

ADDRESS TO ASIALINK LEADERSHIP FELLOWS FORUM

AUSTRALIAN NATIONAL UNIVERSITY

CANBERRA

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Good afternoon and thanks for having me here for lunch.

This leadership program is unique and valuable one – I know it's both intense in content and in commitment, and equally I know you all also have pretty intense roles in your respective organisations.

Your commitment to Australia's relationship with Asia is commendable and tracks well with the Rudd Government's own commitment – which is a commitment that crosses many of the portfolios across the Ministry.

For example, Australia's relationship with its Asian and Pacific neighbours forms a key part of my role as Assistant Treasurer.

My Ministerial responsibilities include representing Australia at the Asian Development Bank and also at the Pacific Islands Forum Economic Ministers Meeting process.

In addition to this, and working closely with the Treasurer, we have continued a strong degree of general engagement with the region on the global financial crisis, including on recent visits I have made to both Singapore and Indonesia.

I know that across this week here in Canberra you are engaging on the full spectrum of Asian-Australian issues, so I will focus in what is my main area of policy making concern – and that is our economic, investment and financial relationships with Asia.

Before I do this however, I will run through a quick schematic of just how the global financial crisis, now a truly global recession, has washed through both Australia's and Asia's economies, including some of the immediate steps we've taken to counter the impacts.

The global financial crisis and Australia

It is a year exactly to the day today that Lehman Brothers collapsed. I had only just returned to Australia from a visit to New York and Washington and the level of concern on the Street and around the Capitol was palpable.

That said, what came in the following weeks was almost without precedent and the effects have been only one step removed from the greatest economic crisis of all, the Great Depression.

It is fortunately true that Australia has done better than most of the rest of the world – for example, we are the only advanced economy with positive GDP figures over the last year, growing 0.6 per cent on annual basis, while all other advanced economies have contracted.

We have been well-served by the Government's introduction of the bank guarantees and the three waves of fiscal stimulus that have supported thousands of businesses, supported more than 200,000 jobs and prevented a deeper downturn.

The fiscal stimulus is in addition to the Reserve Bank of Australia loosening monetary policy, cutting the official interest rate by 425 basis points to 3 per cent, its lowest level in 50 years.

These measures have helped the Australian economy weather the global financial crisis and the subsequent global recession.

Our unemployment rate is at 5.8 per cent and is among the lowest in the developed world.

But, as I am sure you've heard my colleagues and I say – we are not out of the woods yet.

To undo any of these important domestic measures right now would be to concede defeat – we don't just need 0.6% growth, to see unemployment move down not up, we need a return to solid trend growth.

And when we look overseas, we also don't see data to support a withdrawal of stimulus.

Weakness continues in many parts of the world.

Eight of Australia's top ten trading partners have fallen into recession or contracted over the past year with the United States and United Kingdom continuing to record falling output into the June quarter.

The global financial crisis and Asia

But what of Asia?

What is clear is that of our global economic relationships, particularly our trade relationships, it is Australia's partnerships with Asia that have made the most substantial contribution to our economic health during this global recession.

Asia had little involvement in high-risk mortgage lending practices. There was some exception to this in Japan, but broadly the region was not deeply involved in the toxic asset trade we saw build up and then bubble during 2007.

For example, the region did not experience the kind of housing bubbles seen in the US and Europe, because many Asian countries implemented policies aimed at moderating booms in asset prices and credit.

But the spillover from the global financial crisis hit Asia directly and in some areas, very hard indeed.

A very sharp slowdown in Asia resulted from the collapse in external demand in particular. The consumers in the US and Europe stopped buying, the importers stopped importing and Asia's exporters had no markets ready to take their product – a cycle not of Asia's making, but very much one that hurt the region.

On top of this, domestic demand in the region also deteriorated with weaker labour markets, falling confidence, tight financial markets and excess capacity.

But Asian policy makers have been proactive in managing the global crisis.

China's stimulus package will reach close to 5 per cent of GDP in 2009-10 according to the IMF, with a strong focus on investment in infrastructure. Singapore is another example of a very substantial and immediate stimulus working to turn growth dramatically around.

Combined with expansionary monetary policy, fiscal stimulus packages have helped Asia to rebound from the global recession in the June quarter, meaning the economic outlook for Asia has improved markedly.

Many Asian economies have posted better than expected GDP growth in the June quarter, led by China, which grew by 7.9 per cent through the year to the June quarter.

The stabilisation in financial markets has also provided support to economies in the region. Equity markets have rebounded, capital inflows have improved, risk aversion is abating and Asian corporate debt spreads have declined by over 250 basis points since January 2009, helping to ease financing constraints and providing much needed impetus to economic growth.

China, India and Indonesia are expected to be the fastest growing major economies in the world in 2009. Their resilience is a testament to their economic management.

