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# **Dreams and Nightmares**

## **Australia's Past, Present and Future in Asia**

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**Tom Conley**

*August 2011*



**Center for Asian Studies**

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## Executive Summary

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This paper argues that Australian governments of both political stripes have responded pragmatically and effectively to the rise of China, the relative decline of the United States and the increased assertiveness of the Association of Southeast Asian Nations (ASEAN). When they have made mistakes, the Howard, Rudd and Gillard governments have worked hard to improve relations.

Into the future, successful Australian foreign policy in Asia will require continuing pragmatism and heightened resistance to the immediate temptations of either dreamy or nightmarish scenarios. While it is possible either extreme *could* eventuate, relying on the former prognostication might leave Australia and the West unprepared and the latter overprepared. An excessive focus by the West on a nightmare scenario centered on China's rise might have the added disadvantage of generating a self-fulfilling prophecy.

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## Introduction

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China will dominate Asia. This prediction makes Australians both confident and anxious: confident that a rising China will require large quantities of Australian resources and anxious that these resources will help to build China into a formidable opponent of US primacy in Asia.<sup>1</sup> While policy-makers and academics focused on Asia's economic rise generally err on the side of optimism, those focused on Asia's future security developments often err on the side of pessimism. There is a battle of predictions between those having dreams and those having nightmares about Australia's Asian future. But Asia's future is not set. Neither a peaceful nor a conflict-ridden Asia is inevitable.

Political actions across Asia will either underpin or undermine the benign setting that is necessary for Asian and Australian prosperity to continue. Australia has a role to play in helping to establish the regional institutions and diplomatic environment for stability and prosperity. Yet as much as Australians like to believe that they "punch above their weight" in the international arena, they need to accept that much of the action will take place regardless of their wishes. If peaceful development continues, Australia will be fortunate to be geographically adjacent to the world's most dynamic economic region. If conflict dominates, Asia's misfortune will be Australia's as well. The "reality" is that we simply do not know which way the pendulum will swing or how far. This means that Australia needs to hedge between optimistic and pessimistic scenarios, by maintaining its flexibility to deal with geo-economic and geopolitical changes, all the while working tirelessly to foster the conditions for peace and prosperity in Asia.

While the political choices of the major states will matter most of all, Australian political choices will matter most for Australians. This paper argues that Australian governments of both political stripes have responded pragmatically and effectively to the rise of China, the relative decline of the United States and the increased assertiveness

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<sup>1</sup> F. Hanson, *Australia and the World 2010: Public Opinion and Foreign Policy*, Lowy Institute, 2010, available at: <<http://www.lowyinstitute.org/Publication.asp?pid=1305>>.

of the Association of Southeast Asian Nations (ASEAN). When they have made mistakes, the Howard, Rudd and Gillard governments have worked hard to improve relations. Into the future, successful Australian foreign policy in Asia will require continuing pragmatism and heightened resistance to the immediate temptations of either dreamy or nightmarish scenarios. While it's possible either extreme *could* eventuate, relying on the former prognostication might leave Australia and the West unprepared and the latter overprepared. An excessive focus by the West on a nightmare scenario centered on China's rise might have the added disadvantage of generating a self-fulfilling prophecy.

The rise of China is an important story, but the risk is that Australian policy-makers will focus too heavily on its potential ramifications and downplay the significance of the rest of Asia for Australia's future. Ranging widely may dilute Australia's ability to influence developments in any particular area of Asia, but will help to maintain the flexibility required to straddle dream and nightmare scenarios. Continuing growth will undoubtedly provide China with the resources to challenge US primacy in the region, which will have profound implications for Australia's reliance on its "great and powerful friend". But it is not just the US-China relationship that matters for power politics in the region. Australia also needs to maintain a close relationship with Japan and develop a stronger one with India. Our gaze also needs to focus more closely on Southeast Asia as well. Indonesia is a future great power and a better ally than opponent for sub-regional primacy.<sup>2</sup>

A good starting point for any analysis of Australia's options in Asia is a broad-brush analysis of the history of Asian-Australian relations. This history shows that dreams and nightmares have long shaped Australians' perceptions about and attitudes towards Asia. It also shows the need to balance economic and security interests and resist the temptation towards excessive optimism or pessimism. Australia has traveled a long way on its Asian journey, but still has some distance to cover. Australians need to accept that their geography will continue to challenge their history.

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<sup>2</sup> For a discussion of the significance of Southeast Asia see M. Wesley, "SEA-Blindness: Why Southeast Asia Matters", speech delivered at the East-West Center, Washington, March 9, 2011, Lowy Institute for International Policy, available at: <<http://www.lowyinstitute.org/Publication.asp?pid=1542>>. Wesley designates Southeast Asia as the "Indo-Pacific Peninsula".

# Tracing Australia's (Uneasy) Shift Towards Asia

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## *From Anxiety ...*

During the nineteenth century, Australians defined themselves as a British outpost in an alien region. The Immigration Restriction Act 1901 – the White Australia Policy's (WAP) official title – was the first major piece of legislation passed by the newly federated Australian Parliament.<sup>3</sup> Hostility to Asia and Asian immigration pervaded all levels of Australian society. During the early years of the twentieth century, Japan entrenched itself as Australia's preeminent Asian nightmare. Rising American power in the Pacific did not cause similar worries for Australians.

After World War I, Prime Minister Billy Hughes<sup>4</sup> became increasingly concerned about Japan's intentions and dismissed British reassurances: "It is a long way from Tokio to Whitehall, but we are with a stone throw. I desire again to emphasize ... that we profoundly distrust Japan."<sup>5</sup> While Hughes was eventually proven right about Japanese intentions, his fears did not translate into greater effort to build up Australian defense – particularly naval – forces during the 1920s.<sup>6</sup> Despite Hughes' rebukes to Japanese sensibilities at the Paris Peace Conference, Japan soon became Australia's most important Asian export market.<sup>7</sup>

World War II made it clear that Australia could no longer rely on the British for protection. While the defeat of Japan provided an

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<sup>3</sup> For a copy of the Act see <<http://www.foundingdocs.gov.au/places/cth/cth4ii.htm>>. It is important to note that the term "White Australia Policy" was never officially used.

<sup>4</sup> For a list of Australia's Prime Ministers see National Archives of Australia, available at: <<http://primeministers.naa.gov.au/primeministers/>>. For a list of Australia's foreign ministers see: <[http://en.wikipedia.org/wiki/Minister\\_for\\_Foreign\\_Affairs\\_%28Australia%29](http://en.wikipedia.org/wiki/Minister_for_Foreign_Affairs_%28Australia%29)>.

<sup>5</sup> Cited in K. Beazley, "Nervous about Nippon", *Australian Literary Review*, February 3, 2010, available at: <<http://www.theaustralian.com.au/news/arts/nervous-about-nippon/story-e6frg8nf-1225825514262>>.

<sup>6</sup> *Ibid.*

<sup>7</sup> S. Tweedie, *Trading Partners: Australia and Asia 1790-1993*, Sydney, UNSW Press, 1994, p. 71; S. H. Roberts, "History of the Contacts between the Orient and Australia", in I. Clunies Ross (ed.) *Australia and the Far East: Diplomatic and Trade Relations*, Sydney, Angus and Robertson and the Australian Institute of International Affairs, 1935, p. 36.



end to one source of Australian anxiety, many Australians saw its rise to power as a warning for the future. The victory of the communists in China in 1949 combined an old fear – Asia – with a new one – communism. Labor Immigration Minister Arthur Calwell proclaimed that Australia had “twenty-five years at most to populate this country before the yellow races are down on us”.<sup>8</sup>

There were *some* post-war positives in Australia’s relationship with Asia. Australia supported Indonesian independence and allowed Asian students to enter the country under the Colombo Plan. Australia’s primary focus in the region, however, was to get a US security commitment. In 1950, Australia rushed to join the US in fighting alongside the South Koreans against the communist North Korean forces. While External Affairs Minister, Percy Spender, argued that the United States agreed to the alliance because of Australia’s commitment of troops to Korea, Bell argues that it agreed, “because it paved the way for a “soft” peace settlement with Japan”.<sup>9</sup>

Despite most Australians’ hostility towards Japan, exporters were keen to reinvigorate the trading relationship. However, the United States was firmly in control of Japanese commercial dealings and Australia continued to damage its position in Asia by maintaining preferences for Britain.<sup>10</sup> As Spender explained, “Australia has a population of approximately 7,000,000 and to the North are the colored peoples of Asia numbering 1,000,000,000 ... our primary task is to re-establish the British people throughout the world”.<sup>11</sup> By the mid-1950s, it was clear to many policy-makers, even if not to Prime Minister Robert Menzies, that Australia needed to move on from its subservient economic relationship with Britain. Most important to this reorientation was the trade minister, John ‘Blackjack’ McEwen. McEwen overrode hostility to Japan in the Australian community by signing the Australia-Japan Commerce Treaty in 1957.

Australia’s economic relationship with Japan grew considerably over the following decades with Australia supplying many of the raw materials for Japan’s rapid growth as a manufacturing power. Japan grew at an annual rate of 10% in the 1960s. The increased receptivity to Japan wasn’t extended to all in Asia as fierce anti-communism shaped Australia’s foreign policy. In 1965, Menzies committed Australian troops to Vietnam to fight communist forces along-

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<sup>8</sup> A. Broinowski, *The Yellow Lady: Australian Impressions of Asia*, Melbourne, Oxford University Press, 1992, p. 11.

<sup>9</sup> R. Bell, “Anticipating the Pacific Century? Australian Responses to Realignments in the Asia-Pacific”, in Mark Berger and Douglas Borer (eds), *The Rise of East Asia: Critical Visions of the Pacific Century*, London, Routledge, 1997, p. 196.

<sup>10</sup> The Australian government signed a fifteen-year agreement with the UK allowing Australian meat exporters to export only 3% of the exportable meat surplus to other countries (Tweedie, *op. cit.*, p. 96).

<sup>11</sup> Cited in R. Pity, “The Post-war Expansion of Trade with East Asia”, in David Goldsworthy and Peter Edwards (eds), *Facing North: A Century of Australian Engagement with Asia*, Canberra, Australian Department of Foreign Affairs and Trade, 2003.

side the United States. Before Vietnam, policy-makers worried about growing connections between President Sukarno and the Indonesian Communist Party. There were also concerns about communist insurgency in Malaya. According to Menzies, “The takeover of South Vietnam would be a direct military threat to Australia and all the countries of South and South-East Asia”.<sup>12</sup> While Australians could dream about the economic realm, the nightmare of Asian communism dominated perceptions.

### **... to Confidence**

The WAP was a major impediment to Australian-Asian relations. After replacing Menzies as Prime Minister, Harold Holt removed discriminatory elements of Australian immigration law. The Whitlam government legislated to enable all migrants to become citizens after three years and instructed all overseas immigration posts to disregard race as a criterion for settlement. Finally, the Fraser government removed all vestiges of the policy from the statute books and allowed the entry of a large number of Vietnamese refugees.<sup>13</sup> This influx of Vietnamese was the first significant migration of Asians to Australia since the nineteenth century.

In 1973, Britain joined the European Economic Community meaning that Anglophile Australians had to accept that Imperial ties were waning. Gough Whitlam (Prime Minister from 1972-75) was determined to enhance Australia’s relationships with the region. As opposition leader, he had visited China, preempting a visit by US President Richard Nixon. As Prime Minister, he quickly recognized the People’s Republic of China and withdrew Australian troops from Vietnam. Australia’s relationship with the United States undoubtedly suffered under Whitlam, but his replacement, Malcolm Fraser, reinvigorated the relationship and rekindled Australian concerns about communism in Asia.

The Fraser government bolstered efforts to increase Australia’s trade with Southeast Asia and to strengthen Australia’s position as a supplier of resources to the region. Foreign Minister Andrew Peacock argued that economic development in the region required a reorientation of Australia’s economic policies.<sup>14</sup> Malcolm Fraser supported the efforts of Asian countries to improve their access to world markets and made some concessions to allow developing countries access to Australian markets. Australia developed an economic dialogue with ASEAN to improve trade in the late

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<sup>12</sup> Cited in R. Pity, *op. cit.*, p. 197.

<sup>13</sup> Department of Immigration and Citizenship, “Abolition of the ‘White Australia’ Policy”, *Immigration Fact Sheet No. 8.*, available at: <<http://www.immi.gov.au/media/fact-sheets/08abolition.htm>>.

<sup>14</sup> R. Bell, *op. cit.*, p. 201.

1970s.<sup>15</sup> By the late 1970s, China, Hong Kong and South Korea started growing as destinations for Australian exports and by the late 1980s Taiwan and Southeast Asia had also become growing markets (see Appendix One). Imports from Asia increased as well although at a less dramatic rate. The investment relationship remained weak.<sup>16</sup>

The Hawke and Keating Labor governments increasingly framed Australia's relationship with Asia as a choice between history and geography. Bob Hawke argued that he wanted "enmeshment with Asia" and later in the 1980s his government set about increasing Australia's Asia focus. Japanese investment in Australia increased rapidly in the 1980s sparking similar worries to those regarding the rise of Chinese investment in recent years. Foreign Minister Gareth Evans played a major role in the Cambodian peace process and pushed the case for nuclear disarmament, but the most important regional initiative for Australia during the Labor years was the development of the Asia Pacific Economic Cooperation (APEC) forum. Australian commentators generally credit Hawke with the idea for APEC in a speech in Seoul in early 1989, although there is dispute over its origins.<sup>17</sup> At the first APEC meeting, Hawke noted

*With our historical roots in Europe, and our reputation – let me concede it was sometimes a well-earned reputation – for economic and cultural insularity, Australia has not been seen by some in the region as an integral part of the region. Indeed sometimes Australians haven't seen themselves in that light either. But those days are gone – gone forever.*<sup>18</sup>

As Prime Minister, Paul Keating continued to push a positive Asian agenda.<sup>19</sup> On a trip to Asia in September 1992, Keating unequivocally confirmed Australia's commitment to the region and offered

<sup>15</sup> R. Bell, *op. cit.*, p. 201-202.

