It is always unnerving to talk to a collective of think tanks. There is this huge pressure to be profound. It is a bit like talking to a room of psychiatrists. You have to be careful with every word.

Well, let me cut through these expectations by saying upfront that I will be speaking as a humble practitioner of policy and no one of course expects practitioners to be profound.

Today I’d like to talk a bit about the lens through which Australia sees the world, particularly our region, and to offer some broad thoughts on the strategic and economic outlook we face over the next couple of decades.

Introduction

I want to start with a wonderful exhibition which is currently on at the National Library in Canberra entitled “Mapping our World – Terra Incognita to Australia”.

It’s worth making whatever excuse you need to have a look – there are some extraordinary treasures in the exhibition.

Like the 15th Century Venetian monk Fra Mauro’s mappamundi, the most famous cartographic work of the late medieval period, which has left Italy for the first time in more than two centuries to come here.

Hanging nearly twice human eye-level – and upside-down from a modern perspective – it shows the Earth as the 15th Century knew it, in the decades before Columbus began the colonisation of the New World.

Norway and Russia at the bottom. “Southern” Ethiopia at the top. Scotland and England to the right. And on the left, Asia, including India and some of the islands of Japan – one of the first Western maps to do so.

Maps are unique and powerful symbols.
They represent our innate desire to understand the world we live in, to mark the boundaries and extent of human experience.

Often, they constitute a political or cultural claim – think of the Spanish and Portuguese dividing up the world between them, or the British Empire painting itself red as the empire on which the Sun never set.

Maps are products of science, markers of the technological sophistication of their authors.

But they are also artefacts of art, myth-making devices capable of expressing our human imagination, our attempts to fill in the gaps in our understanding of the world.

Most importantly, they embody, in a sense, the way we see the world.

In 2014, in Australia – this terra incognita that so fired the imagination of Discovery-era European scholars and explorers – what is the mental map that we use when thinking about our world?

The Indo-Pacific

Conceptual maps need regular revisiting even if the templates of strategic and economic weight usually shift only gradually.

My remarks today will focus mainly on the way in which economics and strategy are converging in Asia. Asia is of course a natural focus for Australia but the Asian growth story does not of course mean that the future belongs to Asia. This century may not belong to any one country or region. Economic weight and strategic influence are becoming more dispersed. Some of the poles of power this century will be outside Asia. But the size of Asia’s population means that it is likely to be unique in the scale of its economic growth this century.

Asia however is not a self-contained strategic system. It sits in a wider strategic context of which the US is a key component. And Asia’s economic links are global.

The defining phenomenon of the past few decades, in our region, has been the strategic stability provided by the United States. That stability allowed one Asian state after another to pull itself out of the colonial era, through independence, towards economic development and modernisation.

While the Cold War axis of power might have been somewhere over the Atlantic, or perhaps continental Europe, the rising Asian prosperity of the past few decades gave meaning to the concepts of East Asia and the Asia Pacific.

Since the end of the Second World War, Australia has mapped its strategic environment around East Asia and the Asia Pacific. This made sense in an era when India’s strategic influence was restricted to South Asia. Over this
century, however, we can expect India to become a more important player in the security of East Asia. Its economic interests are already pushing it in that direction and its historical, diaspora and cultural ties will further propel India along this path.

Today, it makes more sense to think of the Indo-Pacific, rather than the Asia Pacific, as the crucible of Australian security. This broader definition returns India to Asia’s strategic matrix. It connects the Indian and Pacific Oceans, thereby underlining the crucial role that the maritime environment is likely to play in our future strategic and defence planning.

The Indo-Pacific represents the centre of gravity of Australia’s economic and strategic interests. It includes nine of our top ten trading partners. It embraces our key strategic ally, the United States, as well as our largest trading partner, China. It reinforces India’s growing role as a strategic partner for Australia, as well as Japan’s place as an economic and strategic partner. It encompasses the particular significance of Indonesia for Australia as well as other important Asian economies such as Korea and Thailand, and also the diplomatic and trade weight of ASEAN as a grouping.

For Australia, in the 21st Century, the focus of our mental map is – strangely enough – something that wouldn’t have been too unfamiliar to navigators of a couple of centuries ago: an arc stretching across the eastern Indian Ocean, through East and South Asia, towards the United States on the far side of the Pacific Ocean.

