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# Australia and Asia

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The first premise of foreign policy for almost all nations is engagement with their neighbourhood. That has been a given of Australian foreign policy for decades. Claims by politicians that their party is more pro-active in Australia's neighbourhood are nothing more than the detritus of puerile partisanship: all Australian governments have primarily focused their diplomacy on the Asia Pacific region since the 1930s when Australia began to open missions in major Asian cities. Since that time, it was not the intent of Australian foreign policy which changed so much as the neighbourhood itself.

Until the 1950s, most of South East and South Asia was subject to colonial rule. Australia had to deal directly with colonial governments in Europe to address concerns in its neighbourhood. But since the 1950s, Australia has had to make its way with independent nations going through dramatic political, economic and strategic transition. On balance, Australia has navigated itself successfully through the vicissitudes of a dynamic region but the future will be equally challenging yet totally different. Policy planners and governments will have to make some inevitably flawed judgements about how the Asia Pacific region will evolve and analyse the risks and opportunities for Australia.

First and foremost is the issue of China. It is a mistake to view China's future growth prospects as a straight line projection of the past twenty years. That will almost certainly not be the case. China's economic growth is likely to be much more uneven than it has been as a result of imbalances within its economy; namely, excessive lending by State owned banks to State owned enterprises which in turn invest in unproductive assets; the risks of a property bubble burst; weaknesses in the balance sheets of banks; and, very importantly, demographic challenges which will see a rapidly aging population leaving fewer workers to support the elderly.

Consequently, China will grow but more slowly. This will have several consequences. It will mean that the rapid increase in Australian exports to China will grow at a slower rate than hitherto and that commodity prices overall may ease. But more importantly, it will mean that the recent and dramatic growth in China's strategic position in the Asia Pacific region will be more tempered.

That is not to say China will be anything but the most significant country in East Asia. It will be. But less spectacular economic growth and, indeed the emergence of several significant economic problems all of which will cost money to address will calm concerns that China will dominate the region.

There will be risks associated with this process. A slowdown in China's medium term growth could generate social unrest in parts of the country where unemployment is high. Social unrest may also develop a more ideological flavour with middle class activists emerging in support of greater political democratisation. These movements could get political support (and maybe more) from outside of China. That could cause tensions between China and western oriented countries, in particular Japan and the United States. Australia could be caught up in this environment in a way which could challenge our national interests.

Tensions between China's civilian leaders and its military leadership could also cause uncertainty, particularly strategically. These tensions, which exist now, should not be understated.

Secondly, other powers in Asia can be expected to prosper in the decades ahead. Japan will always matter and its democratic and largely capitalist structure will remain secure. But Japan faces a long term decline in its population which it refuses and will continue to refuse to address through migration. We can therefore expect Japan's relative economic position to weaken yet remain significant.

By contrast, we can anticipate the continuation of solid growth in India. It, like Japan and unlike China, will have the advantage of a stable democratic political system underpinning rates of growth which will be helpful to Australia's trade balance. India will also enjoy a growing population for the next forty or so years. That will help to sustain high growth. On the other hand, bureaucratic inertia and protectionist instincts will hamper India from fulfilling its potential.

Nearer to home, some of the Association of Southeast Asian Nations (ASEAN) countries can be expected to prosper including Thailand, Malaysia and Singapore, helped substantially by the growth of their larger neighbours. Myanmar will likely emerge from autocracy and isolation and grow significantly as it exploits its abundance of natural resources.

Two countries can be expected to play a particularly important role within ASEAN: Vietnam and Indonesia. Democracy has consolidated in Indonesia and its vast and growing population coupled with extensive foreign investment and an open economy should see Indonesia emerge as a more powerful player than it is today. Vietnam will wrestle with political reform once the economy has delivered higher living standards but it will also want to become a more significant player in regional affairs.

So on the face of it, the prognosis for Australia's neighbourhood is economically positive. There are some political question marks hanging over China, Vietnam and Myanmar which could complicate the region and they should not be underestimated. It is impossible to predict precisely how they could play out.

That begs the question; in security terms will the region remain stable? There are at least four downside risks.

First, there are the Taiwan Straits. If Taiwan declares independence then rest assured China will launch a military attack on Taiwan. What the United States would do in those circumstances is unclear but the downside risk is that a Chinese attack on Taiwan could launch an ugly, brutal trans-Pacific war involving China, the United States, Japan and, probably, Australia. This is highly unlikely but it is a possibility and needs to be factored into Australia's thinking.

Secondly, there could be a crisis on the Korean Peninsula. One possibility is that war could break out between North and South Korea. This is highly improbable; more likely are a continuation of small skirmishes between the two. A full scale war could draw in both China and the United States and both countries would be anxious to ensure that did not happen. Expect both of them to exercise restraint on their allies.

Alternatively, the regime in the North could collapse leading to a painful and controversial era of re-unification. This, too, could cause strains between the United States and its allies on the one side and China on the other (which does not want to see the North Korean regime fail).

