



UNIVERSITY OF CALIFORNIA PRESS  
JOURNALS + DIGITAL PUBLISHING

---

Australia, China, and the U.S. in an Era of Interdependence: Irreconcilable Interests, Inadequate Institutions?

Author(s): Mark Beeson and Yong Wang

Source: *Asian Survey*, Vol. 54, No. 3 (May/June 2014), pp. 565-583

Published by: [University of California Press](#)

Stable URL: <http://www.jstor.org/stable/10.1525/as.2014.54.3.565>

Accessed: 11/08/2014 14:23

---

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



University of California Press is collaborating with JSTOR to digitize, preserve and extend access to *Asian Survey*.

<http://www.jstor.org>

## Australia, China, and the U.S. in an Era of Interdependence

*Irreconcilable Interests, Inadequate Institutions?*

### ABSTRACT

Tensions in the Asia-Pacific region are rising as a consequence of the U.S. “pivot” to Asia and China’s increasingly assertive foreign policy. Other states in the region must try to reconcile potentially conflicting economic and strategic imperatives as a consequence. Australia illustrates these dilemmas. We ask what role regional institutions can play.

**KEYWORDS:** Australia, China, the U.S., regional institutions, interdependence

### INTRODUCTION

It is hardly controversial or novel to observe that the Sino-American bilateral relationship is the most important in the world. Whether measured in terms of its strategic implications and potential for geopolitical rivalry, or by the extensive, politically fraught level of economic interdependence that exists between them,<sup>1</sup> the evolution of the relationship between China and the U.S. will have major consequences for both parties. It will also have profoundly important implications for the other—inevitably less powerful—states that make up the international system. No region will be more affected by this process than the Asia-Pacific, and no state is more conscious of the threats and opportunities this transformation brings in its wake than Australia. The way Australian policymakers balance the economic opportunities presented by the “rise of China” against Canberra’s longstanding strategic reliance on

---

MARK BEESON is Professor of International Politics at Murdoch University, Western Australia. YONG WANG is Professor at the School of International Studies, Peking University. He is also Director of the Peking University Center for International Political Economy Research. Emails: <M.Beeson@murdoch.edu.au>, <yowang@pku.edu.cn>.

1. Daniel W. Drezner, “Bad Debts: Assessing China’s Financial Influence in Great Power Politics,” *International Security* 34:2 (2009), pp. 7–45.

---

*Asian Survey*, Vol. 54, Number 3, pp. 565–583. ISSN 0004-4687, electronic ISSN 1533-838X. © 2014 by the Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press’s Rights and Permissions website, <http://www.ucpressjournals.com/reprintInfo.asp>. DOI: 10.1525/AS.2014.54.3.565.

the U.S. will not only help determine Australia's own fate. It will also shed a revealing light on the relative balance of forces that are shaping the Asia-Pacific more generally. To put this in theoretical terms, is the "logic of interdependence" likely to exercise the sort of benign influence liberals hope it will?<sup>2</sup> Or is the preparation for possible conflict a sensible response to a rapidly changing strategic environment, as realists would have us believe?<sup>3</sup>

To help answer this question, we assess the capacity of various regional institutions to encourage cooperative relations. We do this by focusing primarily on the policies and positions of Australia and China—countries with major stakes in and exposure to the extant international order, and which also enjoy an increasingly important bilateral relationship. The key question here is whether the regional institutions that Australia and China have championed are compatible, effective, and capable of playing a constructive role in a region in flux and dominated by a growing rivalry between rising and declining powers. To do this, we initially provide a brief reminder of the historical and geographic circumstances in which intra-regional ties are unfolding. As we point out, much is at stake in simply defining the region, let alone trying to manage its complex, multidimensional internal relations. For both China and the U.S., the Asia-Pacific has become a key arena of foreign policy attention and contestation, an underlying reality thrown into sharp relief by the U.S.'s recent "pivot" to Asia.<sup>4</sup> In this context, Australia is the quintessential Asia-Pacific power—or would like to be. In reality, despite Australia's energetic foreign policy,<sup>5</sup> it has struggled to influence regional development and identity in directions it prefers. In this regard, at times it has been helped neither by China nor the U.S.

Australia highlights the constraints that potentially affect all so-called "middle powers"<sup>6</sup> in the region as they attempt to balance potentially conflicting

2. Stephen Chaudoin, Helen V. Milner, and Dustin H. Tingley, "The Center Still Holds: Liberal Internationalism Survives," *International Security* 35:1 (2010), pp. 75–94.

3. John J. Mearsheimer, "The Gathering Storm: China's Challenge to U.S. Power in Asia," *Chinese Journal of International Politics* 3:4 (2010), pp. 381–96.

4. An anonymous reviewer suggests that Barack Obama has never actually used the word "pivot." Nevertheless, it has become a widely accepted shorthand for a major recalibration of American policy.

5. Australia has arguably made a disproportionate contribution to regional institutional development in the formation of the ASEAN (Association of Southeast Asian Nations) Regional Forum (ARF), Asia Pacific Economic Cooperation (APEC), and promoting the East Asia Summit (EAS). Ann Capling, "Twenty Years of Australia's Engagement with Asia," *Pacific Review* 21:5 (2008), pp. 601–22.