**Economic and strategic outlook**

With that mental map in mind, what is the economic and strategic outlook we face, looking forward into the second and third decades of the 21st Century?

And what can Australia do to best prepare ourselves for this evolving world?

The first thing to say is that the strategic trajectory of the Indo-Pacific is less easy to project than its economics.

Well before mid-century, three of the four largest economies in the world will be in Asia. When we talk about Asia in the 21st Century, we aren’t just talking about China, India and Japan. Korea, Indonesia, Thailand and Vietnam will all be big players in their own right. The ASEAN countries will become more important.

The overall direction of economic development may look clear enough, but there is no large Asian economy which will not face serious challenges along the way. Nor can we expect Australia’s terms of trade with Asia to remain long-term as strong as now.

Resources will remain the biggest economic connection between Australia and Asia – not least because urbanisation in Asia has a long way to run and urbanisation is a voracious consumer of the resources that Australia has to
offer. That said, the supply demand gap for resources such as iron ore and natural gas is narrowing and prices will inevitably adjust to reflect this.

The pace of economic growth in all the large Asian economies will depend on continuing economic reforms. The role of the state, the prevalence of subsidies, a reluctance to embed competition principles in public policy and the favouring of state-owned or politically connected private enterprises are all areas which will need re-examination in most Asian economies.

Transition from export-led economies to a more balanced focus on domestic markets, reducing corruption and improving human capital and physical infrastructure will all be challenges.

In some Asian countries, political reforms will also be necessary if economic growth is to be sustained. We should be careful about linear projections of growth, because these political and economic adjustments will be painful, and made more complicated, in my view, by the ending of an era of strong executive government in many parts of Asia.

Driving reform will only get harder, whether we’re talking about democratic or authoritarian Asia. Like many parts of the developed world, many parts of Asia are facing critical demographic challenges that could depress growth and which have no short-term or easy solutions.

The overall trend however is largely positive. While the major Asian economies will struggle to retain the growth of the past decade, the trend will still be for relatively strong economic growth in emerging Asia, for at least the next two decades, albeit with considerable internal variation and continued vulnerability to future global slowdowns.

**US-China**

The strategic trajectory of Asia, on the other hand, is much less easy to project.

It will hinge, in large part, on how China defines its strategic objectives and how these in turn play into the US-China relationship. Asia is where the interests of the US and China – both competitive and complementary – will need to be managed and harmonised.

Some see the future as the inevitable surpassing of the United States as the predominant power. Much of this analysis is based on straight line projections which may or may not hold. That China’s stature – economic and strategic – will grow seems highly likely. But that does not mean we will see the eclipse of the United States.

Yes, the unipolar moment is gone and the margin of US influence is contracting. But the US will remain – for the foreseeable future – the single most powerful global and regional state through its unique combination of
military, economic and soft power. Looking at the next two decades, it is likely to be the only nation capable of projecting power globally.

There will inevitably be an element of strategic competition between the US and China. But they are also economic partners with an undeniable mutual interest in making sure competition does not slide into confrontation. Each country understands the importance of the other.

In Asia, the construction of a global economy astride a strategic map riven with historical rivalry and strategic suspicion underlines the central challenge we all face: how to maximise our economic opportunity and minimise our strategic risk. And how do we do that without creating a US-China fault line running through Asia.

History shows that economic interdependence in itself is no guarantee that the US and China can be kept from an adversarial relationship. But intertwining economic interest can be a powerful mitigating factor.

China has every right to seek greater strategic influence to match its economic weight. The extent to which this can be peacefully accommodated will turn ultimately on both the character of China’s international behaviour and the extent to which the existing international order intelligently finds more space for China.

Some assume that when China becomes the world’s largest economy, it will seek to assert itself as the hegemon of Asia. But a China with the world’s largest GDP will still be, in some respects, a relatively poor country with a relatively low per capita income. Its primary focus will therefore be domestic as it seeks further to increase the living standards and quality of life of its citizens. The same applies to India. The strategic behaviour of a large rich country and a large poor country is not the same. To assume it is can lead to serious policy errors.

Australian interests are best served by a stable balance of power in Asia. The best environment for the Indo-Pacific is one which favours open economies and societies, encourages economic integration, promotes strategic stability, is inclusive in its membership, and outward-looking in perspective.

