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The Roo and the Dragon

Australia's foreign policy towards China during the Rudd era

Niklas Schörnig

Member of

Leibniz Association

Summary

Living in the neighborhood of Asia's giants has always been a challenge for western-oriented Australia. The rise of China, however, which is not only likely to lead to tremendous power shifts between the U.S. and China but most probably will also lead to a full-fledged power transition, is a formidable challenge for Australia. On the positive side, Beijing has become Australia's number one trading partner over the last few years, when it comes to both exports as well as imports. Thanks to China's ever growing demand for Australia's raw materials and resources, Australia got off lightly during the economic crisis which hit many Western countries severely in 2008 and 2009. On the negative side, however, China's economic rise is mirrored by a significant increase in the country's military might. Beijing is investing heavily in military capabilities and has changed spending priorities from land-based forces to the air force and navy, a clear indication of power-projection ambitions. Many foreign policy experts – not only Australian ones – share the strong feeling that a naval clash between China and America in the South-East Pacific is the most likely scenario involving open military conflict between the two powers. At least, and here even more agree, the pronounced Chinese armament program will severely limit America's freedom of movement in Pacific waters. From an Australian perspective, this might mean that in the not too distant future America could be unable to project enough power into the region to defend her ally Australia against potential harm, or that Australia might become involved in a conflict the Australian Defence Forces are not keen to be part of.

When Kevin Rudd won the Australian national elections in 2007, however, many observers expected a rather soft course on China. Rudd, being fluent in Mandarin and having spent some years in Beijing, was seen as a China lover with a heightened interest in harmonious relations with mainland China. However, Rudd surprised the Australian public with two seemingly inconsistent policies towards China: On the one hand he proposed what he called an "Asia Pacific Community" (APC), where he tried to integrate China – as well as the U.S. – into a more formal regional institution, while naming China's military programs a potential cause of concern for its neighbors in the 2009 Defence White Book and advocating a huge military procurement program.

Both initiatives aroused rather controversial reactions individually and were hardly seen as a monolithic policy. This report examines the concept of so-called "Power Transition Theory" to show that the APC proposal and the Defence White Paper do not contradict but complement each other. The lack of a keen feel for presentation, diplomatic tone and – to some extent at least – political feasibility cast a shadow over Rudd's approach to China.

It is interesting to see, however, that a self-proclaimed "middle power" like Australia is not being paralyzed by the tremendous changes taking place but is instead trying to influence significantly "bigger" players in its own interest.

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Contents

1. Introduction

When Hugh White, Professor of International Relations at the Australian National University, former advisor to Prime Minister Hawke and former deputy secretary of the Defence Department, published his paper "Power Shift – Australia's Future between Washington and Beijing" in the fall of 2010 (White 2010), he may have foreseen criticism and rejection. The designation of his paper, however, as the "single, stupidest strategic document ever prepared in Australian history by someone who once held a position of some responsibility in our system" (Sheridan 2010) by the foreign editor of *The Australian* newspaper, Greg Sheridan, may have been more than White expected. In his paper, White was so bold as to argue that to avoid a major war in the Pacific between the U.S. and China, America had to be persuaded to give up her primacy in the region and engage in a cooperative concert of power with China – and that Australia should exert all her influence on the U.S. to do so.

Despite the irritating and slightly misplaced tone of Sheridan's reaction, his harsh criticism, as well as a controversial debate on the renowned Lowy Institute's Interpreter blog[1] show that White hit a nerve. For some time now Australian scholars as well as the political class have been struggling with the strategic implications of China's obvious economic rise and its implications for the Western Pacific region in general and Australia in particular. More than many other Western countries, Australia is directly affected by China's impressive economic success – for better or worse.

But how should such a relatively small country (when it comes to population and overall GDP) as Australia deal with the rise of a giant like China? Unfortunately, most of the international relations literature does not give a straight answer, as it focuses on bilateral relations between the "dominant power USA and her contender China. Theories of international relations dealing with power struggle and strategic issues usually do not address states below the great powers. Are "middle powers" – a common self-reference to their country by Australian foreign policy experts – like Australia therefore forced to stand on the sidelines while the great powers decide their fate as well? Or to paraphrase Thucydides's famous words: do the *weak* really have to suffer what they must, while *the strong do what they can*?

Is seems clear that the scope of action for smaller powers during major power shifts or even a power transition is rather limited; however, there are viable options for influencing the politics exercised by major powers. While this report does not dare formulate well meant recommendations, it will debate Australia's approach to China under former Prime Minister (and now Foreign Minister) Kevin Rudd. Most observers had expected

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1 www.lowyinterpreter.org/ (25.2.2011). European scholars might be puzzled by the relevance given to an online-debate here. However, not only is "The Interpreter" one of the most renowned blogs in Asia, but the list of participants basically represents the "who's who" of Australian foreign policy academia.

Rudd, a scholar of Asian Studies, fluent in Mandarin (being the only Western head of government with this ability) and with several years of diplomatic experience gathered at the Australian embassy in Beijing, to be soft on China. However, he surprised spectators with a policy towards China which – at least at first glance – seemed to be inconsistent. On the one hand, Rudd made a proposal to integrate China and the United States into what he called an "Asian Pacific Community" (APC). On the other hand the Defence White Book of 2009 named China's rise a potential cause for concern and – at least indirectly – a possible threat to Asia's and Australia's security. It is interesting to note that most scholars judged each policy by its own merits only, and did not connect the two. This is astonishing as these policies do not necessarily conflict. On the contrary: from the perspective of what scholars of international relations call Power Transition Theory (PTT), this seeming contradiction can be understood as a coherent approach.

To fully understand the basic idea behind Rudd's way of dealing with China this report will first sketch the economic rise of China *vis-à-vis* the U.S. and the theoretical implications of that rise as seen from PTT. In the following second section, I will argue that it is more likely than it has ever been over the last hundred years that the power structure between the most important nations will not only shift but that there will be a full power transition, with China overtaking the economic might of the United States within the next ten to 15 years. The third section of this report deals with the implications of China's economic as well as military rise for Australia and the Australian alliance with the United States. Against this background, the fourth section will present the two most important and controversial policies initiated under Rudd, the APC and the 2009 Defence White Paper, which will be evaluated against the background described in sections two and three. The final section offers a more general conclusion and evaluates Rudd's approach in comparison to the approach presented by Hugh White.[2]

Before continuing, however, a disclaimer should be made: The focus of this report is neither China nor Chinese-American relations but a middle power's reaction to potential scenarios connected to the rise of China – which in this case is Australia, but might be another country as well. Many allegations and scenarios described in this context might be rejected by Chinese scholars or politicians as misrepresentation or even fantasy. But as the focus lies on Australia's perception, this report does not question the validity of these perceptions, as long as they are understood to be the underlying reason for a particular Australia behavior.

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2   Given the focus of this report, White's proposal cannot be debated in detail, and it is more likely than not that my rough sketches will do White's paper more wrong than right.

2.   The rise of China: Empirical and theoretical perspectives

2.1   Passing the eagle by? China's growth trajectory

"A Chinese challenge to American power in Asia is no longer a future possibility but a current reality" (White 2010: 2). Not only among academics but among policymakers as well, there is a strong expectation that the economic rise of China will eventually lead to a power shift in the international system, with the United States losing power (at least relatively) *vis-à-vis* China. According to the World Bank, China's growth rates have exceeded those of the U.S. and all other Western countries for more than a decade (see figure 1). Even during the World Financial Crisis in 2008 and 2009, China's economy grew by almost 10%.
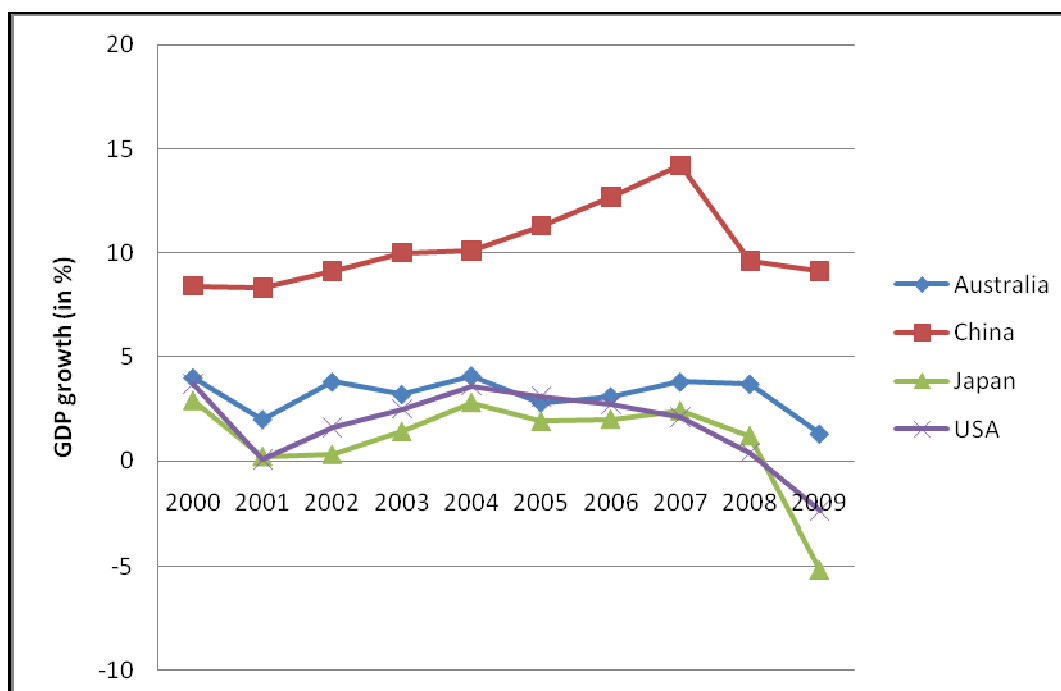
Figure 1: GDP growth since 2000 (Source: World Bank)[3]

