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Australia and Asia's Trilateral Dilemmas

Between Beijing and Washington?

ABSTRACT

Asia's middle powers face a trilateral dilemma stemming from their relationships with the U.S. and China. This paper uses the Australian example to examine the dilemma. It shows that Australia has bound itself to the U.S. because of domestic political factors, cost considerations, a belief that it can keep its interests separate, and its perception of regional threats. The paper then argues that others are likely to resolve their trilateral dilemmas in ways that make the regional strategic dynamic more competitive.

KEYWORDS: Australia, China, United States, trilateralism, middle powers

IN 2007 CHINA OVERTOOK THE U.S. to become Australia's leading trade partner,¹ presenting strategic planners with a dilemma. For the first time in its history, the Commonwealth of Australia had as its most important economic partner a state that was neither its strategic guarantor nor an ally of that guarantor. Australia now faces a hard choice deriving from the changing balance of its economic and strategic interests. Other middle-ranking powers—such as Japan, South Korea, and Singapore—also face a similar trilateral dilemma involving an invidious choice between Beijing and Washington. Each is relatively wealthy, yet incapable of achieving its strategic and security goals independently given the asymmetries of the region. Each has a military relationship with the U.S. to make good this shortfall, yet each is potentially caught in a trilateral trap as its economic interests are more and more bound

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1. David Uren, "China Emerges as Our Biggest Trade Partner," *The Australian*, May 5, 2007.

Asian Survey, Vol. 54, Number 2, pp. 297–318. ISSN 0004-4687, electronic ISSN 1533-838X. © 2014 by the Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Rights and Permissions website, <http://www.ucpressjournals.com/reprintInfo.asp>. DOI:10.1525/AS.2014.54.2.297.

up with China. Canberra, like Seoul and Tokyo, appears increasingly caught between Beijing's and Washington's mistrust and incipient strategic rivalry. This article examines how Australia has managed its trilateral dilemma and what this tells us about Asia's international relations. It argues that the resolution of this three-cornered problem is likely to make the regional order more conflict prone in the future.

The article is in three parts. The first examines how changes in the region have presented a trilateral dilemma for Australian policy-makers. It shows that while Australia's basic strategic goals remain reasonably constant, the circumstances caused by China's rise have cast some doubt on the longer run viability of traditional approaches. In short, there is a perception that Australia will have to make a choice between these two interests. The second part examines the four broad policy options that have been canvassed as responses to the dilemma. The third section argues that, although the message was partly obscured by a rather muddled set of pronouncements, Australia has made a very clear policy choice. In spite of the significant change in its geo-economic circumstances, Australia has opted to continue the broad thrust of its strategic policy and bind itself to the U.S. The article concludes by reflecting on what that choice tells us about how other states facing similar dilemmas are likely to behave and what this means for the region as a whole.

I. FACING A TRILATERAL DILEMMA

Historically, making Australian foreign and defense policy has been relatively easy; there was a generally good fit between the country's economic interests and its strategic circumstances. For its first 100 years or so, Australian policy did not have to reconcile competing economic and strategic interests at all. From federation in 1901 until World War Two, Australia's foreign and security interests were effectively coterminous with Great Britain's, as were its economic relations. After Britain's imperial decline, Australia's good fortune was to have Britain's defense role seamlessly replaced by the U.S., whose geostrategic guarantee was formalized in the Australia, New Zealand, United States (ANZUS) Security Treaty of 1951.² American predominance, both strategic and economic, suited Australia perfectly both in terms of the narrow

2. Commonwealth of Australia, Department of External Affairs, "Security Treaty Between Australia, New Zealand and the United States of America [ANZUS]," *Australian Treaty Series*, no. 2 (1952), <<http://www.austlii.edu.au/au/other/dfat/treaties/1952/2.html>>.

benefits it provided by improving Australian security, as well as the broader good that it created by helping to foster the regional stability on which the recent Asian resurgence has depended. Australia also broadly shared a language, cultural heritage, and values with its new partner. Even as Japan became Australia's number one trading partner in the 1980s, this was not seen as a fundamental challenge for policy because of Japan's partnership with the U.S. Since 2007, however, China has been Australia's number one trade partner and a growing source of inbound foreign direct investment (FDI). Australia now faces what appears to be a much more difficult environment in which it seeks to advance its interests with the new risk that choices in one policy sphere may rebound negatively in another.

The Constitution adopted by the federated states of Australia specified external relations as a power to be exercised by the newly formed commonwealth, as distinct from its constituent states.³ From a foreign policy point of view, however, before World War Two Australia behaved essentially as a colony of Great Britain. Notwithstanding their active presence at the Paris Peace Conference in 1919, British dominions were not able to operate fully at the diplomatic level until 1923, when they were finally permitted to enter into treaties and agreements with other states. Australia remained subject to the British Parliament until 1942, when the Statute of Westminster was formally adopted, making the Australian Parliament properly sovereign. The colonial qualities of its foreign dealings were perhaps most graphically illustrated by the comments of Prime Minister Robert Menzies at the commencement of the war: "Great Britain has declared war upon her [Germany] and . . . as a result, Australia is also at war."⁴ While some have argued that Australia possessed hints of a distinctive identity and presence in international affairs,⁵ until the 1940s it cannot be said to have faced significant foreign policy choices because it did not have the capacity to make them.

After the war, Australian policy-makers began to exercise their new foreign policy autonomy. This was most evident with the creation of a mutual security treaty with the U.S. This new relationship reflected a recognition of Britain's

3. Commonwealth of Australia, *Commonwealth of Australia Constitution Act 1900*, Sect. 51, xxix, <http://www.austlii.edu.au/au/legis/cth/consol_act/coaca430/>.

4. Cited in Gareth Evans and Bruce Grant, *Australia's Foreign Relations* (Melbourne: Melbourne University Press, 1995), 2nd ed., p. 21.