We have many partners in securing these objectives: not least the United States. But we also have a similar intersection of values and interests, to greater or lesser degrees, with Japan, India, Indonesia and Korea, as well as other Indo-Pacific partners.

China is, of course, also very important to Australia. It is a key relationship and we seek a stronger and closer relationship with it. Already Australia’s largest export market, and further connected through large migrant and student flows, China’s economic importance to Australia will only grow and our overall relationship with China needs to track that growth. And beyond what we do bilaterally, it is also in everyone’s interest for China to continue to
be fully and constructively engaged in the global economy and in the multilateral institutions which underpin and reinforce our international norms.

**Building global and regional institutions**

How do we ensure that this will happen?

The primary burden of managing strategic stability in the Indo-Pacific will fall, as it always has, on the quality and character of the relationships between and among the major powers which include the US, China, Japan and India. And of all these relationship, that between the US and China is the most important.

But regional institutions can play an important complementary role in the shaping of a strong, resilient regional order.

And among the alphabet soup of regional institutions, the East Asia Summit stands out as the one with the most potential to do this.

Its membership now neatly matches the Indo-Pacific footprint. Its mandate embraces both the strategic and economic – a crucial point at a time when the interplay between economic and strategic weight will define the strategic order of the region.

An enhanced EAS would serve three objectives. First, it could help ensure that regional financial and economic integration keeps moving forward. Secondly, it can help foster a culture of dialogue and collaboration on security issues. And thirdly it can provide a vehicle to address transnational issues such as resource, water and food security, non-proliferation and terrorism.

In all of this our objective should be to nurture habits of consultation across the region. Consultation may not lead always to resolving problems but it can make the search for solutions easier and diminish the risks of miscommunication and miscalculation.

This regional institution building should go hand in hand with refurbishing our global institutions.

A stronger Asia means that the Asian majors will inevitably play a bigger role in multilateral institutions. Eight members of the G20 are also members of the EAS and five of these are Asian economies, excluding Australia. China sits on the United Nations Security Council (UNSC). India aspires to do so. Japan is a major funder of multilateral institutions and also aspires to UNSC permanent membership. Indonesia places a high priority on the UN, as does Korea.

Multilateralism delivers clear benefits through codifying and moderating international behaviour and mechanisms to settle differences and disputes. But important parts of the international system are under stress.
Multilateralism has never been more important and it has never been more difficult.

The current edifice of global institutions is not strong enough to carry the weight of the challenges we face. The largest gap is the absence of a driving centre – a grouping reflective of the distribution of power in this century, and capable of providing leadership on future challenges.

This is the role to which the G20 should ultimately aspire.

The individual interests of the G20 members are not always aligned. But its diversity – and the standing of its members – means that if it agrees on something, it actually has the means to deliver it. The G20 contains an inherent alignment of means and ends.

Building up the G20 is even more important as we witness universal multilateral negotiations struggling, and their possible replacement with a plurilateralism where participation varies by issue and where those who want an agreement strike one and invite others to join.

**Conclusion**

Let me conclude with these observations.

Times of transition always challenge foreign policy. We are dealing with trends which we can identify but only dimly project. Since we cannot know the end point, we need to think creatively about how we manage change.

And we need also to work hard to fashion the institutions which can help us to navigate our way through territory which is only partially mapped.

The future will put a premium on policy nimbleness. It will challenge us to recognise what will change and will continue. It will be as much a test of mindset as of policy.

Australia should face these challenges with a measure of confidence. We bring to it several assets.

Our history and our geography have combined to instil in us a global perspective. Ours is a society shaped by the values and institutions of the West, intimately connected to Asia, with economic interests across all regions and a community which has found unity around the principles of a multicultural liberal democracy.

Australians also understand the vocabulary of economic reform. Of course none of this guarantees our success and much of it can be overtaken by events outside our borders and beyond our control.
Ultimately the security and prosperity of our region will depend on our collective capacity to both understand and shape the forces which are redrawing our economic and strategic maps.

No one has a monopoly of wisdom about those forces. Think tanks such as yours have an important role to play in helping us better understand them.

To end where I began: these days we must all be cartographers of the future.