6. This has become a fashionable way of describing states such as Australia that are not great powers, but not without some influence either. Importantly, this is the way successive Australian Labour Party governments have chosen to describe Australia. For an explanation and critique, see

strategic and economic interests.<sup>7</sup> One of the ways that countries such as Australia have traditionally sought to influence more-powerful states and the international system has been by creating and participating in multilateral institutions. A commitment to multilateralism is, indeed, considered to be one of the hallmarks of middle powers,<sup>8</sup> and has been a central component of Australia's recent foreign policy rhetoric. A growing number of such bodies has emerged in the Asia-Pacific, along with a contest to determine which will be most important and what role they will fulfill. Whether the region's institutions will prove capable of managing a rapidly changing geopolitical situation is not clear.

If they cannot, it is likely that rather narrowly conceived national interests may prove more consequential than regional institutions. For less powerful countries such as Australia, this may present choices between old strategic loyalties and new economic realities that its policymakers might prefer to avoid. Before we consider the specific drivers of Australia's policy response, therefore, it is important to say something about the rivalry between China and the U.S. as they attempt to wield influence over the evolution of a region of which Australia is a not inconsequential part.

## DEFINING THE REGION

Ever since it emerged as a potential Pacific power in the 19th century, the U.S. has tried to influence the development of what has been variously described as the Asia-Pacific, Pacific Rim, Pacific Asia, the (currently fashionable) Indo-Pacific or—more narrowly and usefully, perhaps—East Asia.<sup>9</sup> If nothing else, “East Asia's” narrower geographic scope and the underlying patterns of historical interaction make it a somewhat more likely candidate for institutional consolidation, although even this is increasingly contested and uncertain.<sup>10</sup>

---

Mark Beeson, “Can Australia Save the World? The Limits and Possibilities of Middle Power Diplomacy,” *Australian Journal of International Affairs* 65:5 (2011), pp. 563–77.

7. Christopher Layne, “This Time It's Real: The End of Unipolarity and the Pax Americana,” *International Studies Quarterly* 56:1 (2012), pp. 203–13.

8. Andrew F. Cooper, Richard A. Higgott, and Kim R. Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order* (Carlton, Victoria: Melbourne University Press, 1993).

9. Pekka Korhonen, “Monopolising Asia: The Politics of Metaphor,” *Pacific Review* 10:3 (1997), pp. 347–65.

10. Gilbert Rozman, “Chinese National Identity and Its Implications for International Relations in East Asia,” *Asia-Pacific Review* 18:1 (2011), pp. 84–97.

The variety of possible labels tells us something important about the evolving and contested nature of regional identity. This is not, however, an issue of exclusive interest to lexicographers or students of discourse theory. On the contrary, regional identities or labels can become the basis of institutional development and mobilization in the real world—as the sudden emergence of the BRICs nations vividly demonstrates.<sup>11</sup>

The possibility that ideas and identity might have material consequences is partly why there is such a remarkable growth of institutional innovation in a region—however it is defined—that was formerly synonymous with its absence: institutions demarcate insiders and outsiders, and determine which states will benefit from and/or define regional agreements. Importantly, most of these recent initiatives such as the EAS, ASEAN, and ASEAN Plus Three (APT) have come from East Asia. It is striking that the U.S. has generally been lukewarm about such initiatives. This is not quite the paradox it seems, however: despite being the principal architect of the highly institutionalized international order that emerged after World War Two, the U.S. has been less enthusiastic about close entanglement in institutions over which it does not exercise a good deal of control. The great attraction of the World Bank, International Monetary Fund (IMF), and World Trade Organization (WTO) was that they generally helped to consolidate and entrench an institutional order that reflected liberal American values and normative preferences.<sup>12</sup>

It is noteworthy that American interest in participating in Asia's emerging regional institutional architecture and the reordering of Asian strategic priorities more generally has been sparked by the rise of a more assertive, influential, and materially powerful China.<sup>13</sup> The U.S. decision to take seriously the hitherto marginalized and rather redundant EAS means this organization now has the potential to become the centerpiece of a significant regional process.<sup>14</sup>

11. The BRIC acronym (Brazil, Russia, India, China, with some subsequently adding South Africa) was famously invented by Jim O'Neill, the chief economist of Goldman Sachs, but subsequently became the basis for actual meetings between states that otherwise had little history of cooperation.

12. Richard Saull, "Rethinking Hegemony: Uneven Development, Historical Blocs, and the World Economic Crisis," *International Studies Quarterly* 56:2 (2012), pp. 323–38.

13. Suisheng Zhao, "Shaping the Regional Context of China's Rise: How the Obama Administration Brought Back Hedge in Its Engagement with China," *Journal of Contemporary China* 21:75 (2012), pp. 369–89.

14. David Camroux, "The East Asia Summit: Pan-Asian Multilateralism Rather Than Intra-Asian Regionalism," in Mark Beeson and Richard Stubbs, *The Routledge Handbook of Asian Regionalism* (London: Routledge, 2012), pp. 375–83.

At one level, this may be seen as an expression of liberal institution-building and the attempted resolution of collective action problems. But it can also be read as part of a more traditional pattern of geopolitical maneuvering designed to limit China's ability to dominate a region of which the U.S. is not physically a part. China's perspective of the region is, therefore, literally and metaphorically very different from that of the U.S.—or Australia, for that matter.

