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# Australia and China and the United States

Responding to changing great power dynamics

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# INTRODUCTION

There is currently one question in Australian foreign and strategic policy that matters more than any other: how does Australia respond to the shifting great power dynamics in our region?

For the first time since the end of the Cold War, great power politics will need to be at the centre of Australian considerations. China is rising. The United States has been bruised by the global financial crisis and has had a decade of major conflicts. There is a pervasive mood that we are in a period of great change in regional and global geo-politics, and that the system that has served us and others so well in recent decades could face fundamental challenges. How China and the United States interact with each other in the decades ahead is of fundamental importance to Australia. Australia's economic relationship with China is crucial. Australia's strategic relationship with the United States is at the heart of our overall approach to foreign and security policy. And it is these two powers that will, through their actions and policy choices, play the decisive role in setting the security and economic environment in which Australia will need to operate in the decades ahead. If relations between them go wrong, the implications for Australia could be disastrous.

## CHINA'S RISE - THE STORY SO FAR

It is China that has changed the strategic dynamics Australia is facing. China's economic growth has taken hold. Its power has grown. Its engagement with the international system is at an unprecedented and growing level.

The story of China's economic growth is now a familiar one. From the founding of the People's Republic of China in 1949 to the end of the Cultural Revolution, China's Communist leaders made a series of disastrous policy choices that impoverished the nation.<sup>1</sup> China's policy settings changed in 1979. At the Third Plenum of the 11<sup>th</sup> Central Committee in December 1978, Deng Xiaoping and other party leaders pushed through agreement to the start of an economic reform program. The first steps focused on rural areas and allowed farmers to take some control over their own activities and gave them better prices for produce and financial incentives to produce above quota.<sup>2</sup> The changes began to unleash the economic potential of China's huge population.

Since 1979, China has averaged annual economic growth of more than nine per cent per annum.<sup>3</sup> China's GDP grew by 10.3 per cent in 2010.<sup>4</sup> And it has become the second-largest economy in the world.<sup>5</sup> China's *per capita* GDP reached an estimated US\$4282 in 2010.<sup>6</sup> China is now the world's largest exporter.

That is not all. Chinese companies are engaged on the global stage and have bought major international brands. In 2005, Chinese computer maker Lenovo bought IBM's Personal Computing Division for a reported USD1.75 billion,<sup>7</sup> making it the third-largest computer company in the world.<sup>8</sup> Car maker Geely bought the Volvo brand from Ford in 2010 for USD1.8 billion.<sup>9</sup> Chinese resource companies have been investing in exploration and extraction in every region of the world.

China also came through the global financial crisis better than most. Like all countries, it faced an uncertain economic outlook in 2008 as the global financial crisis unfolded. Exports fell dramatically in the short term as demand in international markets dried up. In November 2008, exports fell by 2.2 per cent, compared to an increase of 25 per cent in September before the collapse of Lehman Brothers.<sup>10</sup> The Chinese government responded with a massive stimulus package of 4 trillion *Renminbi* (around USD570 billion at the time)<sup>11</sup> to spur domestic demand. The worst fears about the potential for ongoing stagnation in international trade did not materialise. China emerged from the crisis quickly and strongly.

China's strong fiscal position and the ability to grow during the crisis – and thereby make a major contribution to the global recovery – gave it new clout in international economics. Senior Chinese officials began to speak of the need to move away from the US Dollar as the global reserve currency,<sup>12</sup> and its leaders said publicly that the crisis was caused by an unsustainable model of economic development.<sup>13</sup> On the eve of his January 2011 visit to Washington, even President Hu Jintao said the US Dollar's international dominance was a product of the past<sup>14</sup> and argued for the *Renminbi* to play a greater role as a global reserve currency.

The story of China's rise is about more than economic development. Over recent decades China has changed the way it engages with the world. It is no longer the champion of armed struggle or liberation movements around the globe. It no longer seeks to export revolution. Nor is it inward-looking and closed off. Instead, China has joined the World Trade Organisation, it is active in the United Nations (it is now the largest contributor of peacekeeping forces among the permanent members of the Security Council<sup>15</sup>), and it is engaged in regional institutions in East Asia, Central Asia and the Pacific. China has hosted summits for the heads of state and government of all the countries of Africa and has been courting Latin American nations. China refers to itself as a “responsible great power”, echoing (but not adopting) the phrase used by then US Assistant Secretary of State Bob Zoellick of China being a “responsible stakeholder”.<sup>16</sup>

The increased tempo of China's international engagement is in part a deliberate policy choice by the powers in Beijing to become engaged and exercise influence, and in part a response to greater expectations placed on it by other countries because of China's increased profile and power. China is engaging and is being engaged. In 1999, it was possible to ask “Does China matter?” and give an answer “not as much as you might think for a country of its size” as Gerald Segal did in *Foreign Affairs*.<sup>17</sup> The answer now would have to be an emphatic “yes”. China now commands our attention and its new activism is a part of global life.

China's diplomatic activism, its development and its global economic engagement have been accompanied by significant changes in the Chinese armed forces, the People's Liberation Army (PLA). The number of men at arms has declined following a series of reductions in the 1980s and 1990s.<sup>18</sup> But along with China's growing affluence, the defence budget has also grown. At the National People's Congress in March 2011, it was announced that the defence budget would increase 12.7 per cent over the previous year – continuing a long-run trend of large annual increases in the defence budget.<sup>19</sup> China is acquiring new and increasingly sophisticated capabilities. The test flight of a fifth-generation indigenous-designed combat aircraft is the latest example. The navy is expanding and developing aircraft carriers, new cruise missiles are being developed and the Second Artillery Corps (China's strategic missile corps) is overseeing the development of new strategic weapons. Chinese doctrine has also developed. The PLA no longer talks about “People's War”, which had been its doctrinal basis since the Chinese Civil War.<sup>20</sup> It now speaks of “informatization”<sup>21</sup> and strategic thinkers highlight the need for China to develop “assassin's mace” capabilities – capabilities it can use to defeat a stronger opponent through asymmetric warfare.