5. E.g., Neville Meaney, *The Search for Security in the Pacific, 1901-14* (Sydney: Sydney University Press, 1976).

decline and America's arrival as the preeminent world power. But it was more than a crude *realpolitik* calculation by a vulnerable middle-ranking state; indeed, the reconfiguration was spawned by the desire to influence, if only in a small way, the key security decisions affecting Australia's broader geographic region. ANZUS brought Australia a sense of security in the face of America's peace treaty with Japan, but it also gave Australia influence where previously it had none.⁶

The security relationship with the U.S., America's role at the center of the post-war global economy's governance structures (and as a market and source of investment), and America's ongoing military presence in the region provided Australia with international circumstances that were very amenable to a middle-ranking power. As Japan turned from military adversary to trade partner and investor, Australia did not face the kind of grand strategic dilemmas it would have confronted if Japan had not been a U.S. ally, or if Australia had to rely entirely on itself for defense and security needs. Equally, Australia's moves to normalize relations with China in the 1970s were enhanced by the nature of Australia's relations with the U.S. and the transformation of Sino-American relations overseen by Nixon and Kissinger. As James Curran puts it, Australia was mainly interested in "taking part in the great economic revolution initiated by China in the late 1970s,"⁷ a task that would have been inestimably more difficult with a different strategic policy configuration. As Australia embarked on an activist phase of regional multilateralism in the late 1980s, culminating in the 1989 launch of the Asia-Pacific Economic Cooperation (APEC) forum, the close fit between the economic and the strategic provided the basis for its policy entrepreneurship. The arrangements established after 1945 suited Australia very well and, after America's rapprochement with China, they were of benefit to the region as a whole. However, China's economic revitalization threatens to throw out of balance the serendipitous circumstances that American predominance fostered in which economic well-being meshed neatly with a security arrangement that dramatically reduced the price Australia had to pay to achieve its main security goals.

6. See the slightly self-serving reflections of a key architect of ANZUS, Percy Spender, *Exercises in Diplomacy: The ANZUS Treaty and the Colombo Plan* (Sydney: Sydney University Press, 1969).

7. James Curran, "The World Changes': Australia's China Policy in the Wake of Empire," in *Australia and China at Forty*, ed. by James Reilly and Jingdong Yuan (Sydney: Newsouth Publishing, 2012), pp. 22–43, p. 42.

The modernization of China's economy has provided for an astonishing growth in two-way trade between the People's Republic of China (PRC) and Australia. In 1972, this two-way trade was a minuscule US\$86.43 million, but by 1982 it had grown rapidly to US\$1.12 billion.⁸ While growth over the past 40 years has been very considerable, merchandise trade accelerated in the late 1990s. Since 1995 China has gone from receiving around 5% of Australian exports to just under one-third. Trade levels continue to grow, notwithstanding the recent slowdown in Chinese gross domestic product (GDP).⁹ In fact, growth in the past decade has dwarfed the initial burst of activity. In the fiscal year (FY) 2012–13, China accounted for just over 31% of Australian exports, with a value of AU\$ 78.1 billion (US\$70.6 billion), while Chinese imports were just over 18% of total imports with a value of AU\$ 44.5 billion (US\$40.2 billion). Moreover, two-way trade with China is worth around 20% more than the combined value of two-way trade with Australia's second- and third-ranked partners, the U.S. and Japan, respectively. Not only is trade very healthy but Australia is earning record prices with its terms of trade, the highest they have been for 140 years,¹⁰ and nearly 90% higher than the trend in the 1990s.¹¹

As the figures imply, Australia and China have excellent trade complementarities. Australia's endowment of natural resources and high quality mining infrastructure are mirrored by China's major export strength in computers, electronics, and consumer goods. China's high speed industrialization and urbanization program has produced something no one expected—the reversal of the long-term global decline in commodity prices. Australia's trade with China is predominantly iron ore, which alone accounts for around 60% of Australia's total exports to the People's Republic.

While trade remains the main component of the economic relationship between Canberra and Beijing, Chinese investment in Australia has been growing. In recent years, Australia has been the number one destination for

8. Yu Chang Sen, "Sino-Australian Economic Relations," in *ibid.*, pp. 104–20, p. 105.

9. Figures from the Commonwealth of Australia, Department of Foreign Affairs and Trade, *China Country Fact Sheet*, 2013, <<http://www.dfat.gov.au/geo/fs/chin.pdf>>.

10. David Gruen, "The Resources Boom and Structural Change in the Australian Economy," *Economic Roundup*, no. 2 (2011) <<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2011/Economic-Roundup-Issue-2/Report/The-resources-boom-and-structural-change-in-the-Australian-economy>>.

11. Glenn Stevens, "The Resources Boom," *RBA Bulletin* (March 2011), <<http://www.rba.gov.au/publications/bulletin/2011/mar/pdf/bu-0311-10.pdf>>, p. 68.

outbound FDI from China. On the face of it, China remains tenth among Australia's source countries for FDI, but given that much Chinese investment in Australia is often routed through third-party countries, the figures likely underestimate China's role.¹² Suffice it to say that investment is an important pillar buttressing this economic relationship.

Australia faces many challenges posed by its remarkable economic relationship with China, from labor shortages as the mining sector attracts workers from around the country to work in Queensland and Western Australia to a persistently high Australian dollar causing difficulties for trade-exposed sectors such as tourism and agriculture. But for many, the most significant and immediate of these challenges is that posed by the divergence in economic and security interests.¹³ As China is becoming more affluent, its relationship with the U.S. is becoming more complex. The Sino-American relationship is beset with mistrust, and there is ample evidence to suggest a rivalry.¹⁴ Australia is thus in a very difficult situation: its economic well-being seems to be tied inextricably to China, while its security and strategic fortune are bound to the U.S.

