

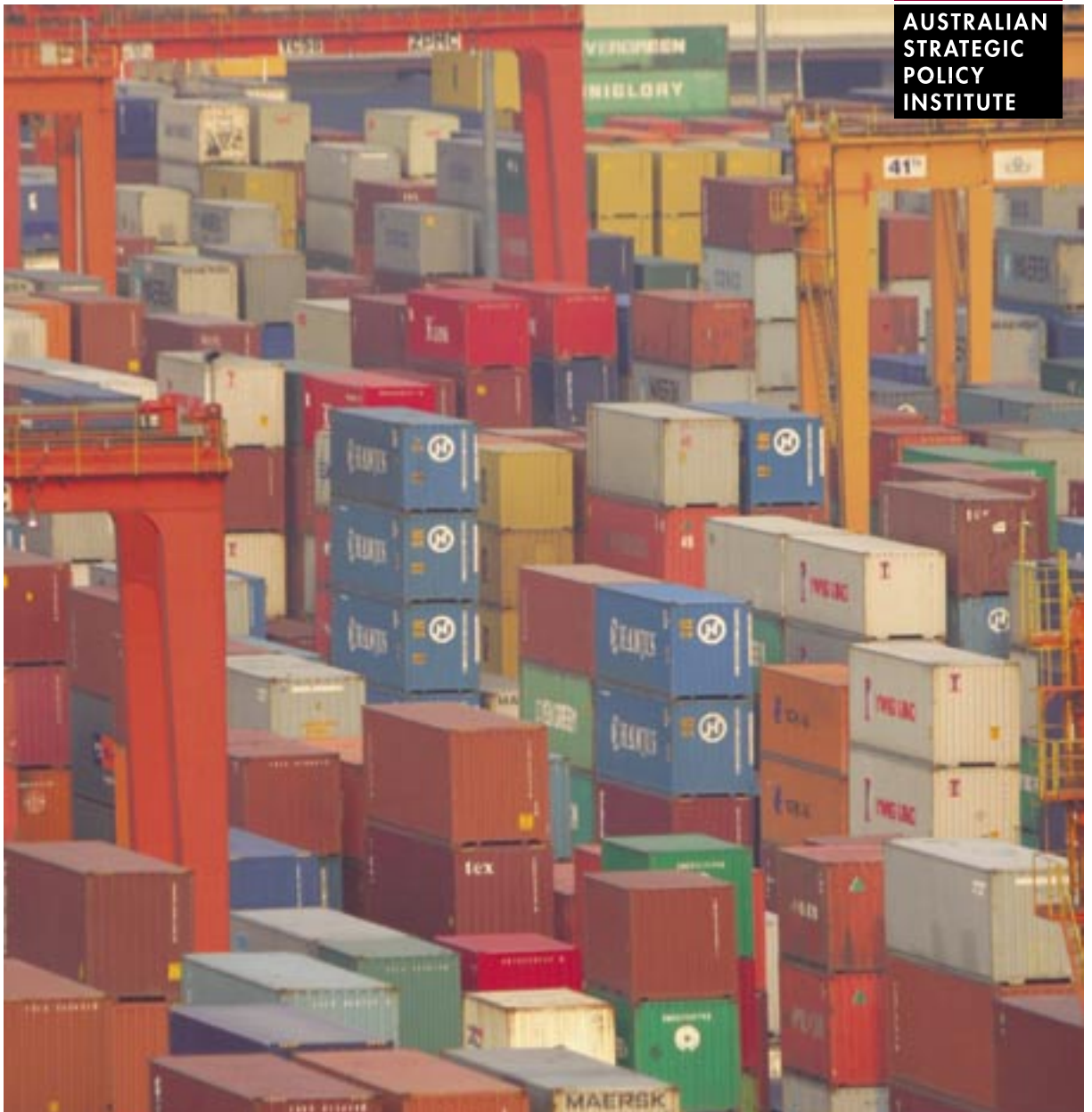
# STRATEGY

A S P I

## Power Shift:

Challenges for Australia in Northeast Asia

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AUSTRALIAN  
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### William T. Tow

William T. Tow is Professor in International Relations at Griffith University's Department of International Business and Asian Studies. He previously taught at the University of Queensland and at the University of Southern California, Los Angeles. He has authored or edited 14 books and over 80 journal articles/book chapters. Among his most recent works is *Asia-Pacific Strategic Relations: Seeking Convergent Security* (Cambridge University Press 2001) and a recent co-authored monograph (with Dr Rod Lyon) on the U.S.-Australian alliance published by the U.S. Army War College's Strategic Studies

Institute (SSI). He presently serves on the Australia Members Board, CSCAP and is Editor of the *Australian Journal of International Affairs*. He was previously a member of the Department of Foreign Affairs and Trade's Foreign Affairs Council and served on the Australian Fulbright Commission's Board of Directors. He is currently researching the developing U.S.-Japan-Australia 'triangularity' security relationship and the geopolitics of East Asia.