On the foundation of these changes during the reform era, since the global financial crisis there has been another noticeable shift in China's international engagement. One of the guiding principles for China's international engagement during the reform era has been Deng Xiaoping's exhortation for China to “bide its time and build its capabilities, but also get some things done”.<sup>22</sup> While there is debate about the best rendition of this phrase into English, the idea behind it had been that China should take a relatively low profile in international affairs and focus on domestic economic development until it was capable of exerting greater influence, and should only act when able to. China's increasingly assertive behaviour in a range of international fora in recent years suggests that at least some Chinese believe that the time has now come for their country to take a higher profile. A richer China has become more open about its growing influence. The annual *Yellow Book of International Politics – Annual Report on International Politics and Security (2010)* published by the Chinese Academy of Social Sciences summed up the mood in the following way:

*From an overall judgement, 2009 was a year where the new situation in international relations, new problems and new trends were not uncommon. It was also a year where China's voice and power steadily grew. It was a year where China's level of participation in regional and global affairs constantly deepened. And it was a year where China rode the wind of the great 60 year celebration, continued to undertake the work of a responsible great power, continued to play a positive role, and received more positive assessments domestically and abroad.*<sup>23</sup>

The tone of the official assessment of China's international role has not changed much since then. At the National People's Congress in March 2011, Premier Wen Jiabao presented the Government Work Report and said:

*China's international prestige and influence grew significantly [over the period of the last Five-Year Plan]. We played an important and constructive role in international affairs; effectively safeguarded our national sovereignty, security and development interests; and made major progress in our all-around diplomacy.*<sup>24</sup>

The style and substance of China's engagement with the world has gone through a profound change in a little over 30 years. The lifting out of poverty of hundreds of millions of people has had an enormous influence on the global economy. China's new approach to international affairs is demanding the attention of foreign policy practitioners around the world. In the next 30 years China may again go through enormous change and its global position and behaviour are unlikely to be the same as that over the previous 30 years.<sup>25</sup>

## IMPLICATIONS FOR AUSTRALIA

The changes in China have had a remarkable impact on Australia. In the 1970s it was far from clear what the future would hold for China and what that might mean for Australia. In 1975 there was a debate within the Australian Government about how important economically and strategically China would be in the next twenty years, with some arguing that China's main value to Australia was as a strategic balance to the Soviet Union. Others argued that China could develop economically and be a great source of economic strength for Australia.<sup>26</sup> At the time, Australia's economic focus in Asia was strongly on Japan, which had already been Australia's largest export market for almost a decade.

After four decades as Australia's number one, Japan was overtaken only in 2009 when China became Australia's largest export market.<sup>27</sup> It now holds the double crown – largest export market and largest trade partner. The value of Australian resource exports to China has skyrocketed. China now takes more than 23 per cent of our exports. In 2000-2001 it was less than six per cent. In 2009-10, iron ore exports to China were worth \$25 billion and coal exports were worth \$5 billion – exports of these two commodities to China were worth more than three times Australia's total exports to the United States (valued at \$9.5 billion). Australia's imports from China have also grown. China supplied just over eight per cent of our imports in 2000-2001. In 2009-10 it supplied nearly 18 per cent. Anecdotally, any Australian consumer can tell you about the falling price of electrical goods, sporting goods, hardware and home wares that bear the “Made in China” tag. Their impression is correct – out of our total imports, China provides: one-third of our paper and paperboard; nearly 60 per cent of computers and 45 per cent of TVs and monitors; nearly half of our telecoms parts and equipment; 60 per cent of furniture and mattresses; 80 per cent of clothing; and, 70 per cent of footwear.<sup>28</sup>

The investment relationship has also taken off. Only ten years ago, Chinese investment hardly made a blip on the Foreign Investment Review Board's (FIRB) figures in its annual report.<sup>29</sup>

The level of actual Chinese investment in Australia was steady at around \$3 billion until 2005. Since then the change has been dramatic. In 2009-10 China was the third-largest source of proposed foreign investment to Australia, after the United States and the United Kingdom, but ahead of Japan. The total value of proposed investment was \$16.3 billion, of which 75 per cent was in the resources sector. Not all of this investment is realised immediately, but the Chinese investment stock stood at more than \$16 billion by the end of 2009. Chinese investment has played a crucial role in establishing many new projects and helping build the capacity to meet the demand from China for Australian resources,<sup>30</sup> just as Japanese investment was crucial to developing resource exports in the 1960s.

China's foreign policy activism has also been felt in Australia. Bilaterally, the level of official and political engagement through formal meetings, dialogue mechanisms and delegations has flourished. There are ongoing negotiations for a free trade agreement and large cultural festivals are being supported by both governments. The level of China's participation in regional institutions has grown and China is increasingly using institutions to pursue its foreign policy goals. Australia has long been one of the driving forces of regional institutions and China's activism has led to closer engagement in the work of these bodies. Both nations realise that the other's views are an important factor in regional affairs.

At the global level, Australia has worked closely with China in the G20, where the two countries have shared many common causes – the need to maintain open trade, building better resilience into financial institutions and removing global economic imbalances. In international climate change negotiations, Australia and China have both been deeply engaged, and it is clear that there will be no global deal on climate change that matters unless China is involved. China is a global player of growing magnitude, and Australia needs to engage China in these multilateral fora.

China also has a growing profile in the Pacific. Australia has a deep national interest in helping the Pacific island countries build sustainable futures. China's engagement with the Pacific island countries has increased, including the level of its economic support, although it is difficult to get clear figures about the level of Chinese aid.<sup>31</sup> Australia's push for increased transparency in the international aid effort for the Pacific and in greater coordination between donor and recipient countries will require a greater level of disclosure from the Chinese Government than it is accustomed to in its international aid program.

Increased political engagement does not always mean shared interests. Australia and China have different approaches to the North Korean nuclear issue for example. The increased level of engagement can throw differences into sharper relief. But whether our interests are common or differentiated, we are being forced to engage with each other more bilaterally, regionally and on global issues. China is now a more important element in nearly every foreign policy question that arises.

## IMPLICATIONS FOR OTHERS

Australia is not, of course, alone in this. The changes wrought by China's economic development and political engagement are being felt around the globe.

Just as Japan has been overtaken as Australia's major export market, it has been overtaken as the leading Asian economy. Japan is no longer the second-largest economy in the world; China took that mantle in 2010. China's growth is good news for the Japanese economy. China now takes nearly 20 per cent of Japan's merchandise exports and supplies 22 per cent of its imports.<sup>32</sup> The United States and the Cayman Islands continue to be the leading recipients of Japanese foreign direct investment, but China was the third most popular destination in 2009 and the total stock of Japanese investment in China had reached US\$55 billion, the highest level of Japanese investment stock in an Asian country.<sup>33</sup>

At the same time as economic links are growing, Japan is feeling the pressure from China. In the same two decades that China has seen its economy become a world leader and its influence in international politics grow, Japan has been through what are now being called the "lost decades". The economy bounces along with little growth and, while there is much debate about the need to economic reform, major steps that will break through the apparent stagnation have so far been elusive. Japan is also facing demographic pressure. Japan is the "fastest ageing society on earth". Its working-age population hit its peak in 1995. By 2050, Japan's population will fall from its current 127 million to 89 million.<sup>34</sup> Japan is acutely aware that across the water sits a rising power of 1.3 billion people with a growing military expenditure and a strong sense of historical grievance against it.

The Republic of Korea (ROK, South Korea) shares with Japan an increasing economic integration with China. Prior to the establishment of diplomatic relations in 1992, the ROK's trade with the ally of its northern fraternal enemy was worth only around US\$6 billion. In 2010, according to Korean statistics, China was the ROK's biggest export market by far, taking US\$117 billion worth of goods. The United States was the ROK's second-largest export market taking around \$50 billion worth of goods. China was also the ROK's biggest source of imports, supplying \$71 billion worth of goods compared to second placed Japan with \$64 billion and the United States with \$40 billion.<sup>35</sup> Korea's economy relies on a developing China.