Australia's international policy has remained consistent since the normalization of relations with the PRC. Its regional strategy entails reconciling three distinct aims in a dynamic international context: to maximize both its economic welfare and domestic security and to maintain regional stability. In the past, the American alliance significantly reduced the costs of the provision of national security through protection and access to technology. American regional primacy, and its acceptance by Asia's key powers, underpinned geopolitical stability. These security arrangements meshed neatly with Canberra's welfare-maximizing economic policies. Australia got a huge discount on the cost of its own immediate security and paid almost nothing to receive the greatest benefit of all: geopolitical stability in its East Asian neighborhood. The sharp question posed by the changing regional setting is whether this outcome can still be achieved or whether new approaches are necessary.

12. John Larum and Jingmin Qian, "A Long March: The China-Australia Investment Relationship," *Australia-China Business Council* (October 2012), <http://acbc.com.au/deploycontrol/files/upload/news_nat_fdi_report_oct.pdf>.

13. E.g., Geoff Dyer, "Australia-U.S. Security Pact Not without Risk," *Financial Times* (London) November 17, 2011.

14. E.g., Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W. W. Norton, 2011).

For many, the changing regional circumstances require a new approach. Because of the gap between its economic and strategic interests and the rivalry between China and the U.S., Australia is caught in an invidious trap between Beijing and Washington.¹⁵ Without a change of course, many believe, Australia will face an array of problems. At the extreme end is the spectre that Australia might have to choose between the two powers and that this choice would impose very high costs in some putative contest between them. For example, if the U.S. and China were to clash over Taiwan, Australia would either have to support its American ally and earn the economic wrath of China or opt out and suffer the consequences as a disloyal ally. In the worst of all possible worlds, Australia could be dragged into a war with its primary economic partner. More broadly, the asymmetry of the economic relationship seems to imply that China has an economic weapon it can wield over Australia. Being caught between the two potentially constrains Australian foreign policy autonomy, leading to possible self-censorship and a reduction in efforts to advance liberal values at the international level, as the risk of Chinese economic retaliation hangs over the head of policy-makers.

II. COPING WITH CHANGE

Given these potentially dire scenarios and the general geopolitical transformation of the Asian region, what is the range of policy options with which Australia might reconcile its economic and strategic interests?

Although China's economic growth has been sustained since the late 1970s, its implications for Australia, beyond narrow trade opportunities, did not begin to prompt policy reflection or public debate until the late 1990s.¹⁶ Australia learned the hard way that China could create turbulence for Australian foreign policy, with the 1995–96 Taiwan Strait standoff the first illustration of the incipient dilemma. After coming to office in 1996, the government of Prime Minister John Howard sought to improve relations with China and the U.S. simultaneously but separately. The animating idea

15. E.g., Hugh White, "Power Shift: Rethinking Australia's Place in the Asian Century," *Australian Journal of International Affairs* 65:1 (2011), pp. 81–93; David Humphries, "Caught between Giants," *Sydney Morning Herald* (Sydney, Australia), July 9, 2011, <<http://www.smh.com.au/opinion/politics/caught-between-the-giants-20110708-1h6lr.html>>.

16. E.g., Stuart Harris, *Will China Divide Australia and the U.S.?* (Sydney: Australian Centre for American Studies, 1998).

was that Australia should not have to choose between the two. By focusing closely on shared interests, keeping human rights and democracy concerns off the table, and deliberately distancing its relations with China from its links to America, the Howard government succeeded.¹⁷ Some argue that this success was made possible by the very close relationship Howard developed with President George W. Bush,¹⁸ which allowed Australia the diplomatic latitude to improve relations with China without fear of undermining alliance commitments to the U.S. Howard saw the simultaneous fostering of excellent ties between Canberra and Washington and Beijing, respectively, as his government's "greatest foreign policy achievement."¹⁹ This was most visible in the unprecedented addresses to the Australian Parliament by the Chinese president and the American president on consecutive days in October 2003.

Yet, these efforts were not without their challenges. In 2004 while in Beijing, Australian Foreign Minister Alexander Downer publicly declared that in the event of a conflict over Taiwan, the ANZUS treaty would not be automatically triggered.²⁰ Although the government repudiated the statement, Downer's claim was not a mistake but in fact a deliberate effort to signal to Washington the dilemmas Australia was facing, notably the difficulties of the compartmentalization strategy being pursued by Australia's center-right Coalition government. It was by then becoming evident that this strategy, isolating politics from economics, would be impractical to pursue over the medium or longer term: China was quickly moving from being a relatively poor country to a rich one whose economic relations were viewed through the political lens of its Communist Party.

Recognizing that Australia cannot forever manage its broader strategic policy as if it were the early 2000s, public and government debates have swirled around responses to Canberra's changing circumstances.²¹ What options does a middle-ranking player like Australia have to achieve its main strategic goals—

17. Michael Wesley, *The Howard Paradox: Australian Diplomacy in Asia, 1996–2006* (Sydney: ABC Books, 2007).

18. Paul Kelly, "Howard's Decade," *Lowy Institute Paper*, no. 15 (Sydney: Lowy Institute for International Policy, 2006).

19. Michelle Grattan, "A Foreign Affair," *Saturday Age* (Melbourne, Australia), April 14, 2007, p. 23.

20. Hamish MacDonald and Tom Allard, "ANZUS Loyalties Fall under China's Shadow," *Sydney Morning Herald*, August 18, 2004, <<http://www.smh.com.au/articles/2004/08/17/1092508475915.html>>.

21. For an overview, see Carlyle A. Thayer, "China's Rise and the Passing of U.S. Primacy: Australia Debates Its Future," *Asia Policy*, no. 12 (July 2011), pp. 20–27.

national security, regional stability, and maximizing the prosperity created by China's rise—in the face of change? Among the related debates, one can identify four broad approaches to how Australia might reconcile its economic and strategic goals.