Despite these positive signs from Asia, and no different from our situation here in Australia, a sustained recovery is not yet assured.

The staying power of policy-makers on the domestic front to keep important stimulus packages in place, along with global developments, will continue to shape the path of recovery - global demand may not be able to drive the recovery as it has in the past, while weakening labour markets will put a dampener on consumption and investment. For example, the global consumption demand gap resulting from changes in the US economy cannot be underestimated.

Australia's economic links with Asia

So, where does this all leave our economic relationship with Asia – both right now and into the future, medium and long-term?

What do up and coming policy and decision-makers like you need to know about that relationship to ensure the best outcomes for Australia, for your department or agency, or for your company?

I would point to two broad themes that I would see as critical to a successful Asia dialogue – one, we need to recognise that not all in our community agree with our strategy so we must communicate the value and necessity of the relationship clearly and to as wide an audience as we can; and two, we must recognise the importance of the new, or newly invigorated, global and regional economic architecture.

The benefits of engagement

As I have said, our trade and investment connections to Asia have worked to Australia's advantage during this global recession.

Although it is important to note that some would have us believe otherwise.

Believe me, being the Government's economic Minister in the Senate I get to hear all sorts of quite intense views on this issue, such as Senator Joyce's standard opposition to almost any inward investment from China.

These voices focus on implied threats and risks in our economic relationship with Asia, but I would contend very strongly that the facts today and the trends for the future just don't bear out these views.

As the Treasurer has said on many occasions lately, we are at the start of what will be "The Asian Century". There's no doubt the facts point to the centrality of Asia to our economic well-being, both now and well into the future.

Asian population as a share of the world population is projected to increase from around 54 per cent to 57 per cent by 2050. Over that same period, Asia's share of world output will grow from 18 to 40 per cent.

The balance of world trade is also shifting towards Asia. In the past decade, the share of world trade accounted for by emerging economies has increased from one-quarter to almost 40 per cent. The growth in Asian trade has been a key driver behind this phenomenon.

The growth in the "Asian Tigers" — South Korea, Taiwan, Singapore and Hong Kong — in the decade before the Asian financial crisis was seen as Asia's coming of age in economic terms. Between 1988 and 1998, the average annual growth rate in the value of Australia's merchandise exports to these four countries was 9.4 per cent.

Impressive as this is, it is considerably outweighed by the growth in exports to China and India. Between 1998 and 2008 — the decade after the Asian financial crisis — the value of Australia's exports to these two countries grew at 22.7 per cent per year. The value of services exports to China and India is growing at a similar rate.

Australia's engagement with Asia in trade, investment, research and development, education, tourism, and migration has quadrupled since 1990. This compares with a threefold increase in engagement with the rest of the world, over the same period.

Even more staggering, when we delve into "Asia", our engagement with ASEAN countries expanded fivefold, while Australia's links with China grew an incredible sixteen-fold.

Australia currently has Free Trade Agreements with ASEAN, Singapore and Thailand, has FTAs under negotiation with China, Japan and Korea; and FTAs under consideration with Indonesia, Malaysia and India. The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) was established on 27 February 2009, and will enter into force no later than 1 January 2010. AANZFTA is the largest FTA that Australia has concluded, and ASEAN as a group is a larger trading partner for Australia than any single country, with trade between the two reaching \$81 billion in 2007-08.

Just in the last few weeks we have seen the largest ever resources development project at Gorgon, which is expected to generate \$300 billion in Australian export earnings and support 10,000 direct and indirect jobs in the peak construction phase and 3,500 direct and indirect jobs throughout the life of the project.

All of this trade leads directly to greater wealth for Australia – for current and for future generations.

So, I would lay down this challenge to you – as the next generation of Australian business and policy leaders – we need to work on making sure the broader community, including the business community of which many of you are a part, appreciate these benefits.

It is with this knowledge that we can counter those who would otherwise mislead the debate.

Evolving global and regional architecture

For decades, Australian foreign policy has placed a high priority on the Asia-Pacific and the forging of strong economic, strategic and political ties with countries and organisations in the region.

What is most telling in the last twelve months of global financial crisis has been the effect on global economic architecture and Asia's place within it.

I am talking of course of the rise of the G20 as the key global forum to deal with this global recession. This has critical and positive implications for Asia and Australia.

The G20

People often do not realise that the G20 Finance Ministers process was born out of the Asian financial crisis and just as then, the financial and economic crisis that struck in September last year was truly global in its impact and demanded a global solution.

Thus the current crisis has spawned an additional G20 Leaders process, thanks in no small part to the efforts of our own Prime Minister.

The G20 counts as its members Australia, China, Japan, Korea Indonesia and India, meaning six of its 19 state members, almost a third, are based here in our region.

The G20 has coordinated stimulus measures combined with commitments to avoid protectionism. It is a contemporary recognition that key economies must work together to strengthen the financial system and international financial institutions to deal with the crisis.

