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**Research Report**

## Europe and the Asia Pacific

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# Europe and the Asia Pacific

**Dr Brendan Nelson**, *Ambassador to Belgium, Luxembourg, the European Union and NATO.*

THE WORLD HAS changed. It has changed in ways we possibly may not yet fully comprehend. It won't be changed back.

Last year, Yale's Professor of History and head of its International Security Studies Centre, Paul Kennedy, wrote that not only has the world changed, but we are moving from one age to another. At times in history he said, it is obvious after cataclysmic events that a new age has arrived. The end of the Napoleonic wars and of World War two, were such occasions.

But at other times human kind moves from one age to another, failing to appreciate the momentous scale and nature of what is happening. As one example he cited the world of 1530 as being unrecognisable to a person who had lived only fifty years earlier – new nation states, the splintering of Christendom, European expansion to the Asias and North America, along with the Guttenberg communications revolution.

Kennedy asserts that now is also such a time.

As evidence he offers the shrinking role of the US dollar as the global reserve currency; Europe's existential economic crisis and consequent, necessarily inward looking posture; and his view that the United Nations

Security Council is ill suited to the world that is, let alone the one that is coming. But the other compelling reason he says, is the Asia Pacific's move to centre stage.

Europe is only beginning to fully understand the scale and pace of the transformation in the Asia Pacific. Australia is looking at an Asian century and has just published a white paper on the subject ([asiancentury.dpmc.gov.au](http://asiancentury.dpmc.gov.au)). As Kennedy observes, after five hundred years the world of 1500 is at an end.

After world war two we had two superpowers. Then we had one.

Although the capacity of the United States to reinvent itself is extraordinary and not to be underestimated (as it is now in energy), within a decade the US may not be the dominant global economic power. Not since the Qing dynasty and the Franco Prussian war will this have been the case.

While appreciating the increasing importance of Asia and the need for Europe to coherently focus on it, a number of European officials have intimated to me that it will take time given other priorities. If that is the attitude Europe adopts, Asia may find Europe sooner than

## SUMMARY

On the 31st of October, ECIPE hosted a lunch seminar with Ambassador Arif Havas Oegroseno of Indonesia, Ambassador Kojiro Shiojiri of Japan, and Ambassador Dr. Brendan Nelson of Australia. The ambassadors shared their views on

the transformation of the Asia Pacific and the engagement of the European Union in the region. This policy brief is a transcript of the speech Ambassador Dr Brendan Nelson gave at the occasion.

it thinks and in ways it might least expect.

Consider some facts.

The Asia Pacific is already home to more than half the world's population.

In 1992 it was 22 per cent of global economic output. By 2030 it will be 40 per cent.

In 1982 China's economy was 9 per cent that of the US. It is now half and Chinese purchasing power parity, on current trends, will exceed that of the US within five years.

China's net foreign assets exceeded those of the US in 2003. Today China's net foreign reserves approximate that of US net foreign debt.

Chinese exports exceeded those of the US in 2007, fixed capital investment in 2009 and manufacturing and energy consumption in 2010.

On present trends, expect Chinese retail sales and imports to exceed that of the US in 2014 and by 2016, China will have more companies in the global Fortune 500 than the US. Its companies' market capitalisation will pass that of the US in value around 2020.

Finally, Chinese defence expenditure is doubling every five years and is likely to be that of the US around 2030.

Five of the world's economic powerhouses are in the Asia Pacific – US, China, India, Japan and the Republic of Korea.

Five of the world's biggest militaries are also there – US, China, Russia, India and North Korea.

As economies grow, so too does expenditure on defence. India has increased defence expenditure 17 per cent this year, Vietnam 34 per cent and Indonesia 300 per cent since 2006. Singapore is now a major importer of defence material.

Asia this year (not including Australia) will spend more on defence than Europe.

Concurrently, economic and trade interdependence is growing, including the ambition for a comprehensive regional economic agreement.

The Region is stable, but potentially very unstable, replete with deep geostrategic uncertainties. These include maritime and territorial disputes and unresolved historical enmities.

Anyone in Europe thinking this of little relevance should think again.

The Korean peninsula

The Taiwan Strait

Kashmir

The South China Sea through which passes half of the world's maritime merchant traffic and almost all of Europe's EUR700 billion trade with north Asia. It is also the subject of heated dispute amongst a number of member states in the region.

The Sea of Japan and its disputed islands.

The East China Sea in which Japan and China are in dispute over the Senkaku or Diaoyu islands.

The Straits of Malacca through which passes 40 per cent of the world's trade, a quarter of global sea borne oil, half the world's energy and 90 per cent of Japan's crude oil.

Add to these border disputes, transnational crime, terrorism and 80 per cent of the world's natural disasters and the challenges are as apparent as the global consequences of their mismanagement.

Should any conflagration emerge, the consequences for Europe and the global economy will be significant and sudden. This is not an abstract consideration.

There are similarities between the Asia Pacific and late 19th century Europe after the unification of Germany. At that time, as Henry Kissinger observed in his book on China, diplomacy became a zero sum game in a model of bi-polar relationships. Whilst we cannot be captive to history, we must learn from it.

Today a large, economically and politically powerful China is re-emerging with all the consequences that has for changing the regional and world order. The rules by which it and the nation states in the region engage one another is uncertain and the outcomes, even less so.

The most important relationship in the Asia Pacific - as globally, is that of the US and China. The template for it in this century is being forged now and it is being done in the Region.

Australia is optimistic about China's re-emergence and deeply convinced of the need for a range of stable, rules based multilateral structures for the discussion and

advancement of common goals. It is also essential for the consideration of disagreement.

