



# FITTING IN OR FALLING OUT? AUSTRALIA'S PLACE IN THE ASIA-PACIFIC REGIONAL ECONOMY

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 **THE UNITED STATES  
STUDIES CENTRE**  
at the University of Sydney

**ALLIANCE 21  
PROGRAM**

[alliance.ussc.edu.au](http://alliance.ussc.edu.au)  
*October 2012*

## EXECUTIVE SUMMARY

- **At the centre of the new economic and political realities that shape the Asia-Pacific region is the relationship between China and the United States, Australia's respective principal trade partner and long-standing security guarantor.**
- **Australia needs to adapt to new market forces in the international economy in order to escape the resource curse.**
- **Despite the changing dynamics of the region and the potential rivalries that may exist, Australia must ensure its national interests continue to be advanced.**

Australia is caught between two worlds. On one hand, it has the opportunity to take advantage of Asia's rise and intergrate with Asian economies in order to guarantee its inclusion in the region's rapid growth. On the other hand, it faces a series of challenges. Asian economies are developing with great speed and promise. Adapting to changing market complementarity and escaping the resource-curse will be crucial to Australia 'fitting in'. To avoid 'falling out' with the rest of the region, the country's economic and geostrategic commitments must be carefully balanced. Managing these competing factors is essential to Australia's continued prosperity for the first half of the 21st century. Developing the ability to think independently about what might actually be in the long-term interests of Australia is pivotal to the future of Australia's prosperity and integration with the Asian region.

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The Alliance 21 Program receives funding support from the following partners. Research conclusions are derived independently and authors represent their own view, rather than an institutional one of the United States Studies Centre.



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The Australian Government and corporate partners Boral, Dow, News Corp Australia, and Northrop Grumman Australia support the program's second phase, which commenced in July 2015 and is focused on the following core research areas: defence and security; resource sustainability; alliance systems in Asia; and trade, investment, and business innovation.

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## **Australia, we are constantly assured, has never had it so good. As many other OECD economies succumbed to the impact of the global financial crisis (GFC), the Australian economy appeared immune to the downturns that affected Europe and the United States in particular.**

Much of the credit for this fortunate state of affairs was attributed to Australia's geographical position and natural endowments: located alongside the world's most dynamic economic region and possessing the resources that East Asia's rapid industrialisation increasingly required, Australia did indeed look like the 'lucky country'.

And yet it is important to remember that when Donald Horne described Australia as the lucky country in 1964 he was being ironic. Horne was pessimistic about the prospects of a country relying on natural resources to mitigate the shortcomings of what he considered to be Australia's second rate political leadership. Australia was 'lucky' in that it could get away with failings that a lack of resource wealth might have exposed in less fortunate countries. Although Australia's political class is arguably a good deal more professional, competent and sophisticated than it was in the 1960s, some of the problems Horne identified are strikingly familiar half a century later. Australia is once again highly dependent on its resource wealth to underpin national welfare, and increasingly reliant on a single country to absorb ever greater amounts of its commodity exports. In some ways, despite all of the emphasis that has been placed on economic reform and becoming a 'clever country' over the last few decades, important features of Australia's economic profile remain troublingly familiar.

But while some aspects of 'Australia's' relationship with its neighbours remain the same, some are novel and present new challenges for the current generation of policymakers. At the centre of the new economic and political realities that are shaping Australia's region is the relationship between China and the United States—respectively Australia's principal trade partner and its long-standing security guarantor. The inherently contradictory, potentially antagonistic and unstable Sino-US relationship will help to determine what sort of region Australian policymakers

actually have to deal with. Navigating between the competing demands of its economic and strategic partners will be the defining international problem for the foreseeable future. Although the primary focus of the subsequent discussion is on the economic impacts of Australia's regional ties, it is not possible to understand them in isolation. The Chinese government has, for example, pointedly indicated its displeasure about the recent decision to station American troops in Darwin, and indicated that this could have negative consequences for Sino-Australian ties. This overarching strategic context adds yet another level of complexity to the whole process of 'Asian engagement', an aspiration that, while not always clear, is generally considered one of the keys to determining Australia's place in the region. But before we can even begin to consider how Australia fits in, it is important to say something about the identity of the region and the nature of the 'engagement' process.

