

# The Economic Club of New York

424<sup>th</sup> Meeting  
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The Honorable Robert Carr

Foreign Minister of Australia

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Questioners: Betsy Cohen  
Vice Chair of the Asia Society  
Trustee of the Economic Club of New York

John Lipsky  
Former Trustee of the Economic Club of New York  
Former Acting Head of the IMF



William C. Dudley: Good afternoon everybody. My name is Bill Dudley. I'm Vice Chair of the Economic Club of New York and I'm also President and CEO of the Federal Reserve Bank of New York. I'd like to welcome you here to the 424<sup>th</sup> meeting of the Economic Club of New York in our 105<sup>th</sup> year. I have some good news and some bad news. Let me start with the bad news. Unfortunately our featured speaker, Prime Minister Julia Gillard, was taken ill this morning and so she will not be able to be with us. I wish her, of course, a very speedy recovery. But this is New York and the show must go on and our good friends, the Australians, realize that, and so they came up with a very fine understudy, Foreign Minister Robert Carr. I'm going to leave it to Henrietta Fore to give you a more detailed discussion. But believe me, we are in very good hands with Robert. So I thank him for pinch-hitting, to use another analogy, and joining us here today.

We've had more than 1,000 guest speakers over the years that have appeared before the club but this is the first time that we've actually had a meeting in partnership with the Asia Society and Henrietta Fore who is sitting next to Bob who is co-chair of the Asia Society, she's going to introduce our speaker. So Henrietta...

Henrietta Fore: Thank you very much, Bill. And thank you to the Economic Club of New York for co-hosting this event, and good afternoon to all of you. As we were coming in I noticed that the foreign minister was stopping at several tables and speaking Australian. And as a result I know there are many of you in the audience so welcome to all of you. As Bill said, I'm

Henrietta Fore. I am co-chair of Asia Society, and like several others here, a member of both Asia Society and the Economic Club of New York, and we are very proud to see our two institutions convening together today.

And although Prime Minister Gillard was unable to join us, I'm delighted to have the opportunity to welcome Australia's Foreign Minister, Bob Carr, on behalf of Asia Society. The foreign minister and I, and our spouses, had dinner together last month in Sydney and it is a pleasure to see you in the United States, Mr. Foreign Minister.

At that time I was impressed by the number of works that he has authored and by the number of studies that he has conducted and he has really thought about foreign policy and domestic policy. He was designated to his present role by Prime Minister Gillard in March 2012. He holds a distinguished record of having served as the Premier of New South Wales for the longest duration in history having held the post between 1995 and 2005. During these ten years, New South Wales set records for spending in infrastructure and became the first government in the state's history to retire debt. He hosted what Australians say was the world's best Olympics in the year 2000 and achieved the nation's best school literacy levels. Foreign Minister Carr also received the Fulbright Distinguished Fellow Award Scholarship and served as an honorary scholar of the Australian-American Leadership Dialogue. Therefore, he knows the United States and Australia and our relationship very well indeed.

Foreign Minister Carr is presiding over Australia's foreign affairs during a critical period of global change particularly with the rapidly rising economies of the Asian region. While Australia's overseas investments are still primarily here in the United States, in the United Kingdom, and New Zealand, much of Australia's recent growth is linked to the rise of Asia which benefits Australia's vast natural resources. At Asia Society's AustralAsia Centre last year, the commissioning of a major new white paper examining Australia's role in the Asian century was announced. The paper's commission recognizes that the scale and pace of Asia's transformation is unprecedented and the implications for Australia are profound. But Australia's important role was not just limited to the Asian region. Australia is a G20 power and one of the only G20 states to have come out of the 2008 financial crisis relatively unscathed. Asia Society is delighted to play a formative role as a conduit for dialogue on policy, business, arts, and cultural domains, not only with Australia but with 47 countries of the Pan-Asian region including the United States. Before we begin, I should quickly say that after the foreign minister's address he will take questions from our designated questioners. And if you have a question, you can email it to [questions@econclubny.org](mailto:questions@econclubny.org).

So let us begin. We are delighted to welcome Foreign Minister Bob Carr to the podium to hear his thoughts. Mr. Foreign Minister.

