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Paper No. 5
KEYNOTE ADDRESS - “THE GLOBAL PERSPECTIVE”

R.J. HAWKE

Many have attempted to capture in a few words the pre-eminent characteristic of our age - the rapidity of change. None, I think, has done it better than the late American economist Kenneth Boulding who said, “I was born in the middle of human history. The world today is as different from the world in which I was born, as that world was from Julius Caesar’s.” Those words were written in 1966; they have an even more compelling ring of truth today. In no sector has the impact of rapid change been greater than in your industry and nowhere is the challenge of change greater than for your decision makers.

There are others here better equipped than I to talk about the impact of these changes in technology on your industry. But you have as well the task of reporting and interpreting what sort of world it is that approaches the twenty-first century after these decades of change. It is this issue which I address myself to today.

These dramatic changes in the way we produce goods and services have provided the basis for accelerated economic growth and the realisation of aspirations for many of the world’s citizens. But they have also created uncertainties and fears and these have been compounded by fundamental shifts occurring in the international economic and political environment.

One of the more fascinating aspects of recent history has been the sluggish reluctance to accept basic changes that have been happening to the balance of global economic power. The centre of gravity of the world economy has been shifting from mid-North Atlantic to mid-Pacific and is continuing to shift west. While this is now generally more recognized, both the relative losers and winners - on the east the west of the Pacific respectively - are having difficulties adjusting to the new realities. There is still, in many quarters, an implicit condescension in nomenclature with the use of the Euro-centric “Far East” to describe what is in fact East Asia.

In 1960 the economies of East Asia produced less than 5% of global GNP. By 1990 this figure had grown to 25% and it is estimated that it will reach 35% by the end of the century and will be likely to pass both Western Europe and North America in economic size. One measure of this performance is that Japan, China, the four ‘tigers’ - South Korea, Hong Kong, Singapore and Taiwan - have all achieved a doubling of GNP within a decade, and have done so more than once. No other country has ever done this before.
In the last ten years the economies of East Asia grew at an average rate of 8% per annum, well over twice as fast as the OECD and more than three times faster than Latin America. This economic dynamism has survived the challenges of the deepest recession in the industrial economies since World War II. East Asian economies maintained their growth despite that weakness in the developed economies - Japan joined the United States and Western Europe in recession, but the rest of Asia kept going. Against that pattern of recession elsewhere, East Asian developing economies had their strongest growth year ever in 1993, with average growth of 10.1%.

They matched this performance in 1994. Real output in these economies, which cover one third of the world's population, increased by a third in three years.

One of the most significant sections of the World Bank's assessment that the average 8% growth of the past decade will be almost replicated in the next, is its emphasis on what it calls the Chinese Economic Area - China, Hong Kong and Taiwan - as the global economy's "fourth growth pole" along with Japan, German-based Europe and the United States.

The Bank says that the key characteristics of this new growth pole include a large and growing economic mass, persistent medium-growth in the face of changing external conditions and a high degree of sustainability of long term growth. In the next ten years the annual output of the CEA Economy could match that of the United States at nearly US$10 trillion dollars, although its per capita income would only be one fifth of the US.

Within this picture the position of China is centrally important. Recent growth has been phenomenal -- 12.8% in 1992, 13.4% in 1993 and 11.8% in 1994 - i.e. the Chinese economy has grown by 43% in three years.

Consider the future. According to work done by the prestigious Asia Pacific Economics Group at the Australian National University, the population of China in the period 1990-2010 will increase by the equivalent of the total present population of the US to some 1.4 billion. GDP per capita will increase four fold. And perhaps one of the most important statistics - in what is regarded as the significant threshold income figure of US$ 5,000 there will be an increase from fewer than five million to more than 550 million.

Taking the projections out a little further, work by the ANU group, using revised World Bank data, suggests - although the Chinese themselves are more modest in their expectations - that China's GDP in the year 2000 will be 47% of Japan and 28% of the US. If the three countries continue to
grow at the projected rates after the year 2000, China will catch up with Japan in the year 2019 and with the US in the year 2025.

There is room for argument about precise years: others have China reaching this position much earlier. The question, however, is not whether, but when, China will become, in absolute terms, the biggest economy in the world - a position it has occupied for most of the last two and a half thousand years.

