



AUSTRALIA'S ALLIANCE IN A CHANGING ASIA

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EXECUTIVE SUMMARY

- **The strategic changes occurring across Asia underpin thinking about the future of the US-Australia alliance.**
- **Over the past decade the regional economy has changed shape, placing China at the centre of a tightly-integrated Asian system of distributed manufacturing.**
- **As Asia's power topography becomes more pyramidal, disputes and civilizational rivalries can be expected to escalate.**

Now in its seventh decade, the long-standing US-Australia alliance has never been closer, both in operational and political terms. The mutual commitment between Canberra and Washington has particularly intensified during the past ten years. However it remains to be seen how strategic changes in the Asian region will impact this intensified Alliance. Several key factors have the potential to change the nature of the relationship and can be grouped within six broader categories: Asia's power topography, the emergence of the Indo-Pacific, the normalisation of Asian security, destabilising prosperity, China as the economic hinterland, and territoriality and status.

The future of the Alliance depends on the Australia and America's relative interests and how to best secure these amidst the strategic changes occurring in the Indo-Pacific. The Alliance in and of itself, is neither ephemeral nor permanent. Whilst it is likely that both countries will draw closer together, the possibility that differing paths may be taken should not be dismissed.

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The Alliance 21 Program is a multi-year research initiative that examines the historically strong Australia-United States relationship and works to address the challenges and opportunities ahead as the alliance evolves in a changing Asia. Based within the United States Studies Centre at the University of Sydney, the program was launched by the Australian Prime Minister in 2011 as a public-private partnership to develop new insights and policy ideas.

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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Alliances, the theorists tell us, are fragile things. They form in response to shifting security force-fields, are beset by constant calibrations of trust, consent, and equity, and break up again as soon as the international conditions that gave rise to them no longer apply.

Of course, nothing could be further removed from explaining Australia's alliance with the United States. It formed after the defeat of a major mutual threat and before the development of another. Rarely have its custodians, on either side of the Pacific, thought hard about whether they needed to trust each other to fulfill the bargain, worried that the other side would drag them into a war against their wishes, or engaged in mutual recriminations about how much each was contributing to their combined security. And despite major change in international conditions - through bipolarity, unipolarity and into multipolarity - the alliance has endured.

Many look at this record and assume that not only is Australia's alliance with the United States not fragile, it is perpetual. Australia's decision to ally with the United States in 1951, they argue, was a foundational act, that oriented and aligned Australia's foreign policy in perpetuity. The alliance, they imply, is not a temporary and strategic response to a set of international circumstances, but is a commitment of values, loyalty and world view. In the words of a senior Australian envoy, Australia approaches its alliance with the United States with all of the reverence and commitment of a marriage. And like any committed monogamist, Canberra's instinctive reaction to turmoil or uncertainty has been to draw even closer to its great and powerful spouse.

At the beginning of its seventh decade, Australia's alliance with the United States has emerged from a period of intense activity. As a result, the alliance has never been closer, in both operational and political terms. How the alliance evolves from this point, however, is uncertain. On the one hand, the end of the interventions in Iraq and Afghanistan will deprive the alliance of its joint projects, which by their nature build operational integration and political closeness. And on the other the immediate strategic context of the alliance is changing quickly, in ways that may test the relationship as never before. In the coming decade, Australia's alliance

with the United States will be shaped by two contradictory factors. One is the mutual commitment between Canberra and Washington: the strategic, political and cultural closeness that has developed over decades and intensified over the past ten years. The other is the strategic change that is sweeping across Asia that could pull the two countries in different directions. It is in understanding this relationship - between political, strategic and cultural commitments and changing circumstances - that the key to thinking about the future of the alliance lies.

Strategic Change in Asia

A great deal has been written about the rise of Asia for a very long time: this topic was a favourite of Abraham Lincoln's Secretary of State William Seward. But there is a case that can be made that this time, the increase in the economic size and military strength of the larger of Asia's societies will have major effects on the region and the world. The key difference in the twenty-first century, which did not apply in the nineteenth or twentieth centuries, is the marked reversal of the gap in productivity between western societies and Asia's larger economies. Over the last quarter of the twentieth century and the first decade of the twenty-first, China has moved from producing less than 5 per cent of global output to somewhere over 13 per cent. The productivity gains made in China have it on track to become the world's largest economy in this decade; India, Indonesia, and possibly Vietnam will join China and Japan among the world's top ten economies in the coming decades.