### Russell Trood

Associate Professor Russell Trood is a member of the Griffith Asia Pacific Research Institute, Griffith University. He has been a member of the Foreign Affairs Council and the Board of the Australia Indonesia Institute and currently serves on the Australian Committee of the Council for Security Cooperation in the Asia-Pacific (CSCAP). Professor Trood teaches courses on international relations, Asian security, Australian foreign and defence policy at both graduate and undergraduate levels. He has lectured extensively on these issues at conferences and institutions in Australia, Europe, Canada, the United

States and throughout Southeast and Northeast Asia. He is the author of numerous articles and chapters in journals and books on security and foreign policy issues and a frequent media commentator on these matters. His publications include, *Strategic Culture in the Asia-Pacific* (2000), *Bilateralism in a Multilateral Era* (1997), *The Asia-Australia Survey 1996–97* (1996), *The Future Pacific Economic Order: Australia's Role* (1993) and *The Indian Ocean: Perspectives on a Strategic Arena* (1985).

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# Power Shift:

## Challenges for Australia in Northeast Asia



Prepared by  
**Professor William Tow and Associate Professor Russell Trood**

with assistance from:  
**Brendan McRandle, ASPI**

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**ASPI**

Level 2, Arts House  
40 Macquarie Street  
Barton ACT 2600  
Australia

Tel + 61 2 6270 5100  
Fax + 61 2 6273 9566  
Email [enquiries@aspi.org.au](mailto:enquiries@aspi.org.au)  
Web [www.aspi.org.au](http://www.aspi.org.au)

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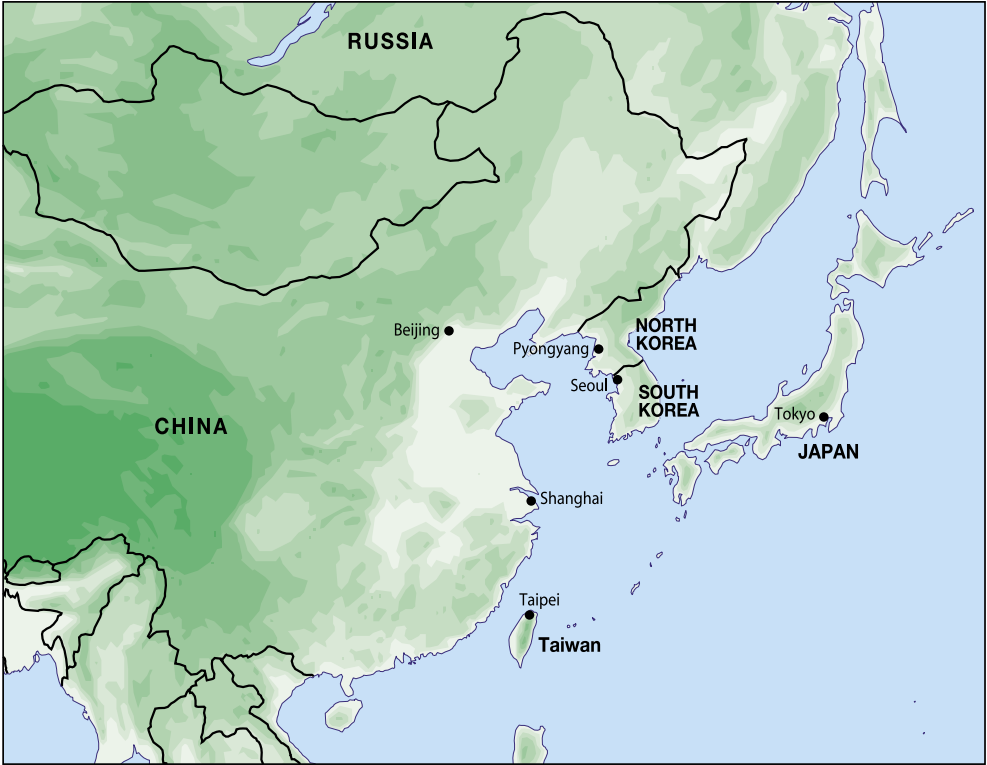
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# Director’s introduction

This paper is the product of our Outreach program, and specifically, our project to engage Australia’s university sector in some of the critical strategic policy issues facing us over the coming few years.

