

Analysis

Australia in the Asian Century

Economic dependence amidst increasing strategic uncertainty

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The tensions in (South) East Asia with regard to the rise of China, the fact that the United States remains Australia's primary security partner, and China's role as Australia's key economic partner have created a significant policy conundrum. How can Australia cope with the 'Asian Century'?

Engagement with, and dependence on, Asia

Australia has always been torn between its European heritage and its slow motion (yet inevitable) economic, political and socio-cultural integration with Asia. Ethnically, as many as one in five residents of Australia's two largest cities — Sydney and Melbourne — identify as being of Asian ancestry. There are now more than 2.3 million Australian citizens that are of Asian heritage, representing 12 percent of Australia's total population (23.3 million in 2013).¹ Economically, Australia's nine largest Asian trading partners absorb 75.5% of Australian exports and, in 2014, HSBC Australia released a report that predicted over 80% of Australia's exports will go to Asia by 2020.² Despite Australia's economic dependence on Asia, the study of Asian languages has been in decline since the 1990s and the Australian education system continues to fail to provide any significant curriculum regarding Asian histories, cultures, economies, and politics. For example, in the state of Victoria, a 2009 study reported that only two percent of final year Victorian high school students undertook history courses with any Asian content while, in the case of New South Wales, a more recent study found that only 87 Year 12 students were studying the language of Australia's largest neighbour — Indonesia.³

Nonetheless, the Australian government, together with Australians more generally, have benefited significantly from the rise of Asia during the past few decades. Australia's trade is most highly dependent on China, which consumed 36.1% of Australia's exports in 2013. Australia in turn, purchased 19.6% of its imports from China during the same year. However, beyond Australia's economic relationship, Australia and China do not share values. In this respect, Australia still identifies with the West and, in particular, depends on the United States as its primary guarantor for security. Australia's security dependencies are underpinned by the Australia-New Zealand-United States Security Treaty (ANZUS) that was formed in 1951. Given some of the rising tensions discussed below, the fact that the United States remains Australia's primary security partner, while China has become Australia's key economic partner, has created a significant policy conundrum.

A 'China threat'?

East China Sea

Australia's strategic and economic dilemmas have been rendered all the worse given that the US is the world's only (but potentially declining) superpower while China is an emerging great power. Consequently, much has been written about the risk of great power rivalry and conflict in Australia's backyard. Australian concerns have been exacerbated by recent developments in both the East China Sea and South China Sea. Regarding the East China Sea, in 1971 China and Taiwan first formally disputed Japan's sovereignty over what they termed the Diaoyu Islands. However, during the decades that followed, the dispute stagnated relatively quietly until 2010 when Japan's coastguard collided with a Chinese trawler in waters around the Islands and Japan subsequently detained its Chinese captain for two weeks. China responded through the suspension of political and cultural exchanges as well as a ban against the export of rare earth minerals to Japan.

Tensions further escalated in 2012 when Japan's government purchased Islands from a private Japanese owner and again in 2013 when the People's Liberation Army (PLA) unilaterally declared an Air Defence Identification Zone (ADIZ). Beijing's ADIZ overlapped with other equivalent zones in place and required foreign aircraft (whether military or civilian) to notify Beijing when entering the zone. Both Japan and the United States refused to acquiesce to the demand and, within a few days, Beijing faced a degree of public humiliation when the US demonstrated the inability of the PLA to enforce the zone by flying a pair of B-52 bombers through it. Since this time, PLA air force intercepts of American and Japanese military jets have led to several near air collisions. Further, on 13 December 2013, a U.S. Navy vessel also had to take evasive action to avoid colliding with a PLA navy ship. Tensions over the area remain high and, on 19 April, Japan started the construction of a new military radar station near the Diaoyu/Senkaku Islands.

South China Sea

Meanwhile, the South China Sea has been equally tumultuous in recent years. Contrary to many reports, a notable escalation in Beijing's assertiveness over its claims started in 2007 rather than 2009. During the year, China enforced a fishing ban throughout much of the area and subsequently drove off fishing vessels as far away as the Spratly Islands, sinking three in July. During the same year, Beijing forced a Vietnamese-American-British oil consortium to abandon their development of an off-shore gas field near the southern end of Vietnam.⁴ Here, tensions have also continued to rise where, for example, in 2011 Chinese ships cut Vietnamese exploration cables on two occasions. A number of standoffs between China and the Philippines have also occurred over the Reed Bank, Mischief Reef, Second Thomas Shoal, and Scarborough Shoal (the latter being well within the Exclusive Economic Zone of the Philippines). At times these incidents have involved a combination of Chinese fishing vessels, armed coastguard vessels, and also PLA navy warships. The close proximity of these vessels with opposing forces has greatly exacerbated the risk of armed conflict.