Rapid economic growth always brings strategic churn in its wake. The strategic change sweeping Asia is complex, combining the stark and the subtle in ways that often pull in different directions. Among all this change are six factors that will impact significantly on Australia's alliance with the United States.

Asia's Power Topography

The last quarter of the twentieth century saw remarkable strategic stability and rapid economic development in Pacific Asia. The overwhelming reason for this was that with the end of the Indo-China wars came a realization among all of Asia's powers that none among them was large enough, wealthy enough, and internally united enough to be able to contemplate a bid for regional dominance. The one possible exception, Japan, was prohibited from even thinking in these terms by its bitter experience of its bid to do just that between 1895 and 1945, and by its peace constitution. Because no power could contemplate regional dominance, none had to fear that ambition among the others.

Asia's remarkably flat power topography allowed the United States to overlay the region with a "hegemony lite" system of alliances and security commitments that were accepted by the aligned and non-aligned alike as being in the interests of the region as a whole. Because Washington spent so little time thinking about the region's security, and made so few demands, it became the ideal hegemon: distant, benevolent, distracted. This made America's alliances in Asia uncontroversial at home too.

But the rise of China has changed the power topography of Asia. Almost overnight there has emerged a country that is large enough, wealthy enough, and internally united enough to be able to contemplate regional dominance. In strategic affairs it doesn't matter whether a country actually contemplates dominance: what matters is that other countries consider its size and strength would make a bid for dominance viable.

The result has been a pattern of balancing that has changed the power topography of Asia from that of a billiard table to that of a pyramid. Surrounding China is a series of second-tier powers that are either long-term rivals of China, or have current disputes with Beijing, or both: Japan, Vietnam, Indonesia, India and perhaps Russia. Acquiescing to China's regional dominance would be unacceptable in terms of both hard interests and prestige and self-respect. As a result, these powers have been reaching out to each other and to the United States, building economic and security

partnerships to offset China's rise.

The rise and increased security activism of these second-tier powers has in itself alarmed a series of third-tier powers that have traditionally had difficult relationships with the second-tier powers. Some of these countries are reaching out to China to help offset their worrying neighbours: Cambodia and Thailand in Southeast Asia, Pakistan and Sri Lanka in South Asia.

Asia's pyramidal power topography is intensifying over time. The result is a complex and shifting strategic picture that significantly complicates America's capacity to stabilize the region through "hegemony-lite". Asian states' expectations of the United States are rising, while America is becoming more demanding of its Asian allies and partners.

The Emergence of the Indo-Pacific

The consolidation of British dominance over the Indian subcontinent in the mid-nineteenth century had the effect of dividing the Indian Ocean from the Pacific as strategic realms. Britain's Indian Empire was dominant from the Suez Canal to the Malacca Strait, but beyond

the Malacca Strait the Pacific was vigorously and continuously contested. No local or outside power was able to establish dominance in Pacific Asia. The result was almost continuous warfare between 1842 and 1975, rivalries and alignments along Asia's eastern coast, a string of anchoring American postwar alliances along the western Pacific coast, and the eventual integration of insular and peninsula East Asia into a virtuous trade and investment cycle that produced the astonishing growth rates of the original Asian economic miracle.

A combination of factors – the Asian giants' energy thirst, the emergence of the

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pyramidal topography of power competition, the regionalization of supply and production networks, overlaid by the sudden collapse of European and American consumption in 2008 – has begun to link the Indian ocean and Pacific ocean into a single Indo-Pacific strategic domain. For North Asia's industrial giants, the Straits of Hormuz have become as crucial to their stability and viability as the Straits of Malacca. Shifts in the power equation in East Asia have an immediate relevance for India now in ways they simply did not 30 years ago.