<sup>16</sup> M. McGillivray, "Australia's Economic Ties with Asia", in M. McGillivray and G. Smith (eds), *Australia and Asia*, Melbourne, Oxford University Press, 1997, p. 58-60 and 71.

<sup>17</sup> Some Japanese commentators argue that Japan gave the idea to Australia because Japan couldn't directly propose such a body given regional sensitivities to a major Japanese role in the region. See R. McGregor, "How the Japanese Gave Us APEC," *The Australian*, April 1, 1996, p. 1-2; Y. Funabashi, "The Fight Over APEC," *Australian*, January 6-7, 1996, p. 17. According to Sheridan, "one senior Australian figure" described this claim as "self-serving Japanese horse-shit". G. Sheridan, "How Hawke's Idea Took Off," *The Australian*, January 6-7, 1996, p. 17. Notwithstanding this rather amusing dispute, the groundwork for APEC had been laid earlier than this by the Pacific Economic Cooperation Committee. A. MacIntyre and N. Viviani, "APEC Revisited", *Australian Journal of International Affairs*, Vol. 46, No. 2, 1992.

<sup>18</sup> R. J. L. Hawke, "Speech by the Prime Minister: Welcome Dinner for Delegates to the Ministerial Meeting on Asia Pacific Economic Cooperation", Canberra, November 5, 1989, p. 8.

<sup>19</sup> P. J. Keating, "Speech by the Prime Minister, 'Australia and Asia: Knowing Who We Are', Lecture to the Asia-Australia Institute", Sydney, April 7, 1992; P. J. Keating, "Speech by the Prime Minister, 'Globalism and Regionalism: Australia's Trade Policy Agenda for the 90s', Keynote Address to the Australian Chamber of Manufactures' Conference on Asia 2010", Melbourne, July 20, 1992.

support for Japan in its ongoing trade disputes with the United States. In reviewing his trip, Keating argued that he wanted Australians to know “how much our future depends on successfully carrying forward this engagement”.<sup>20</sup> For one commentator at the time, Keating’s speeches in Asia indicated a shift comparable to Curtin’s 1942 speech acknowledging Australia’s turn to the US.<sup>21</sup>

Keating aimed to change the way Australians viewed their security in the region, arguing that Australia had “to find its security in Asia not from Asia”. Australians had to stop looking at Asia with suspicion and fear.<sup>22</sup> Dreams needed to replace nightmares. A key element of Keating’s strategy was to build a close, stable relationship with Indonesia. Many Australians, however, were skeptical about Keating’s enthusiasm for both the Australian-Indonesian Security Agreement and President Suharto’s rule.<sup>23</sup>

## ***Australia is Not an Asian Country***

In the lead up to the 1996 election, Liberal opposition leader John Howard signaled to the region and to Australians that a Howard government would mean a check on Labor’s Asian vision. Howard defended British Australians and offered solace to those who wanted the reassurance of the past. Australians did not need to choose “between the past and the future, between history and geography”, instead, Australia required “a renewal and renovation in the symbols and structures of ... national institutions”.<sup>24</sup> He argued that Asian integration was part of Labor’s “politically correct”, “big picture”

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<sup>20</sup> P. J. Keating, “Visit to Japan, Singapore and Cambodia”, *Statement to Parliament by the Prime Minister*, Canberra, October 13, 1992, p. 1.

<sup>21</sup> G. Sheridan, “Trading Places”, *The Weekend Australian*, September 26-27, 1992, p. 19. Sheridan argued that: “Paul Keating may have made history in Tokyo. The Prime Minister this week attempted nothing less than a fundamental redirection of Australia’s external orientation. Just as, in John Curtin’s time, we turned towards the United States and away from Britain, Keating has now tried to turn us towards East Asia, and Japan in particular, and away from the US.” In 1995, the Japanese returned the compliment, arguing that Australia was one of the fairest trading nations in the world and the US one of the dirtiest. P. Hartcher, “Australia ‘Among Fairest’”, *Australian Financial Review*, March 31, 1995, p. 24.

<sup>22</sup> P. J. Keating, *Engagement: Australia Faces the Asia-Pacific*, Sydney, Macmillan, 2000.

<sup>23</sup> See G. Brown, F. Frost and S. Sherlock, “The Australian-Indonesian Security Agreement – Issues and Implications”, *Research Paper 25*, Parliamentary Library, Canberra, 1995-1996, available at: <<http://www.aph.gov.au/library/pubs/rp/1995-96/96rp25.htm>>. In an obituary for Suharto in 2008, Keating contended that Australians should be grateful to Suharto for keeping Indonesia relatively prosperous and stable. P. J. Keating, “The Nation Builder”, *Sydney Morning Herald*, 2 February 2, 2008, available at: <<http://www.smh.com.au/news/world/the-nation-builder/2008/02/01/1201801034281.html?page=fullpage#contentSwap1>>

<sup>24</sup> J. Howard, (1995) “Politics and Patriotism: A Reflection on the National Identity Debate”, Melbourne, December 13, 1995, available at: <<http://www.ozpolitics.info/guide/elections/fed2004/the-policies/politics-and-patriotism/>>.

agenda and his message was “Asia first but not Asia only”. In government he declared that while Asia would be his first port of call, he would not deal with Asia at the expense of Australia’s “great liberal democratic traditions”.<sup>25</sup> During his first visit to Asia, Howard declared unequivocally that Australia was not an Asian country.<sup>26</sup> Conflict in the Taiwan Straits soon tested Australia-China relations. Howard later admitted that his government made mistakes in dealing with the Chinese by siding with the Clinton administration in a way that “exacerbated Chinese sensitivities”.<sup>27</sup> Ministerial visits to Taiwan, a visit by the Dalai Lama and the suspension of soft loans further damaged relations with China.<sup>28</sup>

In its 1997 foreign policy White Paper, *In the National Interest*, the government argued that the rise of East Asia and globalization would be the “two most profound influences on Australian foreign and trade policy”.<sup>29</sup> The government stressed that the United States was Australia’s most important partner. It also re-emphasised that “closer engagement with Asia [did not] require reinventing Australia’s identity or abandoning the values and traditions which define Australian society”.<sup>30</sup>

The early years of the Howard government also saw the rise of the populist politician Pauline Hanson and a reinvigoration of a virulent strain of antiAsian sentiment. Hanson was a disendorsed Liberal candidate in the 1996 Federal election. As an independent, she won the usually safe Labor seat of Oxley centered on the town of Ipswich, close to Brisbane. Hanson argued that Australia was “in danger of being swamped by Asians”.<sup>31</sup> Howard’s failure to criticize Hanson attracted widespread condemnation in the region.<sup>32</sup> Hanson garnered support because she offered a return to the past on Asian immigration, attitudes to aborigines, industry protection, and welfare policy. At the same time, the East Asian Crisis of 1997-98 led some commentators to argue that the East Asian growth miracle was at an end, and that state-led capitalism was unable to cope with

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<sup>25</sup> Anonymous, “Australia, and John Howard, Opt for Change”, *The Economist*, March 9, 1996.

<sup>26</sup> Editorial, “Mr Howard In Jakarta”, *Sydney Morning Herald*, September 18, 1996.

<sup>27</sup> Cited in G. Dobell, “China and the Great Asia Project II: Suffering Chinese Burns”, *Lowy Interpreter*, November 18, 2010, available at: <<http://www.lowyinterpreter.org/post/2010/11/18/The-Great-Asia-Project-II-Suffering-Chinese-burns.aspx>>.

<sup>28</sup> *Ibid.*

<sup>29</sup> Department of Foreign Affairs and Trade, *In the National Interest: Australia’s Foreign and Trade Policy*, Canberra: Commonwealth of Australia, 1997, available at: <<http://pandora.nla.gov.au/pan/46872/20050504-0000/www.dfat.gov.au/ini/whitepaper.pdf>>, p. v.

<sup>30</sup> *Ibid.*, p. iv.

<sup>31</sup> P. Hanson, *Maiden Speech to the Australian House of Representatives*, 1996, available at: <<http://gos.sbc.edu/h/hanson.html>>.

<sup>32</sup> P. Kelly, “The Asian Imperative”, *The Australian*, 10 May 10, 1997.

globalization.<sup>33</sup> The Howard government made a virtue out of Australia's relatively excellent economic performance and exhibited a degree of *schadenfreude* over Asia's fall from grace.<sup>34</sup>

Before China's rise became the dominant focus of Australian-Asian relations, two major events severely challenged Australian foreign policy. The government's eventual support for East Timorese independence from Indonesia and its deployment of peacekeeping troops created significant tensions with Indonesia and bad press all over Asia.<sup>35</sup> The deployment of troops to East Timor was a significant change in the attitude of previous Australian governments to East Timor. Labor's Foreign Minister, Gareth Evans, had argued that East Timor was an integral part of Indonesia, but the change of view was popular in Australia.

Another negative in Asia was Howard's agreement in an interview with a description of Australia's regional role as akin to that of a 'Deputy' to the United States. Howard did not use the term, but did not disagree with his interviewer's characterization.<sup>36</sup> Six days after the release of the *Bulletin* article John Howard read a prepared statement in response to a question from his own side of politics: "the government does not see Australia as playing the role of a deputy for the United States, or indeed any other country in the region".<sup>37</sup> In the context of the East Timor intervention, it is difficult to overstate how negatively Asian elites viewed this diplomatic debacle.<sup>38</sup>

In the early 2000s, Howard and Downer's subsequent unwavering support for the US War on terrorism and accompanying military action in Afghanistan and Iraq created more friction in Asia, particularly amongst the majority Muslim countries of Malaysia and Indonesia. In 2002, the Bali bombings helped to reinvigorate Australian nightmares about Asia, but really highlighted why good relations – especially with our closest neighbor – are so essential. Australia's legitimate concerns about Indonesia and other Southeast Asian countries attitudes to extremist groups led to caustic diplomatic relations.<sup>39</sup> A major cause of disagreement was over Australian gov-

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<sup>33</sup> See D. Forman, "Intervention Pleas Fall on Deaf Ears after Asian Crisis", *The Australian*, November 3, 1997.

<sup>34</sup> Howard called Australia "the economic strongman of Asia" during the 1998 election campaign. I. Henderson, "Economy shrugs off Asia crisis", *The Australian*, September 3, 1998.

<sup>35</sup> R. McGregor and I. Stewart, "Role shift Fans Regional Critics", *The Australian*, 27 September 1999; L. Wright, "Mahathir Criticism Wrong – Howard", *The Canberra Times*, 18 May 2000.

<sup>36</sup> F. Brenchley, "The Howard Defence Doctrine", *The Bulletin*, 28 September 1999, p. 22–4.

<sup>37</sup> R. Leaver, "The Meanings, Origins and Implications of 'the Howard Doctrine'", *Pacific Review*, Vol. 14, No. 1, 2001, p. 18.

<sup>38</sup> G. Sheridan, "PM's Doctrine Under Fire", *The Weekend Australian*, 25-26 September 1999.

<sup>39</sup> See for example G. Barker, "Diplomatic Relations Reach Boiling Point", *Australian Financial Review*, 8 November 2002.



ernment travel warnings after the Bali bombings. After Malaysian Prime Minister Mahathir complained that, “Australia has to decide whether it’s an Asian country or a Western country”, opposition Labor foreign affairs spokesman Kevin Rudd responded, “I think frankly it’s time the prime minister of Malaysia took a running jump”.<sup>40</sup> Mahathir responded by arguing that Australia would not be accepted as an Asian country until it stopped “assuming it knows better” than its Asian neighbors.<sup>41</sup> His criticism was vitriolic:

*This country [Australia] stands out like a sore thumb trying to impose its European values in Asia as if it is the good old days when people can shoot aborigines without caring about human rights.*<sup>42</sup>

Later in 2003 Singapore Prime Minister Goh Chok Tong argued that Australia would need a 50% Asian population to be a fully accepted member of the region. Howard’s response was that pushing Australia’s nondiscriminatory immigration program in favor of Asians would be “absurd”.<sup>43</sup>

Terrorism was dominating foreign policy concerns in most Western countries in 2002 and Howard was particularly adamant that the West needed to do what it could to prevent terrorist acts. In late 2002, in response to an interviewer’s question on terrorism, Howard argued that

*It stands to reason if you believe somebody was going to launch any attack on your country, either of a conventional kind or a terrorist kind, and you had the capacity to stop it and there was no other alternative than to use that capacity, then of course you would have to use it.*<sup>44</sup>

Howard argued his comments were “not directed against the countries of the region”.<sup>45</sup> But Asian leaders demanded that Howard retract his statement. Howard’s mismanagement of Australian-Asian relations appeared to be going from bad to worse.<sup>46</sup>

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<sup>40</sup> AAP, “Go Jump, ALP Tells Malaysia Prime Minister”, *The Age*, 25 November 2002, available at: <<http://www.theage.com.au/articles/2002/11/25/1038173679066.html>>. In October 2003, Rudd argued that Mahathir’s criticisms were “offensive for all Australians”. C. Stewart, “Mahathir Offends All of US, Says ALP”, *The Australian*, 10 October 2003.

<sup>41</sup> K. Lyall, “Mahathir Jumps in with New Attack”, *The Australian*, 28 November 2002.

<sup>42</sup> ABC, “Mahathir Attacks Howard Over First Strike Talk”, *ABC News Online*, 3 December 2002, available at: <[http://www.abc.net.au/news/politics/2002/12/item20021203181541\\_1.htm](http://www.abc.net.au/news/politics/2002/12/item20021203181541_1.htm)>.

<sup>43</sup> G. Barker, PM Rejects Asian Migrant Push”, *Australian Financial Review*, 21 October 2003.

<sup>44</sup> Cited in A. Boyd, “Australia’s Threats Anger Asian Allies”, *Asia Times*, 3 December 2002, available at: <[http://www.atimes.com/atimes/Southeast\\_Asia/DL03Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/DL03Ae01.html)>.

<sup>45</sup> J. Kerin and M. Price, “Prime Minister Fuels Asian Ire on Terror”, *The Australian*, 3 December 2002.