The Honorable Robert Carr, Foreign Minister of Australia

Henrietta, thank you for that very warm welcome. To Phil Scanlan, the Australian Consulate General in New York, and Ambassador Beazley, our Permanent Representative of the U.N., Ambassador Quinlan, to Bill Dudley, the Vice Chair of the Economic Club of New York, to the members of the Asia Society, of the Economic Club of New York, to my fellow Australians, and my American friends, it's a great honor to be with you today and to be in this beautiful building, The Pierre Hotel. I know from my attempts to master New York architecture that this building, like the Sherry Netherland, opened in 1930. It wasn't the most auspicious time in the economic history of the United States to open a New York hotel. But it says something grand about the civic vision of Manhattan, that the building and the one next to it have not been demolished. And in this beautiful corner, this architecturally rich corner of New York we are thrilled by being here on Manhattan Island which says so much about the aspirations and the ambitions of America and \_\_\_ of the world.

I'm pleased to be here as a guest of these two societies because you are dedicated to taking a longer term view and seeing the world and its complexities. And that's the kind of discussion I'm looking forward to today. If there were a word about Australia's position in the world today, it would be strength. The facts tell it all. Private investment is huge, up \$983 billion since late 2007. That's equivalent to two-thirds of our annual GDP. Public debt is around a tenth of the level across major advanced economies. Growth totaling 11 percent over the past five years. Unemployment at 5.1 percent. Around 800,000 jobs created, that's for a workforce of over 11 million workers in the last five years, 800,000 new jobs. Inflation under control at 13 year lows.

And the bottom line, remarkably the Australian economy has grown every year for the past 21.

Australians have lived through a generation of growth. How to explain it? Well, some observers boil it down. They say there's a simple explanation. There's a mining boom. And behind the mining boom, a Chinese demand for commodities, and simple risk slowing Chinese growth, and lower commodity prices. That's the conventional wisdom. It's what the \_\_\_ and the \_\_\_ shops are saying. Australia has done well because of a Chinese boom and it brought in millions and we're at risk in the event of a slowdown in the Chinese economy. A story that simple is rarely accurate, and if you only guard against simple risks, you won't be ready for the difficult, the complex risks.

Let me add some depth and perspective today. First, Australia's economy is less reliant on our natural resources and our mining boom than most people believe. Mining employs two percent of Australians. In the next four years we expect three times as many new jobs to be created in health care, social assistance, education and training, as in mining. And Australia's professional, scientific, and technical services, well there employment is also forecast to grow faster than the mines. Our third largest export is education, mostly tertiary. Our universities are bursting with students from overseas, mainly from Asia. Nearly 80 percent of Australia's gross value added is in services. Our finance industry alone generates a greater share of our value added than mining. Domestic consumption accounts for over 55 percent of GDP.

Of course, we benefit from resources, but resources are part of the whole. And consider another fact, Australia's mining boom has a long way to run. The key to understanding this is that Australia is experiencing a series of booms: first in prices, then in investment, and then for production. Now the scale of this peak in prices has to be understood. Prices peaked in 2011. This year for iron ore, contract prices will come out at around U.S. \$126 a ton. Next year they're forecast to moderate to around \$101 a ton. Bear in mind that ten years ago we only got \$20 per ton. High-quality coking coal, it's now at around \$211 a ton. Its forecast, it'll fall next year, \$183. But ten years ago it was only \$50 a ton. Clearly we prefer prices to stay higher for longer. But if you'd offered us today's prices ten years ago, we'd have grabbed them with both hands.

The larger point, though, is this: the peak of the price boom comes just at a time as an unprecedented investment boom is now underway. The sources of those investments are themselves diverse. We're not leveraged against any one economy. Indeed the U.S. is a biggest source of investment in Australian resources in the past five years. And this investment boom is creating jobs and wealth now and building the capacity for a production boom which will follow. So the Australian economy is more than just mining. The mining boom is more than just a price boom. And the long-term health of our resources industry and our economy as a whole is less exposed to slowdown in Chinese demand than you might think.