This close economic relationship has not diminished the differences between the ROK and China over the question of North Korea. In 2010, the ROK was disappointed with China's reaction to the sinking of the ROK Navy corvette *Choenan*.<sup>36</sup> China's approach was to call for calm and restraint on both sides<sup>37</sup> when the ROK clearly and rightly saw itself as the victim of North Korean belligerence. China also chose to refer to North Korea's firing of artillery into civilian areas in the South as an "exchange of fire", playing down the fact that the South only fired its artillery in response to the North's attack on civilian and military sites in the ROK.<sup>38</sup>

The pattern of increased economic engagement with China is repeated around the Asia-Pacific region and around the world. The value of merchandise trade between China and countries of the Association of South East Asian Nations (ASEAN) was more than US\$200 billion in the first nine months of 2010, up from US\$41 billion in 2001.<sup>39</sup> The ASEAN nations have also witnessed Chinese increased focus on regional engagement. China and ASEAN have a free trade agreement, they have annual summit meetings, and China is an active participant in all of the region's main forums, seeking to shape their agendas and discussions.

Russia and the Central Asian Republics are another focus of greater Chinese engagement. China is seeking to diversify its sources of supply for energy and resources, and is looking to Central Asia and Russia.<sup>40</sup> China was a driving force behind the establishment of the Shanghai Cooperation Organisation (SCO), which brings together China, Russia and the Central Asian Republics to discuss economic and security cooperation.<sup>41</sup> The SCO grew out of successful efforts to neutralise possible border disputes that arose when the Soviet Union disintegrated. The members also have a shared focus on preventing "terrorism, separatism and extremism" in the Central Asian region that could quickly cross national borders.<sup>42</sup>

To the south west of China sits the other re-emerging great power, India. The two giant neighbours still harbour mistrust. Long-standing border disputes remain unresolved. For two rapidly growing economies, they have a relatively small, although growing, volume of trade – in 2009-10 total trade was valued at US\$42 billion.<sup>43</sup> But China and India also recognise their importance to each other. They have worked together in the BASIC and BRIC groupings in pursuit of common economic and environmental interests. For India, a rising China is both peer and competitor.

## WHAT ABOUT AMERICA?

China's rise perhaps raises more questions for the United States than it does for any other country. The United States is the only truly global power. China's rise has bilateral, regional and global implications for the United States.

Bilaterally, China's rise is felt most clearly by the United States in the economic sphere. The financial crisis hurt America. Growth slowed dramatically. Unemployment has risen. The practices of the banks and other financial institutions that caused the crisis have led to a questioning of the economic wisdom of the previous decade that had delivered such apparent prosperity.<sup>44</sup>

In contrast, China's growth remains strong. Its financial institutions came through the global financial crisis largely unscathed. China holds huge foreign exchange reserves, much of it in US Treasury Bonds. Investment in China is growing as international manufacturing moves there.<sup>45</sup>

There is a clear popular perception that the economic momentum is with China and that the US is in relative decline. The statistics are used to tell the story. The US trade deficit with China is widening again after having narrowed at the time of the global financial crisis as the US imported less from China.<sup>46</sup> As the US is finding ways to cut its military budget, China is testing new generations of combat aircraft and seeing a steady rise in its defence budget (based on whichever figures are used). A survey by the Pew Centre just prior to President Hu Jintao's January 2011 visit to the United States found that nearly half of the American respondents identified China as the world's leading economic power, with only 31 per cent naming the United States (despite the fact that the US economy is almost three-times larger than China's and that the US still accounts for around one quarter of global GDP).<sup>47</sup> In the same survey, two-thirds of the respondents named America as the world's leading military power; while only 16 per cent named China, suggesting that Americans feel a greater economic than security threat from China.

It is important to note that this is a discussion about relative decline. China is growing faster than the United States so the gap between the two is narrowing. This does not mean that the United States is going backwards. Some commentators dispute whether there will be a longer term relative decline, arguing rightly that any discussion needs to take into account the resilience and strengths of the US system, not just its recent problems. In late 2010, Joseph Nye argued in *Foreign Affairs* that the United States should not be written off.<sup>48</sup> Nye made the point that the United States, by most objective measures is ahead and is still strong. Its population is young and growing – it does not face the demographic challenge of many others (including China). The United States retains enormous attractive power. People vote with their feet, and few migrants around the world are seeking to move to China despite its achievements. The United States faces great policy challenges but its system has demonstrated over time that it can provide good political decisions that deliver long-term benefits.

Irrespective of how America's future is perceived, it does face the reality of a rising China in both regional and global contexts. Opening relations with China in 1972 was a grand strategic play by the Nixon Administration. The United States was using China to balance the Soviet Union and it was a strategy that paid off. For its part, China was using the United States to balance the Soviet Union. One part of the deal was that China accepted US primacy in the region in return for getting the space to develop itself economically. The United States won the Cold War. But now the United States faces an increasingly powerful China, one that is seeking to have its voice heard more in international affairs. For the first time in recent history, the United States faces the prospect of having to deal with another power that is its economic equal. In some cases, China and the United States will find common cause, but in others they will have different interests. In those cases, China is now less likely than it was, say, a decade ago, to defer to the United States.

The United States is not ignoring China. It has chosen to seek to manage its relationship with China in the decades ahead within the framework of the present regional and global order. It will seek stability through incremental changes and it will hedge against the strategic uncertainty that is China's future. In January, when President Hu Jintao visited Washington, President Obama made clear that United States would not seek competition with China nor would it seek to contain China. It will seek engagement. In that engagement, the United States would continue to press on matters it considers important, including human rights even if that riles Beijing.

Perhaps just as importantly, soon after President Hu's visit, President Obama signalled in his State of the Union address that America should rise to the challenge posed by increasingly powerful economies around the world by spurring internal renewal. He focused on America's ability to reinvigorate itself.<sup>49</sup> The response to the economic challenge from China and others was a call for the United States to rise to the challenge by drawing on its national strengths. It was not an attack on those who are challenging. It was not an argument for isolation.

The United States is responding to China's rise in a number of ways. It is seeking engagement, but signalling that it will continue to raise sensitive issues with China. It wants economic engagement, but will press hard for greater liberalisation of China's markets and economic systems, including financial and currency reforms.

It will seek political and military engagement, but will push back strongly against any perceived Chinese aggression, as Secretary of State Hillary Clinton said she did in responding to Chinese statements that its territorial claims in the South China Sea were a "core interest".<sup>50</sup> The United States will continue to build its alliances in the region, but is not attempting to contain China.