The first is a broadly liberal strategy. The underlying assumption is that China and America have sufficiently thick levels of common interest that they will not see one another as an existential threat.²² The two share a huge range of common interests, from keeping the arteries of the global economy open to the avoidance of regional conflict. Their interdependence means that, among all nations, they will pay the highest price in the event of a breakdown in their relationship. Their economic links are such that according to some, a conflict scenario would be akin to mutually assured economic destruction.²³ Regional stability will continue because it is simply not in China's economic interest to challenge American dominance and its alliance relationships. Informed by liberal thinking, this approach does not assume that things will remain stable without some state-led efforts. The benefits of mutual economic interests (both narrower mutual gains as well as broader stability) will only accrue if economic ties continue to develop through relatively open markets. China and the U.S. should see their relationship in positive sum terms.

This approach requires Australia's continued efforts to advance a liberal structure for the region's economic relations. International institutions and regimes play an important role here to ensure that the circumstances in the region are most conducive for Australia's goals. First, entities like the East Asian Summit (EAS) and APEC need to protect existing levels of economic openness and encourage collaboration to drive economic growth and further liberalization. Second, such entities will need to facilitate the flow of information across the region to ensure that positive sum views between the U.S. and China persist. If the liberal strategy succeeds, Australia's economic relations with China and strategic relations with the U.S. will not prove problematic: Sino-American relations are positive sum, generating regional stability. This

22. E.g., see Geoffrey Garrett, "Cold War Talk Is Hot Air," *The Age* (Melbourne, Australia), July 17, 2011, <<http://www.theage.com.au/opinion/politics/cold-war-talk-is-hot-air-20110714-rhfwb.html>>.

23. James Dobbins, David C. Gompert, David A. Shlapak, and Andrew Scobell, "Conflict with China: Prospects, Consequences, and Strategies for Deterrence," *RAND Occasional Paper* (Santa Monica, Calif.: RAND Corporation, 2011).

approach would require increasing investment in regional institutions but otherwise little change from the approach pursued since the mid-1990s.

The second option entails a strategy of enmeshing China into the existing American-led order. Advocates of this approach recognize the risk that the PRC may become dissatisfied with the existing arrangements and that rivalry with the U.S. could increase significantly. To mitigate this, Australia should help tie China into the existing order through a combination of inducement, socialization, and constraint.²⁴ In contrast to the liberal strategy's focus on institutional means, enmeshment entails a broader mix of policy measures. Beyond the instrumental benefits that institutional mechanisms create, the enmeshment strategy also seeks to socialize China into the dominant norms of the existing order, transforming the way Chinese policy-makers think about their interests.²⁵ Enmeshment will create regional stability because it ensures that China accepts the existing order, if only because it is too costly not to do so. Accordingly, Australia would need to continue to develop its bilateral relationships with the U.S. and China and work with others in the region to improve the institutional efficacy of Asia's multilateral institutions. In particular, it would have to work to help ensure that these institutions successfully transform Chinese behavior, developing more effective means of shaping policy preferences and increasing the costs for non-compliance with regional expectations.

The third possible approach is for Australia to adopt a hedging strategy. This is similar to enmeshment, in that it sees Australian goals as best achieved through diplomatic engagement, but it adds an explicitly coercive element through America's military presence. It assumes that there is a much greater likelihood of militarized competition and conflict than anticipated in either the liberal or the enmeshment approach. China is likely to continue to modernize and expand its military force, and to be emboldened by the perception of American weakness. Subsequently, institutional or normative pressures will not reliably constrain the PRC. A hedging strategy involves investing more heavily in military commitments while using political tools such as diplomacy to manage the detrimental consequences of hedging. In

24. E.g., Jane Golley, "Australia Has a Valuable Role in the 'Great Balancing Act,'" *East Asia Forum*, August 11, 2008, <<http://www.eastasiaforum.org/2008/08/11/australia-has-a-valuable-role-in-the-great-balancing-act/#more-248>>.

25. See, generally, Alastair Iain Johnston, *Social States: China in International Institutions, 1980–2000* (Princeton, N. J.: Princeton University Press, 2008).

practice this means strengthening the strategic alliance with the U.S. and investing considerably more in Australia's military capability. The latter serves to increase Australia's capacity to defend itself and its interests in a more complex and fragile region; in turn, Australia's increased ability to be militarily involved alongside the U.S. in regional and global contingencies ensures the continuation of the alliance security promise. Australia will have to be diplomatically adroit to manage the knock-on effects of the increased role the military component plays in its policy. The hedging strategy would increase the costs to Australia for its own security and that of the region.²⁶ Under hedging, Australia's national security comes from investing more heavily in the existing alliance relationship and further developing its contribution to that relationship. Under this strategy, China would either accept the current setting because of the benefits it accrues, or be forced to endure it by its military limitations. Australia's capacity to maximize its economic windfall from China will come from careful diplomatic management in case this approach impinges on market interactions.

The final approach is the most radical. It starts from the assumption that none of the other three options is practical given China's wealth, scale, and level of influence on Australia and the region. In the past, Australia's strategic and material well-being were a function of American regional dominance. As it appears unlikely that China will accept American dominance over the medium to longer term, Australia and other regional players need to devise a new way of managing Asia's emerging international order themselves. The most peaceful way of doing this is for an accommodation to be reached between the U.S. and China so as to allow the creation of a concert of power.²⁷ The concert would balance the influence of the major powers and commit them to a set of underlying principles of action. These commitments would be maintained through the threat of punishment by members of the concert in case one reneges on the deal. In such an arrangement, Australia would need to fundamentally reorient its strategic policy away from its current dependence on the U.S. It would develop a much more independent capacity to maintain its defense, thus greatly reducing, if not altogether

26. E.g., Commonwealth of Australia, Department of Defence, "Defending Australia in the Asia-Pacific Century: Force 2030," *Defence White Paper*, 2009 (Canberra: Commonwealth of Australia, 2009).

