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Transcript

Fault Lines in the Emerging 21st Century Global Order: Asian Confidence, European Uncertainty and the Future of the West

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Andrew Fraser:

We are very privileged that the honourable Kevin Rudd is here to join us today. As I'm sure you're aware Kevin Rudd was sworn in as minister for foreign affairs in September 2010. In 2006 he was elected leader of the Australian Labour Party and, then, leader of the opposition. And with their victory in November 2007 he served as Australia's 26th prime minister until June 2010. He'll be addressing us on the record for about half an hour and then we'll have about half an hour for questions and discussions. Minister, over to you.

Kevin Rudd:

Thank you very much. It's a pleasure of course to be here speaking at Chatham House today. The institution's prestige and pre-eminence is reflected in the fact that it has now entered the English lexicon, even the Australian lexicon. For its entire 90 year history Chatham House has been at the centre of the great debates on international affairs. It is therefore a global public good. And its good I hope to be contributing to that global public good in my remarks today.

The title of my address today is designed to be provocative. It's entitled, 'Asia Rising, Europe Declining, and Wither the West?' It is not with a view to being discourteous. But definitely with a view to provoking fresh debate, fresh ideas and perhaps even fresh approaches to the future of a global order that has governed us now for two thirds of a century.

Major changes are now underway that are challenging many long-standing assumptions about the current order. Humans, being creatures of habit, often need shorthand ways of understanding the world in which we live, providing comfortable, indeed sometimes even comforting, assumptions about the way the world works. We become so accustomed to the current international order that we often assume it is permanent. History, of course, teaches us otherwise. The disturbing thing about deep changes in the global order is they are almost imperceptible at first, then gather pace, then change itself can take place quite suddenly.

The cracks, when they first appear, often seem part of the original design, or at least part of a natural weathering process of an otherwise sound structure, rather than threatening the structure itself. But then the cracks widen, just as the broad outline of an alternative design begins to emerge. Then, suddenly, having reached a tipping point, a new structure begins to become apparent, whether the political community or public opinion are ready for it or not.

What began as mere straws in the wind, becoming, over time, an irresistible force. Take for example the British Empire, the greatest power on earth a hundred years ago – and for the hundred years prior to that – but dissipated within the space of only a few decades. Though its proudest day might not seem to be upon us at the moment, take also the rise of an integrated, peaceful and prosperous Europe in the last fifty years, after five centuries of near-constant conflict, war and devastation.

Take also the unravelling of the Soviet Union, the inclusion of its satellite states into NATO, the European Union or both, bringing the Cold War to a rapid end in a bloodless redrawing of the entire map of Europe.

Change therefore, may be inevitable, and in many ways we shouldn't fear it – as long as we are fully mindful of it, shape it, adapt to it, and leave the failed experiments of history well and truly behind us. Effective foreign policy should therefore be mindful of history, not imprisoned by it, even less captured by some sort of determinism, or disempowered by a notion that we are helpless to change what is happening around us.

We should be mindful of history, but equally creative, optimistic and, above all, resolute about our future. Mindsets, left unexamined, can become self-fulfilling. None of us are passive agents in all of this, unless we choose to be. No, we are active agents, if we choose to be. It is the decisions of men and women that craft the future.

These I believe are the intellectual, analytical and policy disciplines we need to bring to bear today, given the seismic shifts that are now unfolding before us – for Asia, for Europe, for the United States, and more broadly for what we call 'the West'.

Asia rising

A decade ago, we could see Asia's rise approaching, but with the global financial crisis, then the global recession of 2008/09, what seemed a distant prospect became a more immediate reality. China now looms large in the global imagination, and legitimately so, as the world struggles to comprehend the dimensions of the numbers themselves which describe the formidable power of the modern Chinese economy.

Moreover, as Asia is rising, driven in large part by China, many in the commentariat have concluded that Europe, almost by definition, is falling; the doomsayers seeing the current European financial and economic crisis as evidence that the European project itself is now unsustainable, and, as a

result, the idea of an emerging, active, international political personality called Europe is under threat.

To add further to the picture, the fatalists then claim that the United States is now so fundamentally weakened – through the last decade of declining economic performance; irresolvable political gridlock between the legislative and the executive branches; and, as a result, a weakened presidency – that the American Century is coming to a sad and sputtering end.