China is “of” the region in a way that neither the U.S. nor Australia is, and this inevitably influences the thinking of China's elites.<sup>15</sup> It always has. As far as China's leaders and much of the population are concerned, China has always been at the center of regional events. For many of its increasingly vocal “netizens,” there is something especially galling about a former tributary state such as Vietnam not only challenging China's territorial authority but developing closer strategic ties with the U.S. in the process. Indeed, rightly or wrongly, many Chinese citizens and bloggers think that Vietnam and the Philippines are taking advantage of the U.S. pivot to gain concessions from China.<sup>16</sup> This is an important consideration at a time when China's policy in the complex territorial disputes in the South China Sea has undergone a significant change. From being synonymous with a largely successful “charm offensive” that sought to assure its neighbors of its benign intentions and the potential benefits of its peaceful rise, Chinese policy has suddenly become much more assertive.<sup>17</sup>

Whatever the merits of China's maritime territorial claims, they are being urged on by an increasingly vociferous public that sharply criticizes perceived government weakness in defending national interests. This strategically fraught, politically febrile environment is the context in which states like Australia must attempt to reconcile competing priorities. Although the government of former Australian Prime Minister Julia Gillard (2010–13) was at pains to emphasize the economic benefits of the “Asian Century,” it also argued that changes in the strategic environment meant that Australia's traditional

15. Mark Beeson and Fujian Li, *China's Regional Relations: Evolving Foreign Policy Dynamics* (Boulder, Colo.: Lynne Rienner, 2014).

16. According to a recent Hong Kong *Wen Wei Po* (newspaper) poll, 66% agree that the Chinese government should adopt a tougher position in safeguarding the sovereignty and integrity of the South China Sea. See Wen Wei Po Network, <<http://news.wenweipo.com/2011/06/13/IN1106130126.htm>>.

17. Charles Clover and Demetri Sevastopulo, “China Warns Neighbours on Territorial Disputes,” *Financial Times*, March 4, 2014.

reliance on the U.S. to underwrite national security remained unchanged.<sup>18</sup> Despite abandoning the former government's Asian Century blueprint, the incumbent Liberal-National Party coalition government of Tony Abbott has reinforced the commitment to the U.S. alliance and consistently opposed China's assertive foreign policy. Indeed, Coalition criticism of China's self-declared Air Defense Identification Zone (ADIZ) sparked an unprecedented public harangue of then-Australian Foreign Minister Julie Bishop by her Chinese counterpart Wang Yi during her first official visit to China. By contrast, Bishop went out of her way to reinforce Australia's commitment to the U.S.<sup>19</sup>

When calculating what they take to be in the national interest, therefore, Australian policymakers, like many of their counterparts around the region, must make complex international and national policy adjustments. It is important to say something about both.

#### AUSTRALIA'S INTERNATIONAL INSTITUTIONAL INITIATIVES

Compared to China, Australia faces a very different set of challenges. Whatever problems China may face in implementing its regional goals, it is unambiguously a part of its region in a way that Australia is not. Historically, Australian policymakers have experienced a good deal of ambivalence and cognitive dissonance when it comes to relations with "Asia." Indeed for most of Australia's comparatively short history, Asia has represented more of a threat than an opportunity. Paradoxically enough, the one notion that Australia does share with the region is that the past matters and continues to shape contemporary relations. For example, while we are accustomed to considering the continuing importance of the unresolved consequences of the Sino-Japanese relationship when explaining Northeast Asia's "stunted" regionalism,<sup>20</sup> we also need to recognize that the attitudes and relationships of non-Asian countries are powerfully shaped by specific historical experiences as well.

In Australia's case, the principal driver of foreign policy has been a congenital anxiety about the country's perceived strategic vulnerability.<sup>21</sup> To put

18. Commonwealth of Australia (CoA), *Australia in the Asian Century* (Canberra: CoA, 2012).

19. Christopher Joye, "We're All the Way with USA," *Australian Financial Review*, January 25, 2014.

20. Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalisation* (Cambridge: Cambridge University Press, 2004).

21. David Walker, *Anxious Nation: Australia and the Rise of Asia 1870–1939* (St Lucia: University of Queensland Press, 1999).

this in International Relations discourse, the fear of abandonment has always trumped any concerns about entrapment.<sup>22</sup> Generations of Australian policymakers have gone out of their way to cultivate close strategic ties with what former Prime Minister Robert Menzies famously described as “great and powerful friends.” They still do. Since Australia pragmatically and rapidly shifted its principal attachment from Britain to the U.S. in the middle of World War Two, relations with America have been paramount. As a result, few countries have expressed greater bipartisan enthusiasm about the merits of the formal alliance with the U.S., or greater willingness to do whatever it takes to ensure its continuity.<sup>23</sup> As U.S. President Barack Obama rightly observed in 2011, the U.S. and Australia have fought together in every conflict the U.S. has been involved in over the past 100 years. Whatever one thinks of the strategic logic or necessity that saw Australian participation in Vietnam, both wars in Iraq, and Afghanistan, deeply ingrained historical anxieties help to explain why Australian policymakers are willing to pay such a high price for geopolitical reassurance.

The bedrock, non-negotiable commitment to, and importance of, Australia’s strategic relations with the U.S. merits mention for a number of reasons. First, the continuing existence of the U.S.’s “hub and spokes” alliance system in the Asia-Pacific necessarily conditions and delimits other possible institutional and strategic developments there. At its starkest, this possibility was most evident during the Cold War when regionalism of any sort, be it East Asian or something broader, was impossible thanks to the ideological and strategic divisions of the era.<sup>24</sup> Relations between China and Australia during this period were, understandably enough, minimal and seen through a fog of mutual incomprehension and ideological rigidity. It is also important to remember that when former Prime Minister Gough Whitlam made his ground-breaking visit to China in 1973 to begin re-establishing ties with the People’s Republic (PRC), it actually occurred after Richard Nixon’s visit.

