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## **Strategic choices** Australia, China and the US in Asia

**Geoffrey Garrett**

There have been two major changes in the world since Australians last went to the polls in late 2007. First, after three decades of unprecedented American globalisation-led growth, the global financial crisis has not only slowed and made more uncertain the upward trajectory of the global economy, it has also sped up the transition from the 20th American Century to the 21st Asia-Pacific Century. In this Century, China will play a central role along with the US. Second, after eight years of declining global authority and rising anti-Americanism, the United States elected the anti-Bush Barack Obama as its new President, and the world has anointed him the globe's most popular and powerful leader even as he founders at home.

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These developments have big implications for Australia. Under both Coalition and Labor governments for nearly three decades, Australia's greatest international achievement has been to deepen its economic ties with China, now the world's second largest economy, while simultaneously strengthening its geopolitical alliance with the United States, still the world's most powerful country by a substantial margin.

The highest foreign policy priority of the next Australian government should be to strengthen further Australia's twin track strategy of economic engagement with China and political military alliance with the US. But changes in both countries will pose real challenges to realising this goal. Post-GFC, China is more self-confident and assertive regarding its economic model and political system. This will likely make it harder, though no less important, for Australia to do business with China. Obama wants to be the US's first Pacific President and play a new proactive leadership role in Asia. But a slow and uncertain economic recovery and a disenchanted public have delayed and could derail Obama's aspirations.

Foreign policy has played virtually no role in Australia's race to the polls on 21 August beyond the domestic hot button issues of asylum seekers and immigration. But whoever wins government this month will face important strategic choices in positioning Australia for the Asia-Pacific Century, beginning with its key relationships with China and the US.

Strengthening Australia's American and Chinese relationships will entail balancing its economic engagement with China against worries over China's geopolitical ambitions, working with the US to update their alliance to the new power realities of the Asia-Pacific, and playing an active role in the dynamic

process of regional institution building on which the positions of China and the US will often differ.

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The past couple of years have highlighted the two sharply divided sides of Australia's China coin. On the one hand, the Chinese government's massive infrastructure-led fiscal stimulus drove up demand for Australian raw materials (made much more affordable by a plummeting Aussie dollar) – boosting Australian exports and playing a major role in Australia's appropriately celebrated escape from the ravages of the global recession.

On the other hand, the Foreign Investment Review Board was unwilling to approve Chinalco's bid for a minority stake in Rio Tinto, ultimately avoiding the issue when Rio's financial position improved to the point it no longer needed Chinalco's cash. The FIRB's sitting on its hands underscored widespread worries in Australia about China's desire to corner the global minerals market, about state control over notionally private firms like Chinalco, and about the Chinese government's ultimate geopolitical ambitions.

Following the collapse of the Chinalco bid, Chinese authorities must be concerned that Australia is reluctant to have an open door policy to Chinese investment. It is thus not surprising that some viewed China's subsequent legal case against Rio Tinto executive Stern Hu as getting back at Rio and at Australia. But even if the timing was merely chance, the Stern Hu saga underscored two facts about how China is governed. The country's economic security is just as important as its political military security to China's political leaders; and, the Chinese government – buoyed by the fact that state intervention allowed China's heavily export-led economy to withstand almost unscathed a massive decline in world

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trade in 2009 – is in no mood to be told by Australia, or anybody else, to run the country on western political principles of freedom and transparency.

Australia's relationship with China is thus ambivalent. China's insatiable appetite for raw materials offers Australia the prospect of a decades-long mineral boom. But China can source its minerals from other parts of the world, like Africa and Brazil, where frictions over Chinese investment and concerns over Chinese governance are less pronounced. Add to this the veiled but serious concerns of the 2009 Defence White Paper regarding China's geopolitical ambitions in the region, and it is easy to see why Australia must continue to pursue a strategy towards China coupling economic engagement with political and security wariness.

Australia's China stakes grow ever higher. So too do the challenges in executing Australia's China balancing act. The good news for Australia is that the US's position on China is similar, creating a clear path for updating the ANZUS Alliance to the new realities of the Asia-Pacific Century.

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At first blush, it would seem that there are profound differences between Sino-American relations and the Australia-China relationship.