<sup>46</sup> T. Walker, “Pre-emptive Strikes: PM Fires Back”, *Australian Financial Review*, 6 December 2002. Howard repeated the comments in the 2004 election campaign. Similar to the controversy surrounding Pauline Hanson, it appeared that Howard was

In 2003 the Howard government released another foreign policy White Paper called *Advancing the National Interest*. The document reflected the changed strategic environment of terrorism and preparation for war in Iraq.<sup>47</sup> The government did not believe that Australia could mediate or narrow cultural and value differences with Asian countries. Instead, differences needed to be appreciated and the focus put on “shared interests and on a mutual respect”.<sup>48</sup>

Also in 2003, Australia hosted both President Bush and President Hu Jintao within days of each other, providing an interesting image of Australia balancing its increasingly dominant economic relationship with its most important security relationship. The visits increased debate about their relative roles in Australia’s future. Howard argued that, “There has never been a closer moment in Australian-American relations and we’ve been able to do all of that in an unambiguous way but in no way has that cramped our style with the Chinese”.<sup>49</sup>

In September 2004, Foreign Minister Downer caused some concern about a possible shift in Australia’s allegiances when, referring to the Australia, New Zealand, United States Security Treaty, he argued that:

*The ANZUS treaty is invoked in the event of one of our two countries, Australia or the United States, being attacked, so some other military activity elsewhere in the world, be it in Iraq or anywhere else for that matter, doesn’t automatically invoke the ANZUS treaty.*<sup>50</sup>

The comments indicated a growing tension between Australia’s key security and economic relationships. Downer’s assertion received a tart response from US Deputy Secretary of State, Richard Armitage, who accused Downer of wanting an “a la carte” alliance.<sup>51</sup> Downer made an embarrassing back down and Howard

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willing to sacrifice Asian sensibilities to political advantage in Australia. Opposition foreign affairs spokesman Kevin Rudd repeatedly accused the Howard government of sacrificing Australian foreign policy for domestic political advantage. See K. Rudd, “It’s All Foreign to this Minister” *The Australian*, 8 May 2002. Interestingly Alexander Downer argued that Indonesia was worried about a hypothetical terrorist group in the outback of Australia and the Australian government did nothing then Indonesia would have a right to attack the terrorist base. J. Kerin, “Jakarta Welcome to Bomb Us: Downer”, *The Weekend Australian*, 25-26 September 2004.

<sup>47</sup> Department of Foreign Affairs and Trade, *Advancing the National Interest: Australia’s Foreign and Trade Policy White Paper*, Canberra, Commonwealth of Australia, 2003, available at: <[http://pandora.nla.gov.au/pan/46872/20050404-0000/www.dfat.gov.au/ani/dfat\\_white\\_paper.pdf](http://pandora.nla.gov.au/pan/46872/20050404-0000/www.dfat.gov.au/ani/dfat_white_paper.pdf)>.

<sup>48</sup> A. Gyngell and M. Wesley, *Making Australian Foreign Policy*, second edition, Melbourne, Cambridge University Press, p. 276.

<sup>49</sup> Cited in D. Shanahan and S. Lewis, “PM: Bush and Hu Visits will Cement our Future”, *The Weekend Australian*, 18-19 October 2003.

<sup>50</sup> Cited in H. McDonald, “Downer Flags China Shift”, *The Age*, 18 August 2004, available at: <<http://www.theage.com.au/articles/2004/08/17/1092508475187.html>>.

<sup>51</sup> H. Fitzsimmons, “Downer Questioned Over ANZUS Comments”, *ABC Lateline*, ABC Television, 2004, available at: <<http://www.abc.net.au/lateline/content/2004/s1180824.htm>>.



quickly reassured the United States of Australia's loyalty, stating that the obligations of ANZUS were clear: "We have to consult and come to each other's aid when we're under attack or involved in conflict."<sup>52</sup> Nevertheless, naval exercises between Australia and China heightened the sense that Australia's relationship with China was expanding.<sup>53</sup> Downer later rejected a Chinese request that Australia review the Alliance in relation to the Taiwan issue.<sup>54</sup>

## ***Howard's Surprising Success in Asia***

In 2005, Howard responded to a Lowy Poll implying that Australians ranked the United States below China in terms of "positive feelings" by arguing, "foreign policy cannot be conducted over the heads of the people".<sup>55</sup> Labor had made capital over the Iraq War with the slogan "Alliance not compliance" and Howard realized that he needed to recalibrate Australia's reasons for joining the US War against Iraq towards combating terrorism and supporting democracy. He also emphasized the growing importance of Asia:

*Asia is poised in coming decades to assume a weight in the world economy it last held more than five centuries ago. It is also home to eight of the world's ten largest standing armies and after the Middle East, the world's three most volatile flashpoints the Taiwan Strait, the Korean peninsula and Kashmir.*

Engaging with the region, he argued, required a mix of "principles and pragmatism" that utilities "bilateral, regional and global instruments". He praised Japan as Australia's greatest friend in Asia and nominated it, Australia and the United States as "the three great Pacific democracies". He argued that conflict between the United States and China was not inevitable and that Australia "had a role in continually identifying, and advocating to each, the shared strategic interests these great powers have in regional peace and prosperity". Howard also reiterated that his government had "rebalanced

<sup>52</sup> Mark Forbes, "Howard Assures US of Loyalty", *The Age*, 21 August 2004, available at: <<http://www.theage.com.au/articles/2004/08/20/1092972750685.html?from=storylhs>>.

<sup>53</sup> US Deputy Secretary of State R. Armitage cited in T. Allard, "Naval Exercises with Chinese Mark Dawn of a New Era", *Sydney Morning Herald*, 12 October 2004, available at: <<http://www.smh.com.au/articles/2004/10/11/1097406503116.html>>.

<sup>54</sup> J. Kerin, "Beijing's ANZUS Warning", *The Australian*, 8 March 2004. In 2005, Rudd argued that Australia needed to be honest with China that increased economic ties to China would not change Australia's commitment to ANZUS. P. Walters, "Let's Be Honest with Beijing on US: Rudd", *The Australian*, 19 May 2005.

<sup>55</sup> For the Lowy Poll see I. Cook, *Australians Speak 2005: Public Opinion and Foreign Policy*, Lowy Institute, March 2005, available at: <<http://www.lowy-institute.org/Publication.asp?pid=236>>. For the quote see J. Howard, "Australia and the World", *Address to the Lowy Institute for International Policy*, 31 March 2005, available at: <<http://pandora.nla.gov.au/pan/10052/20080118-1528/pm.gov.au/media/Speech/2005/speech1290.html>>.

Australia's foreign policy to better reflect the unique intersection of history, geography, culture and economic opportunity that our country represents ... we do not face a choice between our history and our geography".<sup>56</sup>

Soon after, visits by Indonesian President Susilo Bambang Yudhoyono and Malaysian Prime Minister Abdullah Badawi marked a revitalisation of Australia's relationships in Southeast Asia. Yudhoyono argued that "the security, prosperity and stability of Indonesia and Australia are interconnected".<sup>57</sup> Howard's hard work in building a personal relationship with Yudhoyono and commitment of a billion dollars to reconstruction after the 2004 Tsunami helped to turn Australian-Indonesian relations around. This, in turn, helped Australia's cause in Southeast Asia as Indonesia pledged that it would back Australia's entry into the East Asian Summit (EAS).<sup>58</sup> Abdullah was less sanguine, taking the opportunity to criticize Howard's preemption comments and argue that Australia had not shown that it wanted to be part of Asia.<sup>59</sup> Soon after, however, the Vietnamese Prime Minister Phan Van Kai backed Australia for the EAS, praising Howard for his "great achievements".<sup>60</sup>

Howard also visited China and Japan in the same month adding to the perception that he was now a serious player in Asian diplomacy.<sup>61</sup> During his visit to Beijing, Chinese Premier Wen Jiabao told Howard that China would support Australia's membership of the EAS. Both governments published a joint feasibility study into an Australia-China FTA.<sup>62</sup> The difficult defection of Chinese diplomat, Chen Yonglin, sparked accusations that the government was pandering to the Chinese.<sup>63</sup> Chen sought political asylum after accusing the Chinese government of operating a spy ring in Australia and persecuting members of Falun Gong. The opposition accused the government of breaking the law by informing the Chinese Embassy of

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<sup>56</sup> For two very different interpretations of whether the speech signaled a regionalist or globalist vision see G. Barker, "PM's Regional Focus", *Australian Financial Review*, 1 April 2005, and G. Sheridan, "Howard Goes Global", *The Australian*, 1 April 2005. The point of Howard's speech was to argue that Australia did not need to choose.

<sup>57</sup> S. B. Yudhoyono (2005) "A Comprehensive Partnership", *The Australian*, 5 April.

<sup>58</sup> K. Murphy, "Jakarta Vows to Open Doors in Asia", *The Australian*, 5 April 2005.

<sup>59</sup> P. Walters, "Malaysia Strikes Back at PM", *The Weekend Australian*, 2-3 April 2005.

<sup>60</sup> P. Walters, "Vietnam PM Backs Summit Bid", *The Australian*, 6 May 2005.

<sup>61</sup> P. Hartcher, "Come and Study at My School of Diplomacy, Howard Tells World", *Sydney Morning Herald*, 20 April 2005, available at: <<http://www.smh.com.au/news/National/Come-and-study-at-my-school-of-diplomacy-Howard-tells-the-world/2005/04/19/1113854201865.html>>.

<sup>62</sup> P. Hartcher, "China Makes Some Room at the Summit", *Sydney Morning Herald*, 20 April 2005, available at: <<http://www.smh.com.au/news/National/China-makes-some-room-at-the-summit/2005/04/19/1113854203597.html>>.

<sup>63</sup> S. Das, "In the Great China Sale, Economics and Politics Don't Mix", *The Age*, 16 June 2005, available at: <<http://www.theage.com.au/news/Opinion/In-the-great-China-sale-economics-and-politics-dont-mix/2005/06/15/1118645864718.html>>.

Chen's defection.<sup>64</sup> In a speech in New York a couple of months later Howard argued that:

*China's progress is good for China and good for the world ... Australia's strong relationship with China is not just based on economic opportunity. We seek to build on shared goals, and not become obsessed by those things that make us different. By widening the circle of substance, we are better able to deal openly and honestly with issues where we might disagree.*<sup>65</sup>

After some testy negotiations on whether Australia would sign ASEAN's Treaty of Amity and Cooperation, the government quietly agreed to sign and got an invitation to the EAS in 2005.<sup>66</sup> Downer, Howard and many commentators heralded the decision as vindication of the government's Asia policy.<sup>67</sup> Extensive lobbying for Australia's membership of the EAS by Japan, Indonesia and Singapore significantly helped Australia's case.<sup>68</sup> The government also made progress on an ASEAN, Australia and New Zealand Trade Agreement (with the parties finalizing AANZFTA in early 2009). Some hailed the EAS as a great success, but it soon became evident that Asian leaders placed greater emphasis on the ASEAN plus three meeting.<sup>69</sup>

In March 2006, Japanese Foreign Minister Taro Aso, US Secretary of State Condoleezza Rice and Downer met in Sydney for a meeting of the Trilateral Strategic Dialogue (TSD) between Australia, the United States and Japan. The TSD had existed as a senior officials' dialogue since 2002, but was now to be taken more seriously. The TSD joint statement recognized the importance of

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<sup>64</sup> AAP, "Probe Demanded into Chen Defection", *The Age*, 12 June 2005, available at: <<http://www.theage.com.au/news/National/ALP-demand-probe-into-Chen-defection/2005/06/12/1118514922530.html>>. The government eventually granted Chen and his family a permanent protection visa. See also Senate Foreign Affairs, Defence and Trade References Committee, "Reference: Chen Yonglin and Vivian Solon Cases", *Official Committee Hansard*, Tuesday, 26 July 2005, Canberra, available at: <<http://www.aph.gov.au/hansard/senate/commtee/s8555.pdf>>.

<sup>65</sup> J. Howard, "Transcript", Address to the Asia Society, New York, 12 September 2005, available at: <<http://pandora.nla.gov.au/pan/10052/20051121-0000/www.pm.gov.au/news/speeches/speech1560.html>>.

<sup>66</sup> For a discussion of the build-up to the negotiations over Australia's entry into the EAS in 2004 see T. Conley, "Issues in Australian Foreign Policy July to December 2004", *Australian Journal of Politics and History*, Vol. 51, No. 2, 2005 for a detailed discussion. The East Asian Summit was sometimes referred to as ASEAN plus six. The six are Japan, China, South Korea, India, New Zealand and Australia. In 2010, the United States and Russia attended the EAS and are now members. In 2010, ASEAN debated whether to include the two in the EAS or develop another grouping to be called ASEAN plus 8! See G. Dobell, 2011.

<sup>67</sup> G. Sheridan, "Howard at Home on World Stage", *The Australian*, 30-31 July 2005.

<sup>68</sup> P. Kelly, "The Day Foreign Policy Won Asia", *The Weekend Australian*, 6-7 August 2005.

<sup>69</sup> P. Walters, "East Asia Summit 'No Threat' to ASEAN", *The Australian*, 14 December 2005.

reinforcing the “global partnership with India”.<sup>70</sup> The parties also agreed that APEC should remain the most important forum for multilateral dialogue in the Asia-Pacific and emphasized the need for boosting APEC and the ASEAN Regional Forum as the major components of East Asian security institutions.<sup>71</sup> According to Jain, “some commentators in China dubbed the TSD arrangement a ‘little NATO’ in the Asia-Pacific region”.<sup>72</sup> Downer, however, argued that it was not aimed “at ganging up on China”.<sup>73</sup> Soon after, Howard and Chinese Premier Wen Jiabao signed an agreement for Australia to export uranium to China. Howard argued that his government did not support a “policy of containment of China”.<sup>74</sup>

Australia-Indonesian relations were fractious during mid-2006 when Australia granted temporary visas to 42 West Papuan asylum seekers. The affair showed how easily relations between Australia and Indonesia can flare up. Indonesia recalled its Ambassador and President Yudhoyono criticized Australia’s decision.<sup>75</sup> Indonesian importers called for boycotts of Australian goods. Howard responded that he did not think Australians wanted West Papuan refugees to come to Australia.<sup>76</sup> The government worked hard to improve relations over 2006 and, in November, Downer signed an agreement with the Indonesian foreign minister on security cooperation known as the Lombok Treaty.<sup>77</sup> Article 2 of the agreement stated:

*The Parties, consistent with their respective domestic laws and international obligations, shall not in any manner support or participate in activities by any person or entity which constitutes a threat to the stability, sovereignty or territorial integrity of the other Party, including by those who seek to use its territory for encou-*

<sup>70</sup> A. Downer, “Joint Statement Australia-Japan-United States Trilateral Strategic Dialogue”, Sydney, 18 March 2006, available at: <[http://www.foreignminister.gov.au/releases/2006/joint\\_statement-aus-japan\\_usa\\_180306.html](http://www.foreignminister.gov.au/releases/2006/joint_statement-aus-japan_usa_180306.html)>.

