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The Crawford Australian Leadership Forum brings together 150 of Australia’s top leaders—50 each from business, the public sector and politics, and the research and advocacy community—to address the major public policy issues confronting Australian policymakers, and the responses we need to make.

The Crawford Forum focuses on the geopolitical and economic issues of most immediate contemporary significance—both internationally and domestically. Discussions are designed to be practically focused, and directly relevant to the interests of business and public sector practitioners.

Each session is introduced by international and Australian speakers who are world-class leaders in their fields. Ample time is allowed for fully interactive discussion.

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CRAWFORD AUSTRALIAN LEADERSHIP FORUM

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SUMMARY OF DISCUSSIONS

GEOPOLITICS

The geopolitics strand of the 2016 Crawford Australian Leadership Forum addressed a rich tapestry of subjects, including: crisis in the international capital system; China’s ability to achieve political and economic reform; tensions and conflict in Northeast Asia; threats and opportunities in the Middle East; the United States presidential election; the United States-China relationship; and the domestic and regional challenges facing South East Asia.

This rapporteur’s report summarises four major areas of consensus achieved by the Forum’s participants, as well as those issues on which a lack of consensus could lead to future policy uncertainty.

1. Partnerships between emerging and advanced economies

Forum participants agreed on the dangers of global economic uncertainty, the crisis of capitalism, and stagnant growth facing the world’s advanced, predominantly Western, economies. Yet participants remained optimistic about the opportunities for emerging economies. Emerging economies can escape the entrenched inequality and intergenerational inequity that afflicts advanced economies because they still have capacity for economic growth.

To do so, however, emerging economies will need to learn from the mistakes made by advanced economies. This form of learning will be critically important in maintaining global economic growth and, just as crucially, will provide an opportunity for deep cooperation between emerging and advanced economies. Forum participants touched on numerous potential avenues for advanced-emerging economy partnerships, including within existing forums such as the G20, but also within key bilateral relationships. For example, South East Asian countries seek expertise on improving market competitiveness, strengthening their business regulatory environment, and moving forward with the Regional Comprehensive Economic Partnership framework.

There is ample opportunity for Australian policymakers, universities and the business sector to provide these forms of assistance to Indonesia, Cambodia and other South East Asian states.
Equally, in adversarial relationships, partnering on economic ‘lessons learned’ can provide much-needed sources of positive interaction and influence. For example, in the China-Japan relationship, there is much that China could learn from Japan's achievements and failures in managing an ageing society and in serving as a major source of Asian infrastructure funding and development assistance. Similarly, in the United States-China relationship, the United States can provide much of the deep technical expertise required by the Chinese government as it seeks to reform Chinese capital markets and investment rules. Partnering with China on these and other issues will provide Japan and the United States with levers to help influence the economic path taken by China.

2. China

There was strong consensus among Forum participants about China’s importance to the global economy, particularly given that China now accounts for around 35% of global economic growth. Especially significant were comments by Robert Zoellick, former World Bank President and United States Trade Representative, who acknowledged China’s global economic significance and the need for the United States to adapt to, rather than resist, China’s global role.

Forum participants were cautiously optimistic about China’s ability to achieve economic reforms, and agreed there was consensus within and outside China about the major economic reforms needed. These include reforms to Chinese state-owned enterprises, managing local government debt, allowing local governments to access capital markets, and providing a social safety net so that Chinese citizens can afford to be consumers rather than savers.

But participants also agreed that the world needs to be patient in waiting for China to reform. These structural reforms will take time, will likely involve short-term economic slowdown, and will require the State-Party system to manage entrenched political interests. Nevertheless, economic reform remains Xi Jinping's top priority, and the forthcoming G20, Sixth Plenum and Nineteenth Party Congress will provide important signs of how the reform process is unfolding.

"The world needs to be patient in waiting for China to reform. These structural reforms will take time, will likely involve short-term economic slowdown, and will require the State-Party system to manage entrenched political interests."

Despite the slow but likely progress of economic reforms, however, participants agreed that China’s economic reforms will not lead to equivalent political reforms; outside observers should not expect the Chinese Communist Party to relinquish power, or for China to adopt a Western form of democracy.

Yet China was also a key issue upon which Forum participants failed to achieve consensus. First, there was a lack of agreement about China’s future intentions and ambitions in the international system, and a realisation that these questions are being contested both within and outside of China.

