and productively. The focus on a reform agenda and strategic priorities that will achieve real progress towards that objective needs to be the bright guiding light for the White Paper's deliberations and for its outcomes.

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