<sup>71</sup> P. Walters, “APEC Rises as a Security Force”, *The Australian*, 20 March 2006. For an extended discussion on the Trilateral Strategic Dialogue see W. Tow, “The Trilateral Strategic Dialogue: Facilitating Community-Building or Revisiting Containment?”, *NBR Special Report*, The National Bureau of Asian Research, December 2008, available at: <<http://www.nbr.org/publications/element.aspx?id=354>>.

<sup>72</sup> P. Jain, “A ‘Little NATO’ Against China”, *Asia Times Online*, 17 March 2006, available at: <<http://www.atimes.com/atimes/China/HC18Ad01.html>>.

<sup>73</sup> ABC, “Downer Downplays Talks’ China Focus”, *ABC News Online*, 18 March 2006, available at: <<http://www.abc.net.au/news/newsitems/200603/s1595073.htm>>.

<sup>74</sup> L. Dodson and M. Metherell, “Uranium Deal Strengthens Bond with China”, *Sydney Morning Herald*, 3 April 2006, available at: <<http://www.smh.com.au/news/national/uranium-deal-strengthens-bond-with-china/2006/04/03/1143916466708.html>>.

<sup>75</sup> M. Forbes, “Yudhoyono Questions Future Ties”, *The Age*, 4 April 2006.

<sup>76</sup> M. Grattan and L. Murdoch, “Papuan Boat People Not Wanted: PM”, *The Age*, 7 April 2006, available at: <<http://www.theage.com.au/news/national/papuan-boat-people-not-wanted-pm/2006/04/06/1143916656753.html>>.

<sup>77</sup> A. Downer, “Signature of the Australia-Indonesia Agreement on the Framework for Security Cooperation”, *Media Release*, 13 November 2006, available at: <[http://www.foreignminister.gov.au/releases/2006/fa124\\_06.html](http://www.foreignminister.gov.au/releases/2006/fa124_06.html)>.

*raging or committing such activities, including separatism, in the territory of the other Party.*<sup>78</sup>

In March 2007, Australia signed the Australia-Japan Joint Declaration on Security Cooperation, which meant that Australia was now Japan's closest security partner after the United States. Both countries maintained that the agreement was not aimed at China.<sup>79</sup> While Australia's 2006 Quadrennial Review by the Defense Department had earlier stated, "The pace and scope of China's military build-up already puts regional military balances at risk", in September 2007, Downer announced the establishment of an Australia-China Strategic Dialogue between foreign ministers to commence in 2008.<sup>80</sup> The Howard government was hedging its bets, building up security ties with long-term allies, while trying to reassure China that these ties were not aimed at China. There can be no doubt that there was increased effort by the United States, Japan and Australia to augment security ties.<sup>81</sup> The Quadrilateral security dialogue comprising Australia, the United States, Japan and India created further tensions between Australia and China. In early September 2007, naval exercises conducted by the four countries (plus Singapore) in the Bay of Bengal caused much consternation in China.<sup>82</sup> The associated rhetoric of an alliance of democracies only added to Chinese anxieties.<sup>83</sup>

While Howard had been skeptical about a wider role for APEC, he changed his mind as the 2007 APEC Summit in Sydney approached. Howard saw the meeting as a potential electoral asset for his government, allowing him to play the role of senior Asian statesman. Unfortunately, Labor opposition leader Kevin Rudd gazumped him by addressing the Chinese leader in fluent Mandarin. The meeting achieved little on trade, but made some soundings on developing an Asia-Pacific Partnership on Climate Change, which

<sup>78</sup> Department of Foreign Affairs and Trade, *Agreement Between the Republic of Indonesia and Australia on the Framework for Security Cooperation*, 13 November 2006, available at: <<http://www.dfat.gov.au/geo/indonesia/ind-aus-sec06.html>>. The treaty attracted considerable criticism. See for example G. Barker, "Downer's Holey Alliance Stirs a Cauldron of Dismay", *Australian Financial Review*, 27 April 2007.

<sup>79</sup> Reuters "Australia, Japan in Security Pact", *The Age*, 13 March 2007, available at: <<http://www.theage.com.au/news/national/australia-japan-in-security-pact/2007/03/13/1173722464995.html>>.

<sup>80</sup> Defense Department quote cited in Graham Dobell, "Tokyo and Canberra Move Closer", *Australian Financial Review*, 20 April 2007. For the China agreement, see A. Downer, *Establishment of Australia-China Strategic Dialogue*, 6 September 2007, available at: <[http://www.foreignminister.gov.au/releases/2007/fa113\\_07.html](http://www.foreignminister.gov.au/releases/2007/fa113_07.html)>.

<sup>81</sup> T. Ueno "US, Australia, Japan: Joint Missile Defence Plan", *Sydney Morning Herald*, 23 May 2007, available at: <<http://www.smh.com.au/news/world/us-australia-japan-joint-missile-defence-plan/2007/05/23/1179601420332.html>>.

<sup>82</sup> See D. Brewster, "The Australia-India Security Declaration: The Quadrilateral Redux?", *Security Challenges*, Vol. 6, No 1, 2010.

<sup>83</sup> J. Howard, "Speech Transcript", *Address to the ASPI 'Global Forces 2007' Conference*, 5 July 2007, available at: <<http://pandora.nla.gov.au/pan/10052/2007/0823-1732/www.pm.gov.au/media/Speech/2007/Speech24415.html>>. See also P. Walters, "Defence Battlegrounds Drawn", *The Australian*, 6 July 2007.



Howard and Bush saw as a mechanism to bypass the Kyoto Agreement. Australian-Asian relations had come a long way over the 11 years of the Howard government.

## ***Rudd and the Disappointment of Expectations***

The election of the Rudd government in November 2007 was accompanied by high hopes for Australian-Asian relations, partly because Rudd had a better foreign policy background than any previous Prime Minister. Rudd acted as though he was both Foreign Minister and Prime Minister from the very beginning. He quickly invited ridicule from the media for time he spent out of the country. The media transformed his 2007 election slogan “Kevin 07” into “Kevin 747”.

In the early days of the government, there was some concern that Australia was shifting into China's orbit. Foreign minister Steven Smith announced, after the first “strategic dialogue” with China, that Australia was abandoning the “Quadrilateral dialogue”. That he made the statement with the Chinese foreign minister standing by his side reinforced this view.<sup>84</sup> Also significant was the abandonment of plans to sell uranium to India and Rudd's failure to visit Japan on his first trip overseas.<sup>85</sup> The Indonesian Defense Minister Juwono Sudarsono expressed concern about Australia's China focus. Commenting on Rudd's speech outlining his vision of Australia as “a creative middle power”, Sudarsono remarked, “you've got to feel there was something missing ... there wasn't much mention of Indonesia ... or ASEAN”.<sup>86</sup>

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<sup>84</sup> S. Smith, “Joint Press Conference with Chinese Foreign Minister”, *Transcript*, 5 February 2008, available at: <[http://www.foreignminister.gov.au/transcripts/2008/080205\\_jpc.html](http://www.foreignminister.gov.au/transcripts/2008/080205_jpc.html)>. The Howard government had announced the Security Dialogue in September 2007. See J. Howard, “Transcript”, *Joint Press Conference with the President of the People's Republic of China, His Excellency Hu Jintao*, 6 September 2007, available at: <<http://pandora.nla.gov.au/pan/10052/20080118-1528/pm.gov.au/media/Interview/2007/Interview24538.html>>.

<sup>85</sup> See J. Koutsoukis, “Japan Fury Over Rudd Snub”, *The Age*, 16 March 2008, available at: <<http://www.theage.com.au/news/national/japan-fury-over-snub/2008/03/15/1205472163984.html>>; T. Conley and M. Heazle, “Bad Policy to Leave Japan Out in the Cold”, *The Australian*, 28 March 2008, available at: <<http://www.theaustralian.com.au/news/world/bad-policy-to-leave-tokyo-out-in-the-cold/story-e6frg6ux-1111115905874>>.

<sup>86</sup> J. Kerin, “Jakarta Feels Left Out”, *Australian Financial Review*, 28 March 2008. But for a later reaction from Indonesia's foreign minister, see H. McDonald, “Prime Minister ‘Snub’ of Indonesia a Non-Issue: Wirajuda”, *The Age*, 3 June 2008, available at: <<http://www.theage.com.au/national/pm-snub-of-indonesia-a-nonissue-wirajuda-20080602-2kwc.html>>. For Rudd's speech see K. Rudd, “Advancing Australia's Global and Regional Economic Interests”, *Address to the East Asia Forum in Conjunction with the Australian National University*, 26 March 2008, available at: <<http://prrudd.archive.dpmc.gov.au/node/5888>>. See also G. Sheridan, “Asia Fears Rudd's China Fixation”, *The Australian*, 3-4 May 2008, available at: <<http://www.theaustralian.com.au/news/asia-fears-rudds-china-fixation/story-e6frg6t6-1111116233965>>.

Perhaps because of his China connections Rudd felt free to criticize the Chinese about human rights problems in Tibet. In a speech in Mandarin at Peking University he said

*The current situation in Tibet is of concern to Australians. We recognize the need for all parties to avoid violence and find a solution through dialogue. As a long-standing friend of China I intend to have a straightforward discussion with China's leaders on this.*<sup>87</sup>

This speech and earlier comments in Washington irritated a Chinese leadership sensitive about Tibetan issues in the context of the uprising, the forthcoming Olympic Games and popular concerns about Chinese foreign investment in Australian resources.<sup>88</sup>

In June 2008, Rudd suggested that none of the existing regional institutions were adequate for effective cooperation in Asia.<sup>89</sup> He announced his proposal for an Asia-Pacific Community (APC) with little consultation indicating that it would be a "regional institution which spans the entire Asia-Pacific region – including the United States, Japan, China India, Indonesia and the other states of the region". While the inadequacies of East Asian regionalism are multiple, his proposal was almost universally condemned.<sup>90</sup> Rudd's major error was his failure to run the idea past key players in ASEAN before it was raised publicly. Instead, Rudd sent a roving ambassador to canvass regional opinion on the issue after the announcement. Regional reaction was lukewarm at best.<sup>91</sup>

<sup>87</sup> K. Rudd, "A Conversation with China's Youth on the Future", *Speech to Peking University*, 9 April 2008, available at: <<http://pmrudd.archive.dpmc.gov.au/node/5857>>. For analysis see G. Barme, "Rudd Rewrites the Rules of Engagement", *Sydney Morning Herald*, 12 April 2008, available at: <<http://www.smh.com.au/news/opinion/rudd-rewrites-the-rules-of-engagement/2008/04/11/1207856825767.html?page=fullpage#contentSwap2>>.

<sup>88</sup> For the Washington speech see K. Rudd, "The Australia-US Alliance and Emerging Challenges in the Asia-Pacific Region", *Speech at the Brookings Institution*, Washington, 31 March 2008, available at: <<http://pmrudd.archive.dpmc.gov.au/node/5877>>.

<sup>89</sup> K. Rudd, "It's Time to Build an Asia Pacific Community", *Address to the Asia Society AustralAsia Centre*, Sydney, 4 June 2008, available at: <[http://www.http://www.pm.gov.au/media/Speech/2008/speech\\_0286.cfm](http://www.http://www.pm.gov.au/media/Speech/2008/speech_0286.cfm)>.

<sup>90</sup> P. Keating, "I Got it Right the First Time", *The Australian*, 6 June 2008, available at: <[http://blogs.theaustralian.news.com.au/yoursay/index.php/theaustralian/comments/i\\_got\\_it\\_right\\_the\\_first\\_time/](http://blogs.theaustralian.news.com.au/yoursay/index.php/theaustralian/comments/i_got_it_right_the_first_time/)>; T. Colebatch, M. Forbes, and M.-A. Toy, "Keating Blast for Rudd's Asia Union", *The Age*, June 6 2008, available at: <<http://www.theage.com.au/national/keating-blast-for-rudds-asia-union-20080605-2mby.html>>. For a more positive reception see An. MacIntyre, "Rudd's Pacific Plan: Dead or Alive?", *East Asian Forum*, 3 October 2008, available at: <<http://www.eastasiaforum.org/2008/10/03/rudds-pacific-plan-dead-or-alive/>> and A. Elek, "Kevin Rudd's Vision for Asia Pacific Institution-Building", *East Asian Forum*, 12 June 2008, available at: <<http://www.eastasiaforum.org/2008/06/12/kevin-rudd%E2%80%99s-vision-for-asia-pacific-institution-building/>>.

<sup>91</sup> At the end of 2008, Rudd's roving ambassador, foreign policy establishment figure Richard Woolcott, noted that there was "no appetite" for a new regional body. Nevertheless, he presented the government with some options for getting the proposal moving. The best option, he suggested, would be to have a core group of

Although Rudd kept talking about the APc over 2009, by the middle of 2010, the proposal was shelved, just in time for Julia Gillard to replace him as Prime Minister.<sup>92</sup> One of the aims of Rudd's proposal was achieved in late 2010 when the United States and Russia became a bigger part of the regional architecture, when they attended the East Asian Summit in Hanoi. ASEAN still rules Asian regionalism and any proposal must accept this reality. As Chinese Premier Wen Jiabao put it, "East Asia cooperation will develop only if ASEAN plays a dominant role".<sup>93</sup>

During 2009, events conspired to test Australia-China relations. In the early part of the year, the Defense Department investigated its own Minister, Joel Fitzgibbon, over connections to a prominent Chinese business woman with alleged links to the Chinese Communist Party.<sup>94</sup> Rudd also suffered from negative commentary in the media and criticism from the opposition about a "secret" meeting with Politburo propaganda, media and ideology chief, Li Changchun, after which he lobbied for a greater role for China in the IMF.<sup>95</sup> Later in the year, relations reached a new low when the Chinese government banned high-level visits over the granting of an Australian visa to the Uighur leader Rebiya Kadeer. The imprisonment of Rio Tinto executive Stern Hu also caused frictions and made it appear that China was retaliating for Australian restrictions on Chinese foreign investment.<sup>96</sup> At the end of a terrible year for the relationship, Foreign

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members to guide the proposal or simply to add the United States to the EAS. P. Kelly, "The Shape of the Future", *The Australian*, 20 December 2008, available at: <<http://www.theaustralian.news.com.au/story/0,25197,24824788-7583,00.html>>.