Gas makes the point. Consider our plans for our gas reserves. Seventy percent of our liquefied natural gas exports go to Japan, and there are opportunities in other Asian countries. Take the

Ichthys liquified natural gas project in Northern Australia, it starts operation in 2016. It's a Japanese-French joint venture between INPEX and Total. It is the largest single investment by a Japanese company outside Japan. This single project will boost Australian export income by \$72 billion over its life. And the entire first 15 years' production of LNG from the project is already priced and sold mostly to Taiwanese and Japanese buyers. You take the Santos Gladstone LNG project, another joint venture, this time involving French and Malaysian investors, a pioneering project. It will convert coal seam natural gas into liquified natural gas for export. Eleven percent of Korea's domestic gas needs met by this one project. Nine percent of Malaysia's gas consumption. Our gas exports should more than double as a share of our energy exports over the next two decades.

In saying all of this, the point I'm making is not to replace one simple story, Australia's price boom is based on the mining boom with China and at short-term risk from slowing Chinese growth, that's the simple story. I'm not attempting to replace that with a different simple story--good times will last forever. What I want to replace is a simple story with a more serious and detailed account of what's going on in Australia. And with that said, I also want to press on to a more serious and detailed account of what is going on north of Australia.

The best advice I can give anyone thinking about Asia is this: Never mistake the waves for the tides. Knowing whether China is growing at eight, or seven and a half, or seven percent, understanding the different elements of that growth and how that growth is now sustained, that's

far from trivial. I'm not here as an economic forecaster. What I'd say about the debate about the likely outcome in China is principally this. Even if growth were slower, even at six percent, that is very substantial, and it's a continuing economic expansion. Indeed with China, with China 40 percent larger than it was five years ago, six percent growth today is a bigger contribution to global GDP than eight percent growth would have been only in 2008. It's a bigger economy. Six percent growth is serious. In any case, while it's rightly a matter of hot debate, the center of my thinking is not on China's waves. I'm more focused on reading the tides.

We've all heard many times that the majority of Chinese people now live in cities. But the really startling fact is this means almost half of all Chinese today still don't live in a city. Perhaps another 250 million Chinese will move to the cities in the next 20 years. We're talking about a century of change, not a business cycle.

Another \_\_\_\_ , a simple inference from change in Asia, China rising as a near-term competitor in our product markets. We need to work harder to compete. That simple inference is half-right at best. Let me add some depth and perspective to the picture of regional change. First, it's not just China. It's Asia. Our century will be defined by the rise of many countries and many cultures, not just one. By Indonesia, a diverse society, a vast population, Islamic as it happens, a democratic state, a robust democracy with freedom of speech, freedom of expression, a nation of 240 million. It will be defined by India, a vast democracy, historic civilization, home to more English speakers than the United States. And it's not just competition, it's new consumers. We must understand what a middle class century in Asia means because it's a key point for

advanced, service-based economies like ours. What do we do best? We make and sell good services to middle class consumers and we invent new ones. The creation of a middle class, growing by more than 100 million every year, that's a large part of the Asian story of the century. Not just new consumers, it's consumers who want to buy new things. Once you've built cities, they're filled with city dwellers. Once you've sold them concrete and steel, iron and gas, they buy wine, movies, and music, retirement financial products, and special tourism experiences, and food which is the product of clean and sustainable agriculture. There are a thousand examples but one conclusion. In the century ahead it's precisely economies like ours—advanced, knowledge-oriented, service-rich--which are best placed to prosper, but only if we keep lifting productivity.

Australia's economy is a highly productive one. We rank above South Korea, Japan, Canada, and the U.K. for labor productivity. Indeed Australia is one of the top 12 international performers for labor productivity levels. And in the year to June 2012 our labor productivity grew at two and a half times the average for the last decade. So for us, lifting future productivity even further demands a really sophisticated agenda, from innovation to infrastructure, tax reform, and regulatory reform. Above all, must stay ahead in the education race.

Now education's centrality to economic development is far from new. America's GI bill is famous. It resonates. The poet Auden described veterans "encamped upon the campus plain." And they became the world's biggest middle class in the 50s and 60s, the veterans of the second

World War educated on American campuses post-war. Like Eisenhower's national highway system, it drove post-war American prosperity.