Based on this data, many experts expect China to become the economically most powerful nation in the near future, leading not only to a shift in relative power but to a full-fledged power transition. In 2003, a study by Goldman and Sachs forecast that the Chinese GDP would surpass the U.S.'s around 2040 (Wilson/Purushothaman 2003), but given more recent data, it is reasonable to expect that point in time sooner rather than later. Simple

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3   http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG (18.12.2010).

linear expectations based on the 2009 nominal GDP and the average growth rate during the 2000 to 2009 period lead one, as suggested by Figure 2, to expect China to surpass the U.S. as early as late 2022.
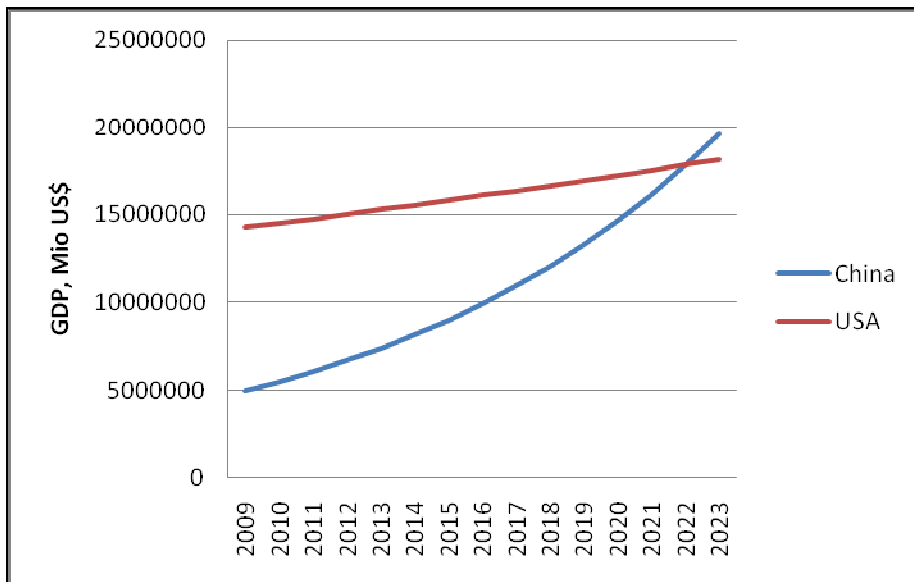

Figure 2: Linear expectation of GDP growth China/U.S. based on 2009 GDP (in 2009 prices) and average 2000-2009 growth rate (my calculations)[4]

The Economist's Free Exchange blog even offers a more sophisticated yet interactive model to predict the power transition.[5] Within the range of reasonable assumptions, China will overtake the United States in eight to 12 years. So even in the unlikely event of a sharp drop in China's growth and an accelerating economy in the United States, the gap in economic performance seems too large to offer the U.S. a realistic chance of keeping her position as the economically most powerful state for more than a few decades.

Many scholars have focused on this likely power transition, and the numbers of essays on the future of U.S.–Chinese relations are legion. But what does this rise of China mean for the South East Asian region in general and Australia in particular? At first glance, China's powerful economy has acted as a shield for many Asian countries, protecting them from the economic slump European states and the U.S. had to face. Even more, an economically powerful China can act as a driving force during worldwide recession. To understand the worries and fears associated with the rise of China, Power Transition Theory offers an answer.

4   http://data.worldbank.org/indicator/NY.GDP.MKTP.CD (18.1.2011).
5   www.economist.com/blogs/freeexchange/2011/01/china (18.1.2011).

2.2 The theoretical perspective: Power Transition Theory and potential for conflict

Power Transition Theory (PTT) is closely tied to the work of A.F.K. Organski who had developed the basic ideas of PTT in the late 1950s, at a time when the mainstream of scholars of international relations believed in the beneficial and pacifying effects of a balance of power (BoP). While PTT shares some assumptions with Neorealism, i.e. sovereign nation states as the most important actors in the international realm (DiCicco/Levy 1999: 679) and a similar pessimistic picture about world politics, it differs significantly in its major conclusion: In stark contrast to classical BoP theory, Organski argues that equal power has by no means prevented states from going to war against each other, but rather the other way around (Tammen 2008: 315). According to PTT, "peace is preserved best when there is an imbalance of national capabilities between disadvantaged and advantaged nations" (Organski/Kugler 1980: 19). From this perspective, preponderance is a guarantee of peace and not a stimulus for rivalry, balancing and uncertainty. From a theoretical point of view, the main difference is that Neorealism focuses solely on relative power and hard power alone (Waltz 1979; Mearsheimer 2001), while PTT takes into account soft factors like the normative order of the international system as well. According to PTT, the most powerful, the "dominant" state in the international system imposes a certain set of rules and norms on the less powerful states to "run" the international system not only by force but via a normative order in a – more or less – cooperative manner (Tammen et al. 2000: 7f). Ruling through force alone is generally understood to be the most expensive form of rule, the dominant state tries to share responsibilities and "'buys in' nations to a common set of international norms through which [it] directly and indirectly influences events" (Tammen 2008: 318). But while the normative order takes into account the interests of smaller states, it is of course designed in such a way as to be most beneficial to the dominant state. Consequently, not all states benefit from the dominant order in the same way, leaving most of the smaller states and some of the great powers dissatisfied with the status quo, while other powers' needs are satisfied to a level of satisfaction (Tammen 2008: 319).

According to PTT, the time of a dominant state at the top of the international hierarchy is limited, as mature economies tend to experience declining growth or diminishing returns over time. States with a different growth trajectory, especially states with a bigger population but less efficient means of production, therefore have the chance of surpassing the economic might of the dominant state over time as their methods of production evolve. Consequently, the dominant power has to monitor the major powers for the "emergence of peer competitors" (Tammen 2008: 320) which will eventually surpass its power.

According to Organski, these power transitions are very likely to lead to war between the contender and the dominant state. However, the likelihood of war is mitigated by the "satisfaction" of the challenger with the current international system. If the contender feels that its needs are addressed within the normative order established by its rival, or even that it owes its own success to this particular order, there is no need to change it by bellicose means. One might think about the case of the United States's rise, overtaking the

then dominant Britain, to appreciate that peaceful power transitions are indeed possible (Organski/Kugler 1980: 44). On the other hand, should the rising great power feel that the current order conflicts with its needs and interests, a war to establish a new order seems inevitable.

Interestingly enough, conventional PTT argues that it is not the dominant power that is most likely to start the war to defend its preferred order, but rather the contender. In addition, PTT assumes that the probability of war significantly rises once the contender reaches at least 80 per cent of the dominant power's power, as 80 plus per cent can roughly be understood as equality.[6] So, while both the minimum power necessary for the emerging contender to actually challenge the dominant state as well as dissatisfaction with the current system or international order can be understood as necessary conditions for a violent power transition, both are insufficient on their own. Only if both criteria are met is war between the two most important states likely.

To mitigate the likelihood of a major war between the most powerful states in the international realm, PTT recommends that "the dominant power should first attempt to manage the policy preferences of potential challengers so that in the event of a relative decline in power resulting in power parity, the probability of conflict will be reduced. […] it is critically important to do so under the circumstances of a challenger approaching parity with a dominant country" (Tammen 2008: 320f). But how can the preferences of the rising state be managed? "The dominant power can attempt to wrap a web of international obligations, relationships, and common understandings around the emerging challenger […] 'socializing' a challenger into an international system with rules and norms acceptable to the dominant nation" (Tammen 2008: 321).[7]

These recommendations prove that PTT differs profoundly from neorealism and its narrowed focus on material factors, and takes into account factors usually associated with the constructivist camp (Legro/Moravcsik 1999). But what seems to be a great theoretical strength bears severe empirical problems. How can a dissatisfied, or revisionist state be identified before it reveals itself in a great war? This issue has not been solved satisfactorily by PTT scholars, and the issue of satisfaction, "the central variable of PTT on which the willingness of the rising power to wage a war rests […] is dramatically underdeveloped in theory as well as in practice" (Rauch/Wurm 2010: 8).

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6   The obvious question in this context is how PTT measures power. According to Organski and Kugler "[t]hree extremely large and complex factors are primarily involved: (1) the number of people in a nation who can work and fight, (2) the skills and productivity of the active population, and (3) the capacity of the governmental system to mobilize the human and material resources at its disposal and devote them to national goals" (Organski/Kugler 1980: 8).

7   In this regard Rauch and Wurm (2010) explore the concept of a *liberal hegemony* in order to manage a future power transition peacefully. Müller and Rauch (2011) discuss *ignorance*, *resistance* and *acceptance* as possible reaction patterns of declining hegemons facing the rise of new powers.

Finally, it is interesting to note that Organski had already referred to China and India as potential challengers to U.S. supremacy when he first published his ideas in the late 1950s, "a prediction or prophecy so unreasonable, so absurd in its time," given how security studies fixated on the USSR, "that virtually no one paid attention to it" (Tammen 2008: 314). Today, as described above, for many the idea of China overtaking the United States seems not a question of "if" but rather of "when?" So with one of the conditions fulfilled, the focus shifts to the second condition, satisfaction. No wonder that Power Transition Theory has gained tremendously in importance during the last decade or so.