<sup>92</sup> D. Flitton, "Setback for PM's Asia-Pacific Proposal", *The Age*, 21 April 2009, available at: <<http://www.theage.com.au/national/setback-for-pms-asiapacific-proposal-20090420-acrb.html>>; R. Callick, "Rudd's Asian Vision Quietly Buried", *The Australian*, 21 June 2010, available at: <<http://www.theaustralian.com.au/news/world/kevin-rudds-Asian-vision-quietly-buried/story-e6frg6so-1225881987040>>.

<sup>93</sup> Cited in Anonymous, "China ready to back ASEAN at East Asia Summit: Chinese PM", *Jakarta Post*, 30 April 2011, available at: <<http://www.thejakartapost.com/news/2011/04/30/china-ready-back-asean-east-asia-summit-chinese-pm.html>>.

<sup>94</sup> R. Baker, P. Dorling and N. McKenzie, "Defense Spies on its Own Minister", *The Age*, 25 March 2009, available at: <<http://www.theage.com.au/national/defence-spies-on-its-minister-20090325-9aij.html>>. Eventually, Fitzgibbon resigned after "revelations that an army general was instructed to attend meetings with the minister's brother, Mark Fitzgibbon, at which defense health contracting was discussed". A. Sharp, "Defense Minister Joel Fitzgibbon Resigns", *The Age*, 4 June 2009, available at: <<http://www.theage.com.au/national/defence-minister-joel-fitzgibbon-resigns-20090604-bwju.html>>.

<sup>95</sup> C. Stewart and M. Sainsbury, "PM Kevin Rudd Keeps Lodge Talks with Chinese Secret", *The Australian*, 24 March 2009, available at: <<http://www.theaustralian.com.au/news/nation/pm-keeps-chinese-lodge-talks-secret/story-e6frg6nf-1225690651388>>. Opposition leader Malcolm Turnbull accused Rudd of becoming "a roving ambassador for China". The meeting was publicised in the Chinese media, but Rudd failed to inform the Australian media. See Anonymous, "Li Changchun meets Australian Prime Minister", *Xinhua*, 22 March 2009, available at: <[http://news.xinhuanet.com/english/2009-03/22/content\\_11051604.htm](http://news.xinhuanet.com/english/2009-03/22/content_11051604.htm)>.

<sup>96</sup> G. Sheridan and M. Sainsbury, "Beijing Bites Back over Kadeer Visit and Iron Ore Prices", *The Australian*, 18 August 2009, available at: <<http://www.theaustralian.com.au/business/news/beijing-bites-back-over-kadeer-visa-and-iron-ore-prices/story-e6frg90f-1225763061828>>.



Minister Smith argued that “unfortunately from both Australia’s and China’s perspective [controversial issues] are played out in public. When it is most effective, Australia’s concerns are raised in private in a direct fashion.”<sup>97</sup>

Kevin Rudd would support the contention that official meetings are best kept private after WikiLeaks revealed that he was worried about China’s potential to play a destabilizing role in the region. In response to US Secretary of State Hillary Clinton’s flippant question about China – “How do you deal with your banker?” – the US Embassy reported

*Calling himself “a brutal realist on China”, Rudd argued for “multilateral engagement with bilateral vigor” – integrating China effectively into the international community and allowing it to demonstrate greater responsibility, all while also preparing to deploy force if everything goes wrong.*<sup>98</sup>

In the lead up to the release of the 2009 Defense White Paper, there was a dispute within the security policy bureaucracy over whether China’s military build-up was defensive in nature or whether it posed a threat to Australia’s security.<sup>99</sup> According to a newspaper report, when a senior Australian defense delegation visited Washington they found that US Defense Secretary Robert Gates, the CIA and the Defense Intelligence Agency viewed Chinese intentions as less of a problem than they did.<sup>100</sup> Realist nightmares prevail over liberal dreams in the defense establishment. The White Paper outlined a significant increase in Australia’s military spending, with the emphasis on augmenting the Royal Australia Navy. The document argued

*China will also be the strongest Asian military power, by a considerable margin. Its military modernization will be increasingly characterized by the development of power projection capabilities. A major power of China’s stature can be expected to develop a globally significant military capability befitting its size. But the pace, scope and*

<sup>97</sup> S. Smith, “Australia-China Relations: A Long-Term View”, *Speech to Australian National University’s China Institute*, 26 October 2009, available at: <[http://www.foreignminister.gov.au/speeches/2009/091026\\_au\\_china.html](http://www.foreignminister.gov.au/speeches/2009/091026_au_china.html)>.

<sup>98</sup> WikiLeaks, US Embassy Cables: Hillary Clinton Ponders US Relationship with its Chinese ‘Banker’, *The Guardian*, 4 December 2010, available at: <<http://www.guardian.co.uk/world/us-embassy-cables-documents/199393/print>>. The meeting with Clinton took place on the 24<sup>th</sup> of March 2009.

<sup>99</sup> C. Stewart and P. Walters, “Spy Chiefs Cross Swords over China as Kevin Rudd Backs Defense Hawks”, *The Weekend Australian*, 11-12 April 2009, available at: <<http://www.theaustralian.com.au/news/spy-chiefs-cross-swords-over-china/story-e6frg6n6-1225697020657>>. See also K. Rudd, “Transcript”, *Address to the RSL National Congress*, 9 September 2008, available at: <[http://www.pm.gov.au/media/Speech/2008/speech\\_0468.cfm](http://www.pm.gov.au/media/Speech/2008/speech_0468.cfm)>.

<sup>100</sup> C. Stewart and P. Walters “Defense Chiefs Spurned by US on China Risk”, *The Australian*, 15 April 2009, available at: <<http://www.theaustralian.com.au/news/nation/defence-chiefs-spurned-by-us-on-china/story-e6frg6nf-1225697111920>>.

*structure of China's military modernization have the potential to give its neighbors cause for concern if not carefully explained ...*<sup>101</sup>

The WikiLeaks cables also contributed to a profoundly negative perception of Rudd's foreign policy as Prime Minister, with the United States making a scathing assessment of both Rudd and Smith.<sup>102</sup>

## ***Gillard: No Passion for Foreign Affairs?***

With Rudd's political assassination in 2010, Australia gained a Prime Minister who expressly stated that she was less interested in foreign policy than domestic policy. After taking over as Prime Minister some commentators criticized Julia Gillard for failing to personally contact Asian leaders, not consulting with Indonesia before announcing plans for a regional processing center for asylum-seekers in East Timor and failing to attend the Pacific Islands Forum.<sup>103</sup> In a remark that will forever provide a point of departure for her foreign policy Gillard revealed, "foreign policy is not my passion. It's not what I've spent my life doing. You know, I came into politics predominantly to make a difference to opportunity questions."<sup>104</sup> If Labor stays in office for another term Gillard will eventually stamp her authority on Australia's Asia policies, as most Prime Ministers do, but initially it is likely that Rudd will continue to dominate foreign policy.<sup>105</sup>

Gillard's overseas tours in March-April 2011 were remarkably different in tone to Rudd's sojourns. There were few new announcements, initiatives or agreements. We can see the order of her visits as an attempt by Gillard to mark the relative importance of Australia's relationships with the world. She first visited the United States where

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<sup>101</sup> Department of Defense, *Defending Australia in the Asia Pacific Century: Force 2030*, Canberra, Commonwealth of Australia, 2009, available at: <<http://www.defence.gov.au/whitepaper/>>, p. 34.

<sup>102</sup> M. Baker, "Exclusive: the WikiLeaks Australia Files", *Sydney Morning Herald*, 15 December 2010, available at: <<http://www.smh.com.au/technology/technology-news/exclusive-the-wikileaks-australia-files-20101215-18xwx.html>> For an interesting take on the whole affair see A. Downer, "America Will Kill Rudd with Kindness", *Sydney Morning Herald*, 9 December 2010, available at: <<http://www.smh.com.au/opinion/politics/america-will-kill-rudd-with-kindness-20101208-18poe.html>>

<sup>103</sup> D. Shanahan and M. Dodd, "Gillard Overlooks Asian Partners", *The Australian*, 30 July 2010.

<sup>104</sup> ABC, "Gillard on Afghanistan", *7.30 Report*, 5 October 2010, available at: <<http://www.abc.net.au/7.30/content/2010/s3030288.htm>>. See also T. Wald, "Foreign Affairs Not My Thing: Gillard", *The Age*, 5 October 2010, available at: <<http://news.theage.com.au/breaking-news-national/foreign-affairs-not-my-thing-gillard-20101005-166a9.html>>.

<sup>105</sup> P. Rolfe and J. Campbell, "Prime Minister Julia Gillard says Kevin Rudd Will Not Dominate Foreign Policy", *Sunday Herald Sun*, 12 September 2010, available at: <<http://www.heraldsun.com.au/news/national/cabinet-shake-up-stamps-prime-minister-julia-gillards-authority/story-e6frf7l6-1225918748153>>.

she gave a speech that would have made Bush and Howard blush with embarrassment.<sup>106</sup> On her Asian sojourn she visited Japan first, then South Korea, with China last. She stayed in Japan for four days and China two. Gillard did not want to make the same mistake as Rudd in 2008, where he appeared to signal that Chinese concerns surpassed those of the Japanese in Australia's foreign policy estimation. Gillard noted, "Japan is Australia's closest partner in Asia. But it is more than that. Japan is also a friend – a country and people for whom Australians today feel genuine affection and warmth."<sup>107</sup>

In China, Gillard balanced the standard elements of Australia-China relations: saying something about human rights; acknowledging *à la* Howard that China's growth is good for China, the world and Australia; downplaying negative security implications of China's rise; and arguing that Australia's "policy is not to contain" China.<sup>108</sup> Rather the world needed to recognize that, "As China's role in the world grows, so its role in supporting the international system will grow".<sup>109</sup>

Despite some criticism that the trip signaled a wasted opportunity, Gillard had achieved what she set out to do, to keep Australia's key Northeast Asian relationships in good order.<sup>110</sup> At the end of these trips relations with Asia were in much better condition than during the rule of her Labor predecessor.

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<sup>106</sup> J. Gillard, *Address to the Congress of the United States*, Washington, 9 March 2011, available at: <<http://www.pm.gov.au/press-office/address-congress-united-states-washington>>.

<sup>107</sup> J. Gillard, "Transcript", *Keynote Address to the Japan National Press Club*, Tokyo, 22 April 2011, available at: <<http://www.pm.gov.au/press-office/keynote-address-japan-national-press-club-tokyo>>.

<sup>108</sup> J. Gillard, "Australia and China", *Speech to the Australia China Economic and Co-operation Trade Forum*, Beijing, 26 April 2011, available at: <<http://www.pm.gov.au/press-office/speech-australia-china-economic-and-co-operation-trade-forum-beijing>>; Cited in M. Franklin, Julia Gillard Rejects Need to Contain China", *The Australian*, 27 April 2011, available at: <<http://www.theaustralian.com.au/national-affairs/julia-gillard-rejects-need-to-contain-china/story-fn59niix-1226045266144>>.

<sup>109</sup> J. Gillard, "Australia and China", *op. cit.*

<sup>110</sup> M. Sainsbury, "Lost Chance on the Slow Boat to China", *The Weekend Australian*, 30 April–1 May 2011, available at: <<http://www.theaustralian.com.au/national-affairs/commentary/lost-chance-on-the-slow-boat-to-china/story-e6frgd0x-1226047153315>>; J. Garnaut, "Economic Ties Ease Tensions", *Sydney Morning Herald*, 2011, available at: <http://www.smh.com.au/world/economic-ties-ease-tensions-with-china-20110426-1dv7n.html>>.

## Nightmares and Dreams

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*East Asia's economic crisis – a more significant event than the Gulf War – has demonstrated that East Asia will not become the main challenger to the West.<sup>111</sup>*

Prediction is a difficult business, as changing assessments of Asia's future since the Asian financial crisis of the late 1990s make clear. Australia has continued to do well in the aftermath of the global financial crisis, but anxieties persist despite the optimistic contentions of many about the ineluctable rise of Asia. In this section, I analyze the propensity of commentators and policy-makers to see Asia's rise and its impact on Australia in extreme terms and argue that this tendency has led to an overestimation of Australia's economic strengths and China's current ability or desire to challenge US primacy. A more prosaic account of Asian developments and a pragmatic approach to Australian foreign policy in Asia will allow policy-makers to avoid mistaking possible futures for current realities. Asia's future is not fixed. Just because dream or nightmare scenarios make more interesting reading doesn't mean policy-makers have to think in the same way.

### ***China's Rise Shakes the Region: Nightmare Scenarios***

Despite the currently positive outlook for Australian-Asian relations, history reveals good times don't last forever and that careless diplomacy can exacerbate tensions with key players in the region. Mearsheimer neatly encapsulates the nightmare scenario:

*Australians should be worried about China's rise because it is likely to lead to an intense security competition between China and the United States, with considerable potential for war. Moreover, most of China's neighbors, to include India, Japan, Singapore, South Korea, Russia, Vietnam—and Australia—will join with the United States*

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<sup>111</sup> B. Buzan and G. Segal, "A Western Theme", *Prospect*, 20 February 1998, available at: <<http://www.prospectmagazine.co.uk/1998/02/awesternthem/>>.