22. Amitav Acharya, “Engagement or Entrapment? Scholarship and Policymaking on Asian Regionalism,” *International Studies Review* 13:1 (2011), pp. 12–17.

23. The Australia, New Zealand, U.S. (ANZUS) alliance is effectively limited to Australia and the U.S. since New Zealand refused to let nuclear-armed and/or -powered vessels use its facilities. This has not diminished ANZUS’s importance to Australia or the amount of support it enjoys among Australians more generally. See Alex Oliver, *Australia and the World: Public Opinion and Foreign Policy* (Sydney: Lowy Institute, 2013).

24. Mark Beeson, *Regionalism and Globalization in East Asia: Politics, Security, and Economic Development*, 2nd ed. (Basingstoke, U.K.: Palgrave Macmillan, 2014).

Even Australia's most "radical" post-war leader was not game to get too far ahead of a diplomatic curve that originated in Washington.

For more than half a century, then, foreign policy has been made in Canberra with at least one eye firmly fixed on Washington. And yet even conservative Australian prime ministers were beginning to recognize that the rapid Asian industrialization to Australia's north was transforming the region and Australia's relationship with it. While the current focus may be on Sino-Australian economic relations and the profound changes that China's break-neck growth has brought about in economic activity in Australia, this is simply the latest chapter in a long-running story. Japan had become Australia's biggest trade partner as early as 1966–67, and Japan's resource-driven growth also induced a resource boom, rapidly followed by an all too predictable resource bust. Nevertheless, the rapid rise of the so-called tiger economies of Northeast and even Southeast Asia profoundly changed Australia's position in the region. Indeed, it made a new generation of leaders such as Bob Hawke and Paul Keating recognize that for Australia's future to be secure, it needed to become a part of the region.<sup>25</sup>

From the perspective of institutional innovation and intra-regional relations, the most significant Australian contribution of this period was the APEC forum. Much has been written about this organization, and we do not intend to repeat that analysis here,<sup>26</sup> but a few simple points are worth making about APEC, which is—unsurprisingly, we would argue—currently fading into irrelevance. First, the regional vision that APEC embodied was too all-encompassing and nebulous to really give coherence, let alone identity, to the organization or its goals. Second, APEC's agenda was unlikely to galvanize an Asian membership with little enthusiasm for wholesale trade liberalization. In any case, the existence of the WTO made this role somewhat redundant. Third, the need to subscribe to the "ASEAN Way" of voluntarism and consensus meant that APEC could do little besides cajoling; it could never compel, and that's just the way many of its members wanted it. Fourth, when confronted with various economic crises, APEC has remained conspicuously absent. Much the same could be said about its ability to deal with Sino-U.S. economic ties and tensions over China's alleged currency

25. Paul Keating, *Engagement: Australia Faces the Asia Pacific* (Sydney: Macmillan, 2000).

26. See John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: Cambridge University Press, 2001).

manipulation. Finally, APEC had to compete with a bevy of institutions that were emerging in its wake. APEC's principal significance in retrospect may well be that it highlights the difficulty Australian policymakers have had in influencing the evolution of the region.

Much the same fate seems to have befallen Australia's most recent attempt at institutional innovation in the region. First outlined in 2008, former Prime Minister Kevin Rudd's response to the growth of East Asian institutions such as APT, from which Australia would inevitably be excluded, was to promote an all-Australian initiative, the "Asia-Pacific Community" (APC). The significance of this project from Rudd's perspective was not simply that Australia was included, but so too was the United States. The intention was first, to ensure that Australia was not locked out of any potentially consequential regional decision-making body and, second, to make sure that such a grouping was not dominated by China. This is entirely in keeping with recent Australian foreign policy, on which Rudd's imprint remains clear. Rudd describes himself as a "brutal realist" when it comes to China, and his desire to lock in the U.S. strategic commitment to the region represented a continuation, albeit a sophisticated one, of a deep-seated historical pattern in Australian foreign policy.<sup>27</sup> The rather paradoxical point to emphasize, therefore, is that despite finally having an Asia-literate leader in the form of Mandarin-speaking China expert Kevin Rudd, ties between Australia and China actually deteriorated during his tenure, especially during his first period in office from late 2007 to mid-2010.

Nevertheless, some see the EAS as simply Rudd's APC in all but name, and thus a triumph of Australian diplomacy.<sup>28</sup> While many commentators think that the APC failed because inadequate efforts were made to win over hypersensitive Southeast Asian leaders who jealously guard their leadership role in the region's institutions, this may be overstating the case.<sup>29</sup> The unambiguous reality is that the EAS has prospered since the U.S. began to take it seriously, and this is an outcome Australian policymakers have been desperate to secure. As far as China is concerned, of course, America's

27. A recent *White Paper* setting out Australia's defense priorities actually named China as a potential source of regional insecurity and concern, something on which Rudd was thought to have insisted. See James Manicom and Andrew O'Neil, "Accommodation, Realignment, or Business as Usual? Australia's Response to a Rising China," *Pacific Review* 23:1 (2010), pp. 23-44.

28. Greg Sheridan, "The Realist We Need in Foreign Affairs," *The Australian*, December 9, 2010.

29. See Sheryn Lee and Anthony Milner, "Practical vs. Identity Regionalism: Australia's APC Initiative, a Case Study," *Contemporary Politics* 20:2 (2014).

renewed interest and institutional presence in its neighborhood—especially if it comes at the expense of the APT—is not a happy outcome.<sup>30</sup> Yet while Australia’s enthusiastic support of the U.S. and its reengagement with the Asia-Pacific may be entirely in keeping with historical precedent, it is occurring in an environment profoundly reconfigured by the rise of China and relative decline of the U.S. The question, therefore, is whether Australia’s policy still makes sense, especially given China’s growing economic importance.