3. Turmoil ahead? The impact of China's rise on Australia

When it comes to the rise of China, Australian citizens are torn between two extremes: on the one hand, Australians welcome growing trade with China, and Australia has profited tremendously from the booming Chinese economy in recent troubling times. On the other hand, the rise of China causes angst and many people are concerned about geopolitical changes in general and regional implications in particular. According to the Lowy Institute's 2010 poll "Australia and the World" almost half of the population, 46%, think that it is "somewhat likely" or "very likely" "that China will become a military threat to Australia in the next 20 years" (Hanson 2010: 11). In an analysis of the poll, tellingly entitled "Sweet and Sour," Andrew Shearer concludes that "China's rise is the most significant external event affecting Australia for several decades. How it plays out will shape our national choices and profoundly influence not only our future prosperity but also our long-term security" (Shearer 2010: 3).

But why do Australians come to this ambivalent conclusion? To understand these two perspectives, one has to look both at the economic relevance of China for the Australian economy as well as Australia's current security architecture.

3.1 The economic side: Keeping the Australian economy afloat

Compared with other Western economies, Australia has been a booming country for almost two decades now. Between 1992 and 2010 – including the years of the Asian crisis in the late 1990s as well as the great financial crisis in recent years, the average growth rate has been slightly above three per cent p.a., usually one per cent above the OECD's average.[8] Rich in natural resources, Australian exports are dominated by coal, iron and copper ore, petroleum and other minerals, while Australia hardly exports any manufactured goods. In 2006-7 "over 80 per cent" of the resource sector's output was

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8   www.dfat.gov.au/aib/competitive_economy.html (22.12.2010). www.economist.com/node/8931798?story _id= 8931798 (22.12.2010).

exported, "accounting for approximately 49 per cent of total goods and services exports".[9] The importance of the minerals and petroleum industries is highlighted by the fact that they generated approximately eight per cent of Australia's GDP in 2006-7 alone.

Due to this particular export structure, Australia is profiting strongly from China's economic boom, probably more than almost all other Western states. With its rising demand for energy, resources and raw materials, China's relevance as Australia's trading partner grew steeply in importance over the last 15 years: Between 1998 and 2004 trade between Australia and China doubled (de Silva 2007: 50). In 2005, China became Australia's second largest trade partner (Wesley 2007), and in 2008 the largest. In 2009-10 China received 23.1% of Australia's exports (with Japan second with 18.5%) while 17.9% of Australian imports originated in China (followed by imports from the United States with 11.8%).[10]

Between 2004 and 2009 exports of minerals grew by "an average annual rate of almost 47%," while manufacturing exports only grew by "an average of 13.2 per cent annually."[11] Iron ore and coal are by far the most important Australian exports to China. While all imports from Australia were only 4% of China's total imports, Australia supplied 40% of all iron ore imports to China (Larum 2010: 6).

The chances are good that trade might increase even more in the future: First, despite raising interest rates to prevent an overheating of its economy, the Chinese economy is still expected to continue growing at an almost two-digit rate. In addition, since 2005 both countries have been engaged in negotiations for a Free Trade Agreement (FTA) which would foster two-way trade again (Larum 2010: 22). However, no final agreement has yet been achieved.

These close ties to the booming Chinese economy protected Australia to a major degree from the perils of the global financial crisis, and "the Chinese economy [is] a key driver of Australia's economic performance" (Larum 2010: 3). According to the Parliamentary Library Briefing Book, in 2009 trade with China rose against a broad trend:

> "Affected by the GFC, Australia's total merchandise trade decreased by 11.6 per cent in 2009, and experienced the first fall in exports since 1964–65. Exports fell by $27.4 billion or 12.2 percent to $196.9 billion from their record peak in 2008 of $224.3 billion. Imports fell by $25.5 billion or 11.1 per cent to $203.2 billion. […] While trade between Australia and its major trading partners fell considerably, trade between Australia and China increased by 15.6 per cent, reaching a record level of $78.1 billion."[12]

If Australia wants its remarkable economic success story to continue, there is no way around a continued close economic cooperation with the People's Republic of China.

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9   www.dfat.gov.au/facts/resources_sector.html (22.12.2010).

10 www.dfat.gov.au/geo/fs/aust.pdf (19.12.2010).

11 www.dfat.gov.au/geo/china/china_brief.html (19.12.2010).

12 www.aph.gov.au/library/pubs/BriefingBook43p/australia-china-gfc.htm (21.12.2010).

In addition to sheer trade, foreign direct investment (FDI) in the other nation's country has also grown over the last decade. However, while Australia ranked third in 2008 as the destination for Chinese FDI (Larum 2010: 8), Australians are more reluctant to invest in China, "with China accounting for only 0.7% of Australia's outward FDI stock" (Larum 2010: 9). Given Australia's export structure to China, Australian firms do not profit much from relocating production to China. While Chinese FDI again acts as a stimulus to the Australian economy, its amount and structure has raised concerns about excessive Chinese influence in sectors of strategic importance (Cook/Thirlwell 2008), especially the mining sector. Early in 2008 Treasurer Wayne Swan reacted to the surge of Chinese investment with new guidelines for the foreign investment screening regime, with the aim of ensuring that foreign investment is consistent with Australia's national interest.[13]

In 2009 Chinese FDI in Australia were brought to the collective consciousness once again when Chinese-born Australian citizen Stern Hu, executive of the iron ore mining company Rio Tinto, was arrested in China (together with three Chinese employees) for alleged bribery. Only weeks before the arrest Rio Tinto had rejected an investment of almost US$ 20 billion by the Aluminum Corporation Of China (Chinalco), leading to allegations that the charges were retaliatory.[14] According to the Department of Foreign Affairs and Trade, "China is also a major foreign purchaser of Australian debt including government securities, although precise levels are not available."[15]

When it comes to public attitudes, polls reflect a divided perspective on China's economic success. Already in 2008, i.e. before the Stern Hu incident, 78% of respondents were against or "strongly against" foreign investment by the Chinese government or government owned companies, with only 17% in favor (Hanson 2008: 6). On the other hand, 62% agreed or "strongly agreed" that China's growth had been good for Australia. In 2010 even more, 73%, saw the positive sides of China's growth for Australia, while 57% shared the opinion that the Australian government was allowing too much investment from China, and only 3% arguing for more Chinese investment (Hanson 2010: 9).

So, obviously, the Australian public wants to reap the economic benefits of China's rise, but is afraid of direct Chinese influence on the Australian economy. According to Andrew Shearer, these fears reflect "concerns about China's authoritarian political system and possible strategic motives" (Shearer 2010: 1). To fully understand this angst, one has to look at the Australian perception of its strategic situation and its alliance structure, which goes back almost to the days of the founding of the federation.

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13   www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/009.htm&pageID=003&min=
     wms&Year=&DocType=0 (19.12.2010).

14   www.time.com/time/magazine/article/0,9171,1912420,00.html (20.12.2010).

15   www.aph.gov.au/library/pubs/BriefingBook43p/australia-china-gfc.htm (19.12.2010).

3.2 Living with Asian giants: Australia and the region

3.2.1 "The odd man out": British heritage

When it comes to Australia's place in the region and its relations with its neighbors, there seems to be an element of inexplicable fear (Burke 2008) present which is not necessarily apparent to a foreign observer at first sight. From the very early days of the settlement, Australians felt vastly outnumbered by the surrounding Asian masses. Today Australia's population of 22,5 million is less than a tenth of its closest neighbor Indonesia, with a population of 232 million. In 2005 Coral Bell indicated that 10 out of 19 states which are projected to have a population of more than 100 million within the next decades are in "Australia's area of strategic concern" (2005: 14). In a very realist tradition, the sheer numbers of their populations have always made other Asian countries potential threats in the eyes of the Australian public as well as the political elites (Burke 2008). Historically, the feeling of being outnumbered was paired with a latent xenophobic tendency inherited from British colonialism and a feeling of cultural superiority. These found their formal expression in the so-called "White Australia Policy" of intentionally restricted immigration of non-white people (abolished by the Labor government of Gough Whitlam as late as 1974), and more informal expression in the way the Australian government treated indigenous peoples, the Australian Aborigines.[16] But Australian xenophobia did not fully end in the 1970s as the stunning results of Pauline Hanson's "One Nation Party" in the late 1990s or the Howard government's tough stance against illegal immigrants – especially during the Tampa affair – proved (Glasse 2001).[17] Finally, Australians have always felt themselves to be an "isolated outpost and bastion of Western civilization" (Jones/Benvenuti 2006: 111). Given its British heritage, Australia understood – and to a certain degree still understands – herself to be "a bastion of liberal democratic values that it maintains and projects across the region" (Jones/Benvenuti 2006: 111). As the interventions in East Timor (1999) and the Solomon Islands (2003) have shown, Australians are deeply concerned with the human rights situation in their immediate neighborhood, and are willing to engage in what John Hutcheson has termed "wars of conscience" (2001). From the perspective of its Asian neighbors, however, the Australian advocacy of liberal values and human rights reflects "ignorance," for some even "arrogance" (Wiryono 2006: 15).

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16 It took until 2008 for an Australian Prime Minister to apologize to the Aborigines for past wrongs, especially for the so-called Stolen Generation.