*to contain China's power. To put it bluntly: China cannot rise peacefully.*<sup>112</sup>

He suggests that this is partly because the United States can't decline peacefully. While Mearsheimer acknowledges that China is currently incapable of challenging the United States in Asia, he asserts that when it has increased its military capacity we will find out "how committed it is to the status quo".<sup>113</sup> Mearsheimer's realist formula provides a paradigm through which contingency, chance and cooperation can only play minor roles over the longer-term.

White provides an alternative realist account of Asia's future. He argues that the "Chinese challenge to American power in Asia is no longer a future possibility, but a current reality" and that Australia (and others) should encourage the United States to give up primacy in Asia because it is already losing it.<sup>114</sup> His argument is based on the idea that China's continuing rise is more likely than not and so, therefore, is relative US decline. According to White, "In the long run, economics is what matters in power politics ... No country has exercised great power without great wealth".<sup>115</sup>

White contends that China's best approach to buttress its rise will be "to share power in a collective leadership with Asia's other strong states" akin to the Concert of Europe in the nineteenth century. This means that all powers "must accept the legitimacy of one another's political systems ... must stay out of one another's internal affairs ... accept the validity of one another's international interests, and be prepared to compromise to reach a deal where these interests collide."<sup>116</sup> According to White, the United States cannot rely on other Asian countries to continue to support its primacy, instead "they will support America to *balance* China, but not to *dominate* it."<sup>117</sup> The exception is Japan, which cannot rely on the United States to put its relationship with Japan, before its relationship with China.

Rather than focusing on the decline of the United States, understanding global power requires us to analyze, as Zakaria asserts, the "rise of the rest".<sup>118</sup> The rise of 'others' has long led to worries in the United States about decline. Kevin Rudd argues that

*there is an almost soothing regularity to these episodic predictions of American decline and despair. People have been predicting the decline of US power since the "missile gap" debate of 1960; the oil crises of 1970s; the*

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<sup>112</sup> J. J. Mearsheimer, "The Gathering Storm: China's Challenge to US Power in Asia", *The Chinese Journal of International Politics*, Vol. 3, No. 4, 2010, p. 382.

<sup>113</sup> *Ibid.*, p. 385.

<sup>114</sup> H. White, "Power Shift: Australia's Future between Washington and Beijing", *Quarterly Essay*, No. 39, 2010, p. 2.

<sup>115</sup> *Ibid.*, p. 19.

<sup>116</sup> *Ibid.*, p. 23-4.

<sup>117</sup> *Ibid.*, p. 31.

<sup>118</sup> F. Zakaria, "The Future of American Power: How America Can Survive the Rise of the Rest", *Foreign Affairs*, May/June 2008.

*rise of Japan in the 1980s; the rise of China since the late 1990s; and, most recently, the implosions arising from the global financial crisis.*<sup>119</sup>

Undoubtedly, the rise of China is quantitatively and qualitatively different from past challenges. China is outside the Western sphere of influence, whereas Japan's rise occurred within a close knit security arrangement with the United States. The Chinese challenge is also qualitatively different to the Soviet challenge because of its successful embrace of globalization and capitalism. At a crude level, the sheer size of the Chinese population will make it a vital player in the region even if its growth falters. Indeed, a declining China might be an even bigger problem.

It is too early to write off the United States.<sup>120</sup> Asia has risen through taking advantage of globalization and the US-structured "liberal" economic order.<sup>121</sup> The dream scenario is a complex amalgam of assertions and interpretations of current trends.<sup>122</sup> At a base level, it is for a commercially connected Asia, benignly entwined through regional production structures and financial linkages. It is a vision of an increasingly socialized China, aware that the liberal order has facilitated its rise, unwilling to risk its prosperity through hegemonic ambition and committed to the status quo.<sup>123</sup> This optimistic vision is an easy target for realists and others who like to refer to Norman Angell's *Great Illusion*, which argued that economic interdependence had made the consequences of war between the major powers extremely costly and, hence, made war unlikely. Obviously, he was wrong.<sup>124</sup>

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<sup>119</sup> K. Rudd, "American Leadership and the Emerging Global Order", *Address to the Foreign Policy Association*, New York, 24 September 2009, available at: <<http://pmrudd.archive.dpmc.gov.au/node/6222>>.

<sup>120</sup> For a comparison of the economic weight of the major states across a series of measures, see T. Conley, "Measuring Economic Weight", *Big P Political Economy*, 14 March 2010, available at: <<http://tomjconley.blogspot.com/2010/03/measuring-economic-weight.html>>.

<sup>121</sup> G. J. Ikenberry, "China and the Rest Are Only Joining the American-Built Order", *New Perspectives Quarterly*, Vol. 25, No. 3, June 2008.

<sup>122</sup> For an "optimistic" realist account, which nevertheless canvasses the possibility of the self-fulfilling possibilities of realist pessimism about China's rise see C. Glaser, "Will China's Rise Lead to War?", *Foreign Affairs*, Vol. 90, No. 2, March/April 2011.

<sup>123</sup> A. I. Johnston, (2003) "Is China a Status Quo Power?", *International Security*, Vol. 27, No. 4, 2003; A. Dupont, *The Political and Strategic Implications of a Free Trade Agreement with China*, Paper Prepared for the Australia-China Free Trade Agreement Conference, The Australian APEC Study Centre, Sydney, 12 August 2004, available at: <<http://www.apec.org.au/docs/China04Dupont.pdf>>; N. Taylor, "China as a Status Quo or Revisionist Power? Implications for Australia", *Security Challenges*, Vol. 3, No. 1, 2007.

<sup>124</sup> "[I]nternational finance has become so interdependent and so interwoven with trade and industry that the intangibility of an enemy's property extends to his trade. It results that political and military power can in reality do nothing for trade, since the individual merchants and manufacturers of small nations exercising no such power compete successfully with those of the great." N. Angell, *The Great Illusion: A Study of the Relation of Military Power to National Advantage*, London, Heinemann, 1912,



Ikenberry argues that “the old American hegemonic order will remain a critical component of East Asian order for decades to come”.<sup>125</sup> He contends that the rest of Asia’s increasing economic ties to China’s rise make continuing security ties to the United States more likely, not less. Wolf argues that China needs to recognize its interests “in a stable, peaceful and co-operative global political and economic environment. Only in such a world can China hope to sustain rapid development”.<sup>126</sup> The debating point of course is whether countries, particularly rising powers, continue to recognize their interest in the status quo. Ramo argues that the rise of China has led to an alternative development model he dubs “the Beijing Consensus”, which aims to develop “equitable, peaceful high-quality growth”.<sup>127</sup> For Ramo, the attraction of the Beijing consensus is as much about the failure of the United States as a global model as it is about the attraction of a China model. But this fails to recognize the global sources of China’s success.<sup>128</sup>

Kang provides an optimistic account of China’s rise. His historical analysis contends that a strong China has historically been a force for stability in Asia. According to Kang, “East Asian states view China’s re-emergence of the gravitational center of East Asia as natural”.<sup>129</sup> He argues that other East Asian states increasingly accept China’s assertion of a “peaceful rise” and that we need to go beyond the economic realm into the world of ideas and identity construction to understand why. While his account focuses on changing notions of identity in East Asia – “all identities are being constantly reinterpreted and defined, both by the myths people create to explain their past, and by their current interactions” – his argument ultimately rests upon the notion of a historically continuous, “natural” hierarchical order.<sup>130</sup> While it is true that China’s rise has not *yet* led to conflict, it is unlikely that countries in the region, especially Vietnam and Japan, will be accepting of a clear cut Chinese domination of the region in the *future*. So while Kang is critical of liberal arguments based on notions of economic interdependence and maintains he

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p. vii. Indeed, Mearsheimer provides only three references for his critique of the liberal dream, with nothing from the twenty-first century. Angell’s *The Great Illusion*; T. L. Friedman *The Lexus and the Olive Tree: Understanding Globalization*, New York, Farrar, Straus and Giroux, 1999; R. Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, New York, Basic Books, 1986.

<sup>125</sup> G. J. Ikenberry, “American Hegemony and East Asian Order”, *Australian Journal of International Affairs*, Vol. 58, No. 3, 2004, p. 354.

<sup>126</sup> M. Wolf, “How China Should Rule the World”, *Financial Times*, 22 March 2011, available at: <<http://www.ft.com/cms/s/0/9ba6d850-54c2-11e0-b1ed-00144feab49a.html#axzz1I9OYWnS2>>

<sup>127</sup> J. C. Ramo, *The Beijing Consensus*, London, The Foreign Policy Centre, 2004, available at: <<http://fpc.org.uk/fsblob/244.pdf>>, p. 4.

<sup>128</sup> This is especially the case in Halper’s version. See S. Halper, *The Beijing Consensus: How China’s Authoritarian Model Will Dominate the Twenty-First Century*, New York, Basic Books, 2010.

<sup>129</sup> D. Kang, *China Rising: Peace, Power, and Order in East Asia*, New York, Columbia University Press, 2007, p. 4.

<sup>130</sup> *Ibid.*, p. 70.

does not try to predict the future, he does imply that the future is likely to be a continuation of the recent past.<sup>131</sup>

Clearly, the rest of Asia will also play a large role in determining the viability of the dream. Japan benefitted enormously from the post-war order and has much to lose through the shift in economic and military weight to China. Yet, it too has benefitted from China's rapid growth. Japan faces a similar dilemma to Australia, except that its history and geography make the problem more acute. Japan's decline shows that projections of dominance based on continuing linear growth are not foolproof.<sup>132</sup>

For Hutton, China's authoritarianism is a source of weakness rather than strength.<sup>133</sup> While he argues that China will need to relax its political control to avoid economic contradictions, Mann contends that it is unlikely that China's middle class will demand greater political representation, when the current system serves them so well.<sup>134</sup> Mann argues that the "soothing scenario" – that "eventually increasing trade and prosperity will bring liberalization and democracy" – is a fantasy.<sup>135</sup> Mann also dismisses the "upheaval scenario" – that China is headed for some sort of political or economic collapse – in favor of his third scenario that China will remain authoritarian. While optimists point to authoritarian capitalist regimes in Taiwan and South Korea that made the difficult transition to democratic capitalism, Mann contends that China is too different for them to be relevant.

It is not just in China and Asia where questions of governmental legitimacy and their implications for international politics and the world political economy are important. Given the financial crisis, slow growth and high debt in the United States, the possibility always remains that US domestic political reactions might lead to a change in US support for liberal internationalism.<sup>136</sup> Will the US political system

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<sup>131</sup> Van Ness argues that Kang's book gives "no warning of the unexpected". P. Van Ness, "Anticipating the Unexpected", *Asia Policy*, No. 6, 2008, p. 170.

<sup>132</sup> A. Wheatley, "Wait a Bit to Write Off the West", *New York Times*, 22 November 2010, available at: <<http://www.nytimes.com/2010/11/23/business/global/23inside.html?scp=24&sq=Japan+decline+China+rise&st=nyt>>; J. Yang, "Japan's Decline Relative to China: Scenarios and Implications for East Asia", *Political Science*, No. 62, 2010. See also P. Krugman, (1994) "The Myth of Asia's Miracle", *Foreign Affairs*, 73(6), 1994.

<sup>133</sup> W. Hutton, *The Writing on the Wall: Why We Must Embrace China as a Partner or Face it as an Enemy*, New York, Free Press, 2006.

<sup>134</sup> J. Mann, *The China Fantasy: How Our Leaders Explain Away Chinese Repression*, New York, Penguin, 2007. For a brilliant review of the publishing boom in books attempting to explain China see R. Callick, (2007) "Up Against the Wall: Why Explaining China Has Become a Boom Industry in the West", *The Australian Literary Review*, 1 August 2007.

<sup>135</sup> *Ibid.*, p. 2.

<sup>136</sup> For an analysis of the failure of the benefits of globalisation to be spread across American society see M. Spence and S. Hlatshwayo, "The Evolving Structure of the American Economy and the Employment Challenge", *Working Paper*, March 2011, Council on Foreign Relations, M. R. Greenberg Center for Geoeconomic Studies,



see the economic challenge from developing countries through liberal or realist eyes – as an opportunity or a threat? A protectionist shift by the United States would have a profound effect on the rise of Asia and, in turn, on Australia. Continuing stagnation and rising inequality will heighten the sense in US politics that globalization and the rise of Asia are a problem, rather than an opportunity.

## ***Australia's Economic Dreams in Chinese***

These problems are less prevalent for Australians, who may be the biggest dreamers in the region. When asked in the 2010 Lowy Poll on Public Opinion and Foreign Policy about how safe they felt in the world, 92% of those Australians polled said they felt very safe (42%) or safe (50%). While the overall percentage of those feeling safe has stayed similar since 2005, the percentage feeling very safe increased from 30 to 42 per cent.<sup>137</sup> It is interesting to note that 55% of those polled believe that China is already “the world’s leading economic power”, compared to 32% who called it for the United States. A 2011 Lowy Poll muddled the waters, however, by reporting, “Three-quarters of Australians see China’s growth as good for Australia, but at the same time almost half the adult population say that it is likely China will become a military threat to Australia within the next 20 years”.<sup>138</sup>

Asia’s economic growth has created an economic boom in Australia beyond the imagination of Australia’s economic policy-makers of the 1980s and early 1990s.<sup>139</sup> The best way of understanding the impact of Asian demand for Australian resources is the terms of trade.<sup>140</sup> According to Gruen, “Australia is currently experiencing the largest sustained boost to the terms of trade in our history ... the current five-year centered moving average of the terms

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available at: <<http://www.cfr.org/industrial-policy/evolving-structure-american-economy-employment-challenge/p24366>>.

<sup>137</sup> F. Hanson, *op. cit.*

<sup>138</sup> M. Wesley, cited in AAP, “Rise of China Seen as a Concern”, *Sydney Morning Herald*, 2011. Indeed on all measures, China’s rise has been seen more and more negatively by those Australians polled.

<sup>139</sup> For an account of the gloomy prognostications about the Australian economy in the 1980s, see T. Conley, *The Vulnerable Country: Australia and the Global Economy*, Sydney, University of New South Wales Press, 2009, ch. 4.