Our aim is to build a network of security focussed academics that can contribute their specialist expertise to offering ideas for policy development on some important issues. In 2003, ASPI engaged staff at the University of Queensland School of Political Science and International Studies to take the lead in developing a workshop that brought together a range of expert academic opinion and some policy makers from Canberra. The academic contributors who attended the workshop were:

Professor James Cotton	Australian Defence Force Academy
Dr Martin Griffiths	Flinders University
Dr Marianne Hanson	University of Queensland
Professor Robyn Lim	Nanzan University, Nagoya
Dr Rod Lyon	University of Queensland
Dr Craig Snyder	Deakin University (Geelong Campus)
Professor Bill Tow	Griffith University
Associate Professor Russell Trood	Griffith University
Dr Sandra Wilson	Murdoch University
Dr You Ji	University of New South Wales

The group met over two days in Brisbane to discuss the broad trends emerging in Northeast Asia, the prospects for focal points of tension and distrust to escalate into military conflict, and how Australia could respond to the emerging trends. We thank each of them for their valuable insights and ideas. Several of the participants were asked to contribute papers to the workshop that formed the basis of discussion and debate. We have placed these individual papers on our website. The specialist topics each covers will help the general reader seeking more information on specific issues.

This *Strategy* paper was developed from the workshop. Professor Bill Tow and Associate Professor Russell Trood from Griffith University's Griffith Asia Pacific Research Institute were the principal contributors to the paper with the assistance of Dr Rod Lyon and Dr Marianne Hanson, University of Queensland. All drew upon the input from other contributors to the workshop. Our thanks go to all of them for their insights and efforts to produce this paper.

Finally, I offer my thanks to Brendan McRandle, ASPI's Outreach Program Director, for managing this project.

**Hugh White**

Director



## Executive summary

Northeast Asia is undergoing some profound changes. The remarkable performance of the Chinese economy is not only driving regional economies, but is also shaping the region's political and security environment. Australia's national interests, and its future prosperity, is closely tied to developments in that part of the world. The major economies of Northeast Asia are among Australia's top ten export markets. Provided China, and the region, can sustain its current economic growth, the prospects for Australia are good. But the future of Northeast Asia, and inevitably Australia, will depend not only upon economic matters, but also the complex political and strategic relationships developing in that region. Against the economic dynamism of the region are more profound changes involving the political and security relationships. Those changes include how Japan's transition to a 'normal' state translates into a greater role in regional and global affairs; how China and Taiwan define their future relationship; whether North Korea's regime takes steps to abide by the terms of the 1994 agreed framework; and not least, the future of the United States' military alliances with Korea and Japan. This paper examines all of those competing forces, the challenges Australia might face, and suggests options to support the important interests we have in Northeast Asia.

There are trends emerging which have potential to define Australia's economic relationship with Northeast Asia. One trend is that the economies of the region have become more interdependent. If momentum builds, and there are some signs that it will, the region might move to deeper economic cooperation. The prospects of that in the near term are low, but foundations for this appear to be developing. The risk for Australia is that progress towards greater economic regionalism in Northeast Asia may be more exclusively Asian in its membership.

The changes in Northeast Asia are not confined solely to economic developments. Other important shifts are taking place in the political and strategic balance in the region. In concert with economic restructuring to integrate better into the global economy, China has

sought a greater and more proactive role in regional and international affairs. Its central role in the 'six party' talks is indicative of a more active leadership role in the region. And Beijing's constructive role has been recognised by Tokyo, Seoul and Washington, enhancing its status as a regional leader.

China's relationship with Taiwan, however, remains a major potential flashpoint. Taiwan's government and a large part of its population appears increasingly confident about its claims for independence. China's position is that Taiwan is a renegade province. The seriousness of its concerns about Taiwan slipping further from the 'one China' policy was most clearly demonstrated in the run up to Taiwan's elections in 1996. With the government in Taiwan planning constitutional reform that may take it closer to independence over the next few years, it seems unlikely that tension between Taipei and Beijing will be defused any time soon.

Other important changes are taking place elsewhere in the region. Both Japan and South Korea are demonstrating a more assertive and independent approach to international affairs. Japan is moving closer to becoming a 'normal' state, with an active domestic debate about amending its post-war 'peace' constitution. The decision by Prime Minister Koizumi to deploy Japanese forces to post-war Iraq was a clear example of the direction Japan is moving. It is in this environment that Australia's own security relationship with Japan is deepening.