Second, there was fierce debate about whether China was the source of rising instability in Asia, or whether this instability stemmed from other underlying factors: the US rebalance to Asia; fears about US decline in Asia; the West's unwillingness to deal with a rising non-Western and authoritarian power; and the legacy of older extant historical tensions in the region such as Japanese colonialism, World War II and the Korean War.

Third, there was a significant lack of consensus among Forum participants about how to manage the changing international order, what that future international order would look like, and whether it was China or the United States – or both countries – that needed to change. The fact that there was a deep lack of consensus on these three issue areas suggests an ongoing need for serious diplomacy, contact and negotiation between the United States and China.
3. Diplomacy, problem-solving and the art of persuasion

Forum participants acknowledged that technology and the changing media environment have increased the speed of politics, and have made it more difficult to achieve substantial policy reform. Yet there was also consensus that media and technology have not eroded the importance of traditional skillsets: diplomacy, political problem solving and the art of persuasion.

A prominent theme throughout the Forum was the need for serious diplomacy, problem solving and persuasion to be put to use in resolving both domestic and international disputes. These skills are badly needed in rebuilding the social compact between government, business and society in Western democracies including the United States, United Kingdom and Australia.

The uneven impact of globalisation within these societies is contributing to deep mistrust in the status quo, growing protectionism and nationalism, and rising support for non-establishment political movements. Academics, policymakers and the business community need to find ways to better communicate the importance of keeping economic and migration systems open. But more importantly, they also need to find new political and economic solutions to support those left behind by globalisation.

Similar tools of persuasion, diplomacy and political problem solving are also needed in managing international crisis issues, including on the Korean Peninsula, and in the post-Arab Spring Middle East.

4. Underlying structural forces

A final theme running throughout the Forum was the importance of understanding the underlying structural factors straining the international system, rather than simply reacting to headline events.

In the case of the Middle East, participants agreed that state failure underpinned the region’s most pressing challenges: Islamic extremism, terrorism, refugee flows and human rights abuses. Consequently, the international community—and particularly countries like Australia—can more effectively respond to tensions in the Middle East by helping to rebuild states and civil societies, rather than offering only military responses.

In the case of the United States, participants were exhorted not to get carried away by the big personality of individuals like Donald Trump, but rather to pay attention to the underlying demographic and economic forces that are driving support for Trump.

Political leaders, the business community, universities and the media have a role to play in responding to these underlying structural forces by better explaining the benefits and challenges of globalisation, resisting the retreat to protectionism, and supporting those left behind.

Closer to home, participants agreed that although Australia faces somewhat similar structural trends as the United States, a second set of structural forces is also helping to moderate the extremism and protectionism we see in the United States. These forces include Australia’s preferential and compulsory voting system, our geographical location in the Asia-Pacific region, and the fact that Australia’s major exports—including raw materials, food and education—are being eagerly consumed in Asia, now the world’s fastest growing region.

Prepared by Dr Amy King, Lecturer, Strategic and Defence Studies Centre, Coral Bell School of Asia Pacific Affairs, The Australian National University
This rapporteur’s report covers the Economic stream of the 2016 Crawford Australian Leadership Forum. It summarises the debate under seven themes: the scale and pace of change; the challenge of inequality; the relationship between global and local dimensions; the challenges that the complexity and interconnectedness of the system brings; the need for collaboration across sectors; a focus on transitions and adaptions; and the changing demands of leadership.

1. Scale and pace of change

The nature of change was a consistent theme in the sessions, with a sense that the scale and pace of change currently being experienced is perhaps unprecedented. So we asked if capitalism is under strain and if our democratic institutions and our business models are fit for purpose in the face of this change.

Participants discussed changing consumer behaviour – the advent of the empowered consumer and the higher demands and expectations that people have of business and government. We questioned how to reconcile empowered consumers with the ‘other things’ people are – including their rights and responsibilities as citizens. The shifts in economic power around the globe were considered and the challenges for future monetary and fiscal policy highlighted. Change in the economy and in business was an on-going theme, specifically the balance between mega-corporations and small business, and how the types of employment and the nature of work will continue to change dramatically. Participants discussed how politics and government is changing and that we are perhaps in a ‘post-truth’ political world, with all ‘facts’ contestable. We discussed the role of digital technology in all of these domains. Participants agreed on the urgent need to address climate change, and for continued examination of its economic and social implications.