17 Shortly before the 2001 election PM John Howard refused to let the Norwegian vessel Tampa – which had rescued Indonesian refugees from a sinking overloaded boat – enter the nearest Australian port, in order to demonstrate his tough stance on illegal immigration. The government claimed – against better knowledge – that asylum seekers on board had threatened to throw their children overboard in order to enforce passage to Australia, but that Australia would not let itself be blackmailed. The truth only came out after the election, when a Senate Select Committee inquired into the issue and published a critical report (Australian Senate 2002) which, however, failed to have any impact on the next federal election.

In the 1980s and 1990s, the Hawke and Keating governments – and especially their foreign minister Gareth Evans – tried to overcome Australia's outpost mentality at least to some degree by shifting the focus of their foreign policy away from its Western orientation towards Asia, thereby trying, in Evans's words, to become "the odd man in" rather than "the odd man out" in Asia. This policy of "engagement," however, was received rather controversially both within Australia as well as among its neighbors, and the Australian electorate rejected Keating's vision of a more "Asian" Australia in the 1996 election (Gorjão 2003: 187). Consequently, the Howard government soon re-adjusted foreign policy priorities, and immediately shifted priorities back towards the West in general and the United States in particular (Jones/Benvenuti 2006: 110), risking – and eventually losing – political capital in Asia. These incidents show that Australia is still struggling with her emotional relationship with her Asian neighbors, and that cultural gaps – to say the least – are still not fully resolved. In consequence, a rising Asian power with the potential to surpass the economic performance (and in the long run probably the military might as well) of Australia's most intimate ally, the United States, naturally raises suspicion or even angst among Australians, especially if – at least from the Australian perspective – institutional ties in the region are weak and do not include Australia.

3.2.2 Still the "odd man out"? Australia and the regional institutional structure

The term commonly associated with Australia in political as well as academic debates is that of a "middle power" (Ungerer 2007). Most scholars use the term in an ambiguous way: The first meaning refers to Australia's position in the international system in terms of capability and power, while the second meaning focuses on the typical behavior of a "middle power" which "includes a preference for working through multilateral institutions and processes, a commitment to promoting international legal norms and a pro-active use of diplomatic, military and economic measures to achieve selected political outcomes" (Ungerer 2007: 539). The idea of Australia being such a middle power was most prominently emphasized by the Labor governments of Hawke and Keating, and especially by then foreign minister Gareth Evans. When Rudd came into power he took up this particular self-description as well. According to the proponents of this particular interpretation of the "middle power," working with and the strengthening of the UN system, multilateralism and international law are in Australia's self interest as only international order under UN scrutiny can guarantee the security of the fifth continent. The channels of the UN system and a broader range of international and regional organizations, so it is argued, offer Australia the chance of exerting influence which she could not otherwise achieve. And in fact, Australia has been quite influential in the UN context and "enjoys a tradition of highly successful input into the negotiations of multilateral arms control treaties" (Scott 1998: 559) and is often described as a "good international citizen" (Scott 1998: 559). There has been quite a debate on whether or not the idea of the typical behavior of a middle power as a "good international citizen" was the characteristic of a specific Labor foreign policy (Firth 2005: 50 et seq.) or whether the concept was in broader use. Carl Ungerer has shown that almost all post-WW II governments – with the possible exception of the Howard government after 9/11 –

followed, to different extents, this particular middle power approach. Ungerer concludes: "As a result, the middle power concept is perhaps the closest that Australia has ever come to articulating a self-conscious theory of foreign policy" (Ungerer 2007: 550).

So much the worse that Australia is not as deeply integrated into the regional institutional architecture as Australia would like – many Asian states had reservations against Australia too – and that – at least from the Australian point of view – many Asian institutions are not as effective as Australia would wish them to be. Many experts agree that institutionalized security co-operation in Southeast Asia distinguishes itself through a complex "tangled web" of institutions (Tow 2008) and "that the current architecture isn't working satisfactorily" (Murray 2010: 13). Many regimes and institutions, some more formal, others more informal, exist with overlapping responsibilities and competences but rather different designs and diverse memberships. The Association of Southeast Asian Nations (ASEAN) can be understood to be the most important institution in the region, "the core of regional cooperation" (Murray 2010: 14), with a wide range of issues addressed, but Australia "has never sought or been considered for membership in ASEAN" and "cannot be in ASEAN itself" (Firth 2005: 168). ASEAN's core group consists of ten countries, with Indonesia being the biggest and most important. Despite the relatively small group of states, ASEAN seldom speaks with one voice (Chin 2009: 22). In 1997/99 ASEAN Plus Three (APT) was institutionalized, additionally including China, Japan and South Korea. APT has grown in importance in recent year, especially due to a more active Chinese stance (Zhang 2007: 6).

Neither Australia nor the United States is a member in either ASEAN or APT but "only" "dialog partners," together with the European Union, India, Russia and many more.

China, Australia and the U.S., however, participate in the ASEAN Regional Forum (ARF) with its special focus on security issues. But with a membership of 28 rather diverse participants (including the European Union as well as Mongolia or Canada), it is no wonder that the ARF is seen to be too large and has not proven its effectiveness yet (Woolcott 2009: 3). In addition, all three are members of APEC – an Australian initiative under PM Hawke – with its sole focus on economic issues. The most promising forum bringing together the most important players for the region's future might be the East Asia Summit (EAS), sometimes called "ASEAN plus six" (additionally including India, Australia and New Zealand), covering a broad spectrum of issues with a membership of 16 and invitations recently issued to the United States and Russia.

All Asian institutions, however, share a common feature: their emphasis on informal rules, processes and regular patterns in contrast to more formal institutions with a binding set of regulations. In contrast to, for example, Europe, "[t]here's no commitment to supranationalism or to institutionalism" in the "Asian region" (Murray 2010: 16). Given the widespread historical experiences of colonialism in Asia, there is widespread consensus that the integrity of the nation state and the right of self-determination are paramount principles "and states are generally unwilling to surrender some sovereignty to regional organizations in order to make them more effective" (Murray 2010: 16). Frank Frost seconds this: "[…] cooperation in East Asia and the Asia-Pacific has been characterized by caution, a strong emphasis on building dialogue […] and a reluctance to

try to develop binding sets of rules or any large supra-national structures of bureaucracies to pursue multilateral goals" (Frost 2009: 5).

For Australia, especially for a Labor government with its middle power ambitions and preferences for rule-based institutions, this is a rather unsatisfactory situation. But Australian advances for deeper integration and more formal institutions have been blocked. Already in the early 1970s, when Gough Whitlam proposed establishing an Asia Pacific forum, "ASEAN killed the idea," thereby establishing "a recurring tradition of ASEAN sword thrusts at Australian versions of regionalism" (Dobell 2011). The rise of China will make it even more problematic for Australia as, during recent years, China has switched from a bilateral approach to regional relations to a more multilateral approach, broadening its influence in regional institutions and even playing a leading role in the establishment of new institutions (Tow/Taylor 2009: 14; Zhang 2007: 5). The United States, on the other hand, has established a dense net of bilateral treaties and arrangements with some states (Australia, Singapore, Japan, and Taiwan) without gaining entry into Asian institutions yet. Since 2005, China has begun to describe her own vision of international and regional order as "harmonious," but the "current motto of a 'harmonious world' [...] also reflects thinly veiled dissatisfaction with the current unipolar world order." (Zhang 2007: 3) and "there has been a growing conviction among Chinese scholars that China should exercise greater normative influences commensurate with its power status" (Zhang 2007: 3). China's "harmony concept" is seen to be very similar to the established ASEAN approach based on consensus-building and respect for sovereignty, and has found broad acceptance among ASEAN states (Zhang 2007: 7). As is the case with many ASEAN states themselves, China is not too keen on using a broad definition of what should constitute "region" in the context of Asian institutions, and is pursuing a rather restrictive approach (Tow/Taylor 2009: 14), making it ever harder for Australia or the U.S. to achieve acceptance for their visions of institutionalized regional order. Many Australians fear that the Chinese initiative is having the effect of crowding the United States out of the region, and some conclude that America is increasingly being frustrated by the Chinese approach. In 2006, the Australian Senate's Foreign Affairs, Defence and Trade References Committee concluded that "the U.S.' commitment to the region … appears to fall short in comparison to China" and continued "that Australia must do its utmost to encourage the United States to remain constructively engaged in the region" (Australian Senate 2006: xiii). But China's institutional engagement is not the only reason why Australia fears that the United States may leave the region.

3.3   The strategic setting: "Strong and powerful friends"

3.3.1 Two perspectives on the alliance with the United States

Given its small population, Australia's ability to levy troops is rather limited. The Australian Defence Forces today consist of roughly 58,000 permanent members (with roughly 30,000 in the Army, 14,600 in the Air Force and 13,600 in the Navy),[18] a tiny fraction of what surrounding countries can mobilize. On the other hand, Australia has a defense budget of roughly A$25.66 billion (US$19.74 billion; 2008 budget, in 2008 prices), ranking Australia 13th in the world[19] and being by far the highest in the immediate region. The Australian Defence Force (ADF) seeks to maintain technological superiority over the region's other countries which, with the exception of Singapore, it has achieved. Australia sees technology as a necessary compensation for the country's small population, but despite Australia's high per capita income, absolute resources are limited by the size of her economy. The feeling of insecurity and fear combined with the knowledge of Australia's limited (human) resources for national defense convinced Australia very early after independence that she would hardly be able to defend herself alone. To secure the help of – in the words of former PM Menzies – "great and powerful friends" has been one of the most important issues in Australian foreign policymaking, with Britain naturally being the first "powerful friend" Australia relied on. This reliance, however, ended on 15 February 1942 with the fall of Singapore and the bombing of Darwin by Japanese air forces only four days later, and ultimately led to the end of British military presence in Asia. Left high and dry in the face of clear and present danger, Australia had to rely on the United States from then on. After the war, "having had its fears of Japanese – and, in a more general sense, Asian – aggression confirmed in the Second World War" (Hubbard 2005: 10), Australia actively strove for a close and formal security cooperation with the U.S., leading to the ANZUS treaty between Australia, the U.S. and New Zealand signed in 1951. ANZUS has been the center pillar of Australian security policy ever since, and no post-World War II government has seriously questioned the necessity of the alliance with the United States. It enjoys bipartisan support and "[e]xcept for the Vietnam War, the U.S.-Australia alliance received overwhelming support in opinion polls in Australia" (Dibb 2007b: 33).

