

Strategic Analysis Paper

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Australia, China and the United States: Maintaining an Equilibrium in the Indo-Pacific

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Key Points

- Australia finds itself uncomfortably near the centre of the geo-strategic dynamics in the broader Indo-Pacific region. It has been balancing the two major players, the United States and China, each of which is critical to Australia's security and economic well-being.
- Australia is in something of a Catch-22 situation, as even a slight tilt towards either China or the US could be damaging to its relations with the other.
- Australia's grand strategy, therefore, should not be focussed on fighting a war with an Asian power. Instead, the focus should continue to be on working with the Asian powers and seeking even greater co-operation and engagement in the region.
- Strategically speaking, India and Indonesia could be good options as partners for Australia in meeting its strategic and economic needs. Thus, Australia, Indonesia and India can make joint efforts to ensure peace in the region.

Summary

As tensions rise in the South China Sea, the world is watching nervously as events unfold. Although not a party to the disputes, Australia nonetheless finds itself uncomfortably near the centre of the geo-strategic dynamics in the broader Indo-Pacific region. It has been balancing the two major players, the United States and China, each of which is critical to

Australia's security and economic well-being. Further enhancement of its partnerships with India and Indonesia could offer an opportunity for Australia to contribute to regional stability beyond the orbits of the US and China.

Analysis

On one hand, the United States and Australia have further strengthened their military ties. The United States' strategic move towards Asia was confirmed when more than 200 US Marines arrived in Darwin to take part in training exercises with the Australian Defence Force. In addition, 2,500 US Marines are to be rotated through the Northern Territory by 2017. A separate proposal to establish a US base in Perth to host nuclear-powered aircraft carriers and manned and unmanned ISR (intelligence, surveillance and reconnaissance) drones, was rejected by Australia as such a move might be detrimental to relations with China.

On the other hand, China is Australia's largest trading partner. According to the Department of Foreign Affairs and Trade, two-way merchandise trade is worth over \$113 billion and accounts for almost 25 per cent of Australia's total trade volume. In comparison, Australia's merchandise trade with the United States, its third-largest partner, stands at \$38 billion. In terms of combined figures for goods, services and investment, however, the US is Australia's most important overall economic partner. In 2011, two-way investment stock was worth almost \$1 trillion; Chinese investment in Australia in the period 2007-10 amounted to nearly US\$60 billion.¹ Both Canberra and Beijing believe that closer co-operation between China and Australia could be beneficial for the Indo-Pacific region by contributing to peace, stability and development.

Australia is in something of a Catch-22 situation, as even a slight tilt towards either China or the US could be damaging. Beijing has spoken out against the United States' strategic shift towards the Indo-Pacific region and Australia's role in it,² as it perceives the US pivot as a possible ploy to contain China. The Australian Government, however, has been instrumental in reassuring China, by pointing out that the United States 'has helped to guarantee peace in the Asia-Pacific region, where stability has fostered great economic development for countries, including China'.³ It has reassured China that it has nothing to fear from the United States or any such future alliances.

Australia frequently has been tempted by the idea of drawing away from the global power and moving closer to its customers.⁴ While that can be seen with the deepening of ties between Australia and China, having close ties with the United States continues to be very important, due to the growing vulnerability of Sea Lines of Communication and the fact that, effectively, only the US can guarantee their security. One assessment noted that 'Australia's close economic relationship with China is critical to shoring up Australia's capacity to withstand the head winds of the deepening global economic crisis. Thus, talk of Australia

¹ 'Australia Economy', *Economy Watch*, 9 March 2010.

² Mercer, P., 'China Voices Concern Over Australian-US Military Ties', *Voice of America*, 15 May 2012.

³ *Ibid.*

⁴ Friedman, G., 'Australia's Strategy', *Stratfor*, 22 May 2012.

being “caught between two rival powers” has once again surfaced in Australia’s public debate.⁵

That debate was reignited by Professor Hugh White, who posits, in *The China Choice: Why America Should Share Power* (2012), that the power centres in the region – the United States, China, India and Japan – need to reach an understanding on the distribution of power in the Indo-Pacific. The subject for debate is how much to give and how much would be acceptable to the other players. Thus, in a situation where the United States and China are both important partners for Australia, maintaining equilibrium would be helpful for the greater peace of the region in general, and Australia in particular. If the United States is critical for Australia’s stability, peace and, most importantly, security, while China and North-East Asia are economically important, then Australia could perhaps play the role of a balancer between the US and China. It could support the development of a co-operative structure between them⁶ to aid regional peace and stability.

The possibility of an emerging new order needs to be clearly understood by Australian strategic thinkers and policymakers. ‘Australia needs to recognise that there are several possibilities for the kind of new order that could emerge. Thus, Australia needs a strategy which will not require national interests to be compromised in any given situation. This has also been suggested by Catherine McGrath in her article, ‘Should the US Learn to Share Power with China?’, in which she has referred to comments by Hugh White and Paul Keating. According to them, the United States needs to recognise China as a great power and that it should be respected. Also, Keating has suggested that a non-Asian power like the US will not be able to maintain stability in Asia, especially with the use of force. Washington therefore needs to devise a new strategy towards the Asia-Pacific. Thus, in such a scenario, Australia would need to make a shift in policy. White and Keating further explain that, if the United States remains dominant and China pushes against it, Australia might have to make the unenviable strategic choice of tilting toward one side or the other.

Another article by McGrath, ‘A Defence Strategy Focused on Peace’, mentions the upcoming 2013 Defence White Paper and a report submitted by the Australian Strategic Policy Institute to the White Paper Working Group in the Department of Defence. The report suggests that Australia’s grand strategy should not be focussed on fighting a war with an Asian power, as that is most unlikely to occur. Instead, the focus should be on working with the Asian powers and seeking co-operation and greater engagement in the region.

Therefore, instead of being caught between two major powers that may be at loggerheads with each other, strategically speaking, India and Indonesia could be good options as partners for Australia in meeting its strategic and economic needs. For example, India, which has a huge market and is one of the fastest-growing economies in the world, could be beneficial to Australian interests, especially in a changing regional security order. The Indian Diaspora in Australia might also be able to play a role.

⁵ O’Neil, A. and Dou, D., ‘Neighbours Show How Australia Can Please Two Masters’, *Sydney Morning Herald*, 10 January 2012.

⁶ Covered in remarks by P.J. Keating on *The China Choice*, by Hugh White at the Lowy Institute for International Policy, 6 August 2012.

As the Department of Foreign Affairs and Trade notes in its 'Indonesia Country Brief', Indonesia and Australia are close neighbours with a highly-productive relationship that encompasses political, security, commercial, environmental, cultural and people-to-people links. Indonesia and Australia are the two largest economies in this part of the Asia-Pacific region and therefore are committed to further strengthening the bilateral business relationship. Indonesia is Australia's fourth-largest trading partner in ASEAN and twelfth-largest trading partner overall. The two governments have identified various priority areas of co-operation, such as Climate Change and Counter-Terrorism. Hence, Australia, Indonesia and India can make joint efforts to ensure peace in the region.

One fact that needs to be reiterated is that economics is the driving force for any country today; indulging in any sort of conflict would be harmful for the countries involved, either directly or indirectly. Thus, assuming all states are rational actors, a situation of conflict may not, in fact, arise and is certainly not advisable. Instead, possibilities such as those mentioned above should be further explored as possible alternative ways of maintaining a peaceful equilibrium between the United States, China and the other actors in the Indo-Pacific region.

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