In South Korea there is a growing sense of nationalism, expressed particularly by its younger generation. Unfamiliar with the wartime experiences of the previous generation, younger Koreans are questioning the existing power structure in the region, and importantly, the security role played by the United States for more than half a century. They seek a more independent foreign policy in Seoul and question the helpfulness of the US policies towards the regime in Pyongyang.

The balance of power and influence in Northeast Asia is undergoing some fundamentally important shifts. As a region vital to Australia's interests, there are some opportunities as well as more than a few risks. Responding to the changes taking place there now, and interpreting the trends will be an important challenge for Australia.



## Chapter 1

# NORTHEAST ASIA: SECURITY AND GREAT POWER TRANSITIONS

Northeast Asia is in flux, as the foundations of the region's political and economic life shift profoundly. Most attention has focused on the rising power of China, whose growing economy and increasingly sophisticated regional diplomacy constitute the foundations for a future leadership role. But there are many other important dimensions to the transitions now under way. Japan's more active security stance, the progress of economic regionalism, America's reassessment of its regional military presence, tensions on the Korean peninsula and the problem of Taiwan's future all add to the complexity and potential volatility of the region.

More than at any time in a generation, Northeast Asia's political and economic prospects rest on a set of interconnected forces, tensions and pressures whose long-term direction is unpredictable. Such trends could lead to a prosperous and secure twenty-first century, or to a future of considerable turmoil and conflict. Either way, the outcome in Northeast Asia is critical to Australia's future. No region of the world is more important to Australia's long-term prosperity and security.

### **China: stronger, smarter, smoother**

China's economic revolution and its slower but still significant social and political transformation are central to the changing security environment of Northeast Asia. These processes began in the late 1970s and delivered remarkable economic growth during the 1980s, but it has been their continuation over the 1990s and into the current decade that's bringing about a fundamental change in the long-term power balance in the region.

China has a strong historical sense of insecurity, but with the collapse of the Soviet Union over a decade ago the country now seems confident that it is secure from attack by its neighbours. Increasingly

confident of its growing economic power, China has embarked on a comprehensive strategy to become a pre-eminent regional power, one that is able to shape the international system to its advantage and not merely respond to events as best it can. This a long-term goal, rooted in pragmatism and reality. It recognises, for example, that the US is a hegemonic power with effectively unassailable global reach. But China appears to believe that within the Asia–Pacific region it can balance and constrain American actions and options. And where Chinese vital interests are threatened by the US—especially in relation to Taiwan—they will be defended.

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Beijing will also pursue opportunities for cooperation, seeking to benefit from the global system mediated by the US to sustain Chinese economic growth. China will avoid conflict with the US on issues it does not see as central to China’s vital interests. But it will also look for opportunities to maximise its regional influence, and minimise America’s, in what it sees as a long-term, zero-sum competition for pre-eminent power and influence in Asia.

China’s aspirations for regional leadership have transformed its regional and international diplomacy over the past decade.<sup>1</sup> Once shy of regional institutions, in the 1990s Beijing concluded that these could prove an effective way to advance and protect China’s interests while simultaneously limiting Washington’s. Closer engagement with the Association of



US Gen. Richard Myers, chairman of the Joint Chiefs of Staff, visits the Great Wall of China, during a trip to Asia and Australia to promote US military contacts in the region. AP via AAP/Ng Han Guan © 2004 The Associated Press

Southeast Asian Nations (ASEAN), deepening participation in the Asia Pacific Economic Cooperation (APEC) movement, an active involvement in promoting the ASEAN + 3 process, initiation of the Shanghai Cooperation Organisation initiative and, perhaps most significantly, a leadership role in attempts to settle the most recent crisis on the Korean peninsula, have all reflected Beijing's regional activism.

The new diplomacy has also seen determined Chinese efforts to settle or palliate some long-simmering border disputes with neighbours such as Vietnam, Russia and Kazakhstan, and in the South China Sea.

The marked shift in Beijing's policies has also been visible in relation to its security and defence postures. China has demonstrated a willingness to participate in global arms control and nonproliferation regimes, including by ratifying of the Chemical Weapons Convention and the Treaty on Non Proliferation of Nuclear Weapons. And in 2003 Beijing proposed a new security regime for East Asia—the 'New Security Concept'—that was notable less for its rather pedestrian content than for the signal it sent about China's ambitions to lead the development of regional security architectures<sup>2</sup>. Arguably, the rewards for this creativity have been encouraging. While China's foreign and security policies certainly have their critics, and there continues to be widespread apprehension about the long-term impact of China's rising power, Beijing's new diplomacy is widely acknowledged for the constructive part it plays in regional and international affairs.

