

‘Australia and the Indian Ocean’

By Hon Scott Morrison

19th July 2024

Well, now, to some extent that's true. Certainly, when it comes to prosperity, regardless of where one lives today, in the vast majority of the globe, the world has greater wealth than it did when we were growing up. But many of the assumptions that were made about what improved economic growth around the world would do in terms of liberalizing autocratic states proved to be absolutely false. These were well intentioned assumptions in the West. We thought that if we traded with countries that didn't have, uh, political systems like our own, that didn't enjoy the freedoms that we enjoyed, that prosperity would lead to the outbreak of liberal democracy, and that would be the natural extension of things. This was a this was a flawed assumption. It never happened. And what's most interesting about that is it was never going to happen. I think the West arrogantly thought in good, with good intentions that its ideology would overwhelm that of other countries who lived under autocratic regimes. And that hasn't been the case.

And as a result, we now find ourselves in a very different world, a world that I call a post globalization era. And where once before, we were quite happy to see the proliferation of various cooperative arrangements between countries around the world, and to see globalization see global trade flourish. That has all changed. And so we have returned to a period of of of polarity. We have returned to a period of, of apex power, if you like, major power rivalry. And that environment is dominated by two dominant powers, the United States and the People's Republic of China. But before we go too quickly into the comparisons with the the Cold War rivalry between the US and the Soviet Union, I think there are some very obvious differences. And those differences

are not the least the level of interconnectedness that already exists between these two major polar powers. There was limited economic engagement between the two spheres during the Cold War. And if anything, um, the economics were weaponized in that Cold War to, to win it, particularly out of the United States these days Engaging in that type of activity can lead to some significant economic self-harm. As you extract yourself from the numerous engagements of their art. The level of trade between the United States and China alone, let alone when you start to contemplate the levels of investment and interconnected supply chains and all of these sorts of things, I think highlight why this period is far more complicated than, frankly, the last period of global power rivalry. And so that creates challenges for countries all around the world to negotiate with in this new paradigm.

The first thing to understand about it is that it exists, that we cannot continue to operate in the fantasy that we live in, that post-war globalization period, and that we can engage in the way we did before, without risk and without consequence, and without pricing and taking account of the cost of continuing to go down that path. A good example of that is when I just saw a chart this morning, which had always been my instinct, but which charted, who benefited most from globalization? And it's a very big chart. And on the top of that chart is China. And almost on the bottom of that chart is the United States. And that pretty much tells the story of why you're seeing the changes taking place in the United States today, both in terms of their outward look on the world, their security look on the world, their view on the economy. You only have to switch on the television to to listen to what's being said at the Republican National Convention. You get a pretty good sense fairly quickly about the sense of Americans today, from my observation, uh, who feel very differently about what the last 30 years has produced for them, as opposed to what has been produced in other places. So the first thing to appreciate as you seek to negotiate a path through this new world, is to know that it is different.

One of the things I often saw when I was prime minister in my own country was a reticence to come to terms with this, to wish that things could go back to the way they were in the 90s and times like that, where there were no obstacles and you could go and you could trade and you could do business, and this could all take place. Well, it doesn't work like that anymore. And in fact, there's great risk in doing so. When you look at the level of bifurcation, that is it is actually occurring. For example, when you've seen, um, direct foreign investment into China fall off a cliff, we have seen the retreat of investment capital, where you've seen investment banks whose fees used to be dominated by what the returns of what they were seeing in the Chinese economy today. They're not seeing that. You see others in North Asia who have de-risked their supply chains and their manufacturing today in China is about producing for the Chinese domestic market, whereas once it was used to produce to be an export hub for the rest of the world. So the bifurcation is occurring, the de-risking is taking place and we are seeing the world retreat back into these two spheres. And so around I described them as spheres because there are many concentric rings that sit around the two powers at the that summarize this environment. And various countries, whether it be Australia or Sri Lanka or India or indeed Iran or others or Russia, sit in various places along this, um, spectrum. It doesn't mean that none of these countries do anything with each other. They do, and they will continue to, but there will be a filter placed across that engagement, which is very much determined by geopolitical risk and security issues, and increasingly that will be priced and increasingly capital as well as security and politics.