In terms of geopolitics, the spectre of rivalry between the world's dominant power and its biggest and fastest rising power is always present. Australia may be concerned about China's rise too, but it will never be China's rival. Instead, Australia must hope that its push for greater economic engagement with China does not get derailed by a great power conflict in which it would be hard for Australia to remain on the sidelines – in other words, that China-US tensions do not escalate towards military conflict in the way some are prophesying. But in the unlikely and disastrous event of high

stakes conflict between China and the US, Australia would have little choice but to take the US side. The depth and breadth of historical ties, and the shared values and interests between the two countries, make this inevitable.

Turning to the economy, whereas minerals exports dominate Australia's economic relationship with China, Chinese imports and Chinese holdings of US government debt are the biggest feature of America's economic relationship with China. China is Australia's economic lifeline. Most Americans consider China a threat to their way of life. The China-US economic relationship is quite simply the biggest and most imbalanced in human history, with China comprising almost half of the US's massive trade deficit and holding a quarter of America's enormous borrowing from the rest of the world. Still China will not allow its currency to float upward against the dollar. It is no wonder that most Americans view China as an unfair and threatening economic competitor.

But notwithstanding these differences, for at least two decades the US's China strategy has been remarkably similar to Australia's – engage economically with China, but remain wary of its trajectory as a global power. Since at least Tiananmen Square, US Presidents of both partisan stripes have withstood the temptations to move towards a second Cold War in favour of drawing China into the American-led global capitalist system.

They have done so because they believe economic engagement with China is good for the American and global economies. While the public is concerned about lost jobs and unfair competition, America's political leaders understand that American consumers get cheaper goods because of China, that American multinationals can take advantage of cheap Chinese labour to make products there while keeping the profits at home, and that China's

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development towards a massive middle class consumerist society will be a boom for American firms and products.

But the US also believes in economic engagement with China for political reasons. America's leaders consider engagement the best way to minimise the chances that inevitable Sino-American frictions do not escalate into traditional great power conflict because countries that share deep trade and investment ties can rarely afford to go to war with each other. Moreover, they also understand that continued Chinese economic growth, and in particular the growth of China's consuming middle classes, lays the strongest possible foundation for the transition towards political liberalisation if not full blown democracy in China – a development that would reduce still further the chances of militarised Sino-American conflict.

Despite the obvious differences in their economic and geopolitical relations, Australia and the US thus share strong similarities in their overall position towards China. This extends beyond bilateral relations to their broader strategies for the region.

Both countries are engaging China but simultaneously building other relationships in the region to insure against the low probability (but potentially devastating) prospect of conflict involving China. This is nothing new for Australia. But President Obama's self-described "Pacific presidency" strategy offers real prospects for broadening the basis of Australia-US relations.

Obama's embryonic Asia strategy has three principle elements – allies, institutions and new friends.

First, Obama wants to strengthen the US's traditional bilateral political military alliances in Asia. The US knows it should not put too many alliance eggs in the

Japan basket, with potentially long-run political instability in a country facing staggering public debt and rapid aging with no tolerance for the large-scale immigration that could ameliorate both challenges. US-South Korea relations are probably better today than they have been for at least a decade, with the two sides closing their differences over North Korea and committed to moving towards the completion of their bilateral free trade agreement.

Australia doesn't have Japan's political or economic uncertainties. Nor are there big and pressing issues on the table like stability on the Korean peninsula and the Korea-US FTA. Australia's commitment to Afghanistan is unwavering and the US is pleased with the extent of Australia's involvement.

As a result, the Australia-US alliance hasn't been grabbing many headlines recently. But this is a good thing, a mark of just how rock solid the relationship is. Behind the scenes, high-level intelligence sharing and collaboration over the rising threat of cyber security continue to broaden and deepen the alliance.

The second element of Obama's Pacific presidency is to get involved in regional institution building. But despite its recent decision to participate in the East Asia Summit this year, Obama's America does not want to be a late joiner in the ASEAN-centred and Asia-only regionalism of the past decade that has accommodated China's rise without asking or requiring overt Chinese leadership. Regional integration in East Asia has been all about acknowledging, accommodating and taking advantage of China's economic rise. But the Chinese government has not had to drive the process in a way that could have left it vulnerable to criticisms for heavy-handedness, and Asia has not placed any demands on China regarding political reform.

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From the US perspective, however, the most important feature of Asian regionalism has been America's lack of involvement. Regionalism gained enormous support following the Asian financial crisis in which many felt the US role had been one of malign neglect. Asia didn't particularly want the US involved, and the Bush administration didn't object because of its preference for bilateralism over more complex regional arrangements.