China's new foreign posture is likely to endure. There are aspects of the contemporary international system with which China is dissatisfied, not least the power of America and the risk that Taiwan will move closer to independence. But there seems to be consensus in Beijing that cooperation is more effective than confrontation, at least for the time being. Meanwhile, the focus at home will be to ensure that careful reform of the economy will lay the foundations for sustainable long-term growth. These innovations in China's international and security policies have been matched by domestic reforms. Government policy formulation, for instance, has been opened to greater scrutiny and criticism.

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The path to a new regional order with China at its epicentre could easily be uneven, but its direction is clear.

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The implications of this posture for the international community are relatively benign. Nevertheless, the states of East Asia have to adjust to China's growing strategic and economic strength. For example, as a result of its recent measured diplomacy, which has been helpful to Washington, Beijing has been able to take advantage of the changes on the Korean peninsula. While maintaining its traditionally close relationship with Pyongyang, it has also drawn closer to Seoul, eroding South Korea's close postwar ties with the US. This shows how, without overt confrontation, and indeed through close cooperation with the US and Japan, China has improved its long-term position in relation to both of them.

China's program of nuclear and conventional force modernisation will likely be another source of apprehension. Smaller neighbours, especially in Southeast Asia, will remain wary of China's ambitions while welcoming its economic dynamism and diplomatic innovations.

As a hedge, they'll continue to welcome America's long-term regional strategic engagement, though their rhetoric will not always be flattering to Washington.

In sum, China's growing strength will necessarily place increasing pressure on structures of political and economic power that have remained largely unchanged for over a generation. The path to a new regional order with China at its epicentre could easily be uneven, but its direction is clear. And so far the signs are that China's carefully crafted diplomacy will help to minimise the dangers.

## Japan and the new 'normality'

Significant changes are taking place in Japan's traditional post World War II security posture, with potential long-term consequences for regional security relations. These changes are reflected in three broad trends: the growing debate over Japan's status as a 'normal' state in the international community, Japan's active engagement of neighbours, and the re-evaluation of the long-term importance of Japan's alliance with the US.

The debate over Japan's status as a 'normal' state has been intensifying since the late 1980s. It reflects a view among many Japanese that the post World War II constraints on Japan's security posture are no longer justified, and that 'normalisation' is necessary if Japan is to take its rightful place as a leading member of the international community and to protect its own security. Although the issue remains highly controversial, there is unmistakable momentum for change. This can be seen in the growing debate over reform of Article 9 of the Constitution, the projected increases in the capability of the Japanese armed forces, and in the willingness of the Koizumi government to deploy Japanese forces overseas (most recently and highly controversially to Iraq).

The trend in the normalisation debate is relatively clear. Japanese, and particularly the younger generation, are no longer persuaded that it's in Japan's interests to maintain the existing legal constraints on the country's security capability. The movement for change is being led by Prime Minister Koizumi. The Liberal Democratic Party (LDP) is actively considering far-reaching proposals for constitutional reform, which now seems a real possibility. Even with the current limitations, Japan's armed forces will expand, particularly in the area of maritime capabilities. Overseas deployments of peacekeepers will become more usual, and Japan will cooperate more closely with the armed forces of other countries.

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...the emergence of a possible nuclear threat in North Korea, and long-term anxiety about China, are also moving Japan towards a more normal defence policy.

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Japan's move towards a more active security engagement in the neighbourhood has been partly driven by the need to update the US–Japan alliance to meet the needs of the post Cold War, and post September 11, world. The alliance is one of the key elements of Asia–Pacific security architecture, so any changes are significant. It underwent extensive renovation in 1996, with new guidelines allowing an expanded role for Japan to support the US in sustaining wider security in Northeast Asia, beyond the direct defence of Japan. These and other changes reflect the essentially shared view of both countries that their alliance



Members of the Japanese Coast Guard conduct a search for weapons of mass destruction during Exercise Pacific Protector. Japan is participating in the Proliferation Security Initiative, September 2003. © Defence Department

should allow Japan more autonomy and responsibility for its own security, as well as a bigger role in contributing to wider regional and global stability. But the emergence of a possible nuclear threat in North Korea, and long-term anxiety about China, are also moving Japan towards a more normal defence policy. Younger Japanese are keen to see Japan adopt a more independent security posture, and the social and economic costs of basing large US forces in Japan are a factor too.