### THE INTERNATIONAL AND THE NATIONAL INTEREST

All countries pursue their national interests, and China is no different in this regard. But the way national interests are pursued—indeed, even the manner in which they are defined—reflects contingent historical and geographical circumstances. China’s dramatically changed material circumstances plainly underpin its evolving foreign policy style, goals, and perceptions of its place in the international scheme of things. Many Chinese scholars think China should contribute more to the provision of public goods in East Asia to increase its influence.<sup>31</sup> As China has become more integrated into the international political economy, it has had to adapt to the constraints of the rules and norms of the international system. China’s accession to the WTO, and the very demanding entry criteria it was obliged to meet, is the most consequential example of this.<sup>32</sup> Now, however, China’s policymakers are becoming increasingly conscious of the possibility of becoming international rule-makers, rather than supplicant rule-takers. The active embrace of multilateralism—even if it is partial, instrumental, and opportunistic at times—marks an important shift in the conduct and content of policy.<sup>33</sup> The key question for China’s

30. See Tan Ya, “Meiguo huiguihou dongya hezuo de bian yu bubian” [Change and continuity in East Asia regional cooperation after the U.S. return to Asia], *Renmin Ribao* (People’s Daily), overseas ed., November 8, 2011.

31. See Zhang Yunling, “Dui dongya hezuo fazhan de zai renshi” [Reconsidering the issue of cooperation and development of East Asia], *Dangdai Yatai* [Contemporary Asia-Pacific], no. 1 (2008); Huang Yongguang, “Dongya diqu zhiduhua jinchengzhong de wenti yu zhguo de xuanze” [Problems in regional institution building in East Asia and China’s policy choices], *Guoji jingji pinglun* [International Economic Review] (November–December 2011).

32. Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institution, 2002).

33. Cheng-chwee Kuik, “China’s Evolving Multilateralism in Asia,” in K. E. Calder and F. Fukuyama, *East Asian Multilateralism: Prospects for Regional Stability* (Baltimore, Md.: Johns Hopkins Press, 2008), pp. 109–42.

neighbors is whether China is being “socialized” into a different style and approach to foreign relations, as a consequence.

Until fairly recently, the balance of evidence seemed to suggest that there had been a profound cultural shift—among many of China’s diplomatic and policymaking elites, at least—in thinking about foreign relations. Alistair Iain Johnston has plausibly argued that “there is considerable, if subtle, evidence of the socialization of Chinese diplomats, strategists, and analysts in certain counter-realist norms and practices as a result of participation in these [multilateral] institutions.”<sup>34</sup> This is a very important claim, because it is at odds with much of the conventional wisdom about strategic thinking in China, which emphasizes the generally “realist” orientation to policymaking and national security. Many observers, including Kevin Rudd, believe that there is a culture of policymaking and power in China that tends to reinforce a world view that predisposes Chinese foreign policy toward realpolitik and a fairly hard-nosed calculation of national interest.<sup>35</sup> In other words, it is claimed that despite China’s participation and increasing prominence in multilateral organizations, policy is still driven by the pursuit of essentially narrowly conceived national interests. Policy thus is unlikely to be transformed by the influence of external norms. For some observers, the reality is that “as soon as China feels confident enough in its status as a great power, it may no longer feel totally obliged to comply with the established norms and rules of Western-dominated international institutions.”<sup>36</sup>

For many of China’s increasingly nervous neighbors, this debate reflects much more than merely academic interest. It is important to remember that the very existence of ASEAN came about—notwithstanding its lofty rhetoric about cooperation, understanding, and good neighborliness—largely as a result of the pursuit of mutual support and self-preservation in the face of forbidding geopolitical circumstances. A collective interest was worth pursuing if it offered a way of achieving national interests, none of which was (or is) more important than shoring up national sovereignty. This formula has underpinned ASEAN’s intra-regional relations for nearly half

34. Alastair I. Johnston, *Social States: China in International Relations, 1980–2000* (Princeton: Princeton University Press, 2008), p. xiv.

35. Daniel Lynch, “Chinese Thinking on the Future of International Relations: Realism as the *Ti*, Rationalism as the *Yong*?” *China Quarterly* 197:1 (2009), pp. 87–107.

36. Gerald Chan, Pak K. Lee, and Lai-ha Chan, *China Engages Global Governance: A New World Order in the Making?* (London: Routledge, 2012).

a century. Importantly, however, the influence of the “ASEAN Way” has stretched beyond its original Southeast Asian members to encompass other East Asian and Asia-Pacific institutions. As far as the current heightened tensions in the South China Sea are concerned, by far the most important of these is—or ought to be—the ARF.<sup>37</sup>

The ARF should be an organization whose moment has arrived. And yet despite containing all the Asia-Pacific’s key strategic actors, including China itself, North Korea, and even Taiwan, the ARF has generally disappointed even its staunchest admirers. Not only does the ARF have no mandate or capacity to deal with key regional problems like the Korean Peninsula, China-Taiwan relations, or the increasingly dangerous territorial disputes in the South China Sea, but—in keeping with ASEAN’s non-interference principle—it has been at pains not to infringe on national sovereignty or sensitivities. The politics of the lowest common denominator may be useful in ensuring noncommittal participation, but as ASEAN’s critics have long pointed out, the net effect is that the association has developed a reputation for conflict avoidance rather than resolution.<sup>38</sup> The inability of ASEAN members to even agree on a joint statement at the 2012 summit was a revealing indicator of just how difficult it is for ASEAN and the ARF to actually act collectively when important national interests are at stake.