### **Regional Politics and Identity**

What's in a name? When it comes to regional definitions, the answer is potentially quite a lot. For Australia and the United States their preferred regional label is the 'Asia-Pacific'. It could hardly be otherwise, of course, as the principal alternative, East Asia is one from which they are necessarily excluded. This will no doubt strike some readers as an excessively academic and arcane point, but a good deal hangs on such niceties. When regional definitions are institutionalised they can have consequences. Regional organisations have the effect of determining who is in and who is out, who can act and who must observe, who is a rule-maker and who is a rule taker. If a regional grouping negotiates a trade liberalisation agreement among its members this can have potentially negative consequences for those who are excluded, for example. It was precisely this possibility that lay behind

Australia's efforts to institutionalise its own position in the 'Asia-Pacific' and ensure that it was not locked out of what had become its most important markets.

Despite its limited overall impact, Asia Pacific Economic Cooperation (APEC) symbolises a profound long-term shift in Australia's economic and political goals. Since at least the 1970s it has become clear that the economic fate of Australia was increasingly bound up with that of northeast Asia in particular. Japan led a region-wide process of development and industrialisation that expanded throughout East Asia, triggering an historically unprecedented spurt of economic growth that has lifted millions from out of poverty. It has transformed the region of which Australia is a part of however it is defined. For generations of policymakers in Australia, economic engagement with its northern neighbours has become the overwhelming material reality with which they may contend. True, some governments may have embraced interdependence with Asia more enthusiastically than others, but few doubt that Australia's economic destiny lies there. The numbers are unequivocal: by 2008-09, around 65 per cent of Australia's exports went to Asia, with Japan and China accounting for well over half between them.

But if greater economic integration with East Asia was an inescapable long-term reality, the terms of engagement were not inevitable. Creating regional identities and groupings may have been a slightly paradoxical part of a global trend, but regions have been realised differently in different places. Asia is not Europe; the sort of sovereignty-pooling that distinguished the European Union has historically had few admirers in East Asia. Unfortunately for Australian policymakers, neither did Australia's proposed alternative: trade liberalisation achieved through consensus and voluntarism rather than powerful institutions with the capacity to impose binding legal agreements. Consequently, Australia's big initiative, APEC has become increasingly marginalised. Its guiding principles are not, however or at least not in Australia.

## The Terms of Engagement

The underlying logic that informs Australia's economic engagement with the region is the notion of 'complementarity'. This is one of the most fundamental of

economic principles. According to the theory of 'comparative advantage' nations should do what they are 'naturally' best at. In this case, Australia's resources compliment the East Asian economies' hunger for raw materials and energy. East Asia's large labour force can transform Australian iron ore into manufactured goods, which can then be exported to Australia in return. Both parties in this exchange get to specialise and therefore increase overall economic efficiency and welfare. While this model captures something important about the basis of the relationship and the policies that seek to facilitate it, the nature of international economic activity has changed profoundly since David Ricardo first posited the merits of comparative advantage at the beginning of the nineteenth century.

The world is no longer composed of discrete, highly differentiated national economies. Not only do countries in the 'developed' world often produce very similar products, but the nature of trade itself has changed profoundly. As Peter Gallagher's contribution to this collection explains in more detail, the production and movement of goods in the contemporary era frequently takes place within production networks that transcend national borders. In the manufacturing sector in particular, the production process has been disaggregated into increasingly smaller parts and located wherever specific advantages are to be found. The East Asian region generally and Southeast Asia in particular have been at the centre of these new networks of production. One of the reasons Southeast Asian governments have been trying to develop preferential trade agreements among themselves and with key partners such as China is to take advantage this new organisational logic and make themselves attractive to potential foreign investors. Indeed, frenetic international competition to attract highly mobile multinational corporations is a prominent feature of the contemporary international political economy.