27. Hugh White, *The China Choice: Why America Should Share Power* (Melbourne: Black Ink, 2012).

avoiding, the need to reconcile economic and strategic interests between China and the U.S. Regional stability would be generated by the concert and by economic interests, without the political or strategic coloring that comes with an alliance relationship. The cost to Canberra would be considerable, particularly as it would have to entirely reconfigure its approach to defense and security.

III. RESOLVING THE TRILATERAL DILEMMA: AUSTRALIA'S CHOICE

Faced with unarguable signs of American relative decline, an excellent economic relationship with China (one of the few engines of growth in the global economy), and broader regional uncertainty prompted by a sense of geopolitical flux, Australia has made a very clear choice about its strategic future. It has not sought to split the difference between its economic and strategic interests, nor has it headed down the path to become a fully fledged middle power in a reconstructed Asian order. Instead, it has opted to pursue what can be described as a “status quo plus” strategic policy that correlates most closely to the hedging option above. It has resolved the trilateral dilemma by maintaining its alliance with the U.S. at the heart of its strategic policy, expanding the understanding of that alliance both in its geographic reach and the scope of its participation, while strongly committing itself to America's conception of Asia's regional order.

Australian policy first began to take this trajectory under the Howard government as Canberra sought to tighten its relationship with Washington and expand the remit of the alliance.²⁸ This was prompted in the first instance by the post-September 11 shift in U.S. foreign policy. Australia was extremely supportive of the Bush administration's approach to terrorism and used this to develop very close relations with the U.S. But with the electoral defeat of the conservative Coalition government in 2007, it was not clear whether the Australian Labor Party (ALP) government would continue with this trajectory or pursue a more multilateralist approach in keeping with the ALP's self-styled rhetoric of “creative middle power diplomacy.”²⁹ However, Australia's decision to bind itself to the U.S. over the long haul was made clear in a series

28. Rod Lyon, “Alliance Unleashed: Australia and the U.S. in a New Strategic Era,” Australian Strategic Policy Institute (ASPI), *ASPI Strategy Report* (Canberra: ASPI, 2005).

29. See Matthew Sussex, “The Importance of Being Earnest: Avoiding the Pitfalls of ‘Creative Middle Power Diplomacy,’” *Australian Journal of International Affairs* 65:5 (2011), pp. 545–62.

of public events and documents. These included Prime Minister Julia Gillard's visit to Washington in March 2011, the Australia-United States Ministerial Consultations (AUSMIN) in September, and President Obama's visit to Canberra that November.³⁰ The following words from the AUSMIN communiqué's first section show the shared view of alliance purpose: "[T]he alliance remains indispensable to the security of Australia and the United States and to the peace, stability, and prosperity of the Asia-Pacific region and beyond."³¹ Beyond these kinds of statements about broader function, Australia illustrated what its commitment to the alliance would entail, including its agreement to host training rotations of U.S. Marines in Darwin every six months and a significant increase in the number of U.S. Air Force aircraft spending time in Northern Australia. It also included broadening the security domains in which cooperation will occur to include cyberthreats. The alliance was even linked to areas not normally part of military arrangements, such as development policy and trade.

Australia's choice to cleave strongly to the U.S. will allow it to do more militarily under alliance auspices and, in all likelihood, will mean increased defense spending. The 2009 *Defence White Paper* indicated how Australia was intending to carry a greater burden in the alliance and to participate more effectively in alliance-related contingency operations, although in recent years the government has pulled back on aspects of spending in response to broader fiscal challenges.³² Its 2013 *Defence White Paper* confirmed the basic thrust of this approach while playing down the risks posed by China's growing military power, a move most thought had more to do with diplomatic signaling than substantive strategic policy.³³ In short, Australia does not appear concerned about the economic consequences that an increasingly close relationship with the U.S. might entail. It does not see the need to reorganize regional arrangements or to hedge its bets about the future of U.S. power and influence. It is

30. The main texts for this are Julia Gillard, "Address to the Congress of the United States," Washington, D.C., March 9, 2011; Commonwealth of Australia, Department of Foreign Affairs and Trade, "Australia-United States Ministerial Consultations (AUSMIN) 2011 Joint Communiqué," San Francisco, September 15, 2011; and Prime Minister's Office, "Australia-U.S. Force Posture Initiatives," November 16, 2011.

31. "Australia-United States Ministerial Consultations (AUSMIN) 2011 Joint Communiqué."

32. Mark Thompson, *The Cost of Defence: ASPI Defence Budget Brief, 2012–2013* (Canberra: ASPI, 2012).

33. Commonwealth of Australia, Department of Defence, *Defence White Paper, 2013* (Canberra: Commonwealth of Australia, 2013).

committed to broadly following the same path since 2001. Given how much has changed in the region, the growing extent of Canberra's economic links to Beijing, and the prospects of increasing friction between its two most important partners, the remainder of this section considers why Australia made this choice to stick with the U.S.—and its implications.

Although faced with a range of different ways of handling its strategic and economic interests, Australia opted for a large degree of continuity with the recent past for four main reasons. First, Canberra believes that the risks of damaging spillover between the two spheres is relatively small.³⁴ The primary reason for this lies in the nature of Australia's economic relationships. Although China is a very considerable and dynamic economic partner, both in terms of two-way trade and investment, it is only one of a wide range of international economic partners. Since the 1990s, Australia has enjoyed not only the longest uninterrupted period of economic growth in its history, but it has also become more diversified in its economic relations.³⁵ For example, exports to Japan account for around 17% of Australia's total; other export destinations include South Korea (around 8%), India (around 5%), the U.S. (5%), U.K. (4%), and New Zealand (4%). On the import front, the most significant source countries in descending order of importance are China, the U.S., Japan, Singapore, Germany, and Britain. The U.S. is a little over 1% behind China in the value of imports. China is the largest two-way trade partner, with 25.3% of the total; Japan (13.4%) and the U.S. (7.6%) are the next two.³⁶ Australia's trade partners are a lot more diverse than they have been historically. Although China is a big part of the story, Australian economic prosperity is not a one-country tale.