And education has already been central to the extraordinary rise and growth of Asian economies: Japan, South Korea, Singapore, and Hong Kong, now China and India. There's a reason 19 universities in Asian nations are now ranked in the top 100 worldwide. These nations know what a complicated world demands. They know it rests on a quality education. We know too. Education is more important to nations like Australia and the U.S. than ever before.

The achievements of Asian nations in education sets us a standard we must meet at home. That is why our Prime Minister set a new goal for 2025 to return Australia to the top five in school attainment in the world. Australian universities are already highly ranked on the world stage. According to the latest Shanghai Jiao Tong University Ranking of World Universities, one in eight Australian universities makes it to the top 100 in the world. And we've set ambitious goals for skill formation and university attainment. By 2015, 90 percent of young Australians will have attained a year 12 or an entry level qualification. By 2025, 40 percent of all 25 to 34-year olds will hold a qualification at bachelor level or above. That's up from 35 percent last year.

To prosper in Asia, though, we're going to need to know Asia. We'll need Asia-literate policies and Asia-capable people. Last year we commissioned what in the Australian system is known as a White Paper on Australia in the Asian Century. It will be a national blueprint for a time of

national change designed to set goals for lifting the Asia capabilities of the Australian government and people, up-schooling the Australian nation in skills appropriate, needed, necessary in the Asian century.

To prosper in this new Asia, we'll need to stay smart and innovative, productive and capable. Australia must be a country that makes and sells ideas. Because the big answered question facing countries like ours isn't the growth rate of China's economy later next year, it is what middle class Asian consumers will want to buy, what goods, what services, later this century. The risk is if we can't make and sell the things that Chinese and Indian and Indonesia and Thai consumers are buying in 2033, we'll be left behind.

The real task of national preparedness is this. Building the skills and the knowledge of our people, accumulating and deploying that human capital, lifting productivity, generating innovation, making ideas. So that's the picture I see from Australia. Societies and economies, like ours, like that of the United States, and we're similar despite some superficial differences, the things we share, things that run very deep. We're democratic. We're corruption-resistant. We're pluralistic. Our ideas, our concepts, our principles are regularly debated. Why am I telling you this, amidst of a U.S. hard-fought U.S. presidential election, following hard-fought primaries in the Republican party, you know the contest of ideas and notions in a pluralist society. Growth for us requires enormous sophistication. We've picked the low hanging fruit. We need Australians and Americans to be smart to find our future.

If I can leave you with one illustration that best demonstrates how decision makers are thinking about this, it would be this one. When the formal meetings at the G20 or APEC are over, the officials may still be talking about the macro-economy, about investment, about finance and trade, but the leaders are talking to each other about our people, about improving and expanding universities, about skills, about school effectiveness. I've spoken today about a century of change in Asia and what it means. It's no accident that the conversation happens here in the American Northeast, here in this New York. The fact that this truly global forum for free thought and speech is hosted in a truly global city in the United States is no accident or coincidence. Rather it's a tribute to the history and values of this city, this nation, a tribute to your remarkable people, and to the history and values we share with you, we Australians share with Americans. We are two free peoples of the New World, two young nations, born of the Age of Reason, two friends and allies still in a century of change. You are generous and far-sighted hosts and I look forward to our conversation. Thank you.

#### QUESTION AND ANSWER PERIOD

WILLIAM C. DUDLEY: Thank you, Robert. I think we can all agree that was a very compelling story. Excellent speech superbly rendered. So congratulations, Robert, for that. And now we turn to our questioners, Betsy Cohen, Vice Chair of the Asia Society, and Trustee of the Economic Club of New York, and John Lipsky who is a former Economic Club Trustee and former Acting Head of the IMF. So Betsy, you're first.

BETSY COHEN: Thank you very much. I was trying to find the microphone on top of this very elegant piece of sculpture. Thank you Foreign Minister for, as Bill said, a very rousing speech. Australia has defined itself as we heard, both as a Pacific Rim country and as a long-term great friend of the United States. As part of the Pivot to Asia which began in the United States within the last 18 months, the United States is sending 2,500 Marines to Darwin. Two hundred and fifty of them arrived in April and I'm sure with great anticipation about the remainder. What does this increased military presence mean to Australia? Why is it important? And for what purpose would you see it being expanded?

