

**LEADERSHIP AND CHANGE**  
**P J Keating**  
**Second Asian Leadership Conference 2008**  
**Seoul**  
**21 February 2008**

**The Second Asian Leadership Conference in South Korea hosted by the principal broadsheet newspaper, the *Chosun Ilbo*, and attended by a number of former leaders, presented Paul Keating with an opportunity to lay out some of his own views on the contemporary international scene. Here, delivered extemporaneously, is the response Paul Keating made to earlier contributions by Henry Kissinger, Goh Chok Tong and Ichiro Ozawa. The relatively short intervention concentrates down the Keating world view: the unprecedented 60-year-long period of peace and prosperity; the lost post-Cold War opportunity of putting together a new representative structure of world power; the legitimacy of a rising China and the folly of endeavouring to contain it; the political obduracy of Japan's political establishment, especially towards China; and the need for China to pursue a more propitious economic policy, allowing its real exchange rate to reconfigure its economy while leavening economic issues between itself and the United States.**

I would like to concentrate on the essence of Senior Minister Goh's keynote address and broadly endorse his appeal for a new world structure. This is something he and I spoke of when we were both Prime Ministers in 1992. In fact it was that thought, a new structure, which drove the APEC construct and the APEC Leaders' Meeting. We saw the opportunity at the end of the Cold War of open regionalism and while we were able to have an influence on this part of the world, given the limitations on the influence of our countries and their size, we were not able to have commensurate influence elsewhere.

We need to see the world in the following terms. There were three long waves of growth in the twentieth century: 1909 to 1929, then nothing until 1947; then a second wave from 1947 till 1974 and then the third wave, in which we are still currently, which began in 1982. So we are now in the twenty-sixth year of this third long period of prosperity, and if we remove the eight years between 1974 and 1982, we have, pretty much, enjoyed a 60-year continuous period of growth. This is unprecedented.

Along with that, of course, we have had a contiguous period of peace; in fact in modern history you had to have grown up at the end of the Napoleonic Wars to have witnessed a similar period of peace, before the Franco-Prussian Wars, and somewhat later, the First World War. So it is the peace, the absence of world wars and the prosperity which has got us to this point. We have now seen, as a result of US magnanimity, the development of Japan, South Korea and Western Europe. But now we are seeing an altogether different influence, on which the US has had only a moderate bearing, and that is the growth of East Asia.

When the Cold War finished we had an opportunity to put together a new world order, where the big states like India and China were more adequately represented in the structure of world power. Instead, the G8 contains countries like Italy and Canada, not countries like India or China. The ball on that structure was dropped at the beginning of the Clinton presidency. Through two Clinton presidencies we had no movement from the template of 1947. When we had an opportunity, with the George W Bush presidency, to move away from the template of 1947, I believe that administration opted for the wrong policy—a policy of exceptionalism, giving up liberal internationalism at a time when it could have worked most powerfully for the United States. As a result, four American presidential terms have gone by without us coming to a new settlement about power in the world, with these great states of a billion or more people each, rising both socially and economically. So the reordering and reweighting is now long overdue: it is to be hoped that the next American President will start thinking about a more representative system of world governance and how that system will better guarantee American security and stability 30 years from now. We have to move on from the framework we developed at the end of the Second World War.

If we look at the world economy, the majority of us depended on the United States for its locomotive energy. The United States economy is \$12 trillion of GDP: \$12 thousand billion and it grows at roughly 3 per cent a year. That's \$360 billion of new wealth. If you look at China, albeit about \$4 trillion of GDP, in US-dollar terms, and growing at 11 per cent, thereby generating about \$440 billion of new wealth. Let us not split hairs, call it about \$400 billion each of new wealth. So the increment to wealth, progress and a generally better world has come with the advent of China.

One of the lessons I want to see come from a conference like this is that we pick up the lessons of Europe at the end of the nineteenth century. Efforts then to contain Bismarck's creation, the German Empire, by Russia, Britain and France, among other things, ended in tears with the First World War. There were other influences, of course, in Germany itself which led to that outcome, but nevertheless, in the West, those states cavilled at Bismarck's creation. For most of the last 30 years, the West has cavilled, perhaps quietly cavilled, at Deng Xiaoping's creation.