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The new architecture of global and regional production is both good and bad news for Australia. One of the reasons new regional production networks have grown

up in Southeast Asia is because the region has had a significant comparative advantage in cheap and abundant labour. This is plainly something with which Australian-based economic actors cannot and probably would not want to compete. The long-term decline of the textile, clothing and footwear sector in Australia is testimony to the implacable impact of competition from the region's low cost, newly industrialising economies. Many would see this is no bad thing: our Asian neighbours get to 'take-off', creating millions of newly-affluent consumers, to say nothing of potentially more stable political systems as an educated middle class population acts as a force for social stability. Many of the jobs that are 'lost' to cheaper producers are often low skill and low pay, so this is also not necessarily something for policymakers to be overly concerned about either. Further up the value chain, however, things get more complicated.

One of the most enduring debates among political-economists is about how much 'manufacturing matters'. Its potential importance is clear in Southeast Asia: manufacturing is the key to rapidly rising productivity and living standards. Labour-intensive manufacturing has been an essential component in the story of successful industrialisation and economic development everywhere. The manufacturing sector in Australia has also been an historically important part of overall national development and a source of well-paid blue collar jobs. Manufacturing's importance as a source of overall social welfare has once again been thrown into sharp relief as economic activity in Australia continues to evolve and is increasingly driven by changes in the region to its north. It is important to remember that Australia's manufacturing sector emerged within a protective cocoon of tariffs, without which it would have been difficult for it to have developed in quite the way that it did. This process of state-supported development is essentially the story of successful industrialisation everywhere throughout history, so Australia is no aberrant outlier in that regard. The question now, however, in an era of trade liberalisation, and when industry policies are generally out of fashion, is what, if anything, should states do to ensure the survival of manufacturing.

The calculus here is not simply 'economic', although even here the debates are complex and contested. Manufacturing, especially further up the value chain

in places like Australia, is associated with a skilled, technologically literate work force. Such skills take time to develop and may be lost if the manufacturing sector declines. Manufacturing is also associated with 'spillovers', or innovation and the creation of new products and industries that might not occur in the absence of an established industrial base. Equally pertinent for policymakers, of course, is that manufacturing provides comparatively well-paid jobs in electorally-important parts of the country. In some parts of the country, such as Adelaide, for example, the future prosperity of a city that is already experiencing multiple environmental and economic challenges would be further placed in doubt. BHP's recent decision not to proceed with its massive Olympic Dam project in South Australia provides a telling and timely reminder of the dangers of relying too heavily on a resource sector that is prone to cyclical booms and busts.

The relative, economic, social and even political importance of the manufacturing sector has been a recurring theme in Australia public policy debates for some time. This debate generally achieves maximum prominence when the foreign-owned car manufacturers demand government assistance in return for maintaining a manufacturing presence in Australia. From the perspective of a potentially footloose global manufacturer, it might make a good deal more sense to service the relatively small Australian market from low-cost Asia where integrated, region-wide production structures generate major economies of scale. Thus far, Australian governments have 'given in' to such demands, to ensure that the auto industry remains the backbone of a manufacturing sector. Whatever the merits of such policies, they are at odds with the logic of economic liberalisation and a reliance on market forces to compel economic 'efficiencies' and restructuring. Debates about the relative merits of the manufacturing sector and government efforts to sustain it have suddenly become more prominent as the sector comes under renewed competitive pressures, this time generated from within Australia itself.

## **The Rise of the Resource Sector**

The structure of Australia's national economy has changed over time. There is, of course, nothing surprising about this: much the same could be said about

many economies around the world as they have evolved over the years. What is particularly noteworthy about the Australian economy, however, is that it has always been highly exposed to—perhaps even driven by—changes in the broader international economy. We might expect nothing else given Australia's origins as a colonial outpost, its relatively small economy and population, and its historical reliance on commodity exports of one sort or another. But what is especially noteworthy in an era of growing international economic interdependence is how rapidly and powerfully economic forces can be transmitted around the world. In Australia's case such processes have culminated in an unprecedented resource boom and now what looks like an almost inevitable downturn.