Diplomacy will be directed by what that filter reads out. Supply chains recast investment channels. Um, reapply now over that period of 30 years, one thing that did happen was an increasing confidence. And this isn't a bad thing. Quite the opposite in many ways. I think an increasing confidence amongst the developing world that things didn't just have to be, as the world used to tell them, it had to be in the place that they would occupy in the global economy. And I think that has created over time an and assertiveness and a confidence,

which is not a bad thing at all. Um, and that is something for more established, longer term advanced economies to come to terms with and and to engage with and and work with. But the point I'm seeking to make is that the world has changed, and countries need to sort of understand what position they're taking in that overall spectrum and be clear in their own minds about where they wish to be and to understand the consequences of what that means in terms of how they engage with other nations and, and the way they work together or don't work together for that matter.

What we've also seen over the last 30 years, with the frustration of the what I call the the global order that favours freedom or the rules based order as others call it, is a sense that that system doesn't work for everybody, and that system requires some modification and change to better reflect the aspirations of of all nations around the world. Again of itself. That is, that is not a negative sentiment, but when that is leveraged to seek to undermine and redirect a global rules based order and to set up channels that are less transparent, that potentially provide for coercion and seek to establish regional hegemonic positions of countries in various regions around the world. When you see universal human rights being redefined as state based and state defined, human rights well, this is a great concern to those countries and those of us who played such an important role in the establishment of the world order that appeared after the Second World War. So while the aspiration to see, I think a more inclusive world order is a noble one, we must be careful not to lose the great virtues of that world order and let it give way to one that is based on power as opposed to freedom. So having understood that there's a change that's taken place, we have seen the rise of a group of nations which very much want to seriously challenge the way that world order works. And there's no surprise, and this is my very strongly held view, that China has been wanting to challenge that world order for a very long time. They're not happy with how the rules work and they would like a rules based order that better favoured their interests. I suppose that's not surprising.

Every nation will pursue its own national interests, but that is not a in saying that that's not a licensed to necessarily agree. And so we have a situation where, um we see the collaboration, particularly when you look at what's happening in Ukraine, where we have a group of autocratic nations which have both participated and aided and abetted the invasion of Ukraine, supported by in Tehran, uh, drones and other technology missiles out of North Korea. And quite frankly, as I said, soon after the invasion of Ukraine, um, the complicit actions of the People's Republic of China, which we've seen demonstrated in banking and finance as well as we've seen in the making available of dual use technology Now, I don't say this to be critical necessarily, but simply to call it out and to say this is a country. And to make my point that we have two spheres that are operating. One that has largely been responsible for the world order that we see today, and one that would like to see that change more in their own interests. And that is the world we now have to do. And we should be honest in seeing that, seeing it that way and adjusting what we do, adjusting how we work together to make the world a more stable and safe place. We don't have to agree with the aspirations of Tehran, Beijing or or Moscow in order to find some peaceful way to coexist, but to pretend that somehow there is not a complete and total, um, lack of any values base for those associations and a shared vision about how the world order works if we pretend that there's such a shared vision. Well, I think we're kidding ourselves. And I think we get ourselves at a bit of strife. And so we need to look at this new world environment, I think, with very wide eyes, um, and, and just engage it practically in the United States in particular, but throughout the West. Um, what I think all this leads to is, uh, the need to try and regather the industrial capacity that the West once held.