I think it would be a grave mistake by the world or indeed, for any state to try and contain China. China, I believe, is a force for stability. It is a legitimate partner of the United States in the quest for stability. And here the operative word is stability, which has given us the peace, the growth, freed us from human misery and lifted our incomes.

So what should we do to maintain that stability and the peace? First and foremost, I believe that China must be welcomed as a new major player in the world, and given appropriate recognition and standing in world forums.

Which brings me to the point Senior Minister Goh Chok Tong made earlier about Japan and China. It is a great pity that 70 years on since Manchuria that the enmities between Japan and China still exist. And it's a great wonder that the Liberal Democratic Party and Japanese people more generally, clever as they are, in some way, 70 years later are still trying to prove a point about militarism in the 1930s.

Japan with 160 million people, with a rapidly deteriorating demographic, should be seizing this point in history to find a lasting accommodation with China. And that accommodation with China can be had. The Chinese want it, and I should think the great body of Japanese people would want it. But the political system, especially the LDP, has dragged the chain and dragged itself along for half a century in denial of truth and what is right.

If China and Japan reach a point of equilibrium, what matters in North Korea now will matter far less. Henry Kissinger's point this morning is entirely correct. That is, if North Korea gets away with nuclear proliferation, other nuclear horses will also bolt. We cannot wait for a situation where the acquisition of weapons in North Korea becomes an excuse for either China or Japan to consider lifting their military profiles, supposedly in protection of themselves, but in reality frightening each other while destabilising the region. This is another reason I think we have now long passed the point where the old unrepresentative UN structure of governance can obtain much longer. With one vote, a little Pacific island has the same vote as China, which is, of course, nonsense. A nonsense structure produces a nonsense organisation and this is why the UN has withered as an independent force.

We have reached the point where we cannot go on pretending that what is happening in the East Asian hemisphere is not a seminal change to the world and that it is other than pro-stability.

Let me conclude with some points about the economic situation. Thirty years ago China was an agrarian country. Today it is the largest manufacturing state. Of course its real exchange rate had to rise. But attempts by the government of China to deny this by pushing down the nominal exchange rate will end in tears with many economic distortions. Inflation is one of them. I notice inflation in China is already running at 7 per cent. This had to happen. We have a big problem in respect of world financial imbalances. The United States needs a competitive depreciation against the rest of the world to repair its current account. It cannot get it. It cannot get it because China has been tying, opportunistically, its currency to the US dollar, while the Bank of Japan shadows the US dollar daily. What we have is a shadow dollar area which now makes up a very large part of world GDP. This means that America's adjustment falls much more heavily on those currencies which wear their heart on their sleeve; pricing themselves on volume and not by official intervention. The euro and the Australian dollar come to mind. China has to grow up and go its own way, as should Japan, instead of running permanently in the shadow and coattails of the United States. The American Federal Reserve can no longer pursue a policy, as we saw under Alan Greenspan, of offering a 1 per cent or 2 per cent cash rate and expect to fund its current account and budget deficits, especially with a falling currency. If it were not for Chinese and East Asian savings, the Americans would have difficulty funding their obligations. And without that cheap money policy their banks and financial institutions would not have stuffed their households full of cheap mortgages of the kind we are seeing default now.

It seems to me that it is within our hands and our scope to maintain a continuing economic expansion. It is also within our scope to maintain and develop proper structures for peace. That includes East Asia but also includes Europe. The

mistaken policy of expanding NATO with Hungary, Poland and the Czech Republic, taking NATO's border right up to the west of the Ukraine, began the alienation of Russia. We brought Russia to within reach of our own camp in 1990 and now we've lost it. So a policy of magnanimity and representativeness—let's call it that—should apply also within Europe. That is, part of a more stable, wider world structure, where the US is the first amongst equals. Let's say a more sustainable, longer run structure.