However, there have always been two schools of thought in Australian security thinking, which attach differing importance to the alliance and have a different view on what the main purpose of the alliance for Australia should be. It is interesting to note that these two perspectives loosely resemble the two positions held by the Liberal Coalition and the Labor party. The two schools are usually referred to as the "Forward Defence" School (FDS) or "Global Interest" School, (sometimes labeled the "global expeditionary

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18 www.defence.gov.au/Budget/09-10/dar/dar_0910_v1_s4.pdf#nameddest=a7 (4.12.2010).

19 Australian defence budget surges to world's 13th largest, in: The Australian, September 4, 2008.

approach" (Davies 2009) or the "transformationalists" (Schreer 2008: 159)), on the one side, and the "Continentalist" or "Defence of Australia" School (DoA) on the other.

The basic idea of the "forward defence" school rests on the assumption that Australia is under no circumstances able to defend herself without outside assistance. Adherents of the FDS argue that it is imperative to offer help and support to the stronger partner wherever possible, in order to create a moral obligation – an entitlement to a future *quid pro quo* – to help Australia in return in times of need. For the Australian Defence Forces a clear focus on a "forward defence" approach has, of course, important structural implications, as the major rationale of the concept rests on the Australian ability to project power and to be interoperable to fight side by side with major Allies, i.e. the United States. In a structural sense, "forward defence" emphasizes, first, the Army and the proverbial "boot on the ground" (Stephens 2007) with the necessary strategic and operational mobility, especially transport capabilities for rapid air deployment in theaters all over the world, and, second, niche capabilities such as special forces which are of high value to the stronger power. The FDS has been the preferred strategic orientation of almost all Liberal prime ministers.

For proponents of the Defence of Australia School, on the other hand, Australia's geography is the final arbiter when it comes to security and defense policy. In their opinion the central objective of the ADF should be the defense of the Australian continent, if necessary "without relying on the combat forces of our allies" (White 2007: 164). Proponents of the DoA School acknowledge that the danger of a foreign attack on Australia has decreased tremendously since the end of the Cold War. But according to their perspective, prioritizing the defense of Australia is not a matter of probability but of potential consequence.

The roots of the DoA School can be traced back to Richard Nixon's "Guam Doctrine" of July 1969 and its implicit request "that America's friends should be able to defend themselves against all but a major attack with their own combat forces" (Dibb 2007a: 12). Worried about the American commitment, "the need for the self-reliant 'defence of Australia' emerged as a serious proposition" (Dibb 2007a: 12) as the support of the Alliance seemed by no means guaranteed. Regarding the strategic consequences for Australia, the DoAS stresses – given Australia's lack of strategic depth, with all major urban centers located at the coast – the need for air superiority and command of the surrounding waters – or at least capabilities to deny a potential adversary the northern approaches to Australia. Consequently, the approach privileges both navy and air force over the army. When it comes to the U.S. alliance, proponents of the DoA approach do not reject the alliance as such, but place an emphasis on the more indirect benefits. Given the dictum of former Labor defence minister Kim Beazley, Australia should strive for "self-reliance within alliance" (cited in Kelton 2008: 21). From this perspective, the alliance serves some very important purposes as the United States offers indispensable

intelligence, technology and defense equipment essential for the self-reliance proposed by the DoAS (Dibb 2007b: 35 et seq). Especially access to U.S. technology is seen as the *sine qua non* for the ADF's high-tech posture (Schreer 2006).[20] Defense of Australia is associated with the Australian Labor Party, or the left more generally. So, while both perspectives on Australian defense policy have a different stance when it comes to the *direct* relevance of the alliance and the United States as the main defender of Australia in times of crisis, they do share the notion that exceptional relations to the U.S. are paramount to Australian security. Both schools accept that a close alliance is thought to maintain America's presence, influence and interest in the region, which Canberra understands to be vital for the region's stability. Finally, being a close ally of the United States pays off not only militarily: "Australia's closeness to America and its influence with Washington transforms Australia's regional status: it allows Australia to punch above its weight in regional and, indeed, international security organizations" (Dibb 2007b: 33). With respect to China's rise, both schools of thought fear the impact of an ever stronger China on Australia's relations with the U.S.

3.3.2 China's rise and the implications for the alliance

But what are the concrete implications of China's rise on Australian security in general and the alliance with the United States in particular? Many Australian scholars fear that China's rise will lead to China's claiming a leadership role in the region, at least in Southeast Asia, and will result in a challenge to the U.S.'s presence in Asia. Since the 1990s, the armed forces of the Chinese People's Liberation Army (PLA) have undergone a tremendous, and continuing, modernization program (Blasko 2005; Bajoria 2009). Continued modernization of its armed forces has been a recurring theme in Beijing's white paper "*China's National Defense in 2008.*"[21] Especially when it comes to naval forces, China has abandoned its self-inflicted restriction to a "brown-water navy," i.e. a navy basically focused on costal defense, and invested heavily in so-called "blue-water" capabilities (Willard 2010), i.e. warships capable of operating far from shore across the deep waters of open oceans. Especially the procurement of technologically advanced submarines with blue water capability is seen as a major threat to U.S. assets (O'Rourke 2010: 43). In addition, according to Japan's *Asahi Shimbun, China has officially admitted for the first time to building an aircraft carrier, ready for launch by 2014 or 2015.*[22]

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20 A high ranking military expert, however, qualified the U.S.-Australian technology transfer, arguing that despite the close links, Australia does not have access to the latest American technology: "From an expert's perspective, it's always disappointing." Personal interview with anonymous, November 1, 2006, Canberra.

21 www.china.org.cn/government/central_government/2009-01/20/content_17155577.htm (12.12.2010).

22 www.asahi.com/english/TKY201012160435.html (19.12.2010).

But China is not only modernizing its navy but its air force as well. Naval aviators are reported to conduct long-range exercises (Denmark 2010), and only recently pictures were posted on the Internet showing what experts assume to be the first Chinese fighter with stealth capabilities (Axe 2010). What the U.S. military is definitely concerned about is a Chinese anti- ship ballistic missile system, supposed to be capable of penetrating the air defense of American carrier groups far from the Chinese coastline, posing a serious threat to America's ability to project power: "ASBMs are considered to be one of the main pillars of anti-access/area denial (A2/AD) capabilities that China has been developing to counter and/or neutralize America's vast power projection capabilities." (Kato 2010).[23] The strategic approach underpinning China's programs seem clear: "China's strategy is apparently centered on preventing U.S. carrier strike groups from intervening in the event of a crisis in the Taiwan Strait" (Kato 2010), a classical "sea denial strategy." This means that China does not have to match American power on a costly one-to-one basis, but rather to invest in technologies which more and more restrict the U.S. Navy's freedom of action in Asian waters, or at least complicate maneuvers tremendously (White 2010: 29). Experts agree, for example, that the sheer possibility of one hostile submarine in the vicinity of a carrier group has a tremendous cautionary effect. Finally, many observers are impressed by China's ability to conduct networked operations, close to par with U.S. abilities (Denmark 2010), while the U.S. military is eager to play it down (Ackerman 2011).

With its rising power, China is behaving more and more self-confidently in the region, and many states are increasingly concerned about what the Indonesian analyst Dewi Fortuna Anwar has described as "increasingly aggressive rhetoric from Beijing" (quoted in Callick 2010b).

Military experts therefore predict that the most likely scenario for a military confrontation between the rising contender and the *status quo* power is a serious clash in the East or South China Sea. Already in 2001 a U.S. spy plane was intercepted by Chinese fighters. After a midair collision the plane was forced to make an emergency landing on the Chinese island of Hainan, where its crew was detained and interrogated and finally released after a letter of apology by the U.S. Ambassador to China, Joseph Prueher.[24] In 2009 the Pentagon reported that Chinese vessels had "shadowed and aggressively maneuvered in dangerously close proximity" to a U.S. surveillance ship, said to have been operating in international waters.[25] While it is hard to know who is to blame for these instances, they show that the possibility of a serious clash is not to be underestimated. From the Australian perspective, especially from the perspective of the proponents of the "forward defense" posture, the rise of China's military and its effects on the United States might have serious implications: In the case of a clash, Australia might end up in a major

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23 There are, however, doubts whether the system has yet passed a live-fire test. See (Ackerman 2011).

24 http://articles.cnn.com/2001-04-11/world/prueher.letter.text_1_emergency-landing-international-emergency-procedures-chinese-pilot?_s=PM:asiapcf (12.12.2010).