This dramatic shift in the centre of global economic power has not happened capriciously. Much of the literature refers to the economic performance of East Asia as a miracle. This is nonsense. The performance has been remarkable but it has not been a miracle in the sense of defying rational analysis. The elements of success are reasonably clear and have been well documented. Growth in the region can be mainly attributed to growth in inputs, particularly capital inputs.

In a 1993 Report the World Bank emphasised that the success in achieving high growth rates was a result of “Getting The Basics Right” with private domestic investment and rapidly growing human capital being the principal engines of growth - and that this occurred by using a combination of fundamental and interventionist policies. On fundamentals the bank observed:

“Macroeconomic management was unusually good and macroeconomic performance unusually stable, providing the essential framework for private investment. Policies to increase the integrity of the banking system, and to make it more accessible to non-traditional savers, raised the levels of financial savings. Education policies that focused on primary and secondary school generated rapid increases in labour force skills. Agricultural policies stressed productivity and did not tax the rural economy excessively. All the HPAEs (High-performing Asian economies) kept price distortions within reasonable bounds and were open to foreign ideas and technology.”

Conceding that these policies don’t tell the whole story, the Bank observed that “in most of these economies, in one form or another, the Government intervened .... to foster development, and in some cases the development of specific industries.” It lists many forms of intervention and, reflecting an intellectual shudder at these violations of neoclassicist theory about level playing fields and neutral incentive regimes, concluded: “Our judgment is that ... in some instances, government intervention resulted in higher and more equal growth than otherwise would have occurred.”
Another fundamentally important element in East Asia's spectacular growth has been the emerging regional trading relationship. This has been achieved without any formal inter-governmental structures, yet intra-regional trade shares are higher than those within the European union. Trade between the East Asian economies has risen from 32% of the total trade in 1983 to 43% in 1993. This has been accompanied by a significant increase in the flow of Direct Foreign Investment within the region. The opening of China and the appreciation of the yen following the 1985 Plaza Accord have accelerated Japanese investment: this pattern is being replicated by countries in South-East Asia previously characterised as recipients, but who are now seeking to take advantage of lower wage rates in the region.

All this means that East Asia has an increasing capacity to be a self generator of growth. According to the Nomura Research Institute, in the 1970's a 1% change in global growth carried a corresponding 1.6% growth in the East Asian Economies. By the 1990's, however, 1% global growth produces an impact of only 0.3% in growth in these economies.

In the whole debate about the so-called economic miracle of the region there has been frequent reference to the importance of Asian values and how much this factor has contributed to the success story. It would be presumptuous for a non-Asian to be dogmatic on these matters but, for what it is worth, my own observations and discussions with many people throughout the region lead me to this conclusion: the attitudes collectively designated as "Asian Values" or the "Confucian Ethic" are significant in an environmental rather than a causal sense in explaining the East Asian success story.

The attitudes, of themselves, could not have produced the success; this required the decisions and policies, the combination of fundamentals and interventionism I have described. Many of these policies have involved actual or perceived hardship, and in the critically important area of savings and investment, the denial of instant gratification in the expectation of longer-term benefit. Speaking as an ex-prime minister I can tell you that persuading people to get their time-scale right - to understand that pain must usually precede the gain - is one of the more difficult tasks in politics. I have the feeling that "Asian Values" or the "Confucian Ethic" - what has been described as the stress on learning and intergenerational responsibility as well as a social collectivism and the more ready acceptance of authority - has provided the environment in which the tough decisions can be made, and can be made to stick.
Whatever weight is given to the "Asian Values" factor, one important aspect of East Asia's economic achievement which is directly relevant to this matter has been insufficiently recognized in most current analysis. This preparedness to accept necessary policy decisions has undoubtedly been reinforced by the fact that East Asian leadership has, more than others, accepted the principal of shared growth. The 1993 World Bank report confirms that the HPAEs have been unusually successful at sharing the fruits of growth: "The HPAEs are the only economies that have high growth and declining inequality. Moreover, the fastest growing East Asian economies, Japan and the Four Tigers, are the most equal." As a result of this policy, human welfare has increased dramatically as measured for example by:

a) life expectancy — in the developing HPAEs this increased from 56 in 1960 to 71 in 1990, while in the low and middle income economies it rose from 56 to 62 and 49 to 66 respectively.

b) the proportion of people living in absolute poverty — for instance, this dropped in Indonesia from 58% in 1960 to 17% in 1990, and in Malaysia, in the same period, from 37% to less than 5%.

c) many other social and economic indicators ranging from education to appliance ownership — all of these have improved rapidly in the HPAEs.