China's priorities are to maintain economic growth to lift 150 million of its people still living in poverty to a higher standard of living. It must create 24 million jobs every year for those entering the workforce. The imperative is social stability. The second priority is to modernise its military. In this context though, it should be remembered that China has no history of territorial acquisition, its borders being essentially those of the Han dynasty.

Its challenges are immense.

They include corruption, urban pollution, rapidly collapsing age dependency ratios, internal cohesion, protection of energy and raw material supply lines, the divide between rich and poor, a growing and desperate need to increase domestic consumption and a political system considerably less flexible than that of my own country.

From Beijing's perspective, the last 160 years have been an aberration. It now behoves all of us to help China re-emerge into the rules based world order which serves its interests as much as our own.

Attempts to base foreign policy on the export Western ideology to China and other nation states in Asia are not credible. But steadfastly believing in your own values is. The region respects strength.

The United States presence in the western Pacific since world war two and its guarantee of maritime security of the world's waterways has been the bedrock for stability, growth and prosperity in East Asia for more than sixty years.

Now the US has nominated its highest foreign policy priority for the 21st century as the Asia Pacific. This should be welcomed by anyone with an understanding of the transformational nature of global events.

This is not about the containment of China nor any other country in the region. Such an ambition would be as irresponsible as it is unachievable. It is instead about ensuring that the US presence in the region, so indispensable to peace and prosperity, is strengthened in support of harmonious co-operation and dialogue. As such it is welcomed by a number of nations in the region, including Australia.

Some Europeans have expressed surprise; bewilderment

and disappointment in response to the US rebalance to the Asia Pacific. The best response will be to firstly understand why and then to substantially escalate Asian engagement. A number of EU member states have clearly begun to do so.

The currents of political and economic power shifting from Europe and North America over the past twenty years have been rapidly accelerated by a confluence of events culminating in the global financial crisis.

What we need, what the world needs, is a coherent European engagement with and understanding of - the Asia Pacific.

Not only do European nations need consistent, strong bilateral ties with the nations of the region and its multilateral fora such as ASEAN, we need coherence.

One of the most important priorities is to turn up and do so regularly. Like marriage, making it work can be tough, but turning up is an essential pre-requisite.

The ASEAN Regional Forum (ARF) is a key and pivotal part of the multilateral architecture, bringing together the nations of the region for dialogue with others including the EU. High Representative Ashton's attendance this year was as welcome as it is important. The nations of the region need not only the US, but also the liberal democracies of Europe engaged with and supportive of, the structures they themselves have created for regional harmony.

Australia worked closely with its neighbours to get the US and Russia into the East Asia summit at leaders level. In addition to economic, environmental, educational, energy and agricultural challenges, Chinese and the US leaders can discuss security issues with nations most directly affected by the outcomes.

Asia Pacific dialogue in relation to disagreement must be a habit in multilateral fora.

So where is Australia coming from?

Australia built its foreign policy after world war two on a number of key foundations.

The first was our alliance with the United States, formalised in 1951. Not a day goes by in Australia where we do not privately or publicly reflect on American sacrifice in the Pacific from 1942 until the end of the war.

Second was Australia's foundation membership of the

United Nations. This commitment to multilateralism has been sustained with Australia taking a seat on the United Nations Security Council in 2013.

Third was a then understandably ambivalent relationship with Asia given the events of world war two, but knowing nonetheless our destiny would lie to our immediate north.

Fourth was Europe. For Australia it was principally the United Kingdom and to varying and lesser degrees, the other capitals of Europe.

Having invested heavily in a peaceful Europe with the loss of 70,000 troops in two wars, Australia readily 'signed on' for Robert Schumann's 1951 vision. Who would not support a means to ending centuries of European conflict?

When Britain joined the 'common market' in the early seventies it was Australia's major trading partner. Suddenly we found the ready market we had enjoyed for agricultural products especially, all but dried up. Australia's political class was deeply scarred and readily embraced the posture of a deeply Eurosceptic nation. Paradoxically though, those tumultuous events forced us to open up to the rest of the world – opening markets, reducing tariffs, undertaking painful domestic economic reforms and accelerating our engagement with Asia. All this and more laid the foundation for us now being the 12th largest economy in the world.

But we defined our relationship with the EU and its antecedents very narrowly around conflict in agriculture and market access. That is, until only a few years ago. The world had changed, demanding a deeper, broader relationship with the EU.

The global financial crisis; emergence of the G20 at leaders level for global economic governance of which both we and the EU are members; passage of the Lisbon Treaty with its redistribution of patterns of authority in Brussels, including new powers in the parliament; birth of the European External Action Service; a decade of deep economic challenges for Europe and the US all demanded a meaningful Australian engagement with the EU.

The world - and indeed the Asia Pacific needs a Europe representing the values that it does, looking outwards and engaged as coherently as it is able.

Australia is a country unashamedly imbued with Western values, a middle power that sees a way forward in this new

uncertainty. It is one that is neither appeasement at one extreme nor an apocalyptic clash of cultures at the other. But we have to work at it.

We need to prepare for the unknown in a globalised world where the speed and impact of events in one part of the globe have major consequences for another.

We live in a world of extraordinary technological change, global economic uncertainty and in much of it, fundamentalist intolerance.

We live in vast ignorance of the decisions we make and that are made for us. But we do know the future will be shaped most not by what we know, but that we do not.

What we need most is - one another.

Europe's influence, if it is to be maintained – let alone grow, will be determined by the capacity of its member states to work together as much as is possible. A new world order is rapidly approaching.

Those nations founded on the principles of political, democratic and religious freedom, free academic inquiry and the co-existence of faith and reason need to work with one another more than at any other time.

The future we want and need depends on it.

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