25 www.ft.com/cms/s/0/e04ecda8-0d13-11de-a555-0000779fd2ac.html#axzz19yr4GEsD (12.12.2010).

military conflict on America's side against one of the most powerful nations. Already in April 2001 Australia got an idea what support of the United States means in Beijing's eyes: Three ships of the Royal Australian Navy (RAN) were "challenged" by a PLA Navy vessel as they sailed though the Taiwan strait "[i]n what appears to be a retaliatory move" (Lyon 2001: 525 et seq) for Australia's diplomatic support to the U.S. in the spy plane incident only weeks before. Interestingly enough, in 2004 then Liberal Foreign Minister Alexander Downer surprised both China as well as the United States with a statement that Australia would not feel obliged under the ANZUS treaty to assist the United States in the military defense of Taiwan should this situation occur.[26] While experts agreed that Downer was technically correct in regard to the wording of the ANZUS treaty, "[t]he inevitable US reaction was swift and resolute and Downer was forced to make an embarrassing back down" when PM John Howard "quickly reassured the US of Australia's loyalty to the alliance" (Conley 2005: 265) .

America, however, might react to the rising Chinese pressure in a totally different way, namely by withdrawing major contingents from the region. Without American military presence, Australia might face rougher times in the future, and all observers – even proponents of the DoA School – agree that Australia "should not have the expectation of being able to unilaterally defend Australia against a major power" (Davies 2008: 21). But the negative effects of a reduced American presence, or even a full withdrawal, might not primarily be direct, but are more likely to be indirect. Many Australian scholars argue that the current stability of Southeast Asia, the almost complete lack of military conflict or confrontation, is owed to the American presence and Washington's ability to project more power into the region than most countries can muster, just by sending a couple of carrier battle groups. Given the high potential for conflict, especially in the resource-rich South Chinese Sea, Australia fears that an American retreat could lead to a flaring up of suppressed conflicts between Asian states.

At the moment, however, the shadow of U.S. power alone is enough to affect political and military outcomes. When, for example, Australia decided to intervene in East Timor in 1999, some observers feared a clash between the Royal Australian Navy and the Indonesian Navy when Indonesian submarines closely shadowed Australian vessels approaching Timor.[27] But despite the lack of actual U.S. forces, America supported the mission with logistics and intelligence, and threatened financial sanctions should Jakarta not cooperate (Albinski 2000: 206). It is this kind of backing that enables Australia to "punch above its weight" (Thomson 2005) and act more self-confidently in the region than their sheer capabilities alone would normally allow. So, any change in the power balance between the U.S. and China which restricts the U.S.'s freedom to maneuver naturally weakens Australia's regional influence and reawakens the fear of yet another powerful friend deserting Australia.

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26 www.theage.com.au/articles/2004/08/17/1092508475187.html (12.12.2010).

27 Personal interview with Australian security expert, Canberra, November 1, 2006.

In sum, the rise of China presents Australia with important opportunities and advantages (especially in the economic realm) but daunting challenges as well. Seen from Canberra, it has the potential to marginalize Australia's influence in the region, might lead to at least indirect security concerns, and revives old fears and prejudices against potential Asian expansionism. Finding a coherent way of dealing with a rising China therefore seems to be a high priority objective for any Australian government.

4. Kevin Rudd's approach: Pushing for the best while preparing for the worst?

When Kevin Rudd won the national election on November 24, 2007 many observers expected a profound improvement in Australia's relations with Asia in general and China in particular. After the predominantly bumpy years under Howard, expectations were high that Rudd would renew the old Labor tradition of Hawke and Keating of engagement with Asia. Holding a First Class Honors BA in Asian Studies, having served as First Secretary in the Australian embassy in Beijing in the 1980s, and being capable of speaking fluent Mandarin, Rudd seemed especially qualified to improve relations with China. On February 20 2008, the Prime Minister made it clear in an interview with ABC Radio Canberra that he understood improving relations with China as a matter of national (economic) interest as well as a personal priority:

> "The important thing is, to take our current relationship with China to a new level. I believe that the economic opportunities between us are significant. There is enormous resource in energy relationship between our two countries and we need to have a strategic discussion about that, long term – China's interest, our national interests. […] And in terms of our political relationship with the Chinese government, I look forward to catching up with some old friends and talking about the future."[28]

In his speech to the Returned & Services League of Australia at the RSL National Congress on September 9, 2008, Rudd gave a more detailed outline of his personal security and defense vision for the 21st century, the "century of the Asian Pacific," "[b]y 2030, […] possibly even by 2020 […] home to the largest and most dynamic economies in the world" (Rudd 2008b).

As one, if not the most important factor driving change in the region, Rudd identified the "rise of China" and "China's economic growth," influencing both China's perception of its own role in the world as well as the way others see China, leading inevitably to more Chinese influence in the region (Rudd 2008b). In addition to the rise of China, Rudd argued, demographic changes (aka population growth) in almost all Asian-Pacific countries were about to change the face of the region tremendously. As a consequence,

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28 http://pmrudd.archive.dpmc.gov.au/node/5942; Last access November 8, 2010.

Rudd foreshadowed great "population, food, water and energy resource pressure," and concluded that, in addition to the economic and political contest taking place, the Asia-Pacific would become a "much more contested region" militarily.

For Australia's most important ally, the United States, Rudd expected a relative decline *vis-à-vis* other economies (especially China and India). But he did not question the "ability of the US to maintain its global leadership role" at least "through to the mid-century" as the world's only superpower. He confirmed the extraordinary role of the alliance with the United States as the "bedrock of [Australian] strategic policy" (Rudd 2008b) and even promised to improve operational cooperation., However, the speech left the most important question from a strategic point of view unaddressed, namely whether the U.S. was willing to maintain her strong Pacific presence in the face of a rising and expanding China.

In the following months Rudd again stressed the fact that Australia had to prepare for the changes taking place in the region, and made it clear that these preparations included military modernization, with a particular focus on air combat capabilities and naval forces, particularly the size and capabilities of the Australian submarine fleet. Rudd's "realistic" tone caught many observers by surprise. In the conservative Australian, the even more conservative and very pro-American Greg Sheridan concluded after Rudd's first year in office that "Kevin Rudd has been misjudged on his approach to Asia, especially China" (Sheridan 2008). Many of the ideas Rudd had sketched out in the RSL address were taken up in a speech he gave to Parliament roughly three month later on December 4, 2008, which was to be the first National Security Statement to Parliament by an Australian Prime Minister ever. In this historic speech Rudd confirmed his perspective on the dawn of an Asian-Pacific century, with its prospects of economic opportunities as well as looming potential for security concerns. Rudd left no doubt that he ultimately attributed the relative stability and peace which the region had enjoyed for the last decades to the presence of the United States and her power projection ability within the region (Rudd 2008a).

So, in many respects, the new Labor Prime Minister shared what many scholars of Australian foreign and security policy claim: that Australia faces a serious dilemma in its behavior towards China. While the economic rise of China is clearly in Australia's interest, the risk involved in the associated rise of its military capabilities and seemingly more self-confident behavior in the region is seen to be too severe to be left unaddressed. Rudd then initiated what might be called a "double-track" policy towards China, which, at first sight, seemed to be contradictory and even led to the accusation that the left hand, defense, appeared not to know what the government's right hand was doing (Leaver/Kelton 2010: 264).

However, it will be shown that the seemingly contradictory policies can best be understood from the perspective of Power Transition Theory described above, and are complementary rather than contradictory. While the policy towards China under Rudd had of course additional elements, the next two sections will focus on the two elements which are the most prominent and differ the most sharply: Kevin Rudd's proposal for an Asian Pacific Community on the one hand, and the Defence White Paper of 2009 on the other.

4.1 Carrots: Rudd's APC proposal

In June 2008 in an address at the Asia Society AustralAsia Centre in Sydney, then Prime Minister Kevin Rudd surprised not only his audience with a speech which was programmatically called "It's time to build an Asian Pacific Community" (Rudd 2008d). Citing the major regional changes and challenges in the near future such as economic growth, changing demographics, energy, food and water consumption, Rudd argued for "strong and effective regional institutions" to "underpin an open, peaceful, stable, prosperous and sustainable region." Obviously Rudd felt that the current institutions described above were not sufficient as a basis for building a stable regional security architecture. While respecting existing institutions and fora like Asia-Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF), ASEAN Plus Three or the East Asian Summit (EAS), Rudd advocated an Asian Pacific Community (APC) with a broad membership, a "regional institution which spans the entire Asia-Pacific region – including the United States, Japan, China, India, Indonesia and the other states in the region."

Rudd argued that "[a]t present none of our existing regional mechanisms as currently configured are capable" of developing "a genuine and comprehensive sense of community whose habitual operating principle is cooperation." Therefore, his Asia Pacific Community (APC) was supposed to become a "regional institution which is able to engage in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges related to security" (Rudd 2008d). In proposing the APC, Rudd envisaged Australia making an active contribution to a "peaceful, prosperous and sustainable" Asia-Pacific century.

To promote his proposal and set off a debate about the idea, Rudd sent a special envoy, Richard Woolcott, to almost all relevant capitals in the region to collect thoughts and ideas for improvement, to be published in a special report. Obviously Rudd was aware that if history were any guide, his proposal would be sailing against a headwind. And reactions to the APC proposal were lukewarm and cautious indeed, to say the least, with only some support. Many governments were taken by surprise and taken short. The need for APC was not seen – especially as Rudd's proposal lacked information about the concrete institutional design he had in mind.[29] Despite Rudd's positive remarks on ASEAN institutions, the critical subtext that ASEAN – in whatever forum – was unable to solve potential problems at least ten years in the future rankled with core ASEAN members in particular (Frost 2009: 12), with western-friendly Singapore being "the main opponent of the idea" (Carr/Roberts 2010: 249). A friendlier version of this criticism stated that there was no need to "reinvent [...] key institutions" (Soesastro 2009: 4).

