



## The Asian Century and the G20: An Australian Perspective on a Changing World

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Thank you for this very kind invitation and introductory comments. I am honoured by the invitation of the National Council of Applied Economic Research and the Australia-India Council, and very pleased to be here.

It is my first proper trip to India, something I am excited about, although embarrassed that it has taken this long. While I have been slow, the Australia-India Council has not, and I congratulate you on the 20th anniversary of your founding and the important role you play in encouraging and supporting contacts and increasing levels of knowledge and understanding between the people and institutions of our two countries. I hope this visit also provides an opportunity to work more closely with Dr Shekhar Shah and his Institute.

I am deeply honoured to be speaking under the banner of Sir John Crawford. I learned about John Crawford second hand from Peter Drysdale, who was a student of Crawford. When I was Peter's student, he spoke warmly of the attributes of John Crawford that had influenced him: a generosity of spirit, a focus on the strategic, and the courage to act.

Crawford is an exemplar in how to think big and ambitiously as our countries change, and how we frame our interaction and relationships with other countries. Crawford's focus was on Australia's relationship with Asia, from the beginning of his career in the 1930s and through the difficult days after the war with Japan, and on building our regional relationships. He worked closely, as many of you will know, with your leaders on agriculture reform in India's Green Revolution.

The matters that I would like to discuss today with you have echoes of Crawford's vision. They are, first, the use of the available forms of international cooperation (especially the Group of Twenty [G20]) to support the economic transformation underway in emerging markets, and, second, the need to refashion domestic policy to secure the gains from a changing world (focussing on the effort Australia is putting in considering our future in the Asian century).

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## How the G20 Can Assist Global Economic Transition

Given the time, I do not want to recount the facts about the scale and pace of the economic transformation underway in Asia and other parts of the world and likely scenarios and paths. I can refer you to some very good work (Attachment A). I would like to focus on two issues about this economic transition of relevance to both Australia and India and frame this discussion through the prism of G20.

The first issue is the importance of getting domestic economic policies and institutions right in order to sustain growth and development. The challenge we face is to what extent major countries will maintain a focus on open, competitive and well-regulated markets as a key driver of growth and hold themselves accountable to each other for doing this. The application of this is very broad, from domestic industrial organisation and commerce, to international trade and investment, to food, energy and resource security.

The second issue is the place of rules and norms in underpinning domestic policy and international economic relations. The question is how the rules and institutions of international engagement will evolve, including collective preferences about the role of markets, the place of the state, and how countries represent themselves.

There is nothing inevitable in the global economic transition underway that ensures it will be a success. Whether the transition provides countries with a significant or a small win-win outcome, ends up as a zero-sum game with winners and losers, or is just a failed exercise is up to how countries themselves approach and handle the transition underway.

In all these respects, G20 has the potential to play an important and enduring role in both domestic and international economic policy in making the transition successful.

Of course, forums by themselves are not a solution. What matters are the actions taken by the forum which in turn reflect the willingness of countries to engage, make decisions, and cooperate.

The value of G20 to date has been the willingness of leaders to talk and engage on the practical issues of the day, first and foremost in resolving financial and fiscal crises and their economic consequences, and also in dealing with other important economic issues like development, food and energy costs, and governance and corruption. G20 has worked well because it has been a high-level political catalyst for reform, compromise and change in the leaders' own countries. It is not just a talk shop.

So how can G20 continue to make a contribution and be a political driver of change?

While it is an international forum, the economics of G20 is largely domestic: the focus is on delivering domestic economic growth and jobs. The G20 represents a collaborative drive by countries for growth, recognising from the events of 2008 and 2009 just how interdependent our national economies now are.

One of G20's successes has been the Framework for Strong, Sustainable, and Balanced Growth, which embodies the basic insights that internal or domestic structural balance in the economy is the source of external balance, and that competitive and well-regulated markets, strong institutions and governance, and capability (education, skills and infrastructure) are the primary drivers of a country's economic growth. (Can you hear echoes of Sir John Crawford's vision?)

The mutual assessment process and action plans are the operational heart of the Framework. Keeping the focus on getting the basics of domestic economic policy right and on collaboration, transparency and accountability between countries in achieving economic growth are essential to ensuring the transition works. Keeping G20's eye on the prize of growth and employment has been a constant message from both Australia and India.

Also essential to making the transition a success is the evolution of the rules of economic engagement, which should be taken to include norms of behaviour. The rules in the post-war period have largely been written by the incumbent western powers. For much of this period, the agreed rules of international finance were written in the US/UK/German-dominated Financial Stability Forum and Bank for International Settlements; the rules of crisis resolution and development by a G7-dominated IMF and World Bank; and the rules of international trade by a G7-dominated GATT.

