

"Where We Live" Asialink Bloomberg Address

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PRIME MINISTER: Thank you to Asialink and Bloomberg for the opportunity to address you here today prior to my attending the G20 Leaders' Summit in Osaka this weekend.

Today I want to talk about our plan to foster an open, inclusive and prosperous Indo-Pacific, consistent with our national interests.

I would like to set out the principles, consistent with our national values, that will guide my Government's engagement with the Indo-Pacific region.

The Indo-Pacific is where we live.

It is where we have our greatest influence and can make the most meaningful impact and contribution.

It is the region that will continue to shape our prosperity, security and destiny.

It is the region where, together with our allies, and especially the United States, our people made great sacrifices when our peace was threatened.

It is the region that has accounted for two-thirds of global growth over the last decade.

It is home to more than half the world's population.

It is the destination for more than three-quarters of our two-way trade.

It embraces our Pacific family with whom we have special relationships and duties, our close neighbours, our major trading partners, our alliance partners and the world's fastest growing economies.

Where else would Australia want to be?

During the early years of European settlement, our geography seemed a burden. Today, I think we now appreciate that it has proved to be a great blessing.

While comfortably understated in our approach, we do not underestimate our influence, especially if we choose to focus and target our contributions where we can have the greatest impact.

Our economy has grown faster than any other advanced economy over the last 28 years.

Australia is alone among advanced economies in enjoying uninterrupted growth over this period.

We are one of only ten countries globally with a AAA credit rating from all key agencies.

We host 10,000 foreign-owned businesses, and \$3.7 trillion in foreign investment.

We rank third as a destination for foreign students, and seventh as a tourist destination.

We play a critical role in underpinning the resource, energy and food security of East Asia.

We are the fourth largest pension market. Our funds management sector is the sixth largest in the world.

We are a standard bearer for democracy and the rule of law.

We are a staunch and active ally of the United States, deepening our security cooperation to help secure our region.

Our post war trading relationship with Japan, marked by our Commerce agreement secured in 1957, saw Japan become our largest trading partner until just under over a decade ago. The relationship is now broader and deeper than ever before, This weekend Prime Minister Abe will preside over the G20 as a great friend of Australia and one of the region's most highly respected statesmen.

We share a comprehensive strategic partnership and free trade agreement with the People's Republic of China, with a broad and deep relationship underpinned by people-to-people ties; evidenced by the fact we are home to 1.2 million ethnic Chinese and are host to 1.4 million Chinese visitors and 205,000 Chinese students each year.

The growth in India's economic and strategic heft is increasingly felt beyond the Indian Ocean, creating new opportunities for Australia based on our shared values and outlook. India is also now the single largest source of permanent migrants to Australia.

Our special relationship with ASEAN since its inception has plugged us into a critical network of independent and dynamic developing economies working together to create their own norms and rules for intra-regional growth, critical to the interests of all Indo-Pacific members.

And we are the single largest development partner with the island nations of the Pacific.

So together in our region we share a future. We have much to contribute and much to gain.

The Indo-Pacific is a region which has undergone and is undergoing profound change. We have helped shape that change.

Post war social development and economic prosperity led initially by Japan.

Global engagement with the People's Republic of China and the resultant economic miracle of China's economic advancement.

The emergence of ASEAN, which has supported the regional stability that allowed its members to prosper.

The burgeoning of intra-regional trade. The build-up of regional security capabilities, with inevitable tensions in some areas.

The economic liberation that has flowed from free trade, new technologies and innovation.

New environmental pressures and threats to our climate, oceans, species and forests that don't recognise national boundaries.

The confluence, agglomeration and dynamism of these forces now shaping our region has brought us to a new threshold.

Undoubtedly, the most significant change in most recent times has been the shift in the relationship between the United States and China, who exert the greatest influence on our region.

The world's most important bilateral relationship – the US-China relationship - is strained.

Trade tensions have escalated.

The collateral damage is spreading.

The global trading system is under real pressure.

Global growth projections are being wound back.

The impact of any further deterioration of the relationship will not be limited to these two major powers.

The balance between strategic engagement and strategic competition in the US-China relationship has shifted.

This was inevitable.

China's conscious decision to pursue prosperity as a strategy for national unity and stability launched one of the world's greatest economic miracles.

Now China is a significant power, with vast military, global interests and the biggest economy in the world in terms of purchasing power parity.

It is important to acknowledge that this success was made possible by the active and strategic engagement of the United States and the wider global community.