Participants agreed about the necessity for some stability in the context of all this change – such as a stable public service, the stability that good governance brings and the need for a considered, robust policy process.
2. Inequality
There seemed to be consensus that inequality is a major problem and one that cannot be ignored, although participants differed somewhat in their views on its causes and what we might do to address it. Participants discussed the many dimensions of inequality. This included how inequality is reducing between countries but increasing within countries and the nature of intergenerational inequality and inequity – that young people are being left behind and that current and future generations of young people cannot expect to be better off than their parents. Participants discussed income inequality, wealth inequality and stalling social mobility. This all pointed to the need to renew the social compact and the need for a new narrative about ‘progress.’

Gender inequalities were highlighted. There was a sense of optimism about actions being taken and recognition that it is increasingly understood as a shared responsibility between men and women, but that deep structural issues and biases remain. Participants considered inequality alongside poverty, entrenched disadvantage, social resilience and social cohesion, and the need to have a ‘national conversation’ which brought the ‘social’ together with the economic and environmental, supported by more evidence and analysis. The Australians amongst us expressed our shame in the ongoing deep disadvantage and lack of recognition of Indigenous Australians.

The threat of current ‘populism’ was discussed in this context (and the link with increasing inequality debated) but we were reminded that a different ‘populism’ can be a force for good with civil society movements giving voice to people at the hard end of inequality.

"Participants discussed income inequality, wealth inequality and stalling social mobility. This all pointed to the need to renew the social compact and the need for a new narrative about progress."

3. Global and local
Forum participants recognised that we operate in global markets and that global governance mechanisms are needed to solve major problems. The global movement of people and the huge challenges this is creating were debated. The challenges and opportunities for businesses operating in a global market, and the need for an outward orientation in business, was flagged. Participants considered the need to balance global governance with enduring national sovereignty. The power of partnerships forged at a local level, and the need to engage local communities and workforces, was considered alongside the challenges of achieving effective multi-level governance.

4. Complex systems
A further ongoing theme related to the dynamics of the system and a sense that different parts of the system are moving at different speeds, despite the dependencies between sectors, and the interconnectedness of the system. Forum participants discussed how government regulation is perhaps failing to keep up with supporting innovation and about how education and training systems have been slow to evolve. This included the need for both higher education and training (VET) to catch up with what is required now and in the future world of work. This led to discussion about how to build further partnerships between business and the education and research communities. Participants asked whether our schools will create the productive adults of the future, whilst still allowing children to be children. A consistent theme was how the interconnectedness of the system itself was a major challenge to bringing about major reforms.
5. Collaboration

“Forum participants discussed how government regulation is perhaps failing to keep up with supporting innovation and about how education and training systems have been slow to evolve. This included the need for both higher education and training (VET) to catch up with what is required now and in the future world of work.”

The need for and potential for collaboration and co-operation across sectors – across government, business, academia and civil society organisations – was well accepted. There was recognition that no one sector can address the challenges on its own. Participants discussed how to find those issues where sectors have shared interests and can have shared goals, and about how each sector has distinct roles to bring to the table. This led to discussion about how each sector needs to adapt to this new collaborative world order, and the need for new or reformed institutions to facilitate this collaboration. The role of public engagement and community collaboration was considered paramount, for example, in tackling climate change. We discussed how governance needed to be multi-sectoral as well as multi-level.

6. Transitions and adaption

The need to focus on transitions and adaptive approaches (the broad idea being that we should not fight change but should work with that change) was discussed at a range of levels – that countries should resist protectionist measures and support free trade; that businesses should adapt or adopt new business models; that government should invest in economic transitions and not prop up particular industries that are no longer competitive; and that we should invest in individuals to enable them to navigate life’s changes. Participants discussed the changing nature of risk and insecurity in these uncertain times. In discussions on climate change, participants debated the many challenges of the transition to low emissions economies.

7. Leadership

A final theme was the challenges for the leaders of today and future leaders. As leaders from business, academia, civil society organisations, politics and government, participants deliberated what skills and capabilities will be needed in the future and what collaborative leadership looks like. The continued need to balance short-term priorities with action for the longer-term was highlighted and it was agreed that approaches to decision-making would need to change and governance arrangements adapt in the future. Participants conferred on how collectively we need to help create both private value and public value. The challenges of getting the ‘balance’ right in these discussions were considered.