A resource boom has generally been associated with either abnormally high levels of investment in the resource sector or very favourable terms of trade (the ratio of export prices to import prices). One of the most distinctive features of Australia's economic profile historically has been dramatic shifts in the terms of trade. In this regard the recent peak in the terms of trade is unprecedented only in one crucial regard: its sheer scale. Even during the last resource boom during the 1970s, when Japan rather than China was the source of crucial external demand, the spike in Australia's terms of trade was a fraction of today's. Equally distinctively, the current boom is distinguished (and fuelled by) equally unprecedented levels of investment in the resource sector. The other point to emphasise, as Bob Gregory and Peter Sheehan have pointed out, is that the current boom is morphing from one primarily associated with resource extraction to one that is increasingly focused on energy projects, especially LNG. By 2011, the value of projects committed or under-construction had risen to some \$170 billion.

At first blush, this looks like an unambiguously good outcome for Australia, and in many ways it is. Australia has traditionally relied very heavily on foreign capital to develop assets that might otherwise have remained unexploited. And yet we need to remember that in the context of this discussion 'Australia' is a convenient abstraction and shorthand for a complex array of economic actors who are affected by structural change in very different ways. While the mining sector in particular has struggled to find enough skilled workers to fill the vacancies created by the rapid

increase in investment, other sectors of the economy are shrinking, or struggling to contend with an equally dramatic increase in the value of the Australian dollar. In many ways the national currency is a proxy for the global commodity sector; movements in the highly traded \$A are tightly linked to movements in the price of commodities, which are themselves indicators of the overall state of the international economy.

The relative standing of other sectors of the economy is important not least because of their role as sources of employment. Despite the fact that the mining sector in particular has difficulty in filling specialist positions, the sector as a whole only employs around 2 per cent of the population, or less than 250,000 people out of a total national workforce of over 11 million. As in other developed economies, employment in Australia is increasingly centred in the service sector, in traditionally low-pay occupations such as health care and retail. Even in parts of the service sector that are associated with better paid jobs, such as education, one of Australia's most important export industries is struggling to compete internationally as a result of the rapidly appreciating resource-driven dollar. Although this picture could change dramatically in the event of an international economic downturn and a not-unprecedented plunge in the value of the dollar, the impact of the resource boom on the rest of the economy is raising difficult short-term and long-term questions.

Most immediately, the capacity or indeed the willingness of the workforce to seamlessly shift in response to market signals looks debateable at best. Not only do many of the workers who lose their jobs in one section of the economy not have the skills to easily move into another, but some plainly are not interested in doing so even if the economic incentives are significant. Despite very high wage levels in the mining sector, there has not been a dramatic shift of the labour force from East to West in response to the boom. 'Fly-in-fly-out' workforces are associated with particular challenges and deprivations that are still major disincentives for many. As we have seen recently, there are growing doubts about the durability of the present boom given global economic uncertainty and Australia's own historical track record—every boom has inevitably been followed by a bust. The

longer-term question in the aftermath of what seems like an inevitable downturn is: how will Australians make a living? The danger of structural change that is driven overwhelmingly by 'the market' is that it may leave Australia's workforce ill-equipped to deal with future economic challenges. The question, therefore, is can the boom be managed in the long-term 'national interest'?

## Cui Bono?

One of the most fundamental questions in political science is 'who benefits'? Any public policy inevitably produces winners and losers. In this regard economic and political power are tightly linked as political authorities have the power to shape the governance structures and institutions that determine economic outcomes. The resource sector occupies a distinctive part in such debates as it has become increasingly associated with perverse economic, political and social outcomes. The so-called 'resource curse' is generally associated with the 'developing world', but the dynamic nature of resource development may unleash forces that test the management credentials and even the political foundations of even the most established democracies.