## THE QUESTION

It is common for writers to talk about living through a period of great change. In the late 1970s and 1980s, the aftermath of the oil shocks, the US withdrawal from Vietnam and growing Soviet military power caused scholars to describe that as a time of great change<sup>51</sup> and to analyse the need for new approaches to international politics.<sup>52</sup> In the 1990s, with the end of the Cold War, a New World Order was proclaimed by US President George Bush senior. Now, again, in the early 21<sup>st</sup> century we are being told we are in an era of great change. Earlier events did reshape the world: the oil shocks did, the US withdrawing from the gold standard did, and the collapse of the Soviet Union did. It is happening now too. The rise of China is changing the world – in recent history, the United States has not had to deal with another nation of China's size that is growing so quickly, nor has it had to deal with a nation that is likely to become a bigger economy.

For Australia, the most important implication of this change is that, for the first time since the end of Cold War, great power politics needs to be a focus of Australia's international relations analysis and our foreign and strategic policy decisions. In this time of great change, the question for Australia is clear. What policies do we need to maximise our national interest now and in the decades ahead?

## HUGH WHITE'S ARGUMENT

Hugh White has recently provided a thought provoking answer to this question.<sup>53</sup> White's argument is that Australian policy makers need to recognise that the world is changing. The certainties of the last century will no longer apply in the 21<sup>st</sup> century. As China rises, US primacy – the bedrock of Australian foreign and security policy – cannot last.

White argues that as a rising power China has only three options: it can pursue a harsh hegemony where it dominates the Asia-Pacific region militarily; it can pursue soft hegemony, where it adopts an Asian Monroe Doctrine and denies the United States and others the ability to influence the region; or, it can seek a Concert of Powers whereby it and other major powers agree to manage security in the region together.<sup>54</sup> In the face of a rising China, the United States, White argues, also has three options: it can withdraw from the region; it can share power with China; or it can compete for primacy.<sup>55</sup> Absent conscious choices about the shape of the strategic future, there will be a "drift to antagonism" that is already underway.<sup>56</sup>

White argues that this situation presents Australia with a fundamental dilemma. We want stability. We want to benefit from growing Chinese economic power; and, we want to rely on the benefits derived from US strategic power. But simply reciting this wishlist does not seek to answer the question how we want to see our region evolve if we want to maintain stability.

White points out that Australia has been one of the many beneficiaries of the US-led international order in Asia. It has kept us "safe and prosperous for a long time." But we cannot expect it to last simply because it suits us. Australia needs to shape the international environment in ways that will suit our interests.

White's proposed solution is that: "We should try to persuade America that it would be in everyone's best interests for it to relinquish primacy in Asia, but remain engaged as a member of a collective leadership – staying in Asia to balance, not to dominate." He recommends Australia urge the United States to seek a concert of powers with China and other great powers so that conflict can be avoided. If the United States were to approach China and propose such an arrangement and China refused, there would be "nothing to lose".<sup>57</sup>

## WHITE'S ANALYSIS

Given the radical nature of the foreign policy shift White is proposing, the judgements underpinning his argument need to be examined. He makes three key judgements: ongoing economic growth in China; growing political and military power which will furnish China with the capability to challenge US primacy in the region (without China necessarily being able to establish primacy in place of the United States); and, a high likelihood that China will have a desire to pursue that goal.

White's judgement about ongoing economic growth is reasonable. China's growth is strong and its financial sector is backed by huge national reserves. But there are risks. No nation on earth has achieved as much or faced so many challenges as contemporary China. China faces the demographic challenge of an ageing population and all of the healthcare and social security burdens that brings, but it faces these at a much lower level of economic development and with much less developed social security systems than more developed nations that are facing this same dilemma. The operation of the financial system in China could lead to bubbles that will burst.<sup>58</sup> One of the key drivers of economic growth, the ongoing urbanisation process, raises questions of property rights that are at the core of Chinese development model. The frequency of reported demonstrations makes clear that social tension is present in China today.<sup>59</sup> Premier Wen Jiabao's early 2011 publicised visit to the State Bureau for Letters and Calls, which deals with complaints against the government from citizens, suggests that at least some in China see a need to focus on managing discontent.<sup>60</sup> The idea that China's leaders have a clear long-term plan for economic development that is being smoothly rolled out is simply wrong. China's leaders face the future with the same mix of uncertainty, hope and determination to succeed as leaders around the world. Neither they, nor anyone else, knows what China will be like in 10 years.

The judgement of growing military power is also reasonable. China is also developing its military at a rapid rate. Following the first Gulf War and the ease with which US forces defeated Iraq, and the 1996 demonstration of US naval power in the Taiwan Strait, China's government realised it did not have the capability to deter or defeat the US military. This perception that China was behind is one reason China is modernising its armed forces – it is aware that is currently not up to the standard of the United States. It has spurred the PLA to develop and acquire new capabilities.<sup>61</sup> Books by Chinese military thinkers such as *Unlimited War* (*Chaoxian Zhan*)<sup>62</sup> argued the need for China to adapt its military strategy to meet the challenges of war in the modern era, as demonstrated by the United States in the Gulf War. China's growing military power and capabilities are facts. China argues that its intentions are benign. Other states look at China's growing capabilities and have difficulty divining China's intentions, which leads to growing unease.

But, if China were to seek to establish primacy, it would need to do more than see its economy grow and build its military. It will need to establish strategic dominance of its surrounding region – a region with a complicated strategic terrain.

China is an Asian land power<sup>63</sup> that shares 14,000 kilometres of land borders with 14 countries. In the past 50 years it has had armed clashes with three of them (since 1960 it has had clashes with Russia, Vietnam and India). A tour of China's periphery makes the point about the complexity of China's strategic environment.

China and India have still not resolved their disputed border. They have clashed before over the ownership of nearly 125,000km<sup>2</sup> of territory.<sup>64</sup> China remembers that one reason India gave for its 1998 nuclear test was to deter China's military power.<sup>65</sup>

The two re-emerging great powers share some interests in international affairs but they are both pre-occupations for strategic thinkers in the other country.

China shares borders with four Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan and Afghanistan. Following the collapse of the Soviet Union, China led the establishment of mechanisms to settle borders in the region. That led to the establishment of the Shanghai Cooperation Organisation (SCO). Instability in Central Asian states and the threat of terrorism, separatist movements or political instability seeping across borders is a strategic concern for China.

Relations between China and Russia are currently in a good state. The 4300km border between the two has been settled,<sup>66</sup> although they have fought over it in the past. Most recently there has been apparent agreement to increase again Russian arms sales to China.<sup>67</sup> But relations between China and Russia were tumultuous throughout the 20<sup>th</sup> century and both nations are aware that relations could turn sour again. For China, relations with Russia are a crucial factor in stability not just along their shared border, but also in Central Asia.

China also shares borders with Mongolia and North Korea. Mongolia is unlikely to prove to be a strategic threat to China, but Beijing will be acutely sensitive to moves by Mongolia to forge closer relations with the United States and the wider "West". And securing access to Mongolia's mineral resources will be of keen interest to Beijing. North Korea will pose security challenges for Beijing that range from border control to diverging views on what is best for stability on the Korean Peninsula. China does not want to see North Korea collapse. Strategically it makes sense for China to support North Korea as a buffer state between itself and the US-allied Republic of Korea. But China does not want North Korea to destabilise the Korean Peninsula so seriously that conflict erupts. Any conflict that did begin would be more than likely to lead to US and Chinese forces becoming involved on opposite sides.