It was thought that Australia is well-placed to be both a collaborative partner and a leader in addressing major global challenges.

Prepared by Sue Regan, Researcher, Crawford School of Public Policy, The Australian National University
Managing the rise of a disruptive giant

Robert B. Zoellick

Leadership Dealing with a rising and more assertive China will require the US and its allies to show resolve, identify mutual interests and manage differences, says former World Bank president and US Trade Negotiator Robert Zoellick in a keynote speech to the 2016 Crawford Australian Leadership Forum at The Australian National University.

James Duffy’s book War at the End of the World recalls how unprepared Australia and the US had been for Japan’s assault.

After a wave of victories across south-east Asia, the Japanese debated invading Australia. They came close to cutting the continent off from allies and possibly forcing Australia out of the war.

Australians were certainly tested: The New Guinea campaign is an amazing tale of Australian heroism, resolve, and just plain grit, from the turning points of Milne Bay and the Kokoda Track in 1942 to the Japanese surrenders to Generals Blamey and Sturdee in September 1945.

The events of World War II prompt a reflection about the present as well: For the past 70 years, Americans and Australians, having learned bitter lessons about the breakdown of world order, have tried to create global and regional security frameworks – and strong networks of economic ties – to preclude such a danger from ever arising again.

Not surprisingly, as years pass, the beneficiaries of those labours might take for granted that security and those economic opportunities.

Today, our global security, political, and economic system – is suffering from rising levels of stress.

The century-old Middle East order has shattered. The old states created by Sykes and Picot in 1916 have fragmented into tribes and sects, which are in the midst of a brutal struggle for power and survival, exacerbated and exploited by neighbours seeking local hegemony. Almost every Middle Eastern country is now a battleground or a belligerent.
The European Union has been convulsed by loss of control of its borders, a tepid recovery from the Great Recession, and a stressed monetary union. Political movements are fracturing the old centrist parties. The tragedies of the Middle East have spilled over to Europe, and terrorists from within and without haunt European societies. If Britain votes to exit, the EU will turn inward for years as it is buffeted by the shock waves.

Russia has violated a fundamental norm of the post-Cold War security order by invading and seizing territory from neighbours. Tempted to restore parts of its empire, a Russian strongman is bullying a weak and uncertain Europe. Even as Russians boast of their revived assertiveness, they look anxiously to the south and east for movements that threaten Russia’s future.

The optimism of the Asia-Pacific has been shaded by uncertainties about China’s economy and by President Xi’s shift from Deng Xiaoping’s credo of “hide strength, bide time.” The unpredictable Communist Kingdom of North Korea threatens with nuclear weapons and missiles. A two-way flow of Islamist terrorists between east Asia and the Middle East feeds internal dangers in southeast Asia.

The US is in the midst of an unpredictable election year. Leaders of both parties have treated the US-led security-economic political order with disdain and ignorance.

Would-be strategists in the US are struggling to reestablish America’s sense of direction.

Henry Kissinger’s World Order offered a perspective based on the former Secretary of State’s reading of history. This April, Zbig Brzezinski published in The American Interest a provocative article titled “Toward a Global Realignment”. Last month, the Centre for New American Security released a brief report by a bi-partisan group on “Strategies to Expand US Engagement in a Competitive World Order.” The CNAS report was notable for the degree of common ground by recent former officials from both parties.

My primary message is not to take the old order for granted. As the closest allies and friends, Australians and Americans need to share assessments of the changing environment and weigh implications for possible new orders.

One critical dimension of the world’s future order is the outlook for China – and how the US is adapting to China’s rise. Understandably, the Sino-American relationship has been a major topic of debate among Australian strategic thinkers.

“My primary message is not to take the old order for granted. As the closest allies and friends, Australians and Americans need to share assessments of the changing environment and weigh implications for possible new order.”

I have been fascinated by China’s extraordinary development since my wife and I made our first brief visit to China in 1980, while we were living in Hong Kong on a fellowship. China’s achievements over the intervening decades have been astounding. Yet China is now in the midst of another huge conversion that will be just as challenging as the one launched by Deng Xiaoping. In any country, big transformations involve weighty politics. So it is for China, too. In considering China’s economy, it is useful to keep in mind that President Xi Jinping’s number one priority is the preservation of the Communist Party’s monopoly of power.