For China, as with its ASEAN neighbors, sovereignty remains paramount and is the major obstacle to the development of regional institutions capable of changing nations’ behavior. The existence of the ASEAN Way as the modus operandi of the ARF was one of the attractions of joining the organization in the first place, as China could never be compelled to do things it would rather not. This was a form of multilateral engagement, to be sure, but not one that was likely to constrain, much less contain, China. On the contrary, it is clear that China has been able to use its growing economic influence and resources to encourage a more supportive and sympathetic diplomatic position on Cambodia’s part, opening up a damaging rift between ASEAN’s mainland and maritime states that makes any unified position regarding China’s territorial claims all but impossible.<sup>39</sup>

37. Takeshi Yuzawa, “The ASEAN Regional Forum: Challenges and Prospects,” in Beeson and Stubbs, *The Routledge Handbook of Asian Regionalism*, pp. 338–49.

38. David M. Jones and M. L. R. Smith, “Making Process, Not Progress: ASEAN and the Evolving East Asian Regional Order,” *International Security* 32:1 (2007), pp. 148–84.

39. Ian Storey, “ASEAN Is a House Divided,” *Wall Street Journal*, June 14, 2012.

This is not an entirely surprising outcome. If we consider the development and actions of the APT, China's preferred vehicle for regional cooperation, it is evident that it shares similar properties.<sup>40</sup> Like the ARF, the APT has a predilection for informality and an aversion to legalism. But until the renaissance of EAS, the APT looked set to become one of the most important manifestations both of China's rise and the region's response to it. Now, however, in part because of Chinese actions, the APT's prospects have also dimmed as a consequence of the long-running competition to define the way regional identity and influence are institutionalized.<sup>41</sup> It is not hard to see why China has been an enthusiastic supporter of the APT process, which includes China and ASEAN, plus South Korea and Japan. Of equal significance are the countries *not* included: Australia and the U.S. In short, the APT grouping potentially offers a vehicle for the exercise of Chinese influence, if not regional hegemony—or so fear many Australian foreign affairs officials and their counterparts in Southeast Asia.

This possibility merits emphasis because of all the attention that has been given to the supposedly “functional” aspects of cooperation under the auspices of the APT. Unsurprisingly, given that the APT was largely a creation of the Asian financial crisis in the late 1990s, and recognition that East Asia lacked suitable crisis-management mechanisms, much of the APT's efforts have been directed toward monetary cooperation. While there has been some progress in this regard, it is important to note that the much discussed Chiang Mai Initiative (CMI), with its elaborate proposals for regional currency swap mechanisms, was conspicuous by its absence when confronted by its first major test. As the global financial crisis unfolded in the wake of the collapse of Lehman Brothers, the CMI mechanisms that had been the focus of so much regional effort and analytical attention remained unused.<sup>42</sup> This may prove consequential for the future of the APT as a whole.

Now that the APT has an increasingly formidable rival in the form of the EAS, many will ask whether the former is still useful. The possibility that the APT might prepare the way for a common currency in Asia always looked

40. Takeshi Terada, “ASEAN Plus Three: Becoming More Like a Normal Regionalism?” in Beeson and Stubbs, *The Routledge Handbook of Asian Regionalism*, pp. 364–75.

41. Mark Beeson, “American Hegemony and Regionalism: The Rise of East Asia and the End of the Asia-Pacific,” *Geopolitics* 11:4 (2006), pp. 541–60.

42. Ralf Emmers and John Ravenhill, “The Asian and Global Financial Crises: Consequences for East Asian Regionalism,” *Contemporary Politics* 17:2 (2011), pp. 133–49.

fanciful;<sup>43</sup> in the aftermath of the still unresolved European economic crisis, it is completely off the agenda. The prospects for China's preferred regional institution are consequently far dimmer than they were only a year or two ago. Its fate may ultimately be determined by China's ability and willingness to further increase the importance and international integration of its own economy, especially its currency.

For Australia, in the context of its own regional vision, if not necessarily its relationship with China, this ought to be a potentially good outcome. After all, the APT had pointedly chosen not to invite Australian or non-Asian participation. This fed the fears of those who saw the APT as a vehicle to exclude the U.S. and to further China's regional ambitions. But the Australian experience illustrates just how complex regional relations have become, and just how difficult it is to realize regional goals.

### BALANCING PRIORITIES

How can or should so-called middle powers such as Australia balance their economic and strategic priorities? Do the underlying dynamics of economic interdependence actually transform or constrain the policy options available to national leaders? Although it is difficult to extrapolate from the experience of one country, especially one with such a brief and distinctive history, the Australian case suggests that old loyalties and perceptions take some overturning. Even in an era where the evidence about the declining probability of war appears convincing to many,<sup>44</sup> the pursuit of traditional forms of security still takes priority in Australia. And yet, the reality is that for all China's efforts to charm its neighbors, there is still residual nervousness about what its rise might imply—fears that recent events in the South China Sea have done nothing to allay.

Whether Australian policymakers like it or not, as is the case with most of the region, China is now Australia's biggest export market. China's importance as a destination for Australian commodity exports is even more striking, with nearly half of everything Australia produces going there.<sup>45</sup> This is making the

43. Werner Pascha, "The Role of Regional Financial Arrangements and Monetary Integration in East Asia and Europe in Relations with the United States," *Pacific Review* 20:3 (2007), pp. 423–46.

44. Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2012).

45. Bureau of Resources and Energy Economics, *Resources, Energy, and Tourism, China Review* (Canberra: CoA, 2012).

management of the domestic economy increasingly difficult, especially as the overwhelming majority of “Australia’s” mining sector is actually foreign-owned—an economic reality generally unrecognized in China, or in Australia, for that matter.<sup>46</sup> What *is* recognized is the emergence of a “two-speed economy,” in which a resource-fueled surge in the Australian dollar is making the manufacturing and service sectors increasingly uncompetitive. This dramatic structural change in economic activity in Australia is also impacting domestic politics, and creating divisions between those industries and regions that are benefiting from the boom and those that are not.

It is noteworthy that even when the U.S. used its economic and strategic leverage to negotiate a bilateral trade agreement widely seen as highly disadvantageous for Australia,<sup>47</sup> this attracted relatively little criticism and never threatened the broader strategic relationship. In China’s case, however, the Australian government is having to deal with growing concerns about the impact of China’s economy and possible threats to national economic, as well as more traditional, forms of security. In this context, the Australian government has added to such concerns by adopting an increasingly cautious, even discriminatory approach to Chinese investment.<sup>48</sup> Concerns about the Chinese government’s influence over state-owned corporations’ strategic investments in the resource and food sectors have led to a much more interventionist response from Australia’s normally inert Foreign Investment Review Board, which is charged with scrutinizing investment proposals to ensure they are in the “national interest.”<sup>49</sup>

Despite the growing economic interdependence between China and Australia, therefore, this is not necessarily translating into an easy or close political relationship. True, diplomatic ties are more extensive than they have ever been, to the point where the premier of Australia’s most resource-rich, trade-dependent state suggests that relations with Beijing are more important than those with Canberra.<sup>50</sup> It is clear that dealing with China’s “state capitalists” is

46. Naomi Edwards, *Foreign Ownership of Australian Mining Profits* (Canberra, Briefing Paper Prepared for the Australian Greens, 2011).

47. Ann Capling, *All the Way with the USA: Australia, the U.S. and Free Trade* (Sydney: University of New South Wales Press, 2004).

48. John Garnaut, “Abbott Talks Tough during China Visit,” *The Age*, July 25, 2012.

49. David Uren, *The Kingdom and the Quarry: China, Australia, Fear and Greed* (Collingwood: Black, Inc., 2012).

50. Lanai Vasek, “We’ll Become Part of Asia If Denied More GST Funding, WA Premier Colin Barnett Says,” *The Australian*, May 20, 2012.

not an insurmountable problem either, as the burgeoning resource trade reminds us. And yet the rapid growth in China's economic influence and presence has actually fuelled rather than allayed deep-seated, visceral concerns about Australia's long-term security.

The most visible manifestation of this underlying strategic reality has been the decision to station American troops in Australia's north. Although the Australian government has been at pains to argue that this is not an American base, but merely a facility for the "rotation" of American forces, it remains a very powerful indicator of Australian strategic thinking and loyalties. The bilateral strategic commitment to the U.S. remains paramount. From a Chinese perspective, this looks like a vital part of the pivot and America's expressed desire to re-embed itself strategically in the region.<sup>51</sup> The perception that Australia is a willing and enthusiastic partner in an effort to "contain" China has been further reinforced by the proposed Trans Pacific Partnership (TPP). Ostensibly a proposal designed to facilitate trade liberalization, it is widely seen in China as a mechanism for further isolating China and enhancing American influence in the region.<sup>52</sup> As Jagdish Bhagwati has pointed out, the TPP is a highly political, discriminatory initiative that includes a variety of non-trade-related agendas around labor standards and capital controls that are essentially impossible for China to accept. These are being offered to weaker states on a take it or leave it basis.<sup>53</sup>

It is not hard to see why Chinese policymakers might feel aggrieved at this turn of events. When viewed through Chinese eyes, this looks like the U.S. using its still considerable economic leverage to get its way in an area where China is especially vulnerable. While many in the U.S. may think this is an important and effective part of "containment-lite," it is important to recognize that it is stoking a spirit of indignant nationalism in China and undermining some of the region's most important bilateral economic relationships.<sup>54</sup> It is also doing little to improve Sino-Australia ties. In China the TPP looks like the

51. Phillip Wen, "Cold War Warning as China Hits Out at Defence Co-Operation with U.S.," *The Age*, May 15, 2012.

52. For example, see Wang Yong, "The Politics of the TPP Are Plain: Target China," *Global Asia* 8:1 (2013), pp. 54–56; Li Xiangyang, "TPP: Zhongguo jueqi guochengzhong de zhongda tiaozhan" [TPP: A major challenge to China's rising], *Guoji jingji pinglun*, no. 2 (2012), pp. 17–27.

53. Jagdish N. Bhagwati, "America's Threat to Trans-Pacific Trade," *East Asia Forum*, January 10, 2012.

54. Deteriorating Sino-Japanese relations demonstrate the limits of economic interdependence. Despite proximity and sunk costs, many Japanese companies are considering investing in India

usual suspects getting together to thwart what are seen as its legitimate goals and ambitions. In short, concerns about possible containment by the U.S. and its allies remain very real in China.<sup>55</sup> This would be a problem at any time, but it is especially concerning at a time of heightened regional tensions that the existing institutional architecture seems incapable of addressing.