Concerns associated with the resource curse are basically twofold. At its most benign, the resource curse refers to a process of possibly 'distorted' development as a focus on the growth of the resource sector at the expense of other economic activities creates problems of over-specialisation and resource dependency. This may simply manifest itself in the declining competitiveness and attractiveness of other sectors of the economy as they are either starved of investment or become too expensive by world standards. Of even greater concern, however, is the possibility that the dominance of one section of the economy will lead to a concomitant political ascendancy. In states without a tradition of political pluralism, democracy may never develop because powerful vested interests use economic resources to underpin their dominance through patronage or coercion. The oil-rich states of the Middle East and number of sub-Saharan African states that have abundant mineral wealth but dire poverty and political repression are the quintessential examples of this phenomenon.

Clearly, Australia with its long-established democratic traditions does not fall into this category, but even in Australia the political process has begun to be influenced by the profound impact of vast resource wealth. The scale of the wealth being generated by mining is remarkable: profits exceeded \$50 billion in 2009-10. Two further points are worth noting about these prodigious revenues. First, the mining sector is more than 80 percent foreign owned and this has resulted in over \$40 billion worth of pre-tax mining profits flowing overseas in 2009-10. Second, the mining industry pays a comparatively low rate of tax. While the theoretical level of company taxation in Australia is 30 percent, in reality the average rate of tax in 2008-09 was 13.9 per cent of the industry's gross operating surplus. It is not necessary to be xenophobic or anti-mining to recognise that this pattern of taxation and foreign ownership has potentially major implications for domestic public policy and the manner in which the benefits of the boom are realised.

Two aspects of this issue are especially important. First, from the perspective of distributional justice any government's ability to share the benefits that might be expected to flow to Australians will be hampered by the fact that there is less wealth to redistribute if profits go off-shore and tax is minimised. It might be argued that the government has no place 'interfering' and that economic outcomes are best determined by the market, but this is at odds with the overall rhetoric of the boom which suggests that this part of the natural inheritance of all Australians. In reality, the majority of the wealth generated by the resource trade is captured by a relative handful of major shareholders in companies such as Rio Tinto and BHP. Richardson and Deniss argue that for ordinary Australians superannuation fund investments, the benefits of the mining boom are 'trivially small'. Second, those stakeholders who do benefit disproportionately from the boom have actively sought to protect their interests: one of the most striking and politically contentious aspects of the current boom has been the willingness of prominent mining companies and their

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owners to use their economic resources to influence public policy in their favour.

Again, some may argue that in a democracy it is entirely appropriate that private interests are able to express opinions. Perhaps so, but what has alarmed some commentators is not just the frequently self-serving nature of the resource lobby's campaign in the face of proposed changes to the taxation regime, but the scale of the resources it has been able to mobilise in support of its collective position. There is little doubt that the mining lobby's media blitz in opposition to the proposed MMRT played a major part in undermining the popularity and position of former prime minister Kevin Rudd, ultimately contributing to his political downfall. At the very least such events point to an important shift in the relative balance of power between key economic and political actors in Australia, changes that may have profound long-term consequences for both domestic politics and international relations.

## The International Dimension

If the rise of resources is making domestic politics more complex and contentious, it is having an equally consequential impact on some of Australia's most important international relationships. While some aspects of Australia's place in the regional economy are new, others are surprisingly familiar, but creating difficulties for Australian policymakers nevertheless. Although China has replaced Japan as the principal destination for Australian exports, some of the problems that characterised the way the resource trade was conducted in the 1970s and 1980s have re-emerged in Sino-Australian ties.

Much of Australia's trade policy with the region has been based on the assumption that, when it comes to managing trade relations, a market-based, 'hands-off' approach is preferable. This was the logic that informed major diplomatic initiatives such as APEC. However, most of Australia's neighbours in the Asian part of the Asia-Pacific region have tended to subscribe to a very different tradition of economic policies. The 'miraculous' development of the entire East Asian region is widely recognised as having been closely associated with powerful states that were intent on trying to guide the course of economic development, rather than

relying on market forces to engineer structural change and economic growth. Japan in particular was associated with a highly interventionist 'developmental state' that employed frequently mercantilist policies to achieve economic goals. The conduct of the resource trade between Australia and Japan in its heyday was dominated by Japanese multinational corporations and trading companies which sought to control the production process and concomitant prices in the resource sector. There is no doubt that Japanese strategies of supply diversification, strategic investment, and transfer pricing were highly effective in achieving optimal outcomes—for Japan.