THE HONORABLE ROBERT CARR: I'll explain the Marine presence in Northern Australia. It's a deployment. They're there for some months of training and exercises, and then they're out. It's not a base. It's a rotating deployment, a rotating presence, also in terms of the natural growth of the Australian-American alliance. Australians have got deposited deep in their DNA a desire to see America in the Asia-Pacific. The Australian Prime Minister, Alfred Deakin, one of our federation leaders in the early years of the 20<sup>th</sup> century, reacted with alarm to the Japanese victory over the Russians in the War of 1904,1905. And you know what his response was? Australia's population, a couple of million at that time, a vast continent, and the rise of Japan was seen as a threat, his response looking at Australia's strategic position in 1904 and 1905 was to say we want the Monroe Doctrine extended to the Pacific. In the 20s and 30s Australia looked in alarm as Japan consumed Manchu, then the bulk of China, and again sought an alternative to

relying on the British presence in Singapore, the theatres of Singapore. And there was no more welcome news to Australia, after the collapse of Singapore in February 1942 and we lost an army of 20,000, there was no more welcome news to Australians that General Douglas McArthur was going to make Australia his base for winning back the Phillipines, and no more welcome news for Australians than that the American engineer that produced two great naval victories in the seas to our north. The Australian-American alliance is crucial. When I became Foreign Minister I wasn't given any mandate to dissolve it. And it's a natural expression of that alliance to say to our partner, let's have training in our north. But just a cautionary note, now that gets the headlines of maintaining a presence of 2,500 Marines which we saw as a natural expression of our alliance, the fact is in 2011 there were 13,000 American troops training in Australia and it got no attention. It wasn't a headline. It wasn't a headline. And I've said to my Chinese friends and interrogators, there is a less of an American presence between Darwin and Beijing. And 2,500 Marines has got nothing to do with the economic and inevitable military modernization of China. But just as China, just as China is entitled to its security, so too are we. And a natural development of our alliance relationship with the U.S. is part of that, and American Marines training in Northern Australia and engaging in exercises and exercises in disaster relief, exercises that will involve Indonesians and we hope Chinese, is an investment in stability and security in the region and a surprise to no one who knows the history of that Australian and American security partnership.

JOHN LIPSKY: Minister Carr, let me add my congratulations for your thoughtful and eloquent

remarks. As you noted, the sustained, strong growth of the dynamic, emerging market and developing economies of Asia has been one of the dominant forces in the global economy over the past two decades, and as we look forward, as you noticed, Australia is counting on continued strength of its Asian partners in their growth path. But there are discordant voices that worry that these Asian economies could fall into a middle income trap, that the current slowdown in growth which we see underway could be profound and more sustained. How serious a risk do you see of that happening? And how can Australia help its partners to sustain strong growth in the future?

THE HONORABLE ROBERT CARR: We've seen in Asia a development that has lifted the nations that used to be called the Asian Tigers out of middle income status into high income status. One thinks of the trajectory of Singapore, South Korea, of Taiwan who are following in the path of post-war Japan. The fact is those countries have made tough decisions to see that they won't be trapped in middle income status. And that is a challenge facing the nations who comprise Asia whose growth has been very, very impressive but will need, as we need, as we need, to sustain that productivity-driven growth. And this highlights issues of governance and sovereign rules. It highlights a range of considerations to see that the trajectory continues. I think, I think there's not a country, China, included, whose policy makers wouldn't say to you, to us, yes, yes, this is our challenge. Our challenge is to see that we follow the path of those other Asian nations that have gone into high income status and that our society tends to the risks that might hold us back. That's the challenge, not to get into the middle income status and be trapped there by flattening rates of growth. I think it's...the World Bank Report on China's economic

challenge sums up for China that the challenge is another bout of economic reform, privatizations, reforms in the way their markets work, introduction of competition policy. The Chinese have been so critical and I'm sure that every page of that World Bank Report telling them what they need to do to stay in this very track will be exhaustively analyzed and debated.