Moreover, when one looks at the investment side of the economic equation, China ranks only tenth as a source of inward FDI. The U.S. is first, accounting for around 24% of investment, with the U.K., Japan, the Netherlands, and Switzerland rounding out the top five. Outward investment from Australia is predominantly headed toward the U.S., U.K., New Zealand, and

34. See Nick Bisley, "'An Ally for All the Years to Come': Why Australia Is Not a Conflicted American Ally," *Australian Journal of International Affairs* 64:4 (August 2013), pp. 403–18.

35. On the expansion, see John Edwards, "Quiet Boom," *Lowy Institute Paper*, no. 14 (Sydney: Lowy Institute for International Policy, 2006).

36. For data, see Commonwealth of Australia, Department of Foreign Affairs and Trade, *Composition of Trade Australia, 2012–13* (Canberra: Commonwealth of Australia, December 2013), <<https://www.dfat.gov.au/publications/stats-pubs/cot-fy-2012-13.pdf>>.

Germany, which collectively accounted for just under two-thirds of the total. The U.S. alone accounted for around a quarter in 2012.³⁷ These figures put China's economic importance to Australia in its broader context. They remind us that Australia's recent period of economic prosperity stems not only from China's rise but also from Australia's ability to capitalize on the dynamic opportunities presented by globalization, and the multidimensional nature of its economic linkages.

Not only is Australia not quite as dependent on China as many think, the nature of the economic relationship—largely a one-dimensional trade relationship—means that, in practical terms, China is not able to exercise leverage over Australia economically, at least not without doing itself harm. If China wanted to cease buying Australian iron ore it would either have to pay a higher price for Brazilian ore or buy poorer quality Indian ore. Australia would then be able to sell ore to those parts of the market opened up by China's redirected demand. As a result, Australia remains reasonably confident that it can manage those circumstances when the economic and the strategic dimensions intersect.

Second, the U.S.-Australian alliance is extremely well supported within Australia. At the political level, since the federal election in 2004—when the Coalition was able to develop a significant electoral advantage on foreign policy issues³⁸—both sides of the political spectrum have committed themselves very publicly to the alliance. Unsurprisingly in a democracy, this bipartisanship reflects public opinion. Since 2005, the Sydney-based Lowy Institute has annually conducted polling on foreign policy; respondents have consistently ranked highly the importance of ANZUS for Australian security. With the exception of one poll, in 2006, the alliance has been regarded as very or fairly important by more than 72% of those surveyed; the 2013 survey showed continuing high levels of support, with 54% giving ANZUS the highest ranking in importance and 28% the second highest.³⁹ Even in an area where both the Australian and American governments were concerned

37. For details, see Australian Bureau of Statistics, *International Investment Position, Australia: Supplementary Statistics, 2012*, calendar year 2012, cat. no. 5352.0, Canberra, 2013, <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5352.0>>.

38. Murray Goot, "Neither Entirely Comfortable nor Wholly Relaxed," in *Trading on Alliance Security: Australia in World Affairs 2001–05*, ed. by James Cotton and John Ravenhill (Oxford: Oxford University Press, 2007), pp. 253–304.

39. Alex Oliver, *The Lowy Institute Poll 2013: Australia and World: Public Opinion and Foreign Policy* (Sydney: Lowy Institute for International Policy, 2012), p. 7. Past data charts are available in

about public reaction to rotating U.S. Marines through Darwin, the Australian public appears relatively relaxed, with 74% of Australians in favor in the 2012 poll.⁴⁰ These public attitudes are further reinforced within the bureaucracy. A RAND survey of how America's Asian allies have responded to China's rise found that Australian policy-makers put an extremely high value on the alliance; indeed, it was seen as having a value in and of itself, for some.⁴¹ Clearly, to move away from the existing framework for strategic policy would fly in the face of a strong consensus and prove politically challenging, to say the least.⁴²

Third, Australia's choice has been heavily influenced by cost considerations. In particular, the existing relationship with the U.S. delivers Australia a considerable array of goods at a relatively low price. If it were to significantly reorganize its strategic policy away from its current setting, the costs would be heavy. There are four main security goods that the alliance provides for Australia: protection in the case of attack, access to materiel and training, access to America's intelligence network, and access to American foreign policy elites so as to help shape decision-making. Adopting a policy that reduces, even lightly, the importance of the U.S. to Australian security would have important knock-on consequences in each of these areas. Australia would then have to either make up the shortfall or simply have to live without certain security goods altogether. Australian defense policy-makers have long depended on access to America's intelligence systems and high technology war-fighting equipment to give Australian defense forces a decisive edge in the region. A renegotiated relationship would reduce, or in some circumstances entirely remove, access to this equipment. Even if one could manage the politics of moving away from the U.S., coping with the security costs would be extraordinarily difficult.

Finally, Australia has opted to retain the fundamentals of its current strategic policy because its policy elites are firmly of the view that the U.S.

Fergus Hanson, *The Lowy Institute Poll 2011: Australia and the World, Public Opinion and Foreign Policy* (Sydney: Lowy Institute for International Policy, 2011), p. 9.

40. The survey was even more pointed, referring to Marines being *based* in Darwin, which they are not. Fergus Hanson, *The Lowy Institute Poll 2012: Australia and New Zealand in the World Public Opinion and Foreign Policy* (Sydney: Lowy Institute for International Policy, 2012), pp. 10–11.