Thirdly, tensions could erupt in the South China Sea as China competes with its ASEAN neighbours for control of this potentially resource rich region. Already the tensions in the South China Sea are palpable but US intervention has helped to play down tensions.

Fourthly, a major downturn in China's economy could not only cause substantial internal conflict but regional powers could be swept into that conflict with potentially catastrophic consequences for the region.

Over and above these possible but unlikely scenarios there is any number of events which could occur which at this stage are unimaginable. That is the nature of politics.

The central point for Australian policy makers is this: Australia has to make policies which make the most of the positive evolution of Asia on the one hand and to guard against a deteriorating regional environment should that happen.

To make the most of the economic opportunities which Asia offers, Australia needs to be in the forefront of promoting regional economic liberalisation. This not only means using institutions like Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit to promote economic liberalisation but ensuring Australia is open to the region itself. Australia needs to offer a welcoming foreign investment environment to Asia (and beyond) including resisting calls for restrictions on Chinese investment. Australia also needs to retain its open liberal trading policies.

Some countries in the region will always want to move more slowly towards economic liberalisation than others. While it may be theoretically attractive to have liberal economic relationships in place with the whole region (or whole world for that matter), that is not going to be possible for some time. In the meantime, Australia should make trade and investment arrangements with whoever it can. Free trade agreements should be concluded with Japan and eventually China. The Trans Pacific Partnership is another useful initiative.

In sum, Australia needs to act flexibly and pragmatically to seize economic opportunities as they arise.

It is notable that only a small percentage of Australian offshore investment is directed to Asia. This is an important issue. A larger investment profile in Asia would give us a far higher economic stake in the region and give greater substance to our regional bilateral relationships. The government cannot sensibly change this but Australian companies and financial institutions should be encouraged to think more about investing in Asia. The government should also be aggressively trying to open markets in Japan, Korea, China and Indonesia for Australian investors, particularly in the services sector where Australia has a clear comparative advantage.

Strategically, Australia needs to continue to leverage its close relationship with the United States. The United States must remain actively engaged in the Asian region in order to balance regional power and guard against regionally rivalries getting too passionate. The alliance with Australia is one of the United States' major anchors in the region.

Few understand that Australia also gets significant regional prestige by being seen to be the regional county with the closest personal relationships with Washington. For cultural reasons, Asian leaders believe Australians are more likely to understand American thinking and to influence Washington on regional issues. The US relationship and alliance is therefore vital to Australia's interests.

Having said this, Australia needs to work hard to develop its own security relationships with the region. Bilateral security agreements which include defence cooperation and even training programs are a valuable investment.

Australian military leaders need to develop strong relations with their key regional counterparts, particularly but not exclusively in China, Japan, Indonesia and India.

Australia must also play its full part in regional institutions. Although until recently APEC has been the premier regional institution, this is likely to change. Its key constraint is its limited capacity to be a forum for regional security issues. But APEC is also too large. Latin American members have little interest in Asian security architecture and a forum so large operating on the basis of consensus decision making will always have its limitations.

The East Asia Summit (EAS) can be formed into the leading regional institution. It comprises all the major powers of the region and there are no exclusions which weaken its credibility. Unlike APEC, for example, India was a founder member of the EAS. Australia should promote the EAS as the key regional institution and try to use it not just to promote regional economic liberalisation but also habits of consultation at the Head of Government level on regional and even global security issues.

Well managed, the EAS can give the concept of an Asia Pacific region real meaning and substance.

Domestically, Australia needs to be more pro active in charting its regional destiny. This needs to start in the education system. Young students need to be taught about the history of the region which surrounds them so all Australians leave school with a minimum understanding of how modern Asia has evolved politically and the diversity of its cultures.

There is clearly merit in young Australians learning Asian languages. This will never appeal to a majority of school students but as students develop a better understanding of regional history and culture more will find relevance in learning some of the languages of the region.

Australia's universities should aim to be world leaders in Asian studies. Western students in particular should aim to study in Australia should they wish to develop their learning about Asia. Already a small number of Australian universities have achieved or come near to achieving this status but there is a great deal more to be done.

People to people links with Asia also need to be further developed. Regional dialogues between influential Australians and their counterparts in key countries like Indonesia, Japan, China and India need to be promoted by the Australian Government. Government itself will have to be the organiser of these dialogues. Only if governments are involved will these sorts of initiatives take root in Asia. That is the culture of the region.

There should also be emphasis placed on bringing young Asian and Australian social and political activists together. These are the people who will run the region in the decades ahead and developing personal relationships at an early age will be beneficial in a region where personal ties are of great significance.

Finally, Australia has a growing aid program. It should focus on the Asia Pacific region and prominence in that program should in particular be given to Indo-China and Indonesia.

Australia is well placed to benefit politically as well as economically from the economic and strategic rise of Asia. As a Western country deeply embedded in the region, Australia can play a unique role in the political and strategic architecture of the region and as a developed economy make a major contribution to the evolution of the regional economy.

This is a fascinating and exciting time in Australia's evolution. We are doing well in Asia and we can do better.

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