As the emerging market economies have grown, these rules have been called into question. As a result, there have been significant changes in them to reflect broader non-G7 interests. Importantly, there have also been fundamental changes to governance and membership of the rules-setting bodies (which Australia and India have both wholeheartedly supported), and further change in governance is needed. The formation of G20 itself – particularly its elevation to a pre-eminent leader-level forum – is a powerful example of greater inclusion in decision making.

As a mid-sized and open economy, Australia has long seen the value of rules, norms and standards and of the institutions that apply and defend them: rules provide predictability and certainty and underpin coordination and cooperation; they provide some defence against arbitrary action; and they are essential to deal systematically with the many calls by different groups in society and the economy for government assistance. But rules are dynamic, not static, and they could change in a world of major economic transition. How the rules of the game may change is a matter of great interest.

If the rules reflect the preferences of the rules-setters, where are the key differences in countries' preferences? They lie in areas such as:

- the extent to which countries agree to be bound by rules;
- the extent to which governments rely on markets for economic allocation, including their appetite for competition and tolerance of price variability in markets;
- the role of the state, including the nature and extent of regulation, state-ownership, behind-the-scenes direction of private enterprise ('jawboning'), and the availability of the tools and analysis of state to national firms;
- the nature of industry policy, including governments' appetite for protectionism and national champions; and
- the extent to which countries are prepared to bend or break the rules of economic engagement or to use economic dependence to achieve foreign policy purposes.

Governments do not generally sit down and explicitly set out their preferences on these matters. Rather, they reveal them by how they set and implement domestic laws and engage in international rule-setting. G20 is not a rules-setting institution as such, but it is a political rules-framing body. It articulates its members' expectations for rules-setting institutions, how G20 countries will themselves behave in these institutions, and their thinking on broad directions for reform. G20 is a key body to watch to get a sense of how the major countries of the world are approaching the setting of international rules.

From my own observations of the G20 finance process over the past decade and the leaders process since it was initiated in 2008, it is clear that there have been significant changes in approaches to rules setting. The 2011 Cannes Communiqué reaffirms G20's "founding spirit of bringing together the major economies on an equal footing" (page 5) and it implies a shared responsibility to guard the global system and the common good.

There is now a focus on collective and inclusive rules-setting, and this is embodied in the G20 practice of policy matters being developed in working groups co-led by an advanced economy and an emerging market economy. This was not always the case. It was not unheard of last decade, for example, for the G7 finance process to prepare and agree to a text setting out rules on, say, corruption or transparency and expect G20 simply to endorse and accept the G7 text. Things have changed since then. In the particular example of fighting corruption, the major emerging market economies have played a

constructive role and been an active party to strengthening rules and commitments. Just read the progressively stronger and broader language on corruption in G20 leaders' communiqués to see the shift in both practice and mindset. And, in this context, India's ratification of the UN Convention against Corruption received a warm welcome at the Cannes summit.

Greater inclusion and participation in rules setting is evident in other areas of cooperation too. Read, for example, the commitment to specific actions to support growth by all the major economies in succeeding communiqués.

But it is still work in progress.

Many changes to rules within G20 are still proposed by the major advanced economies. And there is a sense of caution at times among emerging market economies about these proposals. My impression is that there is a deep-seated concern—at times a defensiveness—among emerging markets about unintended consequences on their development, losing sovereign policy discretion, or being gamed by the incumbent powers.

There is also a debate about the balance of responsibilities. The major emerging market economies can point out, for example, that their economies are still developing and that they have large numbers of their people who are still poor. That is true. Development remains a priority and now sits at the heart of the G20 policy agenda. But it is also true that the major emerging markets are big economies that can have significant spillovers on growth, outcomes and policy directions in other countries.

This is a matter of live interest to Australia, not just because of the obvious macroeconomic spillovers to us from changes in growth in major Asian emerging markets, but because the policy approaches emerging market economies take to trade, protectionism, and resource security materially affect the global outlook, our own prosperity, and our own policy approaches in these areas. The emerging market economies matter, and this will be more in the future, not less, including in areas such as resource security.

It is a false choice to say that it is rules *or* development. Agreed, rules and norms of economic engagement are of great value to all countries, be they the incumbent economic powers, emerging economic powers, or the gamut of mid-sized and small economies that depend on a stable and effective multilateral economic system. More specifically in relation to the emerging markets, it should be clear from my earlier comments that I believe the priority is sustaining domestic economic growth and development and that solid norms about markets, institutions, regulation, transparency and governance are essential to achieve this. (And a greater focus on these drivers of growth in the industrialised countries would be particularly timely at this point of weak growth.)