In South East Asia, China shares a border with Vietnam, with which it fought a war a little over 30 years ago. Its other South East Asian land borders, with Laos and Burma, may not present strategic threats, but the relationships do have important security elements, including some that cross the borders of a number of countries such as control over and access to water that flows into the Mekong Delta and border security.<sup>68</sup> Burma is a special case, where China is seeking stability on its border on one hand, and also seeking to develop access to the Indian Ocean through Burmese facilities.

China then has its maritime borders to worry about. It has disputed territory with Japan. Taiwan remains, of course, a potential location for conflict. Relations between Beijing and Taipei are currently stable. Economic ties are flourishing – trade is growing, investment is huge and travel between Taiwan and the mainland reached 4.5 million visits from Taiwan to the mainland in 2009.<sup>69</sup> But China has said as recently as 2004 that it would not sit idly by if events in Taiwan went out of control – a reference to the re-election of Chen Shuibian and the turmoil that followed.<sup>70</sup> China has previously used this style of rhetoric in border disputes where it has been prepared to resort to conflict.<sup>71</sup> In 2005 China adopted its *Anti-Secession Law*, which calls for peaceful reunification, but also says that China "shall employ non-peaceful means" to prevent Taiwan independence if necessary.<sup>72</sup>

Perhaps most problematic is China's claim to the South China Sea in competition with South-East Asian states. China appears to claim the sea and, following from that, the islands that lie within it, rather than the position in the United Nations Convention on the Law of the Sea, that access to territorial waters and exclusive economic zones flows from sovereignty over islands.<sup>73</sup> Since 1949, China has shown a range of approaches to its claims on offshore islands. It has negotiated settlements in some cases. In others there have been armed clashes. In 2002, China signed a Declaration of Conduct on the South China Sea with the members of ASEAN. As noted above, in 2010, there were reports that China declared its claims were "core interests", just as Tibet and Taiwan are, which led to a wave of concern across the region.<sup>74</sup>

In short, a growing China is developing its military and this trend is likely to continue. The new capabilities it is acquiring will strengthen all arms of the military forces. Some will increase its ability to deny US access to maritime areas close to China, others will increase the power of China's strategic nuclear force, still others will increase China's ability to strike a decisive blow at any potential enemy, including one much more powerful. But in assessing China's capability, the strategic situation China faces must also be considered. China has a range of borders it will need to secure. Its strategic focus will be on securing all of its borders.

Its strategic nuclear forces will remain much smaller than that of the United States and Russia. China will also increasingly use its diplomatic and military resources to protect and advance its interests with regard to its critical sea-borne trade routes. China's power might be growing, but it is doing so in a dynamic environment that is presenting China with new and evolving threats to its security too. And unlike the United States, China does not have a global network of alliances and partners to multiply its capabilities and help it deal with challenges.<sup>75</sup>

It is fair to assume that China's economy and its military might will continue to grow. But we also need to recognise that those endeavours could be distracted by events beyond Beijing's control – perhaps inflation, perhaps instability in a Central Asian state that spills over into China. The complexity of China's internal and external environment should give us pause before we assume that China will be in a position to challenge US primacy in the foreseeable future.

The third judgement that requires examination is whether China is likely to seek dominance in the region and be prepared to challenge the United States to achieve that. We should also ask what that might mean for Chinese and American behaviour. Here we must look at what the international relations theorists would predict.

Some theorists predict that a rising China cannot but challenge the United States for supremacy and that conflict is therefore inevitable. Others argue that change in the international system depends on a wide range of factors, including whether the power relativities of the current world are reflected in the international order. Another approach is to examine the different power relativities in different areas of engagement – military and economic power distribution is not necessarily equal and this will affect how states behave. There is also a line of argument that the high levels of economic enmeshment we see make conflict less likely – an issue of clear relevance given the financial and manufacturing interdependence between China and the United States.<sup>76</sup>

The key point for this discussion is that international relations theory is not unified on the inevitability of antagonism and conflict as power relativities change. The reasonable conclusion to reach is that changing power dynamics produce a high risk environment in international affairs, but whether two states go to war depends on a myriad of policy choices that are made on a daily basis. As Robert Gilpin says in his *War and Change in World Politics*, theory may be able to explain that that have happened but it cannot predict the future.<sup>77</sup> But the wide range of different theoretical views lead to the conclusion that statecraft and leadership can shape events.

Considering theory matters because it does provide alternative frameworks through which policy makers and others view the world. If your framework for assessing the likely future is based on a theory that says conflict is inevitable, it will influence your policy choices. If you take the view that economic interdependence has made conflict redundant, then you will be encouraged down a different policy path.

The discussion about China's rise and what action it might take often begins with a discussion about the risks of conflict between China and the United States – a discussion based on the ideas of realism that states will compete, including through war, to secure power. White's paper talks of the "drift towards antagonism". But we need to be clear about what China might do. What might a challenge to US primacy look like in terms of Chinese behaviour? To some extent, we already know the answer. China already has begun to exercise greater influence in international affairs. China is, not unreasonably, demanding a greater say in international financial institutions. China is asserting its positions on territorial disputes. China is developing its military capabilities. The presence of these increased capabilities – whatever the intention – indicates the seriousness with which China is approaching its national security.

The question is not whether leaders in Beijing will seek to increase their country's influence. They will. But there is a question about whether China will challenge US primacy and be prepared to use conflict to achieve it. There is also a question about how the United States might respond. Here, too, we should be careful about assessing what theory teaches us about how states might behave.

Nearly all theorists agree that great powers seek to maximise their power and influence. But we cannot assume that this means China will seek to change the status quo of American primacy through violent means.

For example, Robert Gilpin's framework for considering changes in the international orders allows for consideration of how China might seek to increase its influence *within* the existing international system, rather than by seeking to overturn it.

His framework also allows for the possibility of the United States agreeing to adjustments to the international system that would reflect China's growing power but maintain the existing order. War may well occur, but it is not pre-ordained.

White's thesis echoes the realist notion that, as China seeks to increase its influence, conflict is at least likely. But, at best, the realist theory suggests one possible future for US-China relations. Neither it nor any other international relations theory can safely predict the future. Policy directions need to be based on the fundamental question of what serves the national interest, not on what international theory suggests might happen. It is to an assessment of White's policy proposal that we now turn.

## WHITE'S POLICY RECOMMENDATION

White does not suggest that conflict is inevitable. He argues that conflict can be avoided through cooperation. The great powers can avoid conflict if they adjust their relations in a fundamental way. If the United States cedes primacy and enters into a concert with China and other powers, war is not inevitable. A rising China and a powerful United States can co-exist.