The Indo-Pacific chessboard is larger and more complex than the Pacific; its stakes are higher, and the consequences of miscalculation are enormous. The United States is the only power capable of exercising dominance across the Indo-Pacific realm, a state of affairs that necessarily provokes countervailing action on the part of China. China and the other powers only have the capacity to assert dominance over parts of the Indo-Pacific: China in the South China Sea and India in the Bay of Bengal for instance. These two great rivals realize their mutual vulnerability achieves a potentially stabilizing rough balance, but how their naval strategy fits in with that of the United States introduces significant uncertainty.

The Normalisation of Asian Security

Regional stability was also the outcome of the preoccupation of most Asian countries with their internal security. On gaining independence, most inherited colonial boundaries that included a great deal of diversity and rivalry, and many soon acquired communist insurgencies also. The result was ethnic and political instability, and a consequent preoccupation with domestic security in a way that crowded out serious external security preparation or competition.

Security spending in the Indo-Pacific has shifted decisively in favour of external security over the past decade. While few of those countries that in the past have been preoccupied with internal security would admit that their domestic concerns have completely resolved, the shift in favour of external security reflects intensified strategic competition in the region. Thus despite its internal security budget being larger than its military budget, China's arms spending continues to grow strongly.

As a result, Asian countries on the whole are becoming more able to prosecute their own external security interests – and as ability grows, willingness follows closely. The Indo-Pacific is becoming a more militarized realm, with a greater number of consequential security actors. The options for both rivalries and coalitions have expanded, as have the chances of conflict occurring among militaries whose capabilities exceed their doctrine or maturity.

Destabilising Prosperity

Another contributor to Asia's stability in the last quarter of the twentieth century was the gradual spread of a belief among Asian elites that economic development was the highest priority, and that no political or strategic dispute should be allowed to threaten the stability essential to development. The post-independence decades had convinced a generation of leaders in Southeast Asia that rivalry and confrontation resulted in widespread poverty and unrest. The formation of the Association of Southeast Asian Nations (ASEAN) in 1967 created a regional norm – that stability is essential for development and development is essential for stability – which was to underpin the region's growth and spread across Pacific Asia in the following decades. It became the region's defining norm, with the remarkable gains in development of the Asian tigers seemingly rewarding their bet on shelving damaging competition.

After five decades of economic growth, the commitment of Asian elites to a mutual stability-development understanding has begun to give way to an increasingly unstable mix of vulnerability and entitlement. Industrialization and urbanization have made Asia's most dynamic economies heavily dependent on imports of minerals and energy, a dependence that will only increase with projected consumption rates. This has caused a growing sense of vulnerability in some Asian capitals, based on concerns about ongoing access to reasonably priced resources and the capacity of strategic rivals to interrupt supply routes.

At the same time, the sudden emergence of the big Asian economies as the growth dynamos of the global economy has generated nationalist expectations that they should be treated with greater respect by other countries. An unstable mix

of greater vulnerability and growing confidence has played out in an accelerating series of confrontations in the East China Sea, the South China Sea, the Sea of Japan, and the Sino-India border region.

China, the Economic Hinterland

The Communist victory in China and the hardening of Cold War boundaries had the effect of cutting insular and peninsular Pacific Asia off from its historical economic hinterland, China. The response was to intensify trading and investment linkages along the eastern coast of Asia and across the Pacific in the process of postwar and post-colonial reconstruction. The non-communist countries in Asia, whether American allies or passive beneficiaries of the alliance network, all became part of a Pacific rim trading cycle that brought together American consumers, North Asian manufacturing, Southeast Asian labour, and Australian minerals and energy.

The American alliance system both underpinned and was strengthened by the Pacific trade and investment cycle. This alignment of security and prosperity interests made compromises more possible: as Washington watched its allies and friends boom it was easier to overlook their less-than-liberal economic and political practices and their chronic underspending on defence; while for as long as American troops and aircraft carriers stayed in the Pacific, Asia's dynamic economies were prepared to accept Washington's dollar seignorage privileges and its preferences for the global economy.

While the barriers to trade with China did not last long (even during the Cultural Revolution China emerged as the fastest-growing market for Australian wheat), it has been the emergence of China as a manufacturing powerhouse in the past two decades that has seen it begin to regain its status as the hinterland and economic hub of the region.