Nonetheless, the alliance remains integral to the security interests of the two partners. Tokyo and Washington share a broadly similar outlook on regional security. Koizumi has, in fact, moved Japan closer to the US on contentious issues like Iraq. This identity of interest with US policy will remain controversial, but the Japanese public's continued support for the alliance is not seriously in doubt. Tokyo's recent participation in discussions and naval exercises related to the US-led Proliferation Security Initiative (PSI) was an important sign of widening defence cooperation.

In sum, the US–Japan alliance continues to serve the broad security interests of both partners. It is proving flexible enough to weather the changes demanded by the increasingly complex domestic and international environments in which it operates.

## The Korean peninsula: beyond the Cold War

In January 2002, President Bush described North Korea as part of a global 'axis of evil', intent on pursuing nuclear proliferation and threatening core US security interests. The charge alarmed Pyongyang as well as America's Asian allies, who tended to see the remark as an unnecessary escalation of tensions in the region. But during talks later that year, North Korean diplomats reportedly confirmed to their American counterparts that their country was developing a nuclear weapons capability, in violation of the 1994 North Korea–US Agreed Framework<sup>3</sup>. Although the claim has not been conclusively verified, the



prospect of a nuclear North Korea complicates calculations of the security equation in Northeast Asia.

A nuclear-armed North Korea would undermine the global nuclear non-proliferation regime and damage regional stability by threatening South Korea and Japan, and US forces deployed in the region, with nuclear attack. A nuclear-armed North Korea might also sell nuclear weapons to terrorist groups.

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...the prospect of a nuclear North Korea complicates calculations of the security equation in Northeast Asia.

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The threat of North Korea's nuclear capability further complicates the already complex relationship between Seoul and Pyongyang. At one level, it increases the South's vulnerability to Pyongyang, strengthens North Korea's bargaining position, and reinforces Kim Jong-il's ability to dictate the terms of eventual reunification. But it has also driven a wedge between the US and South Korea over how to handle the North. Instead of forcing South Korea into greater security dependence on the US, the North Korean move and the strident US response has exacerbated already strong anti-American sentiment among sections of Korean society.

This sentiment is one of the sharpest factors affecting intra-Korean and US relations. Growing numbers of South Koreans question the need to deploy American forces in their country as a deterrent to a threat that seems increasingly remote. Korea's historical legacy is one of the domination or division of Korea by outsiders. US military forces are increasingly viewed by many alliance sceptics in the South as no different from past foreign occupiers, impeding rather than facilitating long-term stability on the peninsula. This is especially true for younger South Koreans with no memory of the Korean War, who have shown their influence in recent elections.

After the deepening crises of 2002, the following year offered rather better prospects for resolving the nuclear threat on the peninsula. In mid-2003, the North Koreans reversed their previous insistence on negotiating all major Korean security issues directly with the US. They began 'six-party' talks with the US, China, Russia, Japan and South Korea on ending the North Korean nuclear program. Further rounds talks were held and more are scheduled. While this is encouraging, the deep distrust between the main protagonists makes an early agreement unlikely, especially in this US presidential election year.

Beijing's constructive diplomatic role in bringing Pyongyang to the table has reinforced China's credentials as an effective leader on regional security. All stakeholders, including Washington, have acknowledged the importance of this role and encouraged its development. China may well emerge as a notable beneficiary of a successful resolution of this crisis. Its alliance with North Korea will remain intact; it will have enhanced its standing in Tokyo, Seoul and Washington; and it will have reassured many around the region and further afield that China is prepared to use its growing diplomatic clout to address serious regional security problems<sup>4</sup>.





Leaders of the delegations to the second round of six-party talks. (From L to R) James Kelly, United States; Lee Soo-Hyuck, Republic of Korea; Kim Kye-gwan, Democratic People's Republic of Korea; Wang Yi, China; Mitoji Yabunaka, Japan; and Alexander Losiukov, Russia. AAP/Xinhua Photo/Liu Yu © 2004 AAP

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### Taiwan: crisis in waiting

Taiwan remains the major potential flashpoint in Northeast Asia. In Korea there is at least a tentative alignment of interests between China, the US and others on the need to denuclearise the peninsula. No such consensus exists about Taiwan. It's now over half a century since Chiang Kai-shek's Nationalist Army occupied the island, initiating one of the sharpest confrontations of the Cold War. China remains adamant that Taiwan, with its increasingly robust democratic government, is a 'renegade province' that Beijing has the right to reunify with China—by force if necessary. While no longer claiming to be the legitimate government for all of China, Taiwan's political leadership and much of its electorate now want permanent independence.