41. Evan S. Medeiros et al., *Pacific Currents: The Response of U.S. Allies and Security Partners in East Asia to China's Rise* (Santa Monica, Calif.: RAND, 2008), pp. 189–230.

42. See the intemperate reaction to Hugh White's call for a concert: Greg Sheridan, "Asia, Done in Black and White," *The Australian* (Sydney, Australia), August 11, 2012.

will continue to provide the mix of diplomatic leadership, conventional deterrence, and economic significance that it has in the past, and that these forces will underpin regional stability. American primacy, in this view, has the same broader function in the 21st century as it had in the second half of the 20th. Australia believes that Washington will remain present in the region, that its presence will retain credibility, and that it will continue to shape the strategic behavior of Asia's states in a benign way. Australia perceives the threats and risks it is likely to face from the region as best managed through this American-led order. Even in the worst-case scenarios—China invading Taiwan, or North Korea attacking South Korea (or beyond)—Australia is distant enough that it is protected from direct attack. In either case, Australia believes that America's presence is the best means to prevent such developments.

In summary, Australia has opted to remain firmly bound to the U.S. for several reasons: Canberra's belief that it can manage the economic consequences of its strategic policy, the depth of domestic support for the broader relationship with the U.S., the security costs Australia would otherwise have to bear, and its belief in the ongoing utility of American primacy to the region. Given that a number of other middle-ranking powers in Asia face the same trilateral dilemma, what does Australia's choice tell us about how others might behave? Australia's experience shows that the nature of the economic relationship is key to determining how and if other states' strategic decisions are likely to spur Chinese economic pressure. Just because a state has an asymmetric relationship with China does not automatically put the PRC into an advantageous position. So for states like Japan, South Korea, the Philippines, and Singapore, how much their strategic ties to the U.S. risk economic consequences from China is determined by how well China can apply pressure without damaging itself. States that have one-dimensional and substitutable economic relations, as does Australia, are likely to avoid Chinese economic pressure. But there can be substantial Chinese pressure if there is greater dependency.⁴³ Japan's experiences during the "rare earths" ban of 2011 illustrates such dependency. Japan's reliance on China for this high technology commodity input gave the PRC a lever that it could pull with relatively low cost to itself—or so Beijing thought. Yet, as Shiro Armstrong

43. Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan," *New York Times*, September 22, 2010.

shows, Chinese action led to a market response that subsequently somewhat reduced China's influence in that sector.⁴⁴ States that have dependencies because of the integrated nature of trade—where, for example, two countries play complementary roles in production chains, or where FDI levels are such that economic welfare has become very interdependent—are likely to confront a different and tougher dilemma than Australia. Of course, as Japan's experience has shown, just because a state suffers, or could potentially be punished by China, does not mean the state will abandon its relationship with the U.S. But it does make the calculation more complex.

For others potentially caught in the trilateral dilemma, opting to retain or reconfigure strategic relations with the U.S. will also be heavily influenced by costs. The middle powers in the region that share Australia's economic and strategic circumstances would similarly face a heavy cost if they left America's strategic orbit. States such as Japan and South Korea contribute significantly to America's presence through military host-nation support payments. But many regional states would have to significantly bolster their military capabilities without their U.S. ally. This would be extremely costly financially; in Japan's case, given its history of war and conquest, it would also be controversial domestically and regionally. From the economic perspective, the balance of costs imposed versus risk of economic punishment means that for Asia's middle powers, the Beijing/Washington dilemma is likely to be resolved in ways similar to Australia's choice.

In the domestic political context, the alliance relationship in most of Asia's middle powers does not have the same degree of robust support in terms of politics, public opinion, and the bureaucracy that Australia's relationship with the U.S. enjoys. For example, in South Korea, public opinion has been mixed in its levels of support for the alliance, with particular differences between generations.⁴⁵ In Japan, there have been differences in attitude between the political parties.⁴⁶ Still, overall there is no meaningful domestic

44. Shiro Armstrong, "Rare Earth Metals Export Ban, a Chinese Own Goal," in *East Asia Forum*, September 19, 2011, <<http://www.eastasiaforum.org/2011/09/19/rare-earth-metals-export-ban-a-chinese-own-goal/>>.

45. David I. Steinberg, ed., *Korean Attitudes toward the United States: Changing Dynamics* (Armonk, N. Y.: M. E. Sharpe, 2006).

46. On the election, see Robert Pekkanen, "The 2012 Japanese Election Paradox: How the LDP Lost Voters and Won the Election," *National Bureau for Asian Research*, December 18, 2012, <<http://nbr.org/research/activity.aspx?id=297>>.

political support in Asia's middle powers for a significant move away from close strategic relationships with the U.S.

Finally, do Asia's other potentially conflicted powers perceive the threats they face as best met under conditions of American primacy? Unlike Australia, the others are proximate to significant and very real threats, such as North Korean missiles, Chinese maritime assertiveness, or an accidental military exchange leading to an escalation crisis. These threats have immediate consequences for Japan, South Korea, and the Philippines. Chinese and North Korean behavior since 2009 has been particularly destabilizing, spotlighting some limitations to American military predominance. Nonetheless, to date the increased threats posed by problems in Northeast Asia and the South China Sea have reinforced the view among the middle-ranking powers (and others such as Vietnam) that American primacy is necessary to protect their interests.⁴⁷

Based on the factors that drove Australia to resolve its trilateral dilemma, one can say that there is a low probability that any of the other powers that share this dilemma will act differently. That said, there is a higher chance of change where the domestic political support for the relationship is less strong and where the economic relationship is more susceptible to Chinese leverage. It follows that changes in circumstances relating to the nature of the economic relationship, the costs of security, levels of political support, or perceptions of regional security threats would lead to a shift in approach toward resolving the Beijing-Washington dilemma. As economic relations in Asia develop and webs of interdependence deepen, attitudes to risk may change. As generations pass and political systems respond, the domestic foundation of American primacy may erode. As threats change, the perceived need for America may also ebb. But until such a time, the pattern pursued in Seoul, Tokyo, Singapore, and Manila is likely to reflect the one set in Canberra.