White's proposal is that Australia urge the United States to come to an agreement to share power with China by ceding primacy and establishing a concert of powers with China and other major regional powers that would grant China equality with the United States. At the same time, the concert would make clear to China that the other members of the concert would unite against China should it seek to assert primacy. The proposal would make clear that if China does not accept the offer of being treated as an equal, the United States would lead an effort to contain it. White's proposal is a radical one. It asks the most important question for Australian policymakers, how do we respond to shifting geopolitics? But the answer he gives is too radical. The question reminds us that great power politics will be a much greater consideration for Australian policy makers in the next two decades than it has been in the previous two. For 20 years, Australians have become accustomed to unrivalled American dominance and have focused international policy on threats such as international terrorism, climate change and financial instability rather than rivalry between great powers. White's proposal reminds us that there is much at stake in getting policy settings right and much uncertainty in predicting the trajectories of great powers.

First, there is a problem with making fundamental changes to key foreign policy settings based on what is likely to happen in 20 years time. A concert now is not necessary. China is not currently challenging US primacy and, despite a broad consensus that China has been more assertive in recent years, it is not yet showing a clear intention to challenge. Establishing a concert now to prevent problems emerging in the future is risky. Enormous change can take place in international relations in 20 years. If Australia had made foreign policy changes based on straight line projections of likely developments 20 years ago, we could well have argued that Japan should be our main partner and that America cede primacy to Japan to avoid conflict. After all, in 1990, China was only one year from the 4<sup>th</sup> of June 1989 and still in close to international isolation. Korea was still ruled by former military officers (even if elected for the first time) and international terrorism largely brought to mind the IRA. In 1991, commentators were publishing books titled *The Coming War with Japan*.<sup>78</sup> In the intervening two decades, the world has changed in ways we could not have imagined in 1991. Even if we accept that the scale of China means that the ramifications of its rise are greater than we have faced in recent decades the evolution of international affairs is far from predictable.

Making such a radical policy shift now would not serve Australia's interests because it would tie our fate to the eventuation of one possible future. If, however, China hits a slump or the United States leads the world to a new phase of productivity growth through yet to be discovered technologies, we would have committed ourselves to a course of action that presupposes ongoing relative US decline to a point where it can no longer assert primacy.

Perhaps, in 20 years time China will have overtaken the United States as the world's richest country and its most powerful. Perhaps China's system of government will have changed. Perhaps in 20 years time the United States will be in rapid decline because of a series of environmental catastrophes. Perhaps, then, China will be prepared to expend the necessary resources and intellectual energy to lead the region and provide for the security and stability of the global system that has delivered such prosperity. If that happens, then Australia might need to re-assess our position in light of what it is on our national interest. But until we reach a point where the power has shifted, it would be foolhardy to seek to pre-empt the changes that might take place and dangerous to be seen to be the main protagonist for such a change.

A key element of White's argument is that we must act now or it will be too late. China and the United States might drift or be thrust into war in the meantime. If we wait too much longer, China will be too powerful to agree to make a deal. This paper takes a different view. But even if the argument is accepted that steps need to be taken now, the second question arises of how any such concert would be achieved and the risks involved in going down that particular path.

If the United States did seek to establish a concert with China and other powers, the short-term consequences would be enormous and not in our national interest. If it became known (as it would) that the United States had offered to cede primacy in return for China agreeing not to seek primacy, US credibility would suffer. US global prestige would suffer – allies in Europe would need to re-assess the wisdom of relying on America. In the Asia-Pacific region in particular the belief in US commitment to the region would suffer, and US allies and friends would begin to question how reliable the United States was. Any nascent perception of US decline would take hold and grow quickly. Others in the region could seek to fill the vacuum left by the United States, with potentially destabilising results. Other major powers, particularly India and Russia, would see their security interests affected by this shift and would respond in ways to increase their own security in a fluid situation. The first step towards a concert, which would necessitate the United States signalling a preparedness to relinquish primacy, would indicate a fundamental shift in global and regional power dynamics and would likely lead to great instability as others sought to reposition themselves in this new world.

Related to this risk of instability is a third point, how China might respond to an approach to establish a concert. White argues that others will be willing to join together to work against Chinese hegemony, but that they would not be prepared to support ongoing US primacy. In other words, the cost of securing the support for others in preventing Chinese hegemony would be the United States accepting that others would not be prepared to risk stability for the sake of maintaining US primacy. There is a high risk that the United States *ceding* primacy would be seen as the United States (and others) offering to *grant* primacy to China. To guard against this, the United States would need to make clear in presenting its offer that were China to refuse then the United States would lead the effort to ensure that China would never be able to establish primacy – in effect delivering some kind of ultimatum to China.

China would surely feel greatly emboldened by the news that its growth had led the United States to propose ceding primacy and sharing power with it. But if China was told that it must accept the concert or others would unite against it, the reaction in Beijing would likely increase tension. China's response would be driven by these two admittedly contradictory reactions and this is likely to lead to a policy response from China that would lead to greater instability – perhaps it would become a trigger for China to actually seek to assert its primacy.

Fourthly, White argues that in establishing the concert, it would be made clear to China that should it seek to change the terms of the concert (in other words if China sought to break out of the concert at a later date and establish primacy) the other powers would unite against it. But, even if a concert were adopted, as China's economic and military power continued to grow, there is no guarantee China would not seek to renegotiate the terms. The concert would come about because of a first action of the United States agreeing to cede primacy – a step supported by other concert members – in order secure peace and stability.

In this context, China might well judge that the nations that had sought to establish the concert in the first place would be likely to want to ensure it continued – given they had been motivated to propose it, they might well be prepared to pay a cost to maintain it. It would not be unreasonable for China to assume that if the initiators of the concert were prepared to make such a big move now in order to secure peace, they might also be prepared to renegotiate the terms in future years for the same reason. A concert established today would not prevent a stronger China seeking more influence in future years, but the other concert members would have their credibility at stake in how they responded to one member who sought to renegotiate. For the concert to remain credible it would need to respond against any move with great resolve. This, too, would likely be a cause for instability.

Fifthly, consider the ramifications of Australia taking the decision to urge America down this path and then actually making the arguments in Washington. No matter how sophisticated or nuanced our arguments might be they would not be welcomed in Washington. We need to be able to have a frank dialogue with the United States on matters of difference. But urging it to cede primacy to avoid destabilising competition with another power is of a different order of magnitude. It would be seen as naive given the risks involved in taking such a policy course. The United States is the richest and most powerful nation on earth. It has provided international public goods like no other power before it. It has underwritten Australian security for decades. For us to take the lead in urging it to cede primacy to avoid competition with a rising power that has not overtaken America economically or militarily would provoke an extreme reaction in the United States that would likely see our privileged access to American intelligence and military technology curtailed. Our alliance might remain, but in name alone. This would not be in our national interest. Australia needs to be able to have a frank dialogue with the United States about the future of our region, but the cost to us of being a first mover on White's policy proposal is simply too high.

What are the costs to us for not taking White's recommendations? In the short-term there are none. We lose nothing economically. We lose none of our security. In the longer term there are also not likely to be costs. Not moving now does not rule out us possibly taking that course – if the national interest demands – at some stage in the future should the strategic picture change fundamentally.