<sup>140</sup> The terms of trade is an index-measure ratio of the average price level of exports to the average price level of imports. It effectively reflects the capacity of a given quantity of exports to pay for a given quantity of imports, and provides an important indication of the strengths and weaknesses of the economic structure. A rising or falling terms of trade indicates the possibility of improving or declining living standards, because if what we sell earns relatively more than what we buy, we will be relatively wealthier. Because the terms of trade is a ratio, increases can be a result of export prices increasing at a greater rate than import prices, or export prices increasing while import prices are declining, or export prices declining at a slower rate than import prices.

of trade is much higher than it has been at any time in the past 140 years".<sup>141</sup>

Asia's rapid recovery has reinvigorated the resources boom in Australia after it stumbled during the global financial crisis. The IMF points out Australia's exports to Asia have increased from 40% of the total to 60% between 2000 and 2010.<sup>142</sup> Exports to China alone account for a quarter of all exports and 4.6% of GDP. But their impact on GDP is more important than even this, given flow on effects to the rest of the economy.<sup>143</sup> The IMF concludes that over the past 10 years economic shocks from Asia were considerably more important to the Australian business cycle than shocks from the United States. While noting the vulnerabilities, the IMF, like Australia's economic bureaucrats is bullish about the impact of emerging Asia on Australia's economic future.

In late 2010, the Head of Treasury Ken Henry and the Reserve Bank Governor Glenn Stevens both talked about the likelihood of a long-term China boom.<sup>144</sup> While Stevens' speech makes clear that Australia is increasingly dependent on China, the widespread assumption among policy-makers appears to be that China's growth will continue onward and upward and that India will then augment that demand even more for "decades, not just years".<sup>145</sup> Given China's growing importance for much of the world economy and certainly for Asia, there are also increasing indirect effects of Chinese growth on Australia. Chinese demand is also vital for Australia's second biggest export market, Japan, and other Asian export markets. This means that a Chinese slowdown will negatively

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<sup>141</sup> D. Gruen, (2011) "Economic and Financial Trends and Globalisation Over the Next 15 Years and How They Will Influence the Supply and Demand for Skills", *Presentation to Skills Australia/ASSA Scenario Development Forum*, 7 February 2011, available at: <[http://www.treasury.gov.au/documents/1961/PDF/Skills\\_Australia\\_Speech.pdf](http://www.treasury.gov.au/documents/1961/PDF/Skills_Australia_Speech.pdf)> .

<sup>142</sup> International Monetary Fund, *Regional Economic Outlook: Asia and Pacific: Managing the Next Phase of Growth*, April 2011, available at: <<http://www.imf.org/external/pubs/ft/reo/2011/APD/eng/areo0411.htm>>.

<sup>143</sup> C. Yeates, "If China Sneezes, We'll Catch More Than a Cold", *Sydney Morning Herald*, 2 May 2011, available at: <<http://www.smh.com.au/business/if-china-sneezes-well-catch-more-than-a-cold-20110501-1e2xp.html>>.

<sup>144</sup> Senate, "National Mining Tax", *Select Committee on the Scrutiny of New Taxes*, Canberra, 22 November 2010, available at: <<http://www.aph.gov.au/hansard/senate/committee/S13370.pdf>>. G. Stevens, "The Challenge of Prosperity", *Address to the Committee for Economic Development of Australia*, Melbourne, 29 November 2010, available at: <<http://www.rba.gov.au/speeches/2010/sp-gov-291110.html>>.

<sup>145</sup> G. Stevens, "America, Australia, Asia and the World Economy", *Address to the American Australian Association 2011 Annual Spring Lecture Lunch*, New York, 14 April 2011, available at: <<http://www.rba.gov.au/speeches/2011/sp-gov-140411.html>>. Stevens cited in Reuters, *India Growth Could Last Decades – Reserve Bank of Australia Governor*, *Reuters*, 2011, available at: <<http://in.reuters.com/article/2011/03/09/idINIndia-55445420110309>>. See also K. Henry "Australia 2011: Opportunities, Challenges and Policy Responses", *The 2011 Giblin Lecture*, Hobart, 4 March 2011, available at: <<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1986>>.

affect Australia's other Asian markets, exacerbating its impact on Australia.<sup>146</sup>

The terms of trade will continue to rise and fall just as they have throughout Australia's economic history, which will mean a variable national income. Price increases encourage supply increases, which then lead to oversupply and falling prices. China is actively seeking to diversify its sources of supply of the key resources it imports from Australia. This is the nature of the commodity cycle.<sup>147</sup>

## ***Australian Choices in the Face of Uncertainty***

*History is not overburdened with examples of how such transitions in geopolitical and geoeconomic realities have been accommodated peacefully. We need a new way forward.*<sup>148</sup>

If we can't agree on the past and the present, it's unlikely that we'll be able to build a consensus on the future. The task is to consider what uncertainty means for Australians and their policy-makers. For White, Australia's vision of its future is oxymoronic: a growing China will provide the wherewithal for both Australian prosperity and insecurity.<sup>149</sup> Although White warns of potential nightmares, his solution of a shared power regime in Asia certainly sways towards the dreamy side of our binary construction. His argument contains its own oxymoronic structure. While he makes some parts of his equation ineluctable, he then suggests that the major powers can still make pragmatic choices to share power. After arguing that the United States would be unlikely to come to Australia's aid if it retreated from Asia, he then argues that we should not underestimate our voice in Washington. He also contends that Australians could strengthen their voice by getting other Asian countries onboard to provide the same message. This ignores that Australia has trouble getting its message heard in Asia as well. White argues that Australia has five choices to deal with the power

<sup>146</sup> Cited in R. Callick, "Asia Trade Boom the New Normal as Europe, US Fade in Importance", *The Australian*, 22 November 2010, available at: <<http://www.theaustralian.com.au/business/asia-trade-boom-the-new-normal-as-europe-us-fade-in-importance/story-e6frg8zx-1225957989638>>.

<sup>147</sup> S. Bhattacharyya and J. G. Williamson, (2009) "Commodity Price Shocks and the Australian Economy Since Federation", Australian National University, Centre for Economic Policy Research, April 2009, "Discussion Paper", No. 605, available at: <<http://econrsss.anu.edu.au/pdf/DP605.pdf>>. See also C. Ebrahim-Zadeh, "Back to Basics: Dutch Disease: Too Much Wealth Managed Unwisely", *Finance & Development*, March. 2003, available at: <<http://www.imf.org/external/pubs/ft/fandd/2003/03/ebra.htm>>; see also R. G. Gregory, (1976) "Some Implications of the Growth of the Mining Sector", *Australian Journal of Agricultural Economics*, Vol. 20, No. 2, 1976, p. 71-91. The phenomenon is often designated the "Gregory Thesis" in Australia.

<sup>148</sup> K. Rudd, "Australia and China in the World", *70th Morrison Lecture*, Canberra, 23 April 2010, available at: <<http://pmrudd.archive.dpmc.gov.au/node/6700>>.

<sup>149</sup> *Ibid.*, p. 49.

shift in Asia: “We can remain allied to America, seek another great and powerful friend, opt for armed neutrality, build a regional alliance with our Southeast Asian neighbors, or do nothing and hope for the best.”<sup>150</sup>

The most likely ‘solutions’ are, of course, the maintenance and probable strengthening of the US alliance and hoping for the best. If Prime Minister Julia Gillard’s rhetoric is anything to go by the Alliance will be further strengthened by her government:

*There is a reason the world always looks to America. Your great dream – life, liberty and the pursuit of happiness – inspires us all. ... You have an ally in Australia. An ally for war and peace. An ally for hardship and prosperity.*<sup>151</sup>

Gillard’s clear signaling shows, as Manicom and O’Neil correctly point out, that while there is “some evidence of Australia accommodating China’s policy preferences ... there is no evidence of a weakening in Australia’s commitment to the US Alliance”.<sup>152</sup> This, they contend, undermines “any argument that instances of accommodation of Chinese policy preferences are indicative of a broader strategic realignment”. They are rightly skeptical about the success of China’s “soft power” strategy because “there remains a strong wariness of China’s longer term intentions among policy elites, something also mirrored in public opinion surveys”.

Given Australia’s strong and rapidly growing economic relationship with China, it would be surprising if there weren’t increased diplomatic and political linkages. The mistake is to equate these new linkages to a strategic shift. Those who imply that Australia is drifting towards China often base their argument on a correct, but misleading analysis of a deep skepticism and cynicism about US power in the world and the region. This is particularly the case within the Labor Party, where many argue that Australia needs a more independent foreign policy. Paul Keating did not just aim to shift Australia’s focus towards Asia, he also argued that Australia needed to move on from its ‘great and powerful friends’ tradition all together.<sup>153</sup> Labor leaders, however, are much more likely to be critical of the United States when they are not in power. Before Mark Latham became Labor opposition leader he tried to score points against the Howard government by criticizing its supine relationship

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<sup>150</sup> *Ibid.*, p. 60.

<sup>151</sup> J. Gillard, *Address to the Congress of the United States*, Washington, 9 March 2011, available at: <<http://www.pm.gov.au/press-office/address-congress-united-states-washington>>.

<sup>152</sup> J. Manicom and A. O’Neil, “Accommodation, Realignment, or Business as Usual? Australia’s Response to a Rising China”, *The Pacific Review*, Vol. 23, No. 1, 2010.

<sup>153</sup> Cited in P. Kelly “Our Rival Storytellers”, *The Weekend Australian*, 27-28 September 2003; P. Keating, “John Curtin’s World and Ours: An Australian Vision: Foreign Policy Challenges in the 21st Century”, John Curtin Memorial Lecture, 2002, available at: <<http://john.curtin.edu.au/events/speeches/keating.html>>.

with the United States and in particular Howard's relationship with George Bush.

*Mr Howard and his Government are just yes-men to the United States. There they are a conga line of suckholes on the conservative side of Australian politics. The backbench sucks up to the Prime Minister and the Prime Minister sucks up to George W.*<sup>154</sup>

This was *before* he became opposition leader. *After* he became leader, Latham realized that such views were electorally dangerous. His first press conference as leader took place after a meeting with US Ambassador Tom Schieffer and took place with a US flag in the background.<sup>155</sup> While many Australians might be critical of the United States, most like the idea of a security guarantee.<sup>156</sup>

One of the key arguments of the Howard government was that Australia's strong relationship with the United States was beneficial for Australian-Asian relations. Downer argued that

*Our strong relationship with the United States is an asset that we bring to the region. It is not a matter of choosing between strong relations with Asia and the United States – the two are mutually reinforcing.*<sup>157</sup>

While those who argued that the Australian-Asia-United States connection was a zero sum game were undoubtedly incorrect, the utility of the Alliance in Asia depends on the actions of the government in its Asian relations. When Howard was associated with the idea of Australia as a "deputy" to the United States and with the idea of preemption it was not an asset. When Australia talks too much about being a conduit between the United States and Asia it is also probably detrimental. It is also likely that different countries see the Alliance differently. Traditional US allies see it as beneficial, while China no doubt sees it more negatively. While countries such as Malaysia have seen criticism of Australia's US connections as a useful domestic political device, it is doubtful, even during the Mahathir years, that Malaysian political elites saw it as overly negative. Accompanied by effective diplomacy, the Alliance has been and can continue to be a major asset in Asia. Australia is not the only country that sees a strong US security presence as a security

<sup>154</sup> A. Ramsay, "Howard's Team are not the Only Suckholes", *Sydney Morning Herald*, 18 October 2003, available at: <<http://www.smh.com.au/articles/2003/10/17/1066364484462.html>> For Latham's interpretation of the affair see M. Latham, *The Latham Diaries*, Melbourne, Melbourne University Press, 2005, p. 214-5 and 253-54. For Hansard copy, see the following website: <http://www.aph.gov.au/hansard/rep/dailys/dr050203.pdf>

<sup>155</sup> Latham argues that the flag was not there on his request, but the impact was to show that no leader can be overtly anti-US in their sentiments and must pay penance if they do.

<sup>156</sup> F. Hanson, *op. cit.*

<sup>157</sup> A. Downer, "Australia's Engagement with Asia", Speech to the Asialink Chairman's Dinner, 1 December 2005, available at: <[http://www.foreignminister.gov.au/speeches/2005/051201\\_asialink.html](http://www.foreignminister.gov.au/speeches/2005/051201_asialink.html)>.

guarantee. Of course, much will depend on US actions in Asia as well.

Maintaining and building the alliance is not the only security option for Australia. Australia can also seek greater security through helping to build a rules-based multilateral international society or through greater engagement with the rest of Asia. Australia needs to maintain a pragmatic approach to enhancing its security through whatever means are available. Policy-makers do not need to make definite choices between bilateralism, regionalism and multilateralism. Ultimately, Australia's choices depend on what happens in Asia, but a good starting point is to build solid relationships with the countries of the region.

The economic rise of India does not attract the same level of anxiety associated with China's rise. India has become Australia's third largest export market and seventh largest trading partner.<sup>158</sup> Indian companies have also significantly increased their investment in Australia. While relations improved during the Howard years, culminating in 2007 with the Howard government agreeing to sell uranium to India, the Rudd government reneged on the deal because India was not a signatory to the nuclear nonproliferation treaty.<sup>159</sup> At the same time, he allowed a Howard government decision to sell uranium to China to stand. The fact that Rudd supported India's nuclear co-operation agreement with the United States added to the sense of confusion in India. A series of racist attacks on Indian students unfortunately accompanied these decisions. The Rudd government sent a number of Ministers to India in an attempt to negate the perception that racists were targeting Indians, but together with a change in immigration rules, the controversies surrounding Indian students have had a negative effect on the relationship and on Australia's education sector (which is Australia's third biggest export).<sup>160</sup>

Australia must also not take Japan for granted. Japan has been a major supporter of Australia's interests in Asia and is undoubtedly Australia's most important Asian ally. This is a remarkable development given past hostilities. Of course, Japan may not remain a pacifist nation if things go awry in Asia. Even with China's rapid rise, Japan remains the second largest destination for

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<sup>158</sup> Department of Foreign Affairs and Trade, *Trade at a Glance*, Canberra, Commonwealth of Australia, 2010, available at: <[http://www.dfat.gov.au/publications/trade/trade\\_at\\_a\\_glance\\_2010.html#sect02](http://www.dfat.gov.au/publications/trade/trade_at_a_glance_2010.html#sect02)>.