Whether the fact of shared growth is seen as a reflection of "Asian Values" or the "Confucian ethic", it has certainly been both a facilitator of, and cohesive element in, the outstanding economic performance of East Asia. I believe one of the more fascinating aspects of the unfolding "Asian Era" in the twenty-first century will be the way in which governments in the region, operating within diverse political systems and differing cultural and religious backgrounds, adhere to that principle of shared growth. To the extent they do so or even extend the principle, it will tend to blunt the criticism of those in the West who are so often gratuitously partial in their assessment of what constitutes human rights.

I think those of you who know my career in the trade union and political movements, in Australia and internationally, will recognise my commitment over the years to questions of fundamental human rights. In no way do I resile from that commitment. I am certain, however, that if we are to maximise our opportunities to create a better world it is fundamentally important to understand the mind-set of that region which, increasingly, will hold the economic centre-stage.

East Asians are not singing entirely in tune but they are, to a large extent, committed to the same song. It is a song with several verses. First,
your culture is not our culture, your history is not our history, your religions
are not our religions. Second, by force of arms you ruthlessly appropriated
our territories, our resources and imposed your rule upon us. Third, after
more than a century and our own fair share of barbarism to others (some are
more reluctant than others to admit this) we have learned the basic rules of
success of your economic system and are operating it much more efficiently
than you. Fourth, under that system you took more than a hundred years to
establish within your own countries the political norms which you now
demand that we introduce in a dramatically shorter time frame. Fifth, you
point to the inadequacies within our societies, but we ask you to look at your
own - do you suggest that your democracies currently present a shining
example to the rest of the world? Sixth, while you should acknowledge that
according to our value systems, as compared with yours, there is a different
emphasis between the rights of individuals and the society as a whole, we
recognise there is room for improvements in the area of human rights. We
believe that will come as we share the fruits of economic growth through
rising living standards for our people - this is a fundamental human right and
we are doing that better than you. Seventh, for all these reasons, don’t think
that you have the unilateral right to set the agenda; stop preaching to us and
let us get on together with the business of constructive economic co-operation
from which we all can benefit.

Now you don’t have to love the song, but you can’t ignore it. These
attitudes are important in understanding the emerging international political
environment. With an acute sense of past exploitation by non-Asian powers
and a present sense of pride in their economic achievement, the countries of
East Asia are not going to be dictated to by the West, and, in particular, they
are not going to be dictated to on the question of “human rights”. On this
subject, according to definitions they regard as relevant, they assert that their
record is superior to those who would lecture them.

It has been correctly pointed out that the fundamental problem of
international relations is the problem of peaceful adjustment to the
consequences of uneven growth. The United States (and Europe) has never
had an “Asian Policy”. What it has done in Asia and the Pacific has basically
been a derivative or residual of its broader strategy of containment of the
Soviet Union. This residual approach has never been intellectually justifiable
and it is certainly now neither adequate nor relevant to the 1990’s and
beyond. It is critically important that the United States now shape policies
that cast aside the condescension of the past and are based on the reality of
the present and the certainties of the future.

Within Asia, particularly in Japan, there is some apprehension about
China’s alleged hegemonic intentions. I believe that both in terms of history
and in meeting the demands of its own internal development this fear is
misplaced. The fact is that for most of its neighbours, their own economic welfare is becoming increasingly enmeshed with China’s rapid economic growth. The United States would have no sympathy in the region were it to succumb to those interests which might seek to force a showdown with China by economic sanctions.

In a global sense, however, this is not a time for complacency. Any illusions that the collapse of the Soviet Union would usher in a new and peaceable world order has quickly dissipated. The fear of a global nuclear holocaust arising from war between the super-powers has given way to the realities of conflict based on ethnic tensions — the overwhelming majority of conflict in recent years has been within rather than between states.