Now that China has replaced Japan similar concerns are emerging about the way bilateral trade is conducted, which are amplified by the fact that China is a potential strategic threat, according to Australian Defence White papers, at least. At the heart of concerns about China is the possibility that, like Japan before it, China is using strategic investments and its overall economic weight to achieve resource security and put downward pressure on commodity prices. In this regard it is not so different from any other trade partner, perhaps, but what distinguishes China, of course, is the nature of business-government relations in what is still notionally a 'communist' country. The emergence of so-called 'state capitalism', in which economic activity has a pivotal political importance, and in which governments seek to retain a high degree of control over what are considered to be strategically important economic assets and entities, is complicating relations between Australia and China.

The possible implications that flow from doing business with state capitalists are increasingly recognised in Australia. Kevin Rudd, who described himself as a 'brutal realist' when it came to China, is perhaps the most prominent example of senior policymakers who have a sophisticated understanding of the nature of the Chinese regime and the possible problems this may create in the bilateral relationship. Significantly, the Foreign Investment Review Board began to rethink its policies toward foreign investment while Rudd was foreign minister. From having a situation in which investment applications were routinely approved, the FIRB was forced to concede in 2011 that it was seeking to limit investment from China because of concerns about possible strategic investments in the mining sector. Equally significantly, the government was being encouraged in this newly interventionist

policy by the heads of major resource companies such as BHP.

The idea that there might be 'good' and 'bad' investment is presenting new challenges for Australian policymakers who have traditionally welcomed foreign investment of all kinds. True, there have been occasional concerns about 'selling off the farm' and the loss of economic sovereignty that implies, but China's rise has given such fears renewed prominence. Although there were similar worries about Japanese real estate investment in the 1980s, from a foreign policy perspective, Japan had the great merit of being a close strategic ally, even if its economic policies sometimes caused consternation. China, by contrast, is seen as a greater challenge, in part because it is seen as a potential strategic threat and rival to Australia's principal security guarantor, the United States. As a result, the difficulty of managing the bilateral relationship with China is compounded not just by the fact that its political-economy is organised along profoundly different principles, but because it is still regarded as a potential security threat in the heart of Australia's neighbourhood.

Negotiating Australia's place in the region is a challenge, as generations of Australian policymakers can attest. Not only is there a continuing conceptual debate and political contest over precisely which region is in play, but there are very different views about the appropriate basis of policy. Traditionally, Australian governments have preferred to 'leave it to the market'. Many of our most important trade partners have not. The growing importance of China as an economic partner has highlighted just how important and potentially consequential these differences remain. Adding to the complexity as far as Australian policymakers are concerned, is the fact that its economic priorities and strategic relationships no longer align in quite the way they once did.

Australia is not alone in confronting a new world order in which the underlying logic and rationale of economic and strategic policy appear to be diverging. The increasing complexity of regional production networks that transcend national borders is making a simple calculation of the economic national interest increasingly complex. Indeed, the very idea of 'national champions', or even discrete national economies for that matter, has become more uncertain as a consequence of

disaggregated economic processes. And yet, paradoxically enough, at the very moment that questions of national economic identity appear to becoming less central in countries such as Australia, national governments continue to take a prominent role in determining the course and content of economic development elsewhere. The emergence of state capitalism in China in particular, presents major economic and diplomatic challenges for Australia.

The key issue for Australian policymakers is whether they can reconcile economic interests with long-term geopolitical commitments. Bob Carr, Australia's newly-installed foreign minister, has been at pains to reassure China that the stationing of American troops in northern Australia is not a new attempt to contain China, but simply part of the long-term evolution of Australia's relationship with the United States. Whether the Chinese can be persuaded to see things this way remains to be seen. The fact that Australian foreign policy officials are having to finesse and explain such developments in this way is, however, a revealing indicator of the difficult balancing act that they confront. They had better get used to it. It is likely to be the defining policy issue of the first half of the twenty-first century.