And finally, and on a broader historical scale, the civilisational historians themselves then point to the inevitable decline and fall of the ‘idea’ of ‘the West’ itself, although to be replaced by what, the same civilisational historians are, unhappily, unable to guide us.

Today, I want to challenge each of these propositions, in a way that I hope might open up new possibilities and new approaches to the real challenges that lie before us in the changing global order. At the beginning of the 21st century, it is intellectually fashionable to be pessimistic, almost fatalistic, about what the future now holds for us. As a middle power with global and regional interests, and a middle power animated by values that we unapologetically embrace from the tradition we call ‘the West’, Australians refuse to accept such a negative premise.

This is not because an Australian summer simply turns us into sunny optimists midst the gloom of a European winter. It’s because we see another possible path for the future. A future order, a middle path, which yields to neither appeasement and capitulation at one extreme, or an apocalyptic clash of civilisations at the other.

The rise of China

So, what should we make of the rise of Asia, and the rise of China that is so fundamental within it? I recently addressed these themes in speeches to the Asia Society in New York and the North Atlantic Council in Brussels, specifically focussing on the projected changes in power relativities between China and the United States. Let me restate the broad arguments for our purposes here today in London. For all of our lives, the United States has been the strongest force in the global economy. In fact, the US has occupied that position for more than a century – 130 years. On current projections, that long-lived structural reality of the current international system will cease to be the case within this decade, the second decade of the 21st century.

Earlier this month, *The Economist*, almost matter-of-factly, reported that China will have a larger economy than America's in purchasing power parity terms within five years. And measured by market exchange rates, the relativities between the US and China are likely to change within seven.

The economic pre-eminence of the US, and its accompanying strategic strength, has been a settled feature of the global landscape for generations. To give a sense of the historical proportion of this change, let's put it in Chinese terms. The United States has been the biggest economy in the world since well before the collapse of China's Qing dynasty. Or in European terms, the US has been the defining feature of the global economic landscape since just after the Franco-Prussian War.

US global power has been a constant factor throughout the defining events of the 20th century. In most cases, a decisive factor in those events. History teaches us that all power is ultimately grounded in economic power. The expectation that Chinese GDP will, before too long, exceed that of the US is by definition therefore an historic event. But the rising power of China is not reflected only in changes in relative GDP. *The Economist* again provides some striking data: China's net foreign assets surpassed the United States in 2003. China's net foreign assets of \$2 trillion today versus US net foreign debt of \$2.5 trillion; Chinese exports surpassed the US in 2007; Chinese fixed capital investment took the lead in 2009; manufacturing exports in 2010; energy consumption also in 2010.

Looking forward, it is projected that other key markers will soon be passed: the total value of Chinese imports will be greater than the US by 2014; Chinese retail sales will outpace the United States by 2014; Chinese firms in the Global Fortune 500, now half those of the US, will pass the US by 2016; and Chinese stock market capitalisation will be greater than America's by 2020, leaving Wall Street in its wake.

If all this data were not sufficiently compelling, *The Economist* also projects – perhaps controversially – that Chinese defence expenditure will surpass that of the United States in absolute terms by 2025. Just to put that in context, Chinese defence spending is currently about a fifth that of the US. We are truly therefore living through a watershed in global history.

Europe falling?

So what of Europe falling? It's fashionable, of course, at present, to talk of Europe's decline as if one follows the other as a result of some sort of

inevitable axiom. Certainly, Europe has its share of challenges at present. But a clear-eyed analysis of Europe's place in the world requires a proper treatment of this continent's underlying strengths.

Consider the following: The European Union remains the world's largest economy. Its GDP, in purchasing power parity terms, was estimated at US\$14.8 trillion in 2010, with the US economy ranked second at US\$14.7 trillion and China third at US\$10 trillion. Of the world's top 15 nations for offshore investment, seven are European. In 2009, the FDI outflows of France, Germany, Italy, Norway, Sweden, Ireland and the UK totalled a collective US\$357.5 billion, only a shade less than the FDI outflows of the US, Japan and China combined.