When Xi took office, he directed party cadres to watch a documentary film about the end of the Soviet Union. But unlike the perspective in Germany and Europe, in this film Gorbachev is not the hero who ended the Cold War. He is portrayed as the fool who abandoned the Communist Party and destroyed his country. The not-too-subtle message is that this won’t happen in China.
When I met President Xi about two years ago, I asked about his economic reform priorities. He stressed the importance of the 86.68 million members of the CCP. Xi was not avoiding my question about economics; for the general secretary, the party is the leading edge of reform – the nervous system and muscle of China's strength. Therefore, reviving the party is the foundation of all else. Xi's anti-corruption campaign, the party's dominant role in the recently released 13th Five Year Plan, and even the self-criticism campaigns that echo Mao need to be viewed in that context. I suspect that Xi's present preoccupation is the appointing of the next Standing Committee of the Politburo, scheduled for late 2017.

Some Chinese economic reformers believe that Xi's centralisation of power is vital to push through market reforms. Other commentators worry that stifling critical voices will impede valuable feedback loops.

I am persuaded, nevertheless, that China's skilled leaders recognise the need to change the country's growth model from over-reliance on investment and exports to more domestic demand, consumption, and services. The Chinese now refer to this agenda as "supply side" to distinguish it from just propping up demand with more lending or government spending.

Back in 2010, when I was President of the World Bank, China's leaders encouraged the Bank to undertake a joint project with China's Development Research Centre, the State Council's think tank. This work eventually produced a report titled "China 2030." One of our top Chinese counterparts was Liu He, who is now President Xi's close economic adviser. The idea behind the China 2030 Report was China's concern about avoiding the so-called "Middle Income Trap".

Here's why the Chinese experts were worried: In 2008, the World Bank had reviewed the 101 economies that the Bank had classified as middle income in 1960. Almost 50 years later, only 13 had made it to high income – and one of those was Greece!

China's economic aim is to become a modern, innovative high income society. Yet the Chinese reform plan will not be measured quarter by quarter. The leadership is working over a 7 to 10 year horizon.

Furthermore, the macro and fiscal reforms are easier to drive from Beijing. Structural reforms that require provincial and local actions will be harder to implement.

China's 13th Five Year Plan, just released, also specifies a large number of quantifiable environmental and social welfare objectives. The Party is alert to the risks that poisonous air and water and unsafe food pose for legitimacy, as well as the need to continue to improve living standards for China's people.

In other policy areas, however, the direction of China's reform efforts seems less clear.

For example, China faces a huge challenge of industrial overcapacity, particularly with state-owned enterprises. So far, China has been relying on consolidation over privatisation or even bankruptcies, posing the risk of costly delay.

One can understand, however, the leaders' hesitation. China's consolidation plans in the old coal and steel industries in the north-east are forecast to displace four million workers.

Similarly, the plans to change the old hukou household registration system and land reforms are likely to proceed incrementally, through pilots, giving China's leaders time to experiment and adjust as necessary, while coping with political resistance.

Nevertheless, industrial and labor reforms are vital for China.
Most of China’s amazing success stems from improved labor productivity as workers moved from farms to basic manufacturing in cities. But China’s ageing population makes increased labor productivity, which has flattened in recent years, essential to sustainable future growth.

Moreover, China’s rate of return on capital – its investments – has been modest and is now declining. Therefore, if China seeks to rely on more credit and debt to grow, the returns will slip unless China changes course.

In response, China’s 13th Five Year Plan emphasises innovation and technology to boost the economy’s value-added production and wages.

These initiatives – which include technological goals, subsidies, and new financial and institutional ventures – could either boost cooperation or conflict with developed economies such as the US and Australia.

Chinese nationalists will be tempted to press for “indigenous innovation” that keeps foreigners out. But technological protectionism will cut China off from global innovation and markets, a reversal of Deng Xiaoping’s development strategy. When Japan pursued a domestic strategy for its telecom development, the results were poor.

Let me pull these economic strands together.

In the near-term, I expect China will face a bumpy deceleration, not a hard landing.