There are practical ways to build trust and a shared sense of purpose, especially by consultation. While there are always differences between countries, there is usually a reasonable compromise to be reached (eventually) by talking through the issues, understanding where boundaries are, and, importantly, a bit of good will.

In making negotiations work, the challenge is to be flexible and look beyond past positions to future interests, many of which are shared. There is a history and culture in the way countries conduct their international relations. Just as G7 has been used to holding the levers and has had to learn to share power, so too the major emerging markets have their own patterns of interaction, including taking a 'south' perspective in their discussions with advanced economies in the 'north'. While they are also developing economies, the major emerging markets are also the advanced economies of the future. In this respect, the transition is not just about economic impact but also self-perception.

One thing that strikes me in the dynamics of G20 is the interplay between sub-groupings, particularly G7/8 and BRICS. There are risks that sub-groupings will become entrenched clubs within G20. There are always coalitions on particular issues. But the coalitions should not be the same on every issue. While

there are common interests between these sub-groups, neither G7/8 nor the BRICS is a cohesive uniform bloc and there are significant differences within each grouping. Indeed, the greater shared view or strategic interest may at times be between countries across sub-groupings rather than within sub-groupings. There are, for example, differences within sub-groupings on meaty matters like financial regulation, protectionism, currency flexibility and food and energy security.

The more entrenched the G7/8 and BRICS sub-groupings become as the form of engagement between the biggest economies in G20, the greater are the risks that discussion is stage-managed and brittle, that ministers and officials are frustrated at meetings, and that G20 descends into a battle of political will between these two groups rather than as a way to advance shared future interests. The more entrenched a G7/8-attitude or a BRICS-attitude becomes in these countries' own bureaucratic cultures, the harder it is to change mindsets and behaviour at the negotiating table. I do see the start of some sharpening of a G7/8–BRICS differentiation and it is in all our interests to ease back.

In practical terms, issues should be addressed on their merit and discussions take place at a range of levels. There is an opportunity for Australia and India to do this more. We have a shared and growing bilateral interest in infrastructure, food security, energy, and resource security, among other things, and these are obvious areas where we could work more closely together in G20.

If used strategically, G20 is a powerful tool to ensure that the economic growth and rise of emerging market economies is a global success. This is certainly the view that Australia takes as we engage in G20 and prepare for chairing the forum in 2014.

### **Australia in the Asian Century**

In Australia, we are also looking closely at the economic and social changes occurring throughout our region and what these changes mean for us. The Prime Minister announced on 28 September last year that her government would prepare a White Paper on Australia in the Asian Century, due in the middle of this year. This is a major policy initiative by the government designed to frame Australia's thinking and response over the next couple of decades to the momentous changes underway in our region.

A striking feature of the terms of reference of the White Paper is that the focus is so much on domestic policy.

There are three elements to this.

The first is economic. Several countries in Asia are vitally important to Australia's economy. China, Japan, the Republic of Korea, India, and our ASEAN neighbours absorb around three-quarters of our merchandise exports and supply half our imports. Increasingly our investment inflows will be sourced from Asia. Nine of the top 10 source economies for international students in Australia and over half of the top 15 visitor countries to Australia are from the Asian region. Australia stands to benefit as Asia continues to grow and urbanise and income and wealth rise.

Our proximity to leading emerging economies in Asia, our openness, our natural resource endowments, our leading-edge service sectors and our strong governance and institutions are all factors that will underpin Australia's relationship with other countries in Asia well into the future. While Australia has a comparative advantage in mineral commodities, energy, agriculture, and tourism, we also have competitive advantages in education, health, financial and professional business services, logistics, and niche manufacturing.

The domestic economic dimension of the story for us is how we continue to get the basics of economic policy right, how we ensure that sector-specific policies help facilitate the transition of our economy to take advantage of the opportunities, and how we retain a public consensus for an open, competitive and rules-based economy in Australia.

Looking outward, one part of the economic story is strengthening and deepening our business and professional links with the region. Transactions are important but so too are trusted relationships and connections. We can get so caught up in the size of the trade flows that we pay insufficient regard to business and other relationships that underpin commerce and risk forgetting that, if we are to ensure resilience and diversity in economic relationships, we need a dense web of business links to enable it.

And, as we look outward, we are broadening our focus in Asia. For much of the post-war period, Australia has been absorbed with East Asia, which is unsurprising given the deep complementarities and openness of our economies and relative proximity. But it has meant an underdone focus on south Asia, and India in particular, which has also liberalised, grown and developed significantly. Australia is now much more focused on, and engaged with, India, and the White Paper is a vehicle to take this further.