The euro area produced and shipped 26.1% of the world's exports in 2010, and was the world's biggest exporter of goods and services in 2009. With that, Europe remains the world's largest exporter of manufactured goods and services, and is itself the biggest export market for more than one hundred countries. More than one-third of the world's largest corporations are headquartered in Europe (177 of the Global 500). More than one-third of the companies in Interbrand Top 100 Global Brand Index are European (half are from the US and the rest are mostly Japanese).

In 2009, the EU produced 33.4% of the world's total scientific publications, making it the largest scientific centre in the world. One half of all Nobel Laureates have been European. In 2008, Germany, France, the UK, Italy and Spain were all among the top 10 biggest spenders on R&D on the planet. 30 of the world's top 100 universities are European. In 2009, the EU and EU Member States (through their bilateral programs) provided more than 56 per cent of total world development assistance (€49 billion). Finally, although military expenditure in Europe in 2010 shrank 2.8% from the previous year, while rising elsewhere in the world, Europe still comprises 43% of total non-US military expenditure globally.

Therefore, before anyone reaches too many dramatic conclusions about the 'inevitability' of the decline and fall of Europe, it's worthwhile reflecting on these statistical realities as well.

These achievements also rest on the shoulders of robust democracies that have again weathered decades and sometimes centuries of political change – providing, in the main, political and social resilience to respond to change without fundamentally undermining stability. This is a critical advantage over non-democracies. They reflect the cumulative investment in knowledge,

innovation and, critically, institutions over decades and, again, in many cases centuries.

It is within the framework of these robust fundamentals that Europe should not talk itself into an early economic grave. I do not in any way underestimate the dimensions of the current financial and economic challenges facing Europe, and, if left unaddressed, they will impact not only on Europe but global financial and economic stability as well.

The challenges in various EU member states are now familiar. Excessive deficits. Unsustainable debt. Spiralling yields. Overexposed banks. Poor competitiveness. Faltering growth. Rising unemployment. With the resulting danger of a credit crisis for firms both for their cash flow and for their ultimate investment. In other words the impact of these various measures which we have envisaged for Europe itself for the future are important if Europe is to take itself out of the difficulties it currently confronts. The range of measures and the contours of these measures is now relatively clear. One, in relation to how we construct an appropriate firewall for the various financial institutions of Europe through the mechanisms of Europe reinforced by those of the IMF. Second, how do we also further ensure that there is an appropriate fiscal compact between the European states. Third, an appropriate agreed strategy for micro-economic reform in non-competitive European economies – labour market reform and the rest. These are the contours of the reform programme which have been put together by various European leaders. Of course the danger arising from the implementation of such measures is the impact they have on real growth in the economies of Europe and on employment. This of course remains the real vulnerability in some of the fiscal and other financial measures currently being embraced.

In other words, the impact of these various measures to deal with the financial crisis can put at risk the economic growth these countries also need, if they are to succeed in reducing deficits, reducing unemployment and reforming their economies.

Some have described this as a perfect storm of pro-cyclical policies which may achieve neither the financial nor economic ends that policy makers seek. And on top of this, there are some who now question the medium to long term viability of the European project itself – including the future of European unity. This is placed into sharp relief through the ongoing negotiations in Athens over the future of the Greek bailout facility and the consequences that may flow from it.

Once again, however, while recognising the dimensions of the challenge, it is crucial not to be sucked into a self-fulfilling vortex of despair and an irrational mindset that there's no way through the current crisis. The truth is, there is. And the equal truth is that Europe is now embracing a range of policy measures to deal with the challenge that lies before it.

My overall point is this: given Europe's fundamental strengths and given the shape of the emerging policy response to the immediate crisis, there is a rational basis for optimism that Europe can come through this crisis – although the political, economic and social costs will be high. If Europe embraces a comprehensive program of reform – and I fully recognise that this is equally a question of political economy as much as economic policy itself – then Europe will indeed remain a major global player. So too with the United States where policy reform and the formidable American capacity for economic re-invention and renewal should never be underestimated.

But the central point I wish to make today is that both these renewal projects, drawing on the deep, fundamental strengths of both these continents, is also crucial to a broader project important to us all – and that is the future of the idea of 'the West' itself.