Firstly, through enthusiastic bilateral exchange and then by supporting access to the global rules-based trading system through China's accession to the WTO in 2001, gave it much better access to the markets of 154 member economies.

This also required reforms from China that supported its rapid economic expansion.

China is now the major trading partner of more than 50 countries.

In 1980, China's trade with the outside world amounted to less than \$40 billion. By 2015, it had increased one hundredfold, to \$4 trillion

China is the largest holder of foreign US currency reserves.

China's economic rise has not been a zero sum game. This has been especially true in Australia's case, but also for the United States.

This is why Australia has always, and will continue to, welcome China's economic growth.

However, the ground has now shifted. It is now evident that the US believes that the rule-based trading system - in its current form - is not capable of dealing with China's economic structure and policy practices.

Many of these concerns are legitimate.

Forced technology transfer is unfair.

Intellectual property theft cannot be justified.

Industrial subsidies are promoting over-production.

China's rise has now reached a threshold level of economic maturity.

While we acknowledge that large parts of China are still to realise the prosperity of its major economic centres, it is also true that its most economically successful provinces, some of which are larger than many developed nations, including Australia, has reached and sometimes exceeds the economic sophistication of its global competitors. Yet, at the same time, these economies get to compete with concessions, whether they be on trade, environmental obligations or other terms, not available to other developed economies.

Our current trading system seems incapable of acknowledging, let alone resolving, these issues.

The rules-based system is in need of urgent repair if it is to adequately respond to these new challenges, including the rise of large emerging economies, changing patterns of trade and new technologies.

Our prosperity, and that of our Indo-Pacific partners, depends strongly on the maintenance of an open global economy and a rules-based trading system.

It will also depend on a positive, productive and cooperative bilateral relationship between China and the US.

This will require the exercise of special responsibilities by these "Great Powers" to resist a narrow view of their interests.

But this won't be the first time such leadership has been required or demonstrated.

In 1951 George Kennan wrote, in *American Diplomacy*:

"If our purposes and undertakings here at home are decent ones, unsullied by arrogance or hostility towards other people or delusions of superiority, then the pursuit of our national interest can never fail to be conducive to a better world."

The statement was made at a time when the United States was in the process of building a new world order, with institutions and common rules unashamedly seeking to secure prosperity as a bulwark against the madness that saw 60 million people killed and slaughtered, including 45 million civilians, during the Second World War.

According to some, estimates this included up to 20 million Chinese as well as 419,000 Americans and almost 40,000 Australians.

This new world order was the dividend of the peace bravely won, none more so than by the United States, who understood that with its great power came great responsibility.

The principles of this new order reflected the values and aspirations of its architects.

It was also informed by the failures of pre-war institutions and mindsets that saw emerging and recovering economies become frustrated, giving rise to the most evil of nationalist ideologies to take hold.

As I joined other leaders in Portsmouth recently to commemorate D-Day, I was somewhat overwhelmed by the history of the moment.

Sitting beside Chancellor Merkel, I was inspired by just how far we had come. No different to when I joined Prime Minister Abe in Darwin to commemorate the bombing of our northern capital. The post-war world order has achieved something truly extraordinary. The United States deserves great credit for this achievement.

Central to these institutions has been a respect for the individual sovereign state, no matter how large or small, and the ambition that each may be able to engage and participate with the security afforded by a common set of rules that means they can get a fair go, free of coercion.

Like any nation the US is not perfect, but it has form in being able to look beyond its own horizon to see a bigger picture.

The United States has demonstrated an understanding that the responsibilities of great power are exercised in their restraint, freely subjecting itself to higher order rules, their accommodation of other interests and their benevolence.

Such power supports the independence and sovereignty of other nation states and affords protection beyond its own interests, in the knowledge that this is necessary to maintain the peace and stability that ultimately underpins their own prosperity.

The level of global interconnectedness means this has never been more true than today.

As a rising global power, China also now has additional responsibilities.

It is therefore important that US-China trade tensions are resolved in the broader context of their special power responsibilities, in a way that is WTO-consistent and does not undermine the interests of other parties, including Australia.

The accumulation of issues that have led to these tensions must be acknowledged, addressed and resolved at the negotiating table in a way that reinforces our open and inclusive global trading system.

Like all of us, China and the US have a strong interest, and a special responsibility, to modernise and support the system that has delivered unprecedented growth in national wealth and living standards over the last two decades.

We can support these efforts and outcomes by rejecting the fatalism of increased polarisation and resisting the analysis that only sees these issues through a binary prism.