The most dangerous development occurred on 2 May 2014 when the state owned China National Offshore Oil Corporation (CNOOC) was ordered by Beijing to relocate its new deep water semi-submersible drilling rig (HD-981) to within 119 nautical miles of Vietnam's Coast. At one point, the rig was supported by eighty ships including as many as fourteen PLA navy warships. Further, the use of Chinese Coast Guard vessels to ram Vietnamese vessels operating in protest against the rig's location led to the sinking of one Vietnamese fishing vessel. These developments sparked anti-Chinese protests in Vietnam leading to the

destruction of factories and the death of four Chinese citizens.⁵ The coerciveness of Beijing in recent years has been supported by a 170% percent increase to the PLA's budget during the past decade (reaching US\$188 billion in 2013) and this has enabled Beijing to commission or launch fifty naval vessels in 2013 and a similar number are expected to be commissioned in 2014. The PLA has also finished the construction of its first aircraft carrier (based on a Soviet era hull) and its second aircraft carrier is expected to be commissioned by 2018. These developments are rapidly expanding the PLA navy's blue water operational capacity.⁶

Australia's shifting military doctrine

The risk of a potential 'China threat' has had a significant impact on Australia's foreign policy and associated defence doctrine. According to one Canberra-based defence official, since the withdrawal of Australian forces from both Iraq and Afghanistan, Australia's defence and intelligence planning establishments have been most singularly focused on the perceived risks associated with China's rise and recent behaviour. Such perceptions crept into Australia's 2009 Defence White Paper which declared that a lack of transparency in Beijing's military modernisation informed Australia's planned naval expansion. While the next defence white paper in 2013 was much more circumspect in its references to China, plans for significant defence acquisitions have been maintained including 100 fifth generation Lockheed Martin F-35 Lightning II joint strike fighters (JSF), eight large frigates with anti-submarine capabilities, two 27,800 tonne Landing Helicopter Dock (LHD) amphibious assault ships, and ten state of the art Japanese Soryu Class electric-diesel submarines.

The Abbot Liberal-National Coalition government has demonstrated its willingness to be relatively forthright regarding Beijing's actions and was quick to publically criticise Beijing's establishment of the ADIZ. China's Foreign Minister responded by stating that the 'Australian government was jeopardising bilateral mutual trust'. Meanwhile, the Australian government has sought to strengthen its political, security, and military relations with several other countries including India, Japan, and the United States. In 2009, Australia and India announced an intention to elevate relations to the level of a 'strategic partnership' and this led to a 'Joint Declaration on Security Cooperation'. Canberra subsequently announced the commencement of negotiations to enable the export of uranium and it is likely hoped that such cooperation will also strengthen other components of the relationship. Australia's relations with Japan are relatively more advanced and, amidst escalating regional tensions, Prime Minister Abbot controversially declared that Japan was 'Australia's closest friend in Asia'. The slow motion shift away from a 'China first policy' has also been reflected in the formation of an intelligence sharing arrangement (May 2012) and the conclusion of a bilateral free trade agreement (April 2014).

The most prominent aspect of Australia's relationship with the US has recently been encapsulated by the American 'Pivot to Asia' and, as a component of this, the stationing of what is now 1,500 U.S. marines (rising to 2,500 by 2016-17) on a rotational basis in Darwin. While there is some debate over whether the United States or Australia is taking the lead in pressing for closer cooperation, the reality is that both countries share very similar threat perceptions and are equally enthusiastic about closer military cooperation. Such cooperation also includes increased port visits by the U.S. Navy as well as a stronger U.S. Air Force presence. Meanwhile, the United States is strengthening its Wideband Global Satellite

communications constellation, is relocating and establishing a jointly operated US C-band space surveillance centre, and Australia may soon become a critical component of the US regional missile defence system. A distinct shift toward the deepening of the American defence commitment, level of military cooperation, and use of Australian defence facilities has been underway since at least a decade ago.⁷

Foreign policy amidst an increasingly volatile regional order

A grand bargain?

Beyond Australia, the US has also sought to reassure the Indo-Pacific region and its other treaty partners (Japan, South Korea and the Philippines) that it will maintain peace and stability. In the case of the Philippines, this has included the abandonment of an earlier position that its treaty with Manila would not cover disputed reefs to statements since 2013 that any armed conflict between the Philippines and China over territory claimed by the Philippines would invoke its treaty obligations.⁸ Meanwhile, Japan has also undertaken a noticeable shift from its past pacifist rhetoric to, in the words of Prime Minister Shinzo Abe during a meeting with the Philippines president, declare that '[f]or Japan, the Philippines is a strategic partner with whom we share fundamental values and many strategic interests'. During the meeting, President Aquino responded that the two countries had committed to a common stand against any future aggression. In line with this more active role in regional security, Japan committed to provide the Philippines with ten Coast Guard patrol boats worth US\$110 million. Further plans are afoot to alter Japan's constitution in a way that would 'normalise' its military and enable it to be engaged in defence operations in support of other countries.⁹