For much of the Cold War, Taiwan enjoyed the protection of American power against threats of armed takeover by Beijing. Although the US Taiwan Relations Act of 1979 does not guarantee automatic American military assistance, strong rhetorical support for Taiwanese independence by successive administrations and substantial arms sales have underscored Washington's commitment to Taiwan's long-term future. Soon after taking office in 2001, the Bush administration appeared to go further than its predecessors in supporting Taiwan's future. However, Washington has now returned to the traditional US posture of

‘strategic ambiguity’, recognising the People’s Republic of China (PRC) as the ‘one China’ but refusing to sanction its takeover of Taiwan by force<sup>5</sup>. As Taiwanese politicians adopt a more visibly separatist position, sustaining the American stance becomes a more delicate task for Washington’s policy planners.

America’s regional allies were comfortable with this strategic ambiguity as long as Taiwan and China limited their animosity to predictable rhetoric while simultaneously establishing substantial economic links. Cross-strait trade has grown to \$US35–40 billion annually, with Taiwan enjoying a clear trade surplus<sup>6</sup>. But since the mid-1990s, the situation has become dangerously unstable. Taiwan’s successful shift to liberal democracy, with popular elections for the legislature and the presidency, reinforced its claim to separate status.

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President Chen’s plans for further referendums before the next presidential election, at the time of the Beijing Olympics in 2008, will ensure that the issue is kept on the boil.

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Taiwan’s voters appear to be moving slowly but surely to favour independence, with a further swing in this direction in the 2004 presidential election. President Chen’s plans for further referendums before the next presidential election, at the time of the Beijing Olympics in 2008, will ensure that the issue is kept on the boil. Beijing’s response to this year’s election showed restraint; if that restraint can be sustained, conflict in the Taiwan Strait can be avoided. This will depend on whether the Bush Administration and its successors can temper moves, both in Taiwan and in the US, for Taiwanese independence. The risk of a major crisis is always there.

## America’s footprint

The US military presence in the Asia–Pacific has been central to the regional balance of power since the end of the Korean War in 1953. Built around the ‘San Francisco System’ of bilateral alliances, the US presence in Northeast Asia has rested on close alliances with Japan and South Korea. Both alliances are now in transition. Much of the pressure for change has come from within the Japanese and South Korean communities. While this pressure will continue, the alliances will also have to adjust to the profound consequences of a recent and extensive re-evaluation of America’s global security strategy that is likely to affect the balance of power globally and in Northeast Asia for years to come.

As outlined by US Deputy Secretary of Defense, Paul Wolfowitz, one of the key architects of this new ‘transformation strategy’, America’s new strategic thinking ‘shifts the focus of planning from optimising for conflicts in two particular scenarios—Northeast Asia and Southwest Asia—to building a portfolio of capabilities that is robust across the spectrum of possible force requirements.’ American strategy is still designed to allow the US to prevail in overlapping conflicts, but its new emphasis is on speed and on the application of ‘early combat power’ to overwhelm an adversary, rather than on orchestrating more deliberate military responses to a rising threat. This was illustrated in 2003, when the US deployed its forces to the Persian Gulf in three months; the similar deployment before the 1991 Gulf War took twice as long. The ability to destroy targets with far greater precision also illustrates

the shift: 8% of air-dropped munitions were precision-guided in 1991, compared to about 66% in 2003. This dramatic increase meant that in 2003 only one-seventh as many bombs were dropped in the initial invasion of Iraq, compared to the number used in the same theatre in 1991<sup>7</sup>.

A key element of the transformation strategy is the dismantling of Cold War bases such as those in Japan and South Korea. These are likely to be eventually replaced by a more fluid network of smaller operating bases stretching from the Persian Gulf and the Middle East through the South Asian subcontinent and Southeast Asia, and into North Asia.

The new strategy will have a visible impact on US force deployments in Northeast Asia. Most immediately, it will likely lead to the redeployment of 18,000 US forces from the Korean demilitarised zone to about 75 kilometres south of the Han river, and of the US garrison at Yongsan, in Seoul, south to the Pyongtak area. American deployments in Japan also seem likely to change, especially if a settlement on the Korean peninsula reduces tensions.

Within the context of its new strategic posture, the US is once again asking its Northeast Asian allies to assume a more active role in sustaining shared interests. Japan and South Korea have both been asked to invest more in their national defence; they have been offered new or upgraded weapons systems, such as for theatre missile defence.

Tokyo and Seoul have responded positively to these proposals. However, they have been more cautious about the Pentagon's desire for more multilateral security cooperation among its Asian allies, since this runs up against longstanding local tensions. For example, Japan participated in the Proliferation Security Initiative, while South Korea stood aside. Tokyo and Seoul are both anxious that military cooperation between them or with Washington shouldn't be seen as aimed at Beijing, but the past few years have seen considerable progress towards closer ties: security dialogues, military exchanges, port calls and search and rescue exercises.