It is in no-one's interest in the Indo-Pacific to see an inevitably more competitive US-China relationship become adversarial in character.

All nations in our region, not just Australia, are having to adjust to this period of great power competition.

Japan, India, New Zealand, Vietnam, Singapore, Indonesia, Papua New Guinea. All of us are similarly seeking to balance our interests, our history, our geography, our alliances, our partnerships and aspirations in the context of this new dynamic.

Like others who live here, Australia simply seeks the freedom to be ourselves, peacefully pursue our national interests, consistent with our values, appreciating our history and being transparent and honest about our aspirations for the future.

These shared challenges create important common ground, which is where I see Australia continuing to play an important role.

So we won't be fazed, intimidated or fatalistic.

Of course the international environment is difficult.

Of course there are risks of further deterioration in key relationships and consequent collateral impacts on the global economy and regional stability.

There are also pressures to decouple the Chinese and American economic systems, whether this be in technology, payments systems, financial services or other areas.

But these are not insurmountable obstacles. To think they are not does not amount to some modern form of appeasement. This is a straw man argument.

And what's the alternative?

These risks not only can but must be mitigated, and this comes more possible when we work together.

We should not just sit back and passively await our fate in the wake of a major power contest.

This underestimates and gives up on the power of human, state and multilateral agency.

There are practical steps that we can pursue.

So we will play our part. We will not be passive bystanders.

Our approach will be based on key principles.

A commitment to open markets with trade relationships based on rules, not coercion.

An approach which builds resilience and sovereignty.

Respect for international law and the resolution of disputes peacefully, without the threat or use of coercive power.

And a commitment to cooperation and burden-sharing within strong and resilient regional architecture.

None of those principles is inconsistent with the natural instinct of sovereign nations to compete.

And It is not inevitable that competition leads to conflict.

We have already demonstrated that like-minded nations can take measures to help shape their own destiny.

We will continue to lead by example, developing our close web of relationships across and within the Indo-Pacific.

In recent years, we have been investing heavily in our major bilateral relationships, to advance our security and prosperity and build regional influence; encouraging regional economic integration and cooperation; and promoting rules and norms to guide peaceful cooperation.

We are stepping up our economic engagement.

Our defence cooperation is stronger than it has ever been.

We are leading collaboration on issues at the frontier of a changing world, like e-commerce, cyber security, infrastructure development, innovation and technology and maritime security.

We are working more closely than ever before with close partners like Japan, India, Indonesia and Vietnam.

Our special, strategic relationship with Japan is based on deep shared values, interests and beliefs. Prime Minister Abe has a vision to strengthen the international order as his leadership of the G20 this week, at the dawn of a new Reiwa era, will demonstrate.

My Government is enhancing our partnership with India, one underpinned by shared values, a plan to bring our economic relationship to a new level, and a common strategic outlook.

We are committed to being a leading security, economic and development partner for Southeast Asia.

Our vision of the Indo-Pacific has ASEAN at its core.

We have continued to push ahead with an ambitious trade agenda that has rallied the region and sustained momentum for trade liberalisation.

Under Tony Abbott's Prime Ministership we concluded major trade deals with China, Japan and South Korea.

When the United States walked away from the Trans Pacific Partnership, we rightly pressed ahead to success under Malcolm Turnbull's Prime Ministership. It was the biggest trade deal since the birth of the WTO and a positive affirmation of middle power diplomacy.

There is now strong interest in TPP-11 from nations both inside and outside the Asia Pacific.

This year we hope to conclude the Regional Comprehensive Economic Partnership, an agreement that includes 16 economies and accounts for about one-third of global GDP.

It would be the first regional free trade agreement to include India and has the 10 nations of ASEAN at its core.

RCEP's membership includes 10 out of Australia's top 15 trading partners, account for over 60 per cent of Australia's two-way trade, and over 70 per cent of Australia's goods and services exports.

To conclude the agreement when leaders meet in Bangkok in November this year, I would urge leaders to send their Trade Ministers to the meeting next month in Beijing with a clear mandate to deal.

There are other priority initiatives that will add ballast to regional relationships.

Australia strongly supports Indonesian President Widodo's vision and leadership in developing ASEAN's 'Outlook on the Indo-Pacific'.

Our recently-concluded Comprehensive Economic Partnership Agreement with Indonesia is another major step to secure Australia's economic future and to strengthen our critical relationship with our largest neighbour.

While continuing to work with other partners in the region we will also deal directly with our great and powerful friends.