For some scholars, these developments, together with the rise of India, may lead to an appropriate military balance that will constrain future Chinese behaviour. However, much of the literature in this field ignores the domestic sphere of analysis. In a region that is characterised by far more autocracies than democracies, continued regime survival depends on sufficient 'performance legitimacy' (i.e. economic growth) and this, in turn, depends on access to resources to fuel such growth. A second, but interdependent, dynamic is the continued exploitation of nationalistic sentiments by some regional governments. Such approaches are reflected in national education systems and what children are taught, for example, to be China's 'indisputable sovereignty' from the time of their earliest memories. At times, the exploitation of anti-Japanese sentiment by China, may even be perceived as a useful tool to distract the masses from domestic woes and associated anti-government sentiments. Thus, as natural resources continue to deplete, the adverse effects of over-population mount, and climate change exacerbates the loss of arable land, it is difficult to imagine how workable compromises on issues such as territorial disputes — even in the absence of any consideration of greater power rivalry — will be feasible in the future.

Hugh White, an eminent scholar in the field, has argued that the United States should cede power in Asia to China as the spectre of US military force will not maintain stability in the future. However, this 'grand bargain' would not be acceptable to much of the Indo-Pacific region. Thus, given the current level of mistrust many Asian nations have about Beijing's long-term intentions, even the mere prospect that the US might seriously consider ceding power to China could lead to a dangerous escalation in military expenditures and a new

arms race. Neither is it possible for Australia to follow the suggestion of its former Prime Minister, Malcolm Fraser, to abandon its security alliance with the United States.¹⁰ Beijing's confrontational stance in both the East and South China Seas is contrary to several provisions of the United Nations Convention on the Law of the Sea, including the requirement that any party to a maritime dispute 'make every effort to enter into provisional arrangements' and 'shall not jeopardise or hamper the reaching of [a] final agreement'. As a *supposedly* responsible member of international society, Australia cannot simply stand idly by should Beijing continue to flout international law and, in the process, unravel what limited stability is currently extant within the regional order.

Australia's future in the 'Asian Century'

Given the above considerations, the imperative of economic diversification should be considered as important (if not, then more so) as the strengthening of Australia's military capability in the traditional security sphere. Here, Australia is a party to the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) which brings together a combined GDP of US\$4.1 trillion (2013). It continues to be engaged in negotiations with ASEAN on a Regional Comprehensive Economic Partnership (RCEP) negotiations as well as negotiations to conclude the Trans-Pacific Partnership Agreement (TPP) involving twelve nations including Japan, United States, Singapore, New Zealand, and Malaysia but, notably, not China. However, Australia will not be able to escape its continued economic dependence on China without following the lead of countries such as Singapore and Norway who have built highly successful state owned enterprises (SOEs) and, in the case of the latter, strongly regulated their natural resources to provide greater economic security.

Australia should also control the extent of foreign investment and ownership of its finite natural resource ownership or, in the very least, ensure the diversification of sources of foreign investment in the resource sector so as to avoid a monopoly by just one country such as China. Another critical area that needs urgent regulation is the residential property market where as much as forty percent of property sales are currently going to overseas investors. Tony Abbot, prior to his election as Prime Minister, recognised this when, in the context of a key-note speech focusing on rising Chinese investment across the globe, he stated that 'it would rarely be in Australia's national interest to allow a foreign government or its agencies to control an Australian business'.¹¹ However, as yet, there has been little by way of tangible policies to address such concerns.

Another issue relates to the material at the outset of this paper: Australia needs a multi-decade plan and commitment regarding the study of Asian societies and languages. This will not only help Australia to better engage with the broader region, but will also enhance societal resilience to populist policies that exploit a lack of knowledge about and affinity with Asia. As a 'developed' country that has failed to move beyond its reliance on the export of raw materials, Australia's future in the 'Asian Century' remains anything but stable.

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1. Figures based on 2011 Census statistics. See: www.censusdata.abs.gov.au/.

2. Starting from the highest to lowest, Australia's top Asian export destinations are China, Japan, South Korea, India, Singapore, Malaysia, Thailand, and Indonesia. 'Exports to Asia to hit 80 per cent by 2020, says HSBC', *The Australian*, 22 July 2014. See also the IMF website.
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4. Anne Barrowclough, 'China and the Philippines in Stand-off in South China Sea', *The Times*, 11 April 2013.
5. Tania Branigan, 'Vietnam and China Trade Accusation over Sinking of Vietnamese Fishing Boat', *The Guardian*, 28 May 2014.
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7. Richard Tanter, 'The US Military Presence in Australia. The "Asia-Pacific Pivot" and "Global NATO"', Global Research, 2013, www.globalresearch.ca (accessed 21 September, 2014).
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9. 'Japan's Abe Vows Sea Help to Philippines amid China Row', *Agence France Presse*, 27 July 2013.
10. Geoff Wade, 'Australia, the United States and China: the Debates Continue', *Australian Parliamentary Library*, 16 June 2014.
11. Angus Grigg, 'Abbott Warns China on Takeovers', *Australian Financial Review*, 25 July 2012.