Obama wants to change this equilibrium, but through institutional innovations that span the Pacific rather than remaining Asia-only. His administration wants the US to play a lead and formative role rather than one of passive laggard. Kevin Rudd's Asia Pacific community and APEC could potentially fit the bill better than the East Asia Summit, in which Obama knows he should participate but cannot possibly lead. But APC hadn't gained much traction even before Rudd's ouster as Prime Minister and APEC seems tired and outdated. The remit of the Six Party talks over North Korea is too narrow to further broaden American regional goals.

This may explain why the US is placing increasing emphasis on the Trans Pacific Partnership negotiations. These aim to create an Asia-Pacific free trade area among the US, Australia and six small free traders on both sides of the Pacific. In addition to showing American leadership on trade, when existing deals like Doha remain in the too-hard basket, TPP fits the bill as a US-led Asia-Pacific initiative that the big players like Korea, Japan and China might ultimately join. Certainly, the Obama administration hopes to link conclusion of the Korea-US free trade deal to forward progress on an expanded TPP in which Korea would join Australia as the US's principal partners.

Australia's position on TPP is tricky. While wanting to support both the US and Asia-Pacific free trade, Australia must be

worried that TPP could erode some of its preferential access to the US market and lower standards more generally from the 2005 AUSFTA. Moreover, Australia needs to balance its support for TPP with its involvement in existing Asian regional arrangements. And it must be concerned that the entry of South Korea into TPP would dramatically change the political and economic dynamics, potentially reducing Australia's influence. Nonetheless, the Obama administration is likely to make TPP a high priority in the coming years, and Australia has little option but to be actively involved.

New friends is the final element in Obama's Pacific presidency strategy. Despite some early bumps, Obama is committed to a new partnership with India, forged by the Bush administration and centred on its agreement to share civilian nuclear technology. Australian Labor's continuing unwillingness to sell uranium to India because of its dubious status as a nuclear power looks increasingly out of step with America's embrace.

Obama very much wants to add Indonesia to the list of the US's close Asian friends because he knows what Australia has long known (but that distance has made less pressing for Americans): That the peaceful transition to democracy and markets by the world's largest Muslim-majority country cannot be taken for granted and must be continually supported.

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Obama's Pacific presidency agenda should give comfort to concerns often voiced outside government in Australia about American inaction and indifference towards the region, and by implication Australia. Far from confronting the prospect of American withdrawal, Australia should position itself to work even more closely with the US in the region in the years to come – expanding the scope of the Alliance, not reducing

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its relevance. The fact that Australia and the US have very similar big picture perspectives on the challenges and opportunities generated by China's rise and its implications for regional dynamics is a very good place to start.

Since the onset of the global financial crisis, Australian whispers have grown louder that the US is a dying empire destined soon for China's rearview mirror, that Asia will be the first place this is evident, and that Australia will have to fundamentally rethink its international strategy as a result.

This almost apocalyptic vision exaggerates the prospects for America's imminent demise as the world's dominant economy. The recent "flight to quality" return of faith in the greenback amid Europe's debt turmoil demonstrates the ongoing attractiveness of the US among global investors. The global fanfare greeting the arrival of the iPad, on the back of the iPod and iPhone before it – all game-changing American-designed and owned communications platforms for the American-dominated entertainment industry – demonstrates the ongoing power of American innovation as a driver of global economic change.

The notion that Australia needs fundamentally to rethink its Asia strategy because the ANZUS Alliance has passed its use-by-date is also overdrawn. There is no denying that the challenges Australia and the US will share in the 21st Century will be different from those they shared in the 20th Century. But both sides are committed to updating and expanding the Alliance to meet the new realities of the Asia-Pacific Century.

Despite his current domestic woes, the smart money must still be on a second Obama term – and on a presidency that will increasingly focus on the Asia-Pacific. Further evolution of America's hub and spokes alliance system into a more integrated network among the key alliance

partners of Australia, Japan and Korea is in everyone's interests. So too is figuring out a path to involve the US centrally in Asia-Pacific regionalism – without alienating the Asian countries that have devoted so much time and effort to Asia-only institution building in the past decade. And so too is bringing Indonesia and India more centrally into the fold of market-oriented democracies committed to a liberal and open international order in the Asia-Pacific.

This regional agenda is wholly compatible with Australia's broader strategy of using the US Alliance as the geopolitical foundation on which stronger economic relations with China can be built. And it is wholly consonant with Obama's vision for the Pacific future of America. The challenge for the next Australian government will be to begin executing the vision for the Asia-Pacific Century it shares with its closest ally, the United States.

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