G20 members need to continue to work together with regional partners to address longer term economic challenges such as stimulus exit strategies and the future growth and rebalancing challenge facing the global economy, in particular how this will present major challenges for the Asian region.

So for each of your organisations, guiding an understanding of this evolving G20 process and the central role being played by the Asian

region, is certainly a major value-add you should be able to bring to the equation.

But of course there are other important regional bodies that must – and do – remain high on Australia's regional and economic engagement list.

East Asia Summit

Australia is a founding member of the East Asia Summit (EAS).

The EAS is the newest of the regional architecture but a very important addition, given that its 16 members represent almost half of the world's population and account for almost 30 per cent of global GDP. This statistic is only going to increase as the emerging super powers of China and India continue on their paths of economic development.

For Australia itself, our relationship with EAS members is especially important given almost 60 per cent of our exports are to EAS members.

Next month, the Prime Minister will be working at the 4th Summit in Thailand, to draw up a forward agenda on the five priority areas under the EAS, they being: finance, energy, education, combating avian influenza and natural disaster mitigation.

A key priority for Australia is to enhance regional financial cooperation in the EAS.

The Asian crisis highlighted the fundamental importance of coordinated action and the need for financial sector reform – lessons that have helped the region weather the current global recession relatively well.

Australia played a key role during the Asian financial crisis, as one of only two countries to offer financial assistance to the region, and we are continuing that role now, during this current crisis.

One example I'd like to point to today is how Australia, in partnership with Malaysia and with the support of India, is preparing for the delivery of the inaugural EAS financial sector capacity-building program – focused on enhancing the development and function of financial markets in the less developed partners in our region, namely, Cambodia, Laos and Vietnam.

Asia-Pacific Economic Cooperation

Australia has also been a key contributor to the development of APEC's agenda and work program, and has played a lead role in developing the agenda on promoting regional economic integration, reducing barriers to

trade, supporting domestic structural reform, and strengthening cooperation in capacity building work.

Australia has also been a strong contributor to APEC's agenda on promoting economic and technical cooperation, and has initiated several targeted capacity building programs in recent years.

This year, APEC is focusing on efforts that complement actions taken by the international community, such as the G20, that support recovery from, and identify priorities beyond, the global financial and economic crisis.

The broader APEC agenda is to return to fundamentals by actively supporting policies and programs that promote economic growth, free trade, investment flows and regional integration.

The Asian Development Bank

As you would be aware, the Asian Development Bank is the leading international development finance institution in the Asia-Pacific region with a mission to help its developing member countries reduce poverty and improve the life of their people.

I have represented Australia at the two most recent ADB annual meetings, held respectively in Madrid and Bali.

The ADB is a very significant operation – in 2008 for example, it approved US\$10.49 billion in loans across 86 projects.

Also last year, the ADB adopted its long-term policy framework, known as *Strategy 2020*, focusing on three complementary agendas: inclusive growth, environmentally sustainable growth and regional integration.

Since the onset of the global recession, the ADB's role in the Asia-Pacific region has become even more important.

The ADB is aiming to lend an additional US\$15.3 billion over 2009 to 2011 relative to pre-crisis levels.

To assist the ADB in responding to the global recession and ongoing needs of the Asia-Pacific region, Governors in April 2009 agreed to a 200 per cent general capital increase, increasing the capital stock of the bank by approximately US\$110 billion.

As the ADB's fifth largest shareholder, Australia was a strong supporter of the general capital increase and will contribute a paid-in component of approximately A\$230 million over ten years. The *Asian Development Bank*

(Additional Subscription) Bill 2009 is currently before the Australian Parliament, and if passed, will give effect to Australia's contribution.

While the ADB has played an important role in the region, the fight against poverty is far from over.

The ADB estimates the global recession will keep an additional 90 million people in Asia in poverty, than would otherwise have been the case if economies continued to grow at 2007 levels.

Given this and other factors arising from the global recession, Australia will continue to work with the ADB to ensure they have greater flexibility in their balance sheet in order to facilitate a comprehensive response to the global recession and to meet the ongoing development needs of the region.

Conclusion

To conclude I would say this – as a group, and Asialink as an organisation, you stand in a very important place.

You understand the region. You're here learning even more about it. And you're doing so at a time of great challenge and change.

No-one would wish upon the global or Australian economies the events of the last 12 months, but they have happened and we've had to respond. So from the crisis we've got to look for lessons.

And we can learn a lot from the financial crisis, the global recession and our responses to it.

Among many other things it has shown we are truly enmeshed economically with the Asian region – and that is a positive not a negative.

It has shown that the world is able to respond rapidly to ensure the global decision-making architecture is appropriate, representative and responsive.

As we move now into recovery, the Government will keep working hard on both fronts. I ask that in each of your own fields you continue to do the same.

Thank you, and I am happy to take questions.