Over the past decade, the regional economy has changed shape, placing China at the centre of a tightly-integrated Asian system of distributed manufacturing. Industrialised economies in East and Southeast Asia have increasingly become exporters of component parts to China, the final point of assembly and export

of finished products. Component exports increased from just over one-half of Southeast Asia's exports in 1992 to two-thirds in 2007. The main destination was China, whose imports of component parts grew from just 16% of its manufacturing imports from East Asia in 1992 to 46% in 2007. The closeness of Asia's integration can be seen in the rest of the region's close tracking of China's economic fortunes during the global financial crisis, rather than those of the United States or Europe.

The result has been the breaking of the reinforcing dynamic between America's alliances and the Pacific trading cycle. Most countries in Asia now have China as their major trading partner, even as United States allies have tightened their security links with Washington, and a host of new security "partners" has followed suit. The great unanswered question is whether these countries' security and prosperity interests will begin to pull in different directions, placing strain on their security partnerships with the United States. There is considerable evidence that Beijing has not yet worked out how to convert its economic relationships into leverage without damaging its economic position as a consequence. But that is not to say that it will not find ways to exercise influence over the longer term.

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Territoriality and Status

The Indo-Pacific is the realm with the largest collection of unresolved and militarized territorial disputes in the world. Only in the Indo-Pacific are territorial remnants from the Cold War still unresolved, and only in the Indo-Pacific do resolved post-colonial disputes continue to play a role in stoking contemporary resentments. Particularly along the western Pacific coast are scattered maritime territorial disputes involving the majority of littoral states.

Ostensibly, many of these disputes are justified in terms of hydrocarbon or fisheries resources located in the claim areas. But if they were just about these commodities,

the scene would be set for creative joint development proposals, of a sort that have been finalized in other areas of the world. What makes the Indo-Pacific's disputes so intractable is that they have become entangled in issues of status, prestige, and prerogative. The region's history of hierarchic power relations, within and between societies, imbues its modern international relations with an emotionalism and unwillingness to compromise not seen in other parts of the world.

The fact that many of the territorial disputes in the Indo-Pacific originated in colonial or Cold War era deals already imbues them with an emotional edge. Many of the contemporary claims are ultimately based not on continuity of usage but on historical claim – a contention that provokes a form of civilizational rivalry between societies proud of the historical longevity of their cultures and their impact on surrounding societies. For Vietnam to acknowledge the historical Chinese claim to the South China Sea, for instance, is to accept the dominance of Chinese civilization over a region that also saw intensive Vietnamese trade and travel.

As Asia's power topography becomes more pyramidal, these disputes and civilizational rivalries have escalated. They often run counter to the predictable alignments of interests in the region – witness Taiwan's strong support for China's claims in the South China Sea against the claims of other United States allies. Overlaying all of this is the United States' interest in maintaining freedom of navigation in the commercially crucial waterways of the South China Sea, the Taiwan Straits and the East China Sea; and China's overarching strategic ambition to exclude the US Navy from the waters inside the "first island chain" – the archipelago that runs from the Kurile Islands, through Japan and the Ryukus, Taiwan and the Philippines. Once more, a complex mix of claims and calculations is at play – and escalating.

Alliance Dilemmas

The strategic churn in the Indo-Pacific has profound implications for Australian and American security interests, and therefore must affect the alliance between them. The un-flattening of Asia's power topography poses both a material and a philosophical challenge to the United States and Australia. In a material sense, a

region of rapidly escalating rivalries and security spending challenges the United States just to keep up. Australia, also, will not long remain, in the words of one prominent strategist, the most significant air and naval power south of China and east of India. The philosophical question is even harder: in a region of escalating power competition, where do America's and Australia's interests lie? The most obvious answer is: in a return to a relatively flat power topography, with minimal rivalry, and a widespread commitment to building prosperity. But that is next to impossible. Do America and Australia then try to hold the ring, and keep the competition bounded? Or do they play into the complex shifting rivalries in pursuit of their own interests?

The forces of destabilizing prosperity and status-based territoriality only multiply the complexity and unpredictability of the region in ways that will make Australian and American strategists long for the predictable alignments and regional blocs of the Cold War. Simply keeping track of the evolution of these rivalries and claims will need to occupy a much greater proportion of the time of policy makers in both countries. Australia and America are two powers in the Indo-Pacific that are not affected by concerns for status or historical pride; they need to be mindful that in taking sides in any such disputes they may antagonize rather than help in managing them.