Unfortunately one of the features of our times is a rising tide of xenophobic and racial intolerance. This century has already seen too much of, and paid too high a price for, these evils. We know that anti-Semitism is still a virulent strain in too many of our societies. And we also know that there is a too-easy tendency to regard all Muslims as Islamic fanatics; the capacity of that extreme movement to attract adherents lies not in the Muslim religion but in the social and economic inadequacies of so many regimes in the Muslim world.

These facts however do not sustain Professor Huntington’s doomsday “clash of civilisations” thesis, particularly his proposition that Asia will provide the first setting for such conflict. While this thesis is entirely unconvincing, it is true that the international community needs more efficient mechanisms for reducing disputation. In this respect a suitably empowered United Nations remains the best hope for the peaceful resolution of conflict, and of helping us move towards a world where scarce financial resources can be diverted from the instruments of war to tackling fundamental issues that, in other ways, threaten global stability.

These issues involve the related matters of population, resources and the environment. The world’s population doubled between 1950 and 1988. Every six months the equivalent of another France appears and every twelve months the population of the developing countries grows by about 90 million - another Mexico. According to a recent analysis by the International Food Policy Research Institute, 800 million humans now suffer malnutrition, 1.1 billion live in absolute poverty with incomes of less than $1 a day, and the number of refugees has risen tenfold in less than twenty years. Food output has failed to keep pace with population growth in one third of all countries, and almost one quarter of the world’s farmlands, pastures and forests are degraded. Thirty-five countries will face serious or severe water shortages by 2020. The IFPRI analysis says: “Competition for water is becoming more acute, increasing the potential for water wars between countries”.

The population explosion is centrally important. The essential components in dealing with this problem are well recognised. First, expanded education programmes for women in low-income countries - there is a precise inverse correlation between increased education for women and lower fertility rates; and, second better retirement provisions for the elderly in these countries.

And on the question of the environmental implications of the explosion in population and activity, the latest evidence is overwhelming. Meeting in a UN-sponsored conference last week in Madrid, 200 of the world's leading climate scientists from more than 100 countries concluded: "The balance of evidence suggests that there is a discernible human influence on global climate." They found that in the past 200 years, concentration in the atmosphere of carbon dioxide has risen by 25%. On present trends it will have doubled by the middle of the next century. And by the year 2100, the scientists suggested, temperatures will have warmed 0.8 degrees to 3.5 degrees Centigrade.

The UN 1995 State Of The Environment Report directs its most dire warnings to the Asia-Pacific region. Predicting a doubling of the region's population in the next 44 years, the report says this will increase water and sanitation needs four-fold, the consumption of energy and, manufactured goods five-fold and the pumping of pollution into the regions air and water ten-fold. The report says: "Such an astronomical increase in human numbers is bound to trigger a volatile and unpredictable state of flux in which some surprising social and national phenomena are surely in store. The earth has never before been asked to accommodate so many new people in such a short time. The presence of over 3 billion human inhabitants in the region is likely to take an enormous, even catastrophic toll on living conditions in the region and terrestrial and aquatic ecosystems already under strain."

The report indicates that the Asian Development Bank estimates the annual cost of achieving basic environmental objectives in the region at US$ 12.3 billion. It is an exercise in despair to point to the huge cost of relevant programmes in these broad areas of population and the environment. It is a matter of priorities - priorities between the allocation of resources for the destruction of humankind or for creating a socially and environmentally sustainable habitat on this planet.

The future is very much in our own hands. In this sense, I conclude by suggesting that the global perspective I put to you can best be seen in terms of a paradox.
This paradox involves the tragic asymmetry between the burgeoning and seemingly exponential genius of humankind in the field of science and technology on the one hand, and on the other, our faltering inadequate development as social and political engineers. It is as though we suffer from a collective cerebral dichotomy, with the right hemisphere of the brain working with furious efficiency in matters technological while the left displays a flaccid incompetence in formulating appropriate social and environmental responses.

I trust that you may find this perspective of some assistance as your industry not merely reports on and analyses these major issues, but also shapes intelligent responses which can help to ensure a world whose citizens can enjoy sustainable growth within a framework of security.