In examining White's proposal we need to look at the costs and the benefits. This paper argues that the risks in moving to a concert are high and that the benefits are not as great as assumed. In discussing the risks and the rewards we need also to recognise that we have more than two choices. It is not a matter of accepting White's proposal or being condemned to policy paralysis.

## AN ALTERNATIVE

It is not enough to simply say that White's proposal is too radical. He asks an important question and rightly puts the dilemma of great power relations back into the forefront of Australian foreign policy. As White says, wishful thinking is not a policy. Any response needs to propose an alternative.

Before moving to outline an alternative policy approach, this paper will first examine some assumptions, most of which are shared with White, but with some qualifiers.

It is fair to assume that China will continue to grow economically (as will the United States), but uninterrupted linear growth cannot be assumed given the scale of other policy challenges Beijing faces. As it grows economically, China will continue to expand its military capability. It will also want to exercise more influence, but its appetite for influence will be balanced by the level to which it is prepared to accept the full burdens of regional and global leadership. Unless forced to do so by circumstance, China will not seek the burdens of leadership.<sup>79</sup> Seeking to replace the United States as hegemon would require China to accept those burdens.

The United States will remain the single most powerful and capable nation. Its role in providing and guaranteeing the global framework that allows for the current level of unfettered trade will not be seriously challenged. Many nations will have an interest in retaining this US leadership.

The United States and China will continue to engage with each other. Their various interests will bump up against one another and there will be friction. But for the foreseeable future it will be competition tempered by an understanding in Beijing and Washington that stability suits the interests of both countries. The United States and China are far from a Cold War.

Events could disrupt the growth of China, the growth of the United States and relations between the two. A North Korean crisis that leads to conflict on the Korean Peninsula cannot be ruled out and could have devastating consequences for the region. Tension could rise across the Taiwan Strait leading to conflict. Instability in a state on China's periphery could occur, attracting Beijing's full focus to that region, not the Pacific.

So how does Australia chart a course through these possibilities? There are five key elements:

1. Avoid choices that do not need to be made;
2. Develop the economic and political relationship with China;
3. Nurture the US alliance and US global leadership;
4. Invest in ties with other regional powers; and
5. Invest in regional institutions.

The first thing for Australia to do is to avoid choices that do not have to be made. We simply do not have to choose between Beijing and Washington so we should not. Our national interest is served by a close economic relationship with China – that must be developed. Our national interest is served by a close strategic partnership with the United States – that must be maintained and developed.

During the AUSMIN meetings in Melbourne in November 2010, Paul Kelly wrote in *The Australian* "Indeed, contrary to much public analysis, there is no evidence these objectives [of a close economic relationship with Beijing and a strategic relationship with Washington] are irreconcilable or that Australia cannot keep its US alliance and its expanding China partnership, notwithstanding inevitable tensions along the road. The reality is obvious. For the foreseeable future every Australian prime minister will operate on this premise, and Gillard has made sensible decisions."<sup>80</sup>

Kelly is right. Short of major shocks, the business community in both countries will continue to develop the economic relationship. Demand, not affection, will drive the growth. This is about economic interests that suit the needs of both countries and their leadership. China will not expect Australia to end its alliance with the United States. But nor does that preclude Australia from developing a closer political relationship with China. Indeed, close political engagement with China will be crucial for our future. We will not always agree with China and we need to expect bumps along the road in our relationship. But greater engagement with China will be in our interest. We need China to hear Australian perspectives on bilateral, regional and global issues. That will only happen through direct engagement at all levels and through a concerted attempt to foster our influence in China.

When we do have differences, we need to be clear and direct about those. Take China's engagement with the Pacific island countries as an example. Our interest is in the sustainable development of the Pacific Island countries. China may well have a focus on other questions, including diplomatic recognition of Taiwan, that matter less to us. We need to be forthright in advocating for our interests – no-one else will do it for us and we cannot expect China to do the thinking about Australia's national interest.

We need to be able to have these discussions with China in a very direct manner. It means that, at times, there may be a chill in the relationship. China's system is not geared for the open public debate like ours is. If relations take a chill, there is likely to be dissatisfaction expressed by China through many avenues, including the state-owned media. But if that is the price we pay for pursuing our interests then we will have to pay it. The goal of our foreign policy must be to protect and advance our national interests, not in and of itself to "be friends" with any particular country.

Part of this frank dialogue is about urging China to be more transparent – not repeating the same slogans about its intentions, but being open about its overseas development assistance, being open about its military expenditure and strategic planning, being open about how it sees the future of our region. In Australia, government statements on strategic intent are given great scrutiny. Academics, journalists and commentators immediately dissect words and actions. Leaders are forced to defend their views and their statements in public. In China, there is not the same degree of examination and that makes it much more difficult for others to understand China's intentions.

We need to be able to be direct with China about how we want it to act. We can do this with other partners and we expect them to do it with us. We do it with the United States; we do it with Japan. We cannot dictate to China, of course, how it should act, but in international affairs it is a government's role to advocate for the nation's interests and for Australia that means encouraging China to act in ways that are consistent with our interests.

A further element of increased engagement with China is recognising its legitimate demand to have greater international status and a greater say in international organisations consistent with the growing size of its economy and its influence. Australia's support for reform of international financial institutions so that they would reflect the financial importance of China and other emerging economies is an example of this being done. Australia's support for the development of the G20 as the pre-eminent global body for dealing with economics also implicitly recognised the importance of China and the other emerging economies to the global economy. The effective functioning of these global institutions is fundamentally in Australia's national interest. For them to remain effective, they need to be (and be seen to be) legitimate and reflect contemporary power distribution.

Our engagement with China needs to be based on a solid and serious understanding of contemporary China and its trajectory. Within government we need strong analytical capability and long-term policy planning. Within the academic community and schools we need a concentrated effort to build China skills and expertise. All sectors of Australian society engaged with China will need to invest time and resources in developing expertise about and relationships with China.

At the same time as we increase our engagement with China, our alliance with the United States will need ongoing nurturing – it cannot be allowed to wither. America is the most powerful country in the world, it is in our interest to cultivate a strong relationship, which means a relationship where we can be frank with one another. We should not forget the importance of our economic relationship with the United States either. It remains the biggest investor in Australia and is our third-largest trading partner.

We also need to show our support for the United States remaining engaged in Asia. The Obama Administration has sent clear and strong signals of its ongoing commitment to the region. When the United States sends signals that it is committed to and deeply engaged at all levels in the Asia-Pacific region, Australia should (as it does) show its support for such moves. If a perception forms that the United States is losing interest in the region then there is a risk that regional states would seek to fill the vacuum. It is not in Australia's interest to have any one nation seek to dominate the region. This would lead to instability. On the other hand, US indications of ongoing engagement are a force for stability in the region.

Strong support for ongoing American engagement is not incompatible with encouraging greater engagement in regional affairs from China. Managing tension on the Korean Peninsula is an example of this. Chinese engagement through the Six Party Talks is welcome and should be encouraged. This does not mean that we share precisely the same interests. Both Australia and China want stability, but our calculations about what constitutes an acceptable price to pay for stability, and who should pay that price, may well be different. But Chinese engagement in the process of seeking resolution guards against China perceiving that its interests are being ignored.