## What is to be Done?

Participants in this project have been invited to make suggestions about public policy initiatives that might provide a way of responding to the challenges and issues our papers have identified. I am happy to do so, but have not the slightest expectation that they will make any difference or be taken seriously: what J.K Galbraith famously described as the 'conventional wisdom' is difficult to overturn and certain ruling ideas prevail because alternatives remain almost literally unthinkable.

Although I remain sceptical about the idea that there is an unambiguous, uncontested or self-evident Australian 'national interest', I do believe that some policies are likely to benefit larger numbers of the population than others. I also believe that such benefits are not solely economic. On the contrary, as I have tried to suggest, political, economic and even strategic issues are increasingly interconnected and we need to think about the way they interact over the longer term. Sadly, one of the reasons my suggestions are unlikely to be taken seriously is that they are out of

kilter with Australia's almost comically truncated political cycle: the preoccupation with electoral politics means that issues that require long-term strategic thinking and investment—from which political opponents may derive short-term political benefits—are unlikely to prove attractive to incumbent political elites.

Some other countries take a longer perspective. Although Australia has a 'future fund', it does not have the same sort of long-term 'strategic' role as Norway's. The Norwegians' sovereign wealth fund is specifically designed to offset the deleterious effects of their resource boom: not only are much of the windfall profits that accrue from potentially short-term peaks in resource prices locked away in long-term investments for future generations, but such investments are frequently made overseas, placing downward pressure on an otherwise over-valued national currency. Given the highly volatile nature of the Australian dollar and the damaging impact it has on the non-resource sectors (while it remains high), a strategy to iron-out damaging fluctuations and keep the currency at more 'realistic' levels is obviously beneficial. Unfortunately as far as this particular iteration of Australia's seemingly endless cyclical resource story is concerned, it may already be too late and prices, profits and prospects may be already on the way down. If and when this cycle goes into its next upswing, however, it would be nice to think that historical lessons were learned and we did not succumb, yet again, to the siren song that 'this time it's different'. It never is. Any new policy direction will, however, involve taking-on what Treasurer Wayne Swan has described as the politically-powerful 'vested interests' in the mining sector.

It is difficult to imagine that either side of politics will be enthusiastic about such a confrontation or change from historically-entrenched business-as-usual. It is even less likely that my second suggestion will be taken up. As many commentators have pointed out, the intensifying competition between the US and China does not augur well for Australia. What is less often acknowledged is that Australia can make no material difference to the outcome of this contest. It is unlikely that China will seek to punish Australia economically for siding with the US; it is even less likely that it would seek to use its growing strategic presence to threaten Australia either. In such circumstances, what is the value of Australia's time-honoured, immensely

costly role as the US's principal ally in the Asia-Pacific? What, precisely, have been the benefits of Australian participation in American-led conflicts in Vietnam, Iraq and Afghanistan? These are large questions that cannot be adequately canvassed here, but my main point may be simply put: does Australia have particular interests and perspectives that are best served by adopting a genuinely independent foreign policy in the Asia-Pacific?

There is much talk these days about the possibilities of 'middle power activism' in Australian policy circles and the possible benefits of acting with like-minded, similarly-positioned states in multilateral forums. The great potential advantage of multilateralism is that it offers smaller powers a way of constraining their more powerful counterparts, be it China or the United States. We need to recognise that Australian and American interests are not necessarily the same and that sometimes the powerful will operate in ways that might not suit us. Developing the ability to think independently about what might be in the long-term interests of Australians in an economic or even a strategic context may not be beyond us— although the historical record is not encouraging. And yet if we do it might actually allow us to play a more even-handed and productive role as an intermediary between our two most important bilateral partners. Stopping our more powerful partners from falling out might actually be a good way of fitting in.

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**This report may be cited as:**

Mark Beeson, "Fitting In or Falling Out? Australia's Place in the Asia-Pacific Regional Economy," Alliance 21 Report (United States Studies Centre at the University of Sydney, October 2012).



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