Over 30 years, we saw countries like the United States and indeed Australia and many others move up the value chain. So where once upon a time the US had chip foundries, it now dominates chip design. That's the natural flow of where things go in a globalized economy. But in the process, the industrial capability of Western countries was transferred to developing countries. Now

that is also the natural thing that occurs in a globalized economy. That shouldn't come as a surprise, but that was actually the point. But now when we've realized that the world didn't change in the way we thought it would, Western developed economies have left themselves quite thin on the ground when it comes to their industrial capacity and are looking to rebuild it, and it's very important for security reasons that they do.

Now Australia is an open, free trading nation. We are passionate free traders as Sri Lanka should be and is as Singapore as New Zealand is. As many countries are, um, that have limited size of their domestic markets and make their way and lift their standard of living by engaging with the rest of the world. But in the country of the size of the United States, they are an economy which has a very large domestic market. And so they are in a position where they will seek to try and rebuild, as they are, their industrial capabilities to ensure that that can fuel their own sovereignty when it comes to their economy, but also to support their defence industrial base, which back in the 50s and the 60s was incredibly strong and well dominated. Now it's contested and they know they have to, uh, they, they know now have to deal with a near-peer rival, uh, who was moving very quickly. So I'm not surprised that the United States would now engage in protectionism. That doesn't mean Australia should. It doesn't mean Sri Lanka should. But I understand why the United States is I understand why other nations are as an economist, it doesn't leave you with the most comfortable of feelings.

But an economist today that doesn't understand that geopolitics has has much to do with economics as it does with global politics and global strategy. Well, you're missing the point. These things are now intertwined in a way which they probably haven't been for a very long time. And a fair bit of the work I do these days is working with corporates and institutional investors and helping them understand their risk and being able to price that risk. I mean, if Australian companies have priced the risk of the ability for trade to be shut down with China or the student market turned off, or our wine market being turned off or

our tourism market being turned off, I'm not so sure. Had that risk been priced that we would have seen that relationship develop in the way it did. It developed under a different set of assumptions, and those assumptions are now recalibrated. And you see that reflected in bipartisan policy when it comes to our foreign investment rules. You see it in a range of other areas of of strategic interest. And I think you'll continue to see that. And that's the outplaying of the forces that I'm talking about. It doesn't mean that Australia can't have a healthy trading relationship with China and a people to people relationships, and have that mutual respect. It doesn't mean we can't achieve that at all, but we just need to have a very clear understanding of where the lines are and where we have to disagree and not allow that to get in the way of the more productive and, uh, unimpacted areas of the relationship when it comes to the global South. They've also been impacted by this new world and the global South for which there are many, uh, competing leaders. And that's fine. That's the nature of things.

The global South is not necessarily connected to either of those spheres, and frankly, nor does it have to be. But what it does have to do, in my view, and I always used to encourage those countries, particularly around Australia, they do need to protect their sovereignty, they do need to protect their agency, and they do need to ensure that whatever arrangements they enter into, be it trade, security or otherwise, that they are interests that serve their national interests and protect their sovereignty and do not reduce their choices and do not create obligations upon them which limit their options and to not be coerced or leveraged. Now, that should apply as much to dealings with one sphere as it does to the other.

From an Australian perspective, we have always sought in the work that we do with our overseas development assistance and otherwise, particularly our own region, simply to promote the sovereignty and integrity of, of of the nations that surround us. We want to see them successful. That doesn't mean we want them to sign up to our particular view of the world or the particular

relationships that we have with the security bent to them. They don't have to become a partner of AUKUS. They don't have to become a partner of the QUAD, but they can certainly engage with it. They can certainly partner with it. Uh, to the extent that that sits well with their national interests. So in the global South, I think we see when you when you take out the major powers and what you want to try and do.