But as Ravi Menon, the perceptive head of Singapore’s Monetary Authority, has pointed out, China’s debt – at about 250 per cent of GDP – poses a growing risk unless China can increase its returns from lending, spending, and employment. That debt figure is up 100 per cent from 2008, with 70 per cent of the increase from corporations, especially state-owned enterprises. Local government debt also surged with stimulus projects to keep growth numbers high.

My diagnosis seems to have been confirmed by comments in The People’s Daily in early May by a so-called “authoritative person” who also warned about China’s reliance on debt-fuelled growth.

At some point – perhaps over the next two to three years – if China’s reforms are unable to restore confidence in growth based on a new structural model, Chinese capital will seek to exit in disruptive quantities.

China had a taste of these risks over the past year, and the party did not like the implications for its successful stewardship. In sum, opening up China’s capital account, with a slowing economy, a debt overhang, and a financial system that is only partially developed is a very tricky business.

The economic track record of China’s leaders is impressive, and China’s skilled technocrats understand the problems.

But President Xi and his colleagues will face staggering political economy decisions in the near future.

In the back of their minds is the recollection that the Soviet Union’s 13th Five Year Plan was its last. Xi’s top priority will be to get to number 14.

Of course, President Xi’s modernization plans for China extend beyond the economy. He has shaken up the leadership of the military, too, in part through his anticorruption drive.

Xi has changed China’s military command structure. He is forging joint capabilities among the services, with greater emphasis on roles of the Navy and Air Force. The Army is shifting from large numbers to better trained and armed units.
These military changes enable China to project power. China’s military is now flexing its muscles across nearby seas and territories, as Australians and Asians are well aware.

Some commentators have concluded that China’s shift is natural and to be expected: After China’s “century of humiliation”, its new military posture is an assertion of China’s wider interests and demand for respect.

Others believe China wants more than respect – that the Middle Kingdom is pursuing a strategy of regional hegemony.

Such a shift in power relations would certainly constitute a big change in the security order that the US and Australia constructed over decades.

Fortunately, we can turn to a young Australian security scholar, Nina Silove, soon to join the Strategic and Defense Studies Centre at ANU, for an insightful review of the US strategic response.

In a recent article in *International Security* titled “The Pivot before the Pivot,” Dr Silove explains how both the Bush and Obama administrations sought to “dissuade China from making a bid for hegemony and thereby preserve the existing power balance in the region....”

Dr Silove has moved the strategic debate beyond a false choice between “containing” or “integrating” China. She ably details how the US military’s technological advances, changes in basing, and increases in forces across the Asia-Pacific were combined with expanded and elevated diplomatic and economic engagement.

The US strategy has not been based on a goal of slowing the growth in China’s power; in fact, US preparations and actions were based on the assumption that China was likely to continue to grow. The US challenge has been to shape Chinese calculations of its interests as it expands influence.

Dr Silove also draws out a critical but often under-appreciated aspect of the US strategy – indeed, a key element of the whole post-World War II system – which is the fundamental role of US allies and partners. The “rebalancing” of powers in the Asia-Pacific in the face of China’s rise and increasing assertiveness depends not just on US capabilities, but on that of US allies and partners as well.

Dr Silove describes the US shift away from the “hub-and spokes model of asymmetric bilateral alliances that had characterized the security architecture of the region to ... “a federated network model in which the United States would lead a web of more powerful allies and partners with stronger links to one another.”
These ideas are probably familiar in Canberra. Australia has recognised that allies and partners in the region are increasing their expeditionary capabilities and interoperability. Australia has been a leader in forging closer relations with Japan, India, South Korea, and ASEAN countries.

I hope Dr Silove’s strategic insight might also reassure Australians that there is a sensible US response to China’s rise other than accommodation through weakening concessions on the one hand, or inevitable confrontation on the other.

This strategy recognises that balancing and engaging China should be symbiotic. The idea is to shape China’s behaviour. The United States, its allies, and partners need to demonstrate resolve in the face of Chinese assertiveness while also identifying mutual interests and managing differences.

The frictions between China and the United States can, however, make cooperation harder. As Professor Wang Jisi of Peking University, the informal “Dean” of China’s scholars of America, has explained, “it is increasingly difficult for those in the two countries who are knowledgeable about each other to clearly explain to their domestic audiences that the other side does not necessarily harbour ‘evil’ strategic intentions”… and that “cooperation benefits both sides”.