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29 In later speeches, Rudd argued that he had deliberately avoided any suggestions for institutional design to ensure an open process (Rudd 2009).

There was reluctance for yet another meeting at head of government (HOG) level, and both the scope of membership (except for the countries explicitly named) as well as the decision- making rules seemed unresolved (Qingguo 2009: 7). Especially Rudd's references to the European Union[30] caused fear of too formal and rule-bound an integration, and a specific institutional design. In later speeches Rudd tried to accommodate some of the criticism by clarifying his proposal: "Furthermore, let us be clear about what an Asia Pacific Community is not. It is not an economic union. It is not a monetary union. It is not at this stage a customs union. And it is certainly not a political union. All of our existing regional mechanisms have a critical role to play both now and into the future – including ASEAN, APEC and the EAS." (Rudd 2008c). But still he stressed that "[m]anaging major power relations, particularly in the context of the rise of China and India will be crucial to our collective future" and that there was "no single regional institution with a pan-regional mandate that covers the full policy spectrum" (Rudd 2009).

In contrast to its relatively cold reception at the international level, Rudd's proposal received more affirmation in Australia (Carr/Roberts 2010: 248) – at least in principle. Commentators agreed that the way the proposal had been prepared and presented had been "marred by failures" (White 2009b), i.e. the fact that special envoy Woolcott was informed about his new task only hours before Rudd's official announcement, and that there had been no consultation with other Asian leaders before its publication. But most also agreed that there was a need for institutions better suited to accommodating the fundamental changes in the region resulting from the rise of China and probably from the rise of India as well. Carr and Roberts argue that "the ability to manage political and economic challenges in the evolving U.S.-China relationship was a key motive behind the [APC] proposal" (Carr/Roberts 2010: 249) and many commentators judged the proposal against the background of this alleged aim. While one can only speculate about individual motives, it is reasonable to assume that Rudd indeed foresaw the problems and risks of further unimpeded Chinese engagement in regional institutions and the potential challenge for Australia of a "future China-dominated regional order [...] based on different norms and values from those currently espoused by Western countries, including Australia" (Zhang 2007: 9). In addition, at least when Rudd presented his proposal in 2008, there was no regional institution to bring together China and the US eye-to-eye to address cross-border issues. Given the potential for military clashes between the PLA and the U.S. Navy, Rudd wanted an institution to bring both heavyweights together in a more formalized context.

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30 As a matter of fact Rudd had said that the "European Union of course does not represent an identikit model of what we would seek to develop in the Asia Pacific." However, he added: "But what we can learn from Europe is this – it is necessary to take the first step. In the 1950s, sceptics saw European integration as unrealistic. But most people would now agree that the goal of the visionaries in Europe who sat down in the 1950s and resolved to build prosperity and a common sense of a security community has been achieved. It is that spirit we need to capture in our hemisphere" (Rudd 2008d).

Consequently, the relevant question to ask was whether the Rudd proposal was not the wrong tool for the right task (White 2009b). In contrast to Rudd, Hugh White was and still is skeptical about an institutional solution with a wide membership and "the idea that Asia's new order can and should be negotiated between all the powers of the region – big, middle and small" (White 2009b). He instead proposed "a kind of concert among Asia's great powers" (White 2009b), an informal institution where the strongest powers agree on shared leadership and certain principles of behavior, an idea he has developed further in his latest Quarterly Essay cited in the introduction (White 2010), which has stirred a rather lively debate among foreign policy experts, vigorously waged on the Lowy Institute's Interpreter blog.[31] White's institutional design – and his criticism of the APC proposal – is consistent with the typical realist understanding (in terms of IR theory) of international institutions, as they are regarded as relevant only when they reflect the power distribution among their members (Grieco 1990). Given, however, the rather vague and sketchy picture of the APC proposal and given the fact that Rudd always mentioned some countries by name (United States, Japan, China, India, Indonesia), and not the others, he made clear that he understood that there were differences in weight and importance of the potential members, and that some political animals might be more equal than others – with corresponding influence on the informal handling of the formal institutional design. From the perspective of Power Transition Theory, Rudd's idea can be understood as an attempt by a self-proclaimed middle power to bring important, and potentially dissatisfied states like China – but probably Indonesia as well – into a potentially more formal and rule-based institution with a cross-cutting agenda, hoping for corresponding socializing effects. A rule-based international system where states comply with institutional arrangements is seen to serve Australia's national interest best. At the same time, the APC would keep the United States engaged in an institution central to the region and thereby within the region, mitigating tension between the rising contender China and the still dominant US. All in all, the attempt is consistent with Australia's national identity as a law-abiding "good international citizen," best represented by the Labor party. So, the APC can be seen as a somewhat clumsy, ill prepared and rather ambitious but still purposeful tool to socialize rising powers into a more rule-based style of institutional cooperation.

However, when a big conference hosted by Australia in Sydney in December 2009 to promote the APC finally failed to convince skeptics of the idea (White 2009a), it was clear that Rudd had, despite his tremendous efforts, failed to step into the shoes of Bob Hawke, who had initiated the Asia-Pacific Economic Cooperation in the early 1980s. In June 2010, The Australian finally reported that Rudd would "not now regain the initiative in devising a new regional infrastructure," and that he conceded that "the development of the regional architecture must be left in the hands of ASEAN" (Callick 2010a). Obviously Rudd now understood that he had grossly misjudged Asian leaders' willingness to

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31 www.lowyinterpreter.org/?d=D%20-%20Hugh%20White%27s%20Quarterly%20Essay (11.11.2010).

downgrade their ASEAN institutions and abandon their particular style of handling issues for a new and more formal institution, with the main purpose of containing both China and the U.S.

But according to some sources, the effort was not completely in vain, as the invitation to the United States and Russia to join the EAS was a reaction to Rudd's APC proposal (Carr/Roberts 2010: 205). So, even if the EAS is unlikely to be the kind of institution Rudd had in mind when he made his APC proposal, he achieved at least one important aim of his idea: he brought China and the United States into one important regional institution.[32]

4.2 Sticks: The 2009 Defence White Paper

But the APC proposal was not the only policy of the Rudd government with direct or indirect implications for the Australia-China relationship which surprised political observers. Almost a year after the APC proposal, in May 2009, the Australian Department of Defence released its long-awaited latest Defence White Book, the first comprehensive White Paper after 2000. Observers were not surprised by the overall direction the new White Book took. The general direction of impact was consistent with what could be expected from a Labor government: in contrast to Howard's 2003 and 2005 White Paper Updates, which were written under the impression of 9/11 and had a clear focus on global commitment and "forward defence" (Schreer 2006), Labor's 2009 White Paper stressed once again the defense of Australia: In the tradition of the "concentric circles" idea, first developed in the 1986 Dibb Report, the White Paper formulated a priority list of tasks for the Australian Defence Forces, with deterrence and defeat of armed attacks on Australia being the single most important. In second position followed contributions "to stability and security in the South Pacific and East Timor," in third place contributions "to military contingencies in the Asia-Pacific region" and finally preparation "to contribute to military contingencies in the rest of the world" (Department of Defence 2009: 13).

When it came to the alliance with the United States, the White Paper gave a clear commitment, but at the same time cautioned that "a defence policy founded on an implicit bargain that others would come to our aid with combat forces if we were threatened or attacked is simply too uncertain a basis for providing security and irresponsible abrogation of Australia's strategic sovereignty" (Department of Defence 2009: 47). Being in line with the DoA perspective on the Alliance described above, the alliance was seen as an important partnership in regard to "associated capability, intelligence and technology" (Department of Defence 2009: 50) and probably to political weight but not to direct defense.

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32 It is an ironic turn of events that the EAS might become the replacement for Rudd's APC, as it was the Howard government's efforts which earned Australia's membership in it.

What was surprising, for some even disturbing, however, was the fact that the government explicitly named the rise of China as the most important security issue determining the shape of the Australian Defence Forces (ADF) for at least the next two decades. As Leaver and Kelton point out "[o]ne of the benefits of the earlier 'Defence of Australia doctrine' was that it avoided naming strategic threats by focusing upon the technological challenge that Canberra needs to meet" (Leaver/Kelton 2010: 263). To be sure, China had been mentioned in many strategic analyses since the early 1950s, but usually not singled out and definitely not pilloried (Smith 2009). In a rather straight-forward tone, the White Papers expressed concerns about China's military modernization program, described above. It stated:

> "A major power of China's stature can be expected to develop a globally significant military capability befitting its size. But the pace, scope and structure of China's military modernisation have the potential to give its neighbours cause for concern if not carefully explained, and if China does not reach out to others to build confidence regarding its military plans. China has begun to do this in recent years, but needs to do more. If it does not, there is likely to be a question in the minds of regional states about the long-term strategic purpose of its force development plans, particularly as the modernisation appears potentially to be beyond the scope of what would be required for a conflict over Taiwan" (Department of Defence 2009: 34).

In the diplomatic realm, these statements might be understood as sailing close to the wind. Elsewhere the White Paper continued speculating, this time, however, without naming China, about a "remote but plausible potential of confrontation with a major power adversary" (Department of Defence 2009: 64). And the White Paper cautioned that "[g]rowing economic interdependence will not preclude inter-state conflicts or tension short of war," a clear indication that the economic ramifications for the region of China's rise were not seen as a guarantee for a peaceful future on their own (Department of Defence 2009: 22).