These dilemmas are extended by the rise of the Indo-Pacific realm and the increase in external security investment among Asian states. Both of these developments have the effect of complicating how the United States and its alliance system contribute to regional security. When the United States and its allies were the sole security contributors, this was an easy question to answer. But now they have been joined by a rival, in the shape of China, and several partial but independent contributors,

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in the shape of India and several Southeast Asian countries, the situation is much more complex. The question of the balance of interests comes into play: are America's Asian partners contributing to the broader regional stability objectives prosecuted by Washington, or will Washington be drawn into being a supporter of its Asian partners' particular security objectives in the region? What happens when Washington's and its Asian partners' separate interests contradict each other?

But perhaps the greatest challenge for the United States lies in the growing insistence of the contradictory pulls of its Indo-Pacific allies' and partners' security and prosperity interests. On the one hand, the deepening economic links with China have caused its allies and partners to draw closer to Washington. On the other hand, China's growing importance to the economic health of the countries in its region has given all of its neighbours a stake in its economic success – a stake that may translate over time into an unwillingness to antagonize Beijing out of fear of jeopardizing an important economic relationship. The result could be the worst of all worlds for the United States: a group of allies and partners in the Indo-Pacific that are more demanding of its reassurances as a security partner, but are less and less willing to commit to Washington's policies in the region for fear of upsetting Beijing.

Amid these challenges, Australia and the United States must locate their own interests. Ultimately, the bedrock of their long alliance has been the fundamental alignment of their respective interests in the Pacific. Australia's interests in relation to its region are: the need to prevent the transmission of threats from the Asian landmass along the archipelago towards Australia; stability and development in and among regional states; access to the markets of Asia; freedom of passage from commerce and travel; and the ability to voice its interests in the region's forums. These map closely onto United States' interests: freedom of access to Asian markets and freedom of navigation; stability, predictability and development in the region; the capacity to voice its interests in regional fora; and the cementing of an American role in the region through diplomatic, security and economic partnerships.

Neither these interest sets, nor their compatibility, are likely to change in the foreseeable future. The question is how best to secure them amidst the strategic

churn that is occurring in the Indo-Pacific. For most of the history of the Australia-United States alliance, the non-communist states of the region have either shared or accepted the need for stability, development, access and freedom of navigation as the paramount collective interests of the region. Even more importantly, they basically agreed on the means to securing these interests: restraint from rivalries; investment in conflict-avoiding institutions; and acquiescence to American military predominance. As they underwent market reforms, some of the Communist states signed onto this basic compact.

The question is not whether Indo-Pacific states continue to prioritise these interests, but whether their rising rivalries will overwhelm their commitment to the means they have traditionally relied on in securing them. The past ten years has seen a period in which economic growth has appeared to have decoupled from security competition, allowing regional states to engage in rising rivalry even as their economies have grown strongly and their trading links have tightened. Regional institutions have not been able to affect a border conflict between Cambodia and Thailand or an escalating stand-off in the South China Sea, while China's growing influence has begun to sow division in ASEAN. If this trend continues, it will pose a serious challenge to Australia and the United States as to how they continue to secure their interests amid these changed conditions.

Conclusion

The Australia-United States alliance is neither ephemeral nor a permanent commitment. Its endurance has rested on the enduring convergence of Canberra's and Washington's interests in the Pacific area, and on a long history of political, diplomatic and security cooperation. But as with any long-term political relationship, it bears asking whether its endurance also owes a substantial amount to the absence of serious points of divergence. This raises the question as to whether the current strategic change in the Indo-Pacific could pose such a point of divergence. While it is highly likely that the rising rivalries in the region will draw Canberra and Washington closer together in working out the material and philosophical challenges they share, it may also be possible that differing takes on how best to

respond could show real discord between the allies. Australia must also be aware that America's other bilateral alliances in the Pacific set the context for its own alliance with the United States. Whichever way the alliance goes, the stage is set for a new phase in an old alliance.

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