The US, Australia, and other partners need to suggest positive agendas with China, even while remaining clear and firm about Chinese actions that threaten security stability.

China’s economic reform challenges offer a good place to start.

Our economic dialogues should explore how foreign firms – if given fair access – can help China develop its service sector, meet social needs, and expand consumption. The 13th Five Year Plan prioritises environmental and health services, which should offer win-win opportunities for China and foreign partners.

If China pursues its technology, innovation, and workforce development goals with an open market model, there should be opportunities for stronger IPR protection, venture capital, cross-investment, and educational services. Education is Australia’s largest service sector export and fourth overall after iron ore, coal, and natural gas. The US now hosts over 300,000 Chinese students, more than from any other country.

Expanding cross-investment could be enhanced by adoption of the principles incorporated into international investment agreements, such as bilateral investment treaties or free trade agreements. Australia’s FTA with China includes some investor protections, although considerably below the standards in the Trans-Pacific Partnership or TPP. The US negotiations with China for a high quality Bilateral Investment Treaty are supportive of China’s restructuring aims, and China’s willingness to open up sectors to foreign investment will be an indicator of the country’s commitment to reforms.

China may also be interested in disciplining its State-Owned Enterprises with the rules incorporated in the TPP or suggested by the OECD’s research.

Instead of the IMF adding China’s RMB to the Special Drawing Right, or SDR, straight away, the IMF should have worked with China’s financial market reformers to target liberalising goals as steps to including the RMB in the SDR. Moreover, the IMF could have recommended an SDR Council to convene the Central Banks and Finance Ministers of principal SDR currencies to consider market conditions and monetary policy interdependencies, thus drawing China toward greater financial and economic cooperation as it proceeded with reforms. Such a group would be more useful than the G-7 or G-20.
We should also anticipate possible opportunities created by President Xi’s “One Belt, One Road” plan. China’s investments across Central Asia – including infrastructure for transport, energy, and water – could turn out to be a wasteful, corrupt boondoggle to export China’s excess capacity – or an opportunity for development, expanded global demand, new service centres, and improved security. China also shares an interest in containing the violence and chaos spilling over from the Middle East.

Western firms such as Caterpillar and Standard Chartered sense new business possibilities in “One Belt, One Road.” The US, Australia, and others might be able to work with China and multilateral development institutions to turn Central Asian development into a constructive addition to the existing international system; similarly, the US should have welcomed China’s proposal for an Asian Infrastructure Investment Bank and shaped the AIIB into a complement to the public and private institutions already operating in that space.

Of course, the US should also point out that the Maritime Road dimension will be obstructed by Chinese efforts to control the South China Sea.

Even the contentious South China Sea may be susceptible to reassessment. China’s actions have mobilised opposition. The broad assertions of control within China’s nine-dash line would make the sea into a Chinese lake, which neither the US nor many other maritime countries will accept. At some point, China will need a rationale and opportunity to redefine its position while preserving face. Moreover, as a growing maritime power, China may find itself more interested in the US position on freedom of navigation within 200-mile exclusive economic zones. The US, in turn, should be careful to state its systemic interWests in freedom of navigation and the peaceful settlement of disputes, without taking a position on the sovereignty of individual islands.

South Korea, the United States, and China also need to prepare for various North Korean scenarios, including the security of nuclear facilities in the event of North Korea’s collapse.

Since Nixon and Kissinger re-established US ties with China more than 40 years ago, the US experience has been that the effective managements of diplomacy with China has required a “point person” at a high level.

Someone needs to look across the range of actions with China with an eye toward coherence and larger goals, involving both the US and its allies. That person has been at times the National Security Advisor, Secretary of State, or even Secretary of the Treasury.

Today, unfortunately, no one is handling the US-China portfolio at the top reaches of the US Government. Therefore, the next US President needs to recognise this need and to fill it. And I am counting on our close Australian friends to convey that message to our president-elect.

The Sino-American relationship is certainly not the only challenge we face in maintaining and adapting the 70-year old world order. But if we do not handle that relationship wisely, the world, and all of us, will pay a high price.

Robert B. Zoellick is a former US trade representative, and former president of the WorldBank. This is an edited version of his remarks at the 2016 Crawford Australian Leadership Forum, first published in The Australian Financial Review.
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