BETSY COHEN: Thank you. The United States and Australia have many things in common and among them is the high profile of the issue of immigration in our current thinking. Recently a decision was made to move the asylum seekers from Australian territory to Papua New Guinea. What is Australia's thinking on this issue? How does Australia intend to resolve this issue? And how does Australia tend to work cooperatively with the countries in the region?

THE HONORABLE ROBERT CARR: Asylum seekers is certainly a \_\_\_\_ in Australian domestic politics. We submitted the question to a high level panel of Australian experts. We asked them what was the way of dealing with this challenge of what we call irregular maritime arrivals? We had...isn't \_\_\_\_ wonderful? They proposed an arrangement with Malaysia that would have seen processing of people, governed by a treaty with Malaysia on Malaysian soil. The challenge is to produce a disincentive of the people smugglers. People smugglers have got a business model. In the ports of Sri Lanka they're recruiting people. They're asking people to put down \$10,000 to buy passage on a barely seaworthy vessel and get into Australian territorial waters where they hope Australia will accept all they bring. The conclusion of that expert panel was that we had to destroy the economic model of this people-smuggling industry. And the way

to do it, the disincentive, the way of seeing that there was no advantage arriving by sea on a vessel, a vessel driven by a people-smuggling business operation is to have offshore processing. And it was interesting to see even refugee advocates argue that this was necessary. We'd like to do in Malaysia, that's being \_\_\_\_ in the Australian parliament. But it's a good idea, it's a good concept, and Malaysia wants it. But in the meantime, we're going to have offshore processing in Nauru and in Manus Island in Papua New Guinea. And we believe that this will send a powerful message that a more orderly process of refugee assessment makes sense for Australia. It's more humane for the people who are seeking admission to Australia under this category. And as part of this policy, we've increased our intake. We have a humanitarian intake now of 20,000 which has us pulled ahead of Canada as the second biggest resettlement country in the world after the United States. I'm proud of that.

JOHN LIPSKY: Thank you. Mr. Minister, I know from my service at the IMF that Australia has always been a strong supporter of multilateral and cooperative approaches to solving international issues. The formation of the G20 leaders process was the principal organizational innovation in the wake of the 2008-2009 crisis, and it started off strongly. The last two summits have gone by without much notable in terms of concrete achievement, and many say that the process is running out of momentum. Do you agree with that judgment? How do you see that the G20 leaders process can contribute in the future to problem-solving? And in general, what is your outlook for the future of multilateral, cooperative approaches to dealing with basic economic, financial, and political issues?

THE HONORABLE ROBERT CARR: We've been proud of our role in advocating for a G20. It was a priority of the former Prime Minister, Kevin Rudd and Julia Gillard, our Prime Minister has taken to leading discussions and helping frame debates in G20 fora with energy and intelligence. We think the, I guess the consensus of the Australian perspective would be that the G20 acted decisively in the face of the global economic crisis of 2008 as your question concedes. But there is a transition here in moving from that, responding to a crisis to becoming an organization driving long-term economic reform and I'd like to think that, that transition is underway. The challenge for the G20 is to demonstrate it can deliver the more difficult reforms. It can deliver an objective such as balancing economic growth and fiscal consolidation, a challenge that faces every budget maker, every finance minister in the world today. Australia is a host of the G20 in 2014 and we're looking forward to contributing in shaping what I think you correctly identify as the challenge, a role beyond the crisis, a role in delivering economic growth, sharing the policies that deliver economic growth, and at the same time allow budgets to get back into service.

WILLIAM C. DUDLEY: Thank you very much Foreign Minister Carr. I think you did a terrific job on very short notice, not only in delivering the speech but also in answering some important questions. I also want to thank our questioners, Betsy and John, and also Henrietta. Before we get the rest of our lunch, I just want to make one brief announcement. We want to invite our Economic Club members, their guests, and Asia Society members to purchase tickets

for our next event which will be held at the Marriott on Friday, October 5. The speaker, it sort of goes with this talk today a little bit, will be President Gao of the Chinese Investment Corporation. And I think we would all agree this is a particularly good time to hear from President Gao about some of the challenges of the Chinese economy. Enjoy your lunch. Thank you.