Economic interdependence is a two-way street. It is clear that Australia is a part of the economic change occurring in Asia. We will remain a major player in regional and world trade in mineral commodities, energy, and agriculture. And we will still be in the top 20 largest economies for some decades to come. The January 2012 report on *The World in 2050* by HSBC, for example, uses a Barro (that is, rules-based) growth model to predict the top economies to 2050. India goes to number 3 in 2050 from number 8 in 2010. Even with all the growth in the developing world, Australia is number 18 (down from number 14 in 2010) and number 11 in per capita terms.

Second, while the economic dimension is important, so too is the social and cultural dimension. The changes occurring in Asia are drawing Australia closer into the region. This is not an abstract concept. It directly affects the Australian people. The White Paper will look specifically at our people-to-people, social and community connections with other nations in the region and how we nurture and strengthen them.

Here, there is a lot in prospect. The White Paper provides a structure for community discussion about the importance of a number of countries in Asia to the material well-being and cultural life of Australians, and about creating opportunities for Australian individuals, families, schools and communities to strengthen capabilities and people-to-people links to better position them for prosperous and interesting lives.

The third dimension is the cross-over between domestic policy and security. At least in recent decades, Australia's largest economic partners have also been our major strategic allies and partners. This dimension is changing as some of our major economic partners are not the ones with whom we have formal security alliances and partnerships.

The White Paper on Australia in the Asian Century is not examining Australia's defence policy. The government has been absolutely clear that defence policy is a separate matter with its own processes. What the White Paper is interested in, however, is how to ensure that both the economic and security elements of Australia's national interest are addressed in a coherent, integrated and strategic manner. I do not mean to be side-tracked by semantics but, in the contemporary world, 'strategic policy' now encompasses economic and security policies (and so 'strategic' is not just another way of saying 'security policy').

The White Paper is not the place to debate whether, when, or how our security relationships prevail over our economic relationships or vice versa.

Rather, it is a matter of how we get on with our dealings in an increasingly multi-polar world, starting with the realities that the US military alliance is for Australia a core and fundamental part of our national security arrangements, that we have strong and deepening economic relationships with some

countries in Asia that are not US allies<sup>†</sup> but which are themselves dynamic and evolving polities, and that we intend to continue to work on this basis.

The real strategic question is how we go about this, not whether we have to choose between the two. As in other areas of public policy, the framing of the issue matters.

In the first instance, the focus should be on whether the advisory, decision-making, and representational structures of government ensure that the government is best placed to make informed decisions about the national interest in this complex strategic environment.

Then, given the institutions of government, the focus should be on the active exercise of Australia's international economic, security and diplomatic relations to ensure that we do all on our part to sustain peaceful growth. That requires maintaining active, trusted and professional relationships with all parties in these spheres.

### **Final Comment**

So let me come to a close.

I have tried to give you a sense of Australian thinking on the exciting future we have in Asia and how Australia is deeply engaged in making the future a success. The economics and statecraft involved in this transition are challenging.

India is at the heart of this change and is an increasingly important leader in domestic economic reform and global norms-setting. Australia is very interested in how India frames its thinking and action on sustaining its remarkable economic growth and challenge of creating jobs (especially meaningful jobs) and where you see the opportunities on the international side to support domestic development and prosperity.

I hope you also have a clear sense that Australia is a partner with India in this. We want to work more closely with you bilaterally, in our region, in the G20 and elsewhere, and I have listed some areas where we have shared interests and can work together to develop policy in G20. I am constantly impressed by India's G20 sherpa, Montek Ahluwalia, and so as Australia's G20 sherpa this is a great personal delight for me.

Thank you for your patience and I look forward to hearing Professor Basu's remarks and your views.

### **Attachment A: Some Readings on the Transformation of Asia**

- Chun N (2010), 'Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia', ADB Economics Working Paper Series, No. 217, September 2010.
- Pongsaparn and Unterberdoerster (2011), 'Financial Integration and Rebalancing in Asia', IMF Working Paper Series, WP/11/243, October 2011.
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- World Bank (2007), An East Asian Renaissance, Gill I and Kharas H, The International Bank for Reconstruction and Development / The World Bank, Washington.
- World Bank (2011), 'South Asia 2011 Regional Brief', <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:20113327~menuPK:588249~pagePK:146736~piPK:226340~theSitePK:223547,00.html>.

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<sup>†</sup> There are countries in Asia with whom Australia has both strong economic and security ties, like Japan, the Republic of Korea, Malaysia and Singapore.