IV. CONSEQUENCES

Most states in the international system have to cope with changes in their international milieu that they cannot control. Australia has experienced a

47. On Northeast Asia, see Benjamin Schreer and Brendan Taylor, "The Korean Crises and Sino-American Rivalry," *Survival* 53:1 (2011), pp. 13–19; on the South China Sea and Sino-American rivalry, see Patrick A. Cronin, ed., *Cooperation from Strength: The United States, China, and the South China Sea* (Washington, D.C.: Center for a New American Security, 2012).

striking shift in its international environment as China has become its primary economic partner while the U.S., its security guarantor, shows signs of decline amid an incipient strategic rivalry with China. How do middle-ranking powers respond to this trilateral dilemma? In this paper, I have shown how Australia has made a clear choice to bind itself to the U.S. I argue that the reasons for doing so are likely to drive America's other regional partners down a similar path. What are the consequences of this process for the region as a whole?

The U.S. has made clear that it intends to retain a policy of primacy over the medium-term future.⁴⁸ Australia has made its choice, and the other U.S. allies in the region are very unlikely to change course. It is thus reasonable to conclude that in its fundamental structure, East Asia's strategic setting will remain in the future much as it is today. But instead of such a structure continuing to produce the stability of the past, Asia's regional order will be much more contestatory and conflict prone because of the likely response from China, and, to a lesser degree, North Korea. Although some observers continue to hope that China will change its approach and accept the terms of an American dominated region, this is most unlikely. In part, the possibility is especially remote given the domestic constraints imposed by the nationalist discourse of the Chinese Communist Party (CCP) that is central to its political legitimization strategy. The current order will prevail, but the security and stability benefits that U.S. regional allies receive will greatly diminish.

There is a second related consequence of America and its allies continuing to approach the region in broadly the same way as they have since the 1970s: reinforcing China's sense of being trapped by American power. In Washington's "rebalancing" of its foreign policy toward Asia, the Chinese see an obvious effort to counterbalance their own growing power and influence. As the middle powers opt to tighten their relations with the U.S., this perception will be strengthened in Beijing. This dynamic has led, for example, to China upping the ante in its claims in the South China Sea. As Wu Xinbo puts it, "[S]hould the Obama administration in its second term continue to pursue an Asia strategy aimed at counterbalancing China's rising power and influence, a heightening of Sino-U.S. competition and regional

48. This has been spelled out in a series of set piece speeches; the clearest articulation is the White House, "Remarks by President Obama to the Australian Parliament," Canberra, November 17, 2011, <<http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>>.

instability will be inevitable.”⁴⁹ Even though Washington and its partners seek to reassure China that they mean it no harm, the PRC simply does not accept these proclamations.

In reinforcing the broad thrust of American regional strategy and the order it underpins, the choice of the middle-ranging powers is likely to continue to leave Asia’s multilateral mechanisms and processes relatively weak. The Obama administration has tried hard to make multilateral engagement a key plank of its regional strategy, and there has been a range of efforts to expand the role of multilateral cooperation in Asia.⁵⁰ Yet, mechanisms like the EAS, the ASEAN (Association of Southeast Asian Nations) Defense Ministers’ Meeting Plus process, and the ASEAN Regional Forum have only a feeble purchase on state behavior.⁵¹ Although some observers are optimistic that multilateral mechanisms can reinforce alliance processes in ways that avoid competitive dynamics,⁵² Australia’s choice on alliance-related security policy makes multilateral cooperative approaches less viable. Indeed, one may even interpret these moves as not only limiting multilateralism but further contributing to the competitive dynamics in Asia’s defense expenditures.⁵³ The general view is that there is not yet an arms race, but there is a risk one will be spawned as international imperatives for competition increase.⁵⁴

There is a degree of tragedy evident in Asia’s contemporary international relations. China, the U.S., and American allies such as Australia, Japan, and South Korea do not want a competitive region. It is not in their interests, economically or strategically. And yet, they are consciously taking steps that make contestation more and not less likely. Australia likes to think it does not have to choose between Beijing and Washington, and in a narrow sense this is true. Canberra has a market relationship with China and a political-strategic relationship with the U.S. and, in a sense, its trilateral dilemma is easily resolved.

49. Wu Xinbo, “Not Backing Down: China Responds to the U.S. Rebalance in Asia,” *Global Asia* 7:4 (2012), pp. 18–21, p. 21.

50. See Michael J. Green and Bates Gill, eds., *Asia’s New Multilateralism: Cooperation, Competition, and the Search for Community* (New York: Columbia University Press, 2009).

51. Nick Bisley, “Building Asia’s Security,” *Adelphi*, no. 408 (London: Routledge for International Institute for Strategic Studies [IISS], 2009).

52. Victor Cha, “Complex Patchworks: U.S. Alliances as Part of Asia’s Regional Architecture,” *Asia Policy*, January II, 2011.

53. IISS, “Asia’s Arms Dynamic,” in *The Military Balance, 2012* (London: Routledge for IISS, 2012), pp. 205–24.

54. On this, see Geoffrey Till, *Asia’s Naval Expansion: An Arms Race in the Making?* (London: Routledge for IISS, 2012).

But, in its strategic orientation, Canberra has made a firm decision to tie itself to the U.S. both in terms of a bilateral alliance and as it seeks to perpetuate and reinforce an American-brokered regional order. While it is unlikely to be economically punished by China, Australia, wittingly or not, is helping to create a region that will be more unstable and risky than in the past.