#### THE VIEW FROM THE PERIPHERY

We have focused primarily on Australia as it usefully highlights the difficulties many of its neighbors are experiencing. Like Australia, Asia's smaller states must negotiate a path between competing economic and strategic imperatives. Thus far, Australia has been fortunate in that it has not been forced to make a potentially nightmarish choice between the U.S. and China, despite the fact that its history clearly predisposes it to lean to one side. However, if we extrapolate from current trends, it seems certain that not only will China replace the U.S. as the world's largest economy within the next decade or so, but its economic capability and strategic influence are also likely to grow as well.<sup>56</sup>

Many influential commentators in the U.S. believe that international relations is a zero sum struggle for dominance in an anarchical system. Many in China share the same intuitive view, one given additional theoretical weight by the growing number of Chinese scholars with Ph.D.s from leading American universities.<sup>57</sup> But the abrupt end of the Cold War and China's

---

rather than China—a move with potential geopolitical as well as economic significance. See James Crabtree, "India Benefits from Japan Inc. Shift," *Financial Times*, April 3, 2013.

55. Many Chinese analysts are concerned that the U.S. government is using TPP negotiations to contain China's influence. See Kenneth Lieberthal and Wang Jisi, "Addressing U.S.-China Strategic Distrust," John L. Thornton China Center at Brookings Institution, March 30, 2012, <[http://www.brookings.edu/~media/Files/rc/papers/2012/0330\\_china\\_lieberthal/0330\\_china\\_lieberthal.pdf](http://www.brookings.edu/~media/Files/rc/papers/2012/0330_china_lieberthal/0330_china_lieberthal.pdf)>. However, some analysts argue that the U.S. TPP policy is destined to fail because of America's diminished economic leverage and powerful domestic interests opposed to change. See, for example, Pang Zhongying, "TPP jiushi yichu kongchengji" [TPP as a stratagem of the empty city], *Huanqiu Shibao* (Global Times), November 19, 2011.

56. For a detailed analysis of China's leadership potential, see Mark Beeson, "Can China Lead?" *Third World Quarterly* 34:2 (2013), pp. 235–52.

57. The power politics logic has become increasingly influential, and realist scholars trained in U.S. universities like Yan Xuetong, professor of international relations at Tsinghua University in Beijing, believe a confrontation between the existing great power and emerging powers like China is inevitable. See Yan Xuetong, *Zhongguo guojia liyi fenxi* [An analysis of China's national interests] (Tianjin: Tianjin Renmin Chubanshe, 1996).

remarkable reintegration into the global economic and political system reminds us that while the models may work in theory, they don't always in practice. This is potentially cause for celebration. The rising power of China and the apparent erosion of American hegemony need not lead to inevitable conflict, as too many in China and the U.S. believe.<sup>58</sup>

Being the world's dominant power, or even its most rapidly rising one, inevitably influences the way its leaders view the world. Whether this is a sense of historical mission or unresolved umbrage, it is important to remember that other perspectives are possible. The view from the sidelines looks rather different, or has the potential to, at least. In reality, Australia's long-running, unequivocal, unquestioning support of the U.S. has arguably done neither country much good. Far from playing the role of honest broker or bridge to Asia, Australian policymakers have generally traded independence of action and thought for the supposed benefits of security—paid for by participation in every major war of the twentieth century and a supporting role in the longest of the twenty-first. A less enthusiastic partner in the coalition of the willing might even have encouraged the U.S. to think more carefully about the wisdom of the wars in Iraq and Afghanistan.

It is easy to be wise after the event, of course. But there are creative ideas being put forward about how international relations in the Asia-Pacific might be ordered, or even institutionalized, so that what some take to be an inevitable conflict can be avoided. For example, in one of the more thoughtful contributions to a surprisingly limited debate, Australian analyst Hugh White has argued that the U.S. and China should be part of a Concert of Asia.<sup>59</sup> Like the 19th century Concert of Europe, an Asian concert would provide a way of managing great power rivalries and tensions at a time of rapid shifts in the relative material standing of China and the U.S. It might also provide a venue for addressing some of the very real “non-traditional” security issues that are proliferating in the region. Many Americans will no doubt be aghast at such a suggestion, as will many alliance loyalists in Australia. Indeed, White's ideas

58. John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001); Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W. W. Norton, 2011); Wang Jisi, “Meiguo baquan yu zhongguo jueqi” [U.S. hegemony and the rise of China], *Waijiao pinglun* [Foreign Affairs Review], no. 5, (2005), pp. 13–16; Chen Jian, “Zhongmei guanxi fazhan de sikao” [Thoughts on the development of Sino-U.S. relations], in *Shijie jingji yu zhengzhi* [World Economics and Politics], no. 6 (2012), pp. 152–55.

59. Hugh White, “Power Shift: Australia's Future between Washington and Beijing,” *Quarterly Essay* 39 (2010), pp. 1–74.

have been widely attacked in Australia, despite providing a plausible response to a seemingly inescapable structural transformation underway in the global economy and ultimately, perhaps, in the international balance of power.

If the idea of a Concert of Asia or some more collaborative, institutionalized approach to regional affairs cannot get much traction in Australia, how much more unlikely is it in the U.S., or China, for that matter? But it is not only middle powers like Australia that stand to benefit from a less rivalrous, institutionally constrained approach to regional affairs in the Asia-Pacific. For all the missteps and misunderstandings, the Sino-Australian relationship is a reminder of the benefits of interdependence between the most unlikely of partners. The relationship might be even better if it was not overlaid with an unresolved struggle for ascendancy between the world's most significant rising and declining powers. Managing the adjustment process in a sustainable way is in everyone's interest.