On a more general level, the whole paper indicated a policy reorientation towards a realist perspective, focusing on nation states, thereby rejecting the priorities of the Howard government – non-state actors, terrorism, WMD proliferation and state failure. Consequently, at first glance the new White Book seems not only an unnecessary and inept diplomatic affront to the Chinese, but seems to promote an outdated state-centered security concept, some scholars would not deem applicable to the post-Cold War era (Lyon/Davies 2009: 2).

In respect of force planning, the White Paper called for significant armament programs, especially for the Australian Navy and Air Force, another indication of a more DoA-leaning orientation, with conventional security threats in mind. The single most important item was that the White Paper called for the procurement of twelve new conventional submarines to replace the six trouble-ridden Collins-class subs around 2030, which would be, when implemented, the most expensive armament project in Australian military history. In direct comparison, planned investment in surface vessels was modest, but the White Paper called for more capable future frigates, especially optimized for anti-submarine warfare (Department of Defence 2009: 64).

Another major project the White Paper called for was the procurement of the American F-35 Joint Strike Fighter (JSF), a state-of-the-art fifth generation fighter jet. Already, under Howard, Australia had decided to join the American-led consortium and announced its intention to procure a batch of roughly 100 fighters. The Rudd government confirmed this decision.[33] In contrast to the White Paper Updates of 2003 and 2005, the Army with its "offshore interests" (Bostock 2006) was on the losing side, something many commentators from the "forward defence" school objected to.[34] A final surprise was that the White Paper called for the acquisition of maritime-based land-attack cruise missiles (LACM), to be placed both on surface vessels as well as on the future submarine to provide the government with the option "to conduct long-range precision strike operations against hardened, defended and difficult to access targets" (Department of Defence 2009: 81).

But what was the rationale behind this important shift in priorities away from an expeditionary army, and the proposed heavy investment in submarines and long-distance strike capabilities?

As mentioned above, U-boats – and especially silent conventional ones - are usually used for sea denial rather than sea dominance. The uncertainty about the possibility of submarines being in a specific sector tremendously increases the time and effort surface vessels have to invest in safe travel, and it is almost impossible to be absolutely certain that no hostile sub is in the immediate vicinity. Consequently, submarines are understood to have a strong deterrent effect on an enemy whose only way of approach is by sea, and raise the expected costs of an invasion. Therefore, they are the most economical way of defending a continent like Australia against a major attack, and they signal resolve against a potential aggressor. One might conclude from this train of thought that the White Paper anticipated a U.S. withdrawal from the region and was preparing for a self-reliant defense of Australia. Investing in submarines has, however, an additional rationale: In the early 1960s the United States stopped building diesel-electric submarines, and decommissioned most of its conventional attack submarines before 1990. Since then the U.S. Navy has relied on nuclear submarines only. While nuclear-powered submarines have many advantages, the most important being their ability to stay submerged for days, weeks or even months, they suffer from a fundamental problem: the cooling system of the reactor cannot be switched off, making the boat noisier than a conventional submarine which can switch off all internal systems.[35] In addition, with latest fuel-cell technology, modern conventional submarines can stay submerged for at least several days, up to two weeks,

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33   At the moment it is not clear whether Australia can procure the 100 JSF. As other partners in the consortium have decided to procure fewer planes than originally envisaged, unit costs are very likely to increase, making the procurement more expensive for Australia. If Australia, however, reduces her order, unit costs might increase again, making other states buy fewer JSF and so on.

34   www.abc.net.au/news/stories/2009/05/21/2577494.htm (10.11.2010).

35   www.fas.org/spp/eprint/snf03221.htm (17.8.2010).

making them silent but lethal weapons against surface vessels in times of crisis, perfect for sea denial. From the Australian point of view, a noteworthy conventional submarine force can be seen as a valuable niche contribution to the United States's capabilities in the region, the Seventh Fleet. Conventional submarines therefore not only constitute a valuable factor after a potential American withdrawal, but would not only support U.S. operations in the Southwest and Central Pacific but would also provide important input to the security of the U.S. fleet, reducing the likelihood of U.S. withdrawal.[36]

So, the future force structure described in the White Paper is optimized for two contingencies: a withdrawal of U.S. forces from the region or a potential stand-off between U.S. forces and another major power. Despite its obvious DoA focus, the force structure announced gave Australia enough capabilities to keep Alliance operations a serious possibility.

Reactions to the White Paper were as to be expected. Already before the official publication, "senior Chinese diplomats and scholars" were annoyed about the "apparent hawkish stance" of PM Rudd (Garnaut 2009). More modest Chinese commentators argued that Australia was following "the US 'example' of securitization" (Zhang 2009) while others "slammed Australia's new defence white paper as a 'crazy', 'stupid' and 'dangerous' document that risks inciting an arms race across the region" (Garnaut et al. 2009).

So, with its blunt language and its call for a significant arms build-up, the White Paper was sending a clear signal: Despite her limited resources and fully aware of the relatively small impact her forces would have in any confrontation with a major adversary, Australia wanted to be prepared for the worst case - military conflict in the region. From the perspective of Power Transition Theory this seemed a rather prudent approach, as the theory assumes a low likelihood of peaceful transformation. Preparing for the worst case (defense of Australia while simultaneously filling an American capability gap in order to keep the U.S. in the region) was a well orchestrated move. However, as in the APC case, the political "spin," in this case the explicit naming of China in the White Paper, was far from perfect to say the least.

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36 I owe the final thought to my colleague Peter Kreuzer.

5.   Conclusion

In early December 2010, the British newspaper *The Guardian* released U.S. embassy cables received from the Internet platform Wikileaks with some alleged statements by then Prime Minister Rudd to U.S. Secretary of State Hillary Clinton from March 2009. According to the cables, Rudd called himself "a brutal realist on China" and

> "argued for 'multilateral engagement with bilateral vigor' – integrating China effectively into the international community and allowing it to demonstrate greater responsibility, all while also preparing to deploy force if everything goes wrong. Rudd said the Australian intelligence community keeps a close watch on China's military modernization, and indicated the forthcoming Australian Defence White Paper's focus on naval capability is a response to China's growing ability to project force."

And the Cable continued:

> "Rudd explained the thinking behind his Asia Pacific community (APC) initiative mostly as an effort to ensure Chinese dominance of the East Asia Summit (EAS) did not result in a 'Chinese Monroe Doctrine' and an Asia without the United States."[37]

This short paragraph nicely summarized the results derived from the analysis of this report. Almost from the very beginning, Kevin Rudd's government pursued a double-track policy against China, knowing full well that Australia had very much to gain economically from the rise of China but much to lose from a dissatisfied China which clashed with the United States militarily. On the one hand Rudd advanced his APC proposal to integrate both China as well as the United States into a more formal multilateral institutional setting in the region, to give China more responsibility and bring her eye-to-eye with the United States in a regional context while raising U.S. interest in the region. In regard to China, the obvious aim was to socialize China into a rule-based regional system, trying to take the edge off China's dissatisfaction by allocating responsibility.

As Hugh White has repeatedly argued, the APC might not have been the institution best suited for this purpose, especially as other states from the region did not play along and were unwilling to sacrifice their conception of regional cooperation for smoothing U.S. – Chinese relations in the region. Seen as realpolitik," lobbying in Washington for a "concert," where a number of strong states agree "that none will try to dominate, and instead all share power more or less equally" (White 2010: 23) might indeed be the better strategy, probably with much better prospect of success.

For Kevin Rudd, however, promoting a "concert" was probably not a viable alternative. First, a concert of powers, by its very nature, aims at transforming the international system in a way which the powerful members see fit to do, and brings a kind of arbitrariness into the international order, which runs counter to the reliability of an

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37 www.guardian.co.uk/world/us-embassy-cables-documents/199393 (7.1.2011).

accepted rule- and law-based system. From the perspective of PTT, the rising state has to be socialized into the *existing* normative order. This does not, of course, prevent making allowances to better suit the needs of the rising state, but is definitely different from the back-room power politics of a "concert" in the realist sense.

Second, Rudd's APC proposal did not contradict what can be understood as the Australian national identity described above. While national identities usually are not prescriptive in the sense that they stipulate a certain policy, they define the scope of permissible action. As the strong reaction to Hugh White's proposal shows, a concert which might lead to concessions on issues which the Australian public deems to be essential, e.g. human rights, will face much more public resistance than an approach which is consistent with the basics of the Australian identity.[38]

On the other hand the Defence White Paper described a hedging strategy for the potential scenarios that a dissatisfied China might either clash with the United States or oust the U.S. from the region. Rudd felt that in the case of a military clash, there is hardly any way for Australia to remain on the sidelines as either the United States or China would press for Australia to show her colors. Investing in submarines, long-range cruise missiles and cutting-edge aircraft can be understood as the best preparation for both possibilities, and again as a way to keep the U.S. in the region. From a theoretical perspective, finally, Rudd's approach of institutional carrots and military sticks (or rather twigs?) seemed custom-made for Australia. First, it was in line with recommendations derived from Power Transition Theory, balancing integration and military hedging. Second, it was consistent with both Australia's history as well as her national identity, and therefore had a realistic chance of public support: Both the APC as well as the Defence White Paper were influenced by Australia's self-image as a law-abiding "middle power." In sum, what at first glance seem to be incongruous or even contradictory elements make up a whole when examined through the lens of Power Transition Theory.

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38 In a way Hugh White is aware of this when he concedes that "[b]ecause China's values are different from ours, we tend to see any compromise […] as a sacrifice of our values on the altar of expediency" but continues that "we cannot learn to live with a powerful China if we regard every accommodation as a betrayal of principle" (White 2010: 54).

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