<sup>159</sup> AAP, "Uranium Sales to India Gets Ok", *Sydney Morning Herald*, 16 August 2007, available at: <<http://www.smh.com.au/news/national/uranium-sales-to-india-gets-ok/2007/08/16/1186857677829.html>>; B. Loudon, "Rudd's Uranium Reversal Irks India", *The Australian*, 3 March 2008, available at: <<http://www.theaustralian.com.au/news/nation/rudds-uranium-reversal-irks-india/story-e6frg6nf-111115695415>>.

<sup>160</sup> D. Flitton, "Rudd's Trip to India Will Be No Holiday", 2009, available at: <<http://www.theage.com.au/opinion/politics/rudds-trip-to-india-will-be-no-holiday-20091109-i5ap.html>>.



Australian exports (see Appendix One) and a growing source of investment in Australia. While Chinese investment has attracted much controversy, increasing Japanese investment in recent years has gone largely unnoticed.<sup>161</sup> The Rudd government mismanaged Australia's relationship with Japan, with Rudd failing to visit Japan on his first overseas trip and taking Japan to the International Court of Justice over Japanese whaling. Attacking Japan over whaling is an easy issue for a Labor government struggling with its environmental image. Very few people outside of Japan and other whaling countries think killing whales is appropriate in the twenty-first century, but Australian governments should let NGOs lead the fight. Australian policy-makers need to realize that Japan remains Australia's most important political relationship in Asia, even if it is no longer Australia's most important economic relationship.

Indonesia is also likely to be increasingly important for Australia. The Howard government's 1997 White Paper predicted that Indonesia would overtake Australia's GDP by 2005, but the Asian financial crisis of 1997-98 severely damaged its progress.<sup>162</sup> Nevertheless, given its high growth rate of recent years, it is probable that Indonesia will eventually be a larger economy than Australia. A stable and prosperous Indonesia actively seeking to strengthen ASEAN will be beneficial for Australia. But just as for China, Indonesian prosperity will bring another set of challenges. A more prosperous Indonesia will undoubtedly act to increase its military capabilities and this will no doubt make Australians nervous, as would a less secular Indonesia. Australians, however, need not be alarmed yet at the prospect of an Indonesian military larger than Australia. If current military spending increases in line with growth rate projections for both countries, then Indonesia's defense budget will not overtake Australia's until 2048. But it is possible, as Wesley points out, that Indonesian defense spending may well grow faster GDP.<sup>163</sup> Avoiding a counter-productive arms race will require intensive diplomatic efforts by both countries. Indonesia will be a pivotal country in any potential great power conflict in the region given its geostrategic location.

A more prosperous Indonesia will increase its demand for Australian exports of resources and services. It is also possible, however, that managing domestic issues will keep Indonesian governments preoccupied. The transition to democracy in Indonesia has gone relatively unnoticed in Australia, but has been an amazing

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<sup>161</sup> T. Conley, "Foreign Investment in and out of Australia: Latest Data", *Big P Political Economy*, 17 September 2010, available at: <<http://tomjconley.blogspot.com/2010/09/foreign-investment-in-australia-latest.html>>.

<sup>162</sup> Department of Foreign Affairs and Trade, *In the National Interest*, p. 23. H. White, "PM Should Talk to Paul Keating About Indonesia", *The Australian*, 8 March 2010.

<sup>163</sup> M. Wesley, "A Relationship in Need of a Rethink", *Sydney Morning Herald*, September 4, 2010, available at: <<http://www.smh.com.au/opinion/politics/a-relationship-in-need-of-a-rethink-20100903-14ubv.html>>.

success. Howard built the current strong relationship after the low points of 1999 and 2002 and Gillard needs to build upon Howard's later efforts by managing the asylum seeker / human trafficking problem sensitively and with extensive consultation. Australia needs to continue to encourage development throughout Southeast Asia, which has the potential to grow as an important market for Australian goods and services, but could also be the site of instability through terrorism and territorial claim and counter-claim.



## Conclusion

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Ideas about an Asian ascendancy are not new. US President, Theodore Roosevelt, writing in 1903, argued that, “The Atlantic era is now at the height of its development and must soon exhaust the resources at its command. The Pacific era, destined to be the greatest of all, is just at its dawn.”<sup>164</sup> War and the dilemmas of decolonization made Roosevelt’s prediction premature, but the post-war world has seen Asia rise to become the world’s most dynamic economic region. Over the longer-term, however, Asia remains vulnerable to political, social and environmental upheavals. While much has gone right, much could also go wrong. Understanding the consequences of Asian developments is essential for a prosperous Australian future.

Our review of Australian-Asian relations reveals just how benign the region has been for Australia since the 1980s and how much Asia has transformed into a positive rather than negative policy consideration. But Australians must continue to pursue a multipronged strategy – to hedge – in order to account for dream or nightmare scenarios or most likely something in between. Over the longer term, Australia will need to become less dependent on its alliance with the United States and help to build a stable regional order. Policy-makers will best advance Australia’s future prosperity and security by playing a constructive role in encouraging the great powers to cooperate. In the shorter term, Australians need to be more wary about becoming too dependent on Chinese and Indian demand for resources.

Australians don’t need to make immediate choices between alternative strategies, but they should accept that Australia can only play a limited role in determining whether the future order turns negative or positive. This doesn’t mean Australia’s foreign policies are irrelevant. Australia can still play a more or less constructive role in pushing Asia towards the dreamy side of our dichotomy. Most importantly Australian policy will also shape how Australians adjust to developments in Asia.

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<sup>164</sup> Cited in M. Yahuda, *The International Politics of the Asia Pacific*, London, Routledge, 2004, p. 1.

## Appendix – Australia's Trading Relationships

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**Table One**  
**Australia's Major Merchandise Export Markets 1901-2010**  
**Percentage of Total Trade**

| Country        | 1901  | 1910  | 1920-21 | 1930-31 | 1940-41 | 1950-51 | 1960-61 | 1970-71 | 1980-81 | 1990-91 | 2000-01 | 2010  |
|----------------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|
| China          | 0.30  | 0.19  | 0.20    | 5.50    | 3.14    | 0.11    | 3.66    | 1.52    | 3.57    | 2.75    | 5.79    | 25.30 |
| Japan          | 0.29  | 1.09  | 1.90    | 15.58   | 4.79    | 8.27    | 14.85   | 28.85   | 27.79   | 29.40   | 19.87   | 18.90 |
| Korea          |       |       | 0.00    | 0.00    | 0.01    | 0.01    | 0.16    | 0.23    | 2.86    | 6.62    | 7.79    | 8.90  |
| India          | 1.29  | 2.56  | 1.34    | 5.17    | 2.57    | 2.99    | 1.29    | 0.92    | 0.94    | 1.36    | 1.76    | 7.10  |
| United States  | 7.95  | 2.66  | 6.09    | 4.81    | 41.52   | 20.01   | 6.66    | 12.52   | 11.21   | 11.81   | 9.87    | 4.00  |
| United Kingdom | 59.37 | 62.82 | 41.22   | 87.73   | 51.45   | 43.10   | 21.29   | 11.90   | 3.73    | 3.67    | 3.93    | 3.60  |
| Taiwan         |       |       |         |         |         |         | 0.18    | 0.96    | 2.10    | 4.01    | 4.97    | 3.60  |
| New Zealand    | 3.44  | 3.90  | 4.75    | 4.89    | 6.87    | 2.72    | 5.70    | 5.60    | 4.76    | 5.20    | 5.82    | 3.50  |
| Thailand       |       |       | 0.02    | 0.10    | 0.17    | 0.12    | 0.17    | 0.78    | 0.68    | 1.36    | 1.88    | 2.50  |
| Singapore      |       |       |         |         |         | 1.46    | 1.12    | 2.85    | 2.65    | 5.66    | 5.07    | 2.10  |
| Indonesia      | 0.48  | 0.66  | 1.57    | 2.36    | 2.73    | 0.44    | 0.54    | 0.94    | 1.90    | 2.99    | 2.63    | 1.90  |
| Malaysia       |       |       | 1.29    | 1.35    | 3.72    | 1.10    | 1.10    | 1.60    | 2.33    | 2.01    | 2.11    | 1.60  |
| Hong Kong      | 0.97  | 1.16  | 0.53    | 0.63    | 1.01    | 0.80    | 1.73    | 2.18    | 1.63    | 3.19    | 3.31    | 1.40  |
| Germany        | 6.02  | 12.23 | 0.89    | 8.71    | 0.00    | 3.73    | 2.51    | 3.55    | 2.59    | 2.16    | 1.26    | 0.80  |
| Saudi Arabia   |       | 0.00  |         | 0.00    | 0.00    | 0.13    | 0.08    | 0.35    | 1.47    | 0.45    | 1.86    | 0.70  |
| Vietnam        |       |       | 0.03    | 0.03    | 0.13    | 0.00    | 0.02    | 0.36    | 0.15    | 0.05    | 0.42    | 0.70  |
| Italy          | 0.33  | 0.63  | 1.56    | 5.73    | 0.01    | 6.59    | 4.39    | 1.71    | 2.04    | 1.89    | 1.78    | 0.50  |
| Canada         | 0.09  | 0.17  | 0.09    | 1.58    | 3.62    | 2.31    | 1.57    | 2.55    | 2.31    | 1.64    | 1.50    | 0.50  |
| France         | 5.44  | 14.25 | 3.91    | 11.07   | 0.01    | 12.07   | 4.70    | 2.48    | 1.94    | 1.58    | 0.91    | 0.50  |

Sources: Author's calculations based on DFAT (2002) *Direction of Trade Time Series 2000-01 One Hundred Years of Trade*, February <<http://www.dfat.gov.au/publications/stats-pubs/DOTTS.pdf>> and DFAT (2011) *Composition of Trade 2010*, June <<http://www.dfat.gov.au/publications/stats-pubs/cot-cy-2010.pdf>>. For further analysis and visual representation see Tom Conley (2011) "A Long-Term View of Australian Exports", *Big P Political Economy*, 15 July <<http://tomjconley.blogspot.com/2011/07/long-term-view-of-australian-exports.html>>.

**Table Two**  
**Australia's Trade in Goods and Services 2010**

| <b>Exports of Goods and Services 2010</b> |              |                 |              |                |             |
|---|--------------|-----------------|--------------|----------------|-------------|
|   | <b>Goods</b> | <b>Services</b> | <b>Total</b> | <b>% Share</b> | <b>Rank</b> |
| <b>China</b>                              | 58,402       | 5,954           | 64,356       | 22.6           | 1           |
| <b>Japan</b>                              | 43,587       | 2,079           | 45,666       | 16.0           | 2           |
| <b>South Korea</b>                        | 20,457       | 1,930           | 22,387       | 7.9            | 3           |
| <b>India</b>                              | 16,414       | 3,154           | 19,568       | 6.9            | 4           |
| <b>United States</b>                      | 9,242        | 5,256           | 14,498       | 5.1            | 5           |
| <b>United Kingdom</b>                     | 8,308        | 4,078           | 12,386       | 4.4            | 6           |
| <b>New Zealand</b>                        | 8,015        | 3,343           | 11,358       | 4.0            | 7           |
| <b>Taiwan</b>                             | 8,385        | 549             | 8,934        | 3.1            | 8           |
| <b>Singapore</b>                          | 4,853        | 2,610           | 7,463        | 2.6            | 9           |
| <b>Thailand</b>                           | 5,854        | 1,015           | 6,869        | 2.4            | 10          |
| <b>Imports of Goods and Services 2010</b> |              |                 |              |                |             |
|   | <b>Goods</b> | <b>Services</b> | <b>Total</b> | <b>% Share</b> | <b>Rank</b> |
| <b>China</b>                              | 39,256       | 1,694           | 40,950       | 15.3           | 1           |
| <b>United States</b>                      | 25,401       | 9,872           | 35,273       | 13.2           | 2           |
| <b>Japan</b>                              | 18,193       | 2,229           | 20,422       | 7.6            | 3           |
| <b>Singapore</b>                          | 10,619       | 3,525           | 14,144       | 5.3            | 4           |
| <b>Thailand</b>                           | 11,005       | 1,955           | 12,960       | 4.8            | 5           |
| <b>Germany</b>                            | 10,492       | 1,472           | 11,964       | 4.5            | 6           |
| <b>United Kingdom</b>                     | 5,800        | 4,455           | 10,255       | 3.8            | 7           |
| <b>Malaysia</b>                           | 9,101        | 1,149           | 10,250       | 3.8            | 8           |
| <b>New Zealand</b>                        | 7,204        | 2,739           | 9,943        | 3.7            | 9           |
| <b>South Korea</b>                        | 7,146        | 569             | 7,715        | 2.9            | 10          |
| <b>Total Trade 2010</b>                   |              |                 |              |                |             |
|   | <b>Goods</b> | <b>Services</b> | <b>Total</b> | <b>% Share</b> | <b>Rank</b> |
| <b>China</b>                              | 97,658       | 7,648           | 105,306      | 19.1           | 1           |
| <b>Japan</b>                              | 61,780       | 4,308           | 66,088       | 12.0           | 2           |
| <b>United States</b>                      | 34,643       | 15128.0         | 49,771       | 9.0            | 3           |
| <b>South Korea</b>                        | 27,603       | 2499.0          | 30,102       | 5.4            | 4           |
| <b>United Kingdom</b>                     | 14,108       | 8,533           | 22641.0      | 4.1            | 5           |
| <b>India</b>                              | 18,387       | 3,814           | 22,201       | 4.0            | 6           |

|                    |        |       |         |     |    |
|--------------------|--------|-------|---------|-----|----|
| <b>Singapore</b>   | 15,472 | 6,135 | 21,607  | 3.9 | 7  |
| <b>New Zealand</b> | 15,219 | 6,082 | 21301.0 | 3.9 | 8  |
| <b>Thailand</b>    | 16,859 | 2,970 | 19,829  | 3.6 | 9  |
| <b>Malaysia</b>    | 12,740 | 2,816 | 15,556  | 2.8 | 10 |

Source: DFAT (2011) *Composition of Trade 2010*, June <<http://www.dfat.gov.au/publications/stats-pubs/cot-cy-2010.pdf>>.

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