Our relationship with the US has never been stronger.

Ours is a resolute and mutually beneficial alliance partnership where neither party has the need to prove anything to each other.

Our alliance with the US is the bedrock of Australia's security, providing us with irreplaceable hard power capabilities and intelligence.

Australia is a stronger regional power because of the US alliance.

We are committed to working with the US internationally because we agree it has borne too many burdens on its own.

Australia will continue to pull its weight.

And we will work with the US, as well as Japan, Indonesia, China, the EU and others, to reform international institutions, including the WTO, to ensure they're fit for purpose and serve their members' interests.

Because we will be more secure and prosperous in a global order based on agreed rules, not one based on the exercise of power alone.

My Government is also committed to further enhancing our relationship with China.

Our relationship with China has many strengths.

Our trading relationship is flourishing, with two-way trade reaching a remarkable \$215 billion in 2018, which benefits both countries.

Our cooperation with China through our Comprehensive Strategic Partnership goes well beyond economic issues.

We are working together across fields including health, education, and taxation, where Australia offers world-class expertise.

We've also been cooperating successfully to counter drug trafficking through Taskforce Blaze.

There is more we can do. That's why we established the National Foundation for Australia-China Relations earlier this year.

The Foundation will strengthen areas where we already cooperate, deepen the already rich links across our communities, and help identify new areas for practical cooperation.

I want to acknowledge the presence of the inaugural Chair of the Foundation, Warwick Smith, and thank him for his leadership. While we will be clear-eyed that our political differences will affect aspects of our engagement, we are determined that our relationship not be dominated by areas of disagreement.

The decisions we make in relation to China are based solely on our national interests, just as theirs are towards Australia, and these are sometimes hard calls to make.

But they are designed always to leave large scope for cooperation on common interests and recognise the importance of China's economic success.

This success is good for China, it is good for Australia.

McKinsey estimates that 2.6 per cent of consumption in the rest of the world is imported from China, compared with 0.8 per cent in 2000.

Chinese imports now account for 2.0 per cent of the gross output of the rest of the world, compared with 0.4 per cent in 2000.

We welcome Chinese investment.

We have welcomed it for decades.

The stock of Chinese investment in Australia in 2018 was more than 8 times larger than a decade ago, and China is our ninth largest investor behind the USA, Japan, UK and the Netherlands.

Australia has the most liberal foreign investment regime in our region. It is not possible for Australians to invest in China in the way Chinese investments are made here. Perhaps this will change, but our policy is not framed in the context of reciprocity, but national interest.

We retain our sovereignty over these investments, especially in relation to strategic and national security considerations, but where such issues are satisfied, we would be only harming our own economic interests if we were to deny our economy access to this capital.

That is why we operate a non-discriminatory approach to investment screening.

And I note that all nations, including China, screen foreign investment.

The infrastructure needs of the region are enormous and Australia welcomes the contribution that the Belt and Road Initiative can make to regional infrastructure investment and to regional development.

We support regional investments with commercial merit that meet genuine market need and international standards, including on transparency and debt sustainability.

Finally, a key pillar of our Indo-Pacific engagement is our Pacific step up.

We have returned the Pacific to where it should be – front and centre of Australia’s strategic outlook, our foreign policy and our personal connections.

This is where we have special responsibilities as part of a Pacific family - our Vuvale, our wantok, our Whanau.

It is a fundamental building block of our engagement with the Indo-Pacific. A South Pacific that is secure strategically, stable economically and sovereign politically.

It’s where Australia can make the biggest difference through our initiatives including the Australian Infrastructure Financing Facility for the Pacific, our labour market programs and undersea cable projects, for example.

A strong, stable region keeps us more secure and enables our economies to grow and our peoples to prosper.

Today I have focused principally on the economic dimensions of our regional relationships and engagement strategy. On another occasion I will address these issues from the perspective of our strategic, security and defence interests, and in turn from the perspective of our environmental and development cooperation.

I have done so, consistent with the priority I have assigned on building our economy to secure the future of Australians at our recent election.

But for today let me close by making the following observations.

There are gathering clouds in the global economy.

The trading relationship between the world’s two most important economies is under serious strain.

But an ever-worsening trajectory in this relationship is not inevitable.

We all have responsibilities to deepen patterns of co-operation, especially in the Indo-Pacific.

Australia is ready to play its part.

We embrace free trade, global engagement and an international system where we agree rules, stick to them and honour our commitments.

That is the surest path to an open, stable and prosperous Indo-Pacific.