The other reason we need ongoing US leadership is its unique role in the design and underwriting of global systems. In the midst of the Second World War, America was already turning its mind to the post-war era.<sup>81</sup> The foundations it decided upon have served Australia and many other nations remarkably well for six decades. One key feature of this international system established in the aftermath of the Second World War is that it is "unusually accessible, legitimate and durable. ... it [is] hard to overturn and easy to join."<sup>82</sup> It has delivered benefits not just to the United States but to a wide range of other states, including China.

It has provided the United Nations and the WTO. It has proven resilient enough that it can not only accept but embrace the emergence of new global bodies such as the G20 leaders meetings. Maintaining the global order that has served Australia and others so well is a key national interest for Australia. Only the United States has the global power – and willingness – to underwrite that global order.

This paper argues that a radical change to our fundamental foreign policy settings is not warranted. In the future, the day may come where a weak America in terminal decline faces a strong China that has proven its global leadership credentials. In that case, Australia might well assess that its interests would best be served by encouraging the United States to cede primacy and make a deal to share power with China without resorting to war. But we are nowhere near that point yet, and it may never come.

At the same time as we maintain our security links with the United States and our economic engagement with China, we should also invest in other avenues for securing stability. China and the United States are not the only states in the region that matter to us. Australia benefits from developing a shared strategic approach to the region with our partners. We have particularly close defence and security ties with Singapore and Malaysia. Ties with Japan and the Republic of Korea are developing quickly. The Lombok Treaty provides a solid framework for security cooperation with Indonesia. Building stronger security and economic ties with a wide range of countries, particularly those that share our commitment to open and accountable government and a belief in the importance of free trade to economic development, will continue to be important. Like-minded middle powers deserve our close attention.

We also need to invest in regional organisations. Regional organisations in and of themselves will not guarantee peace or prosperity, but they can help build a policy consensus on the way to approach challenges. APEC, for example, has built a strong constituency of pro-economic integration officials, businesspeople and academics that have supported ongoing economic liberalisation.

Russia and the United States joining the East Asia Summit (EAS) will arguably be the realisation of Kevin Rudd's proposal for an Asia Pacific community (APC). It represents the creation of a body that brings together the leaders of the major nations in the region with a mandate to discuss almost any issue, and provides a forum for dealing with any short-term tensions that arise and for building habits of cooperation and dialogue. To help provide stability in the potentially tumultuous decades ahead, the East Asia Summit will need to make itself the premier forum for addressing challenges. Perhaps the next step will be for the EAS to develop its agenda to the point that it can make a concrete contribution to underwriting regional security. The past experience of ASEAN in dealing with contentious issues provides some guidance as to how this could be done. In 2002, the ASEAN states and China signed a Declaration of Conduct for the South China Sea. In 2010 when tensions again rose over the competing claims, the Code provided a useful touchstone for countries to return to so that the temperature could be lowered. The ASEAN states and China had an agreed set of principles that all could return to without any perception of backing down or conceding to another party.

The EAS could look to this precedent as a template for building a role for itself in managing regional strategic affairs. The EAS could look at developing a set of principles for how member states manage disagreements or tensions. The principles could enunciate the shared views of what maintains security and stability, including international and regional norms and instruments, and could outline how states should engage with each other. In effect, this could be a broad regional code of conduct – a Regional Strategic Code. Such a code would not remove differences or possible causes of tension, but it would provide some agreed guidelines that would help to prevent behaviour that could lead to tension and would provide a previously agreed approach for addressing tensions should they arise. This would leave nations free to deal with the substance of the dispute and its resolution rather than expending limited resources during a crisis in debating what mechanisms should be established. It is less likely that EAS states would agree to establish a specific dispute resolution mechanism, but agreeing on principles might be a useful first step.

The adoption of such a Regional Strategic Code and its negotiation would also help to build a shared perception of security as states would need to openly debate the rules they could live by. And if the EAS were to become the forum for such a major undertaking, its role as the premier regional institution would be strengthened. The difficulty would be that all states signing onto the principles would have their freedom of action somewhat constrained by the principles – agreeing to shared principles places constraints on states' behaviour.

The key would be to frame principles that allow states to make the calculation that the restraints imposed on them are worth it given the broader security benefits the state accrues from other states also agreeing to the principles.

There is a key point of difference in this idea with White's proposed concert of powers. White sees only major powers involved in a formal arrangement, and his focus is on the need for the United States to agree to cede primacy in return for cooperation from others in a concert of powers that would be able to stand up to China should it seek to establish hegemony. The idea of a Regional Strategic Code in the East Asia Summit would seek to limit the risks of strategic competition by establishing some basic rules of engagement rather than establishing a mechanism of great powers that would then decide rules as needed. Also, it would include the participation of a broader range of nations. It requires all powers to accept the utility of having some broad principles for dealing with each other. Unlike White's proposal, it does not require the United States to enter into a discussion by first agreeing to a radical change in its own place in the region.

The two ideas do, however, also share some similar points. Both proposals are based on the notion that a discussion now about how to manage relations will help avoid tension in the future because China's rise will affect the region. Both proposals also recognise that all parties would need to accept the same principles for the proposal to work, something that the major powers could find difficult to accept in an agreement with smaller powers.

## IN CONCLUSION

Since the end of the Cold War, Australians have had little or no reason to consider great power politics. America has been pre-eminent. Systemic financial instability and terrorism have been a focus of international cooperation. The situation has now changed. The recent threats to our national wellbeing have not evaporated, but they are now part of a complex strategic landscape that includes great power politics focused on our region.

Hugh White is right to ask how we will deal with this new situation. The great power politics that will take place in our region over the next two decades will be a crucial determinant of our future. We need to engage with the great powers to ensure that our interests are registered. But it is not in our interest to be the proposers of a radical shift in the geopolitics of our region. In the short term it would not work; in the long term it could well backfire.

What we need is a nuanced and incremental approach to our foreign policy that adapts our settings to changing circumstances and does not overly constrain our ability to respond to future events. To support the development of such a policy approach, a deep debate about the future of our region is essential. White's essay has made a provocative contribution to start that process. This paper, too, aims to join that discussion.

# NOTES

1. See Deng, K.G. (2009) *Economic Growth of the People's Republic of China, 1949-2009*. Accessed on 24 January 2011 at [http://www.econ.mq.edu.au/Econ\\_docs/research\\_seminars/2009\\_research\\_seminars/PRC\\_Growth-MQ-2009.pdf](http://www.econ.mq.edu.au/Econ_docs/research_seminars/2009_research_seminars/PRC_Growth-MQ-2009.pdf). Deng says that "the first 30 years of economic growth under Maoism was a disaster (c. 1949-1979)", p.1.
2. Spence (1999), *The Search for Modern China*, W.W. Norton and Company, New York, pp621-623.
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