And I think countries like Australia try and do is empower those, like Sri Lanka in particular, to be able to realise what their full potential is and to help them navigate that pathway. Um, in what is a much more complicated world. The final point I'd make is an economic one, and that is the impact of the post-pandemic global economy. And we see this writ large in not just in liberal democracies. Every election that you've seen lately has not been, um, an expression of major shifts in ideology, even though you would have read that from many commentators. Oh, the far right have taken over Europe and the far left have taken over Mexico. No, that's not what's happening. What's happening is incumbents In countries that are going through cost of living crisis, with populations that are feeling the pain, are reacting against their incumbents. And in some cases those incumbents are from the left and in some cases those incumbents from the right. When I heard that there was a a conservative revolution going on in Europe, um, I thought, well, they clearly now must have got over the fact that the UK is not part of Europe, because they're certainly not a conservative resurgence going on in the UK. But in both cases, there were reactions to incumbent governments and in some cases that even goes back through to post-Covid.

As I was discussing with President Trump a few months ago, Covid came for pretty much every government that was in power at the time. Eventually, and it didn't matter what side of politics you were on. Uh, Jacinda Ardern and I were on different sides of politics, but eventually came for both of us to, um, Covid was a disruptive time that I think people have wanted to put behind them and to move on. And I understand that. Um, but what it did to the economy

post-Covid was produced a inflationary effect of the very necessary measures you had to do to get your economy through, which was going to have an afterburn, which impacted inflation in the economies, which has driven up interest rates and has exacerbated the cost of living issues. Um, whether that's here or anywhere else, and that those economics have very real implications on the ground, and they also can impact very seriously, then, on the choices that nations are making, seeing that take place right now in the United States.

I mean, there are a lot of people saying what those states elections are about, but it's the same set of issues that the recent European elections are about what the UK elections are about. I'm sure what the elections here are about, an election in Australia is going to be about all the last one in New Zealand, and that is about cost of living and who can best try and alleviate the pain of those cost of living issues. But it's a lot harder to do in this new environment that I've talked about, because this new environment has a a rate premium that now exists for global security. So inflation is obviously impacted by expansionary fiscal policies and those expansionary fiscal policies aren't just in I would argue, in some cases governments who can't control their spending, but they're actually being driven by the fact that defence budgets are all increasing and necessarily so and will increase significantly. I mean, when we committed to 2% of GDP back in 2013, which we achieved 2.1% by the time we left office, that was a big number for some in Europe. It still is a big number. Um, in Japan it's still going up, but they're committed to getting there. And you've got countries now talking about 2.5%, 3%, 3.5%. If as much in Israel it's over 5%. And so you're seeing that expansionary impact on the budget's impact on inflation. The other part of it goes to this reindustrialisation and the costs of government intervention to achieve that, whether it's the IRA act in the United States or similar type measures, this is driving budgets, which in turn is impacting inflation, which in turn impacts rates. So interest rates were never going to stay at the levels they were pre-pandemic. That was obvious. Those lower rates were driven by another set of economic forces over the ten or so years before. They were always going to set a little higher. But the truth is

they're going to sell higher than they otherwise would. Because of the nature of the way of the new bipolar world we live in is now operating. And so that is something we will live with and we will live with for some time. And it won't just impact liberal democracies, it will affect the entire global economy. And and is something that governments will be wrestling with for some time. So a more complex world, certainly that's always the case. It just depends on what brand of more complex dealing with at any one time. Interesting times, as the Chinese say. Well, they're interesting again, but frankly, they always are. They're always interesting.

And I think the challenge for for governments in particular, but more so now than probably ever before for business and investors, is to understand geopolitics and its impact on the economy because they need to make decisions that factor in the risk, and they need to price it and they need to cost it. And once they do that, they can make decisions. And and we all get on with how things are. We can bemoan that. It's like this. We can all wish it was better. But politics is what politics is. And nations will be what they will be, and people will be what they will be, and we will live in the world that that creates. And that's what I think it looks like right now. So with that, I wish I could be a bit more cheery. In Australia. We're always very optimistic despite all of this, because we live in a wonderful place and tomorrow's going to look fantastic and so will the day after. But, uh, we're also pretty realistic and practical at the same time. Happy to take some questions if you'd like.