It's easy today to think that we're witnessing the inexorable decline and fall of what we call 'the West' as Asia, or 'the East', develops more economic, political, military and therefore strategic power. Of course, such thinking intensifies as the West begins to lose confidence in itself and the future of its own project that has evolved over many centuries. 'The West' is a phrase often understood to represent a particular geographic construct – a collection of countries, centred somewhere on one side of the Atlantic, or the other, or both.

By contrast, I would argue that the concept of 'the West' in the 21st Century represents a powerful idea, rather than a particular piece of real estate. Put simply, the idea of the West is one of freedom: open societies, open economies, open politics, the freedom of academic inquiry, the compatibility of faith and reason, the secular pluralist state.

Furthermore, for the West these freedoms are held to be universal, rather than particular to any individual culture, or people or period of economic development. These values are reflected in participatory democracies: in a deep belief in codified human rights for all, empowering all individuals to make decisions about their own lives; tempered also by parallel traditions of fairness, equality and justice; and all protected by a legal system independent of party or partisan politics.

These values are also reflected in the economy – in the free flow of ideas, of capital, of commerce, in open markets, both at home and abroad. This idea of the West evolved over several hundred years, first in Europe, then shaped afresh in the various societies of what some now call 'New World', then adapted again in the political cultures across much of the entire world.

They are the product of centuries of evolution growing from the Christian tradition, the reformation, the enlightenment, the scientific and industrial revolution, and political emancipation. They are freedoms that have been hard-fought over many centuries. They are freedoms of which we should be collectively proud, because it is a tradition that has humanity at its centre, rather than the state. They reflect therefore an idea that should never be surrendered lightly.

In many respects, these ideas are the West's patrimony to the rest of the world. British parliaments, French ideals of liberty and equality, Australian ideas on universal male and female suffrage before others believed these to be politically or socially acceptable.

These are common values to which all peoples, from all around the world, from all cultures, can relate and, indeed, to which they can aspire. In truth, these ideas are no longer the specific inheritance of a particular group of countries, or a particular tradition or any particular civilisation. They have now become universal ideas and ideals that belong to our common humanity and are reflected now in various international covenants.

They've been applied in countries around the world, countries at different stages of development, countries from vastly different cultural, religious and even philosophical systems – although the ideas themselves may not formally be ascribed to the West, and may in fact be called by different names.

In fact, these ideas have been found to be adaptable to all cultures, incorporating local differences into fundamental freedoms that are on offer to all cultural traditions. The attraction of the idea of the West did not lie in military might, or raw political power, but in the freedom it offered, in the promise that it held that poverty could be rolled back through economic growth, through open markets at home and abroad, and that these economic projects could be achieved without compromise to personal and political freedom.

And the challenge which now confronts us all is to remain confident in these values when different, economically successful development models are now on offer around the world. In particular, when non-democratic development models produce the largest economies in the world, that may openly

challenge the values and assumptions that have long underpinned the post-war global order.

So what is the way forward? First, and most fundamentally, we must be confident in the values for which we stand. These are good values, they've taken a long time to evolve; let's not give them up easily.

Second, Europe, given its fundamental strengths – which remain formidable – should not talk itself into an early grave politically, economically, strategically or in terms of the core values for which this continent has stood for generations.

Third, nor should the United States, given its formidable capacity for renewal.

Fourth, it is equally critical that Europe in particular (but also the United States) embrace now far-reaching financial and economic reform to provide the platform for renewed growth, rather than economic decline.

And fifth, we should engage China and other emerging economies within the existing and emerging framework of the existing liberal, international, rules-based order, so that future Chinese leaders continue to embrace the need for such an order to continue, even when they become the world's most powerful country, and not just the world's most powerful economy. In other words, a model for the future in which the values which underpin the order are preserved, but in which power within the order is shared.

In other words, the sharing of power being one thing, consistent with what Bob Zoellick said half a decade ago about a doctrine of responsible global 'stakeholderdom', but in so doing not compromising the values that underpin the order. This, I believe, is a project worthy of our collective attention, it is worthy of policy development, and we should not allow ourselves therefore to enter into a period of strategic drift where these events simply pass us by. Thank you.