These are a modest beginnings to multilateralising a historically bilateral alliance system, but any expectation that US-driven multilateral security cooperation will expand and deepen quickly is likely to be disappointed. Historical local grievances, the growing ambiguity of the allies' security relations with Washington and caution over alienating a rising China all dictate caution.

## Conclusion

The key security trends outlined in this chapter highlight the transitions taking place in Northeast Asia. At the moment, however, they do not point to the creation of any significant new security structures. US-led multilateralisation is only in an embryonic form, and it's unlikely to be a preferred strategy for two local US allies sensitive to China's rising power. Nor is there obvious immediate support for China's new security ideas. In these circumstances, existing security structures, largely in place since the beginning of the Cold War, will undergo further change. The San Francisco System and the US-driven bilateralism that underpins it are clearly in transition as Washington's allies make new accommodations to the changing regional environment. America's 'transformation strategy' seems likely to contribute, somewhat unwittingly, to this process. Although designed as part of a global overhaul of US strategy and not Asia-centric in focus, it signals Washington's restlessness about formulas for East Asian security that have been largely unchanged over half a century.

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The San Francisco System and the US-driven bilateralism that underpins it are clearly in transition...

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The growing economic prosperity of the region, led by the impressive growth of the dynamic Chinese economy, is an elemental factor in the many transitions now taking place in Northeast Asia. Chapter Two of this study examines the sources and dimensions of this economic growth and the implications of its dynamism for the regional security environment.



## Chapter 2

### NORTHEAST ASIA: ECONOMIC GROWTH, INTEGRATION AND REGIONALISM

For Australian policy calculations of the changing Northeast Asian strategic environment, the dynamism of the regional economy is a critical element. With the impact of the 1997 East Asian financial crisis fading fast, Northeast Asia is once again achieving the economic benchmarks that made it the standout regional economy of the late 1980s and early 1990s. The long-term strategic consequences of this economic dynamism are controversial. Impressive growth rates, regionally integrating economies, high levels of foreign investment, expanding local and international export markets and growing sentiment for new regional economic architectures, not only underscore the long-term economic health of the region, but encourage optimism about a more stable political and security environment. But sustained and high economic growth demands careful attention to policy settings. It generates its own, not always easily managed, political and social tensions, putting pressure on countries' political leaderships and with a potential to spill over into the politico-security arena.

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Impressive growth rates...and growing sentiment for new regional economic architectures, not only underscore the long-term economic health of the region, but encourage optimism about a more stable political and security environment.

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The fundamentals of the economic landscape of Northeast Asia are widely acknowledged. The region is steadily recovering its status as the most dynamic geographic sector of the global economy. In 2003, economic growth rates ranged between 7.5% (China) and 1.5% (Hong Kong) and are projected to average around 4.0% in 2004. The region's key economies (China, Japan, Hong Kong, Taiwan and South Korea) now account for an impressive 23.3% of world economic output<sup>8</sup>. Fuelled largely by the remarkable expansion of the Chinese economy, Northeast Asian economies are becoming increasingly interdependent and the region as a whole is the global epicentre of low-cost manufacturing, a massive recipient of foreign direct investment and the source of huge demand for goods and services. Overall, as Peter Drysdale has noted, the economic transformation of East Asia, led by its northern economies, will mean that the region will begin to rival Europe and the US as the global centre of world economic output<sup>9</sup>.

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Fuelled largely by the remarkable expansion of the Chinese economy, Northeast Asian economies are becoming increasingly interdependent...

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The international trade and financial relationships that underpin this dynamism continue to evolve. In the 1970s and 1980s, export-oriented, newly industrialising countries, such as South Korea and Taiwan, led the Northeast Asian ascendancy. Now the key engine of



A worker on the Beijing site of the National Stadium being built for the 2008 Olympic Games. China's economy continues its fast pace growth fuelled by industries like steel and cement output. AFP/AAP/Frederic J. Brown © 2004 AFP



growth is the remarkable Chinese economy. Since China abandoned its central command and control model of economic management in the late 1970s, its movement towards a liberal, open, market economy has massively expanded national gross domestic product (GDP) and significantly increased per capita income. Through a combination of high and growing foreign direct investment, often painful domestic economic reform and a more internationalist economic and political outlook, China has successfully integrated itself into the world economy.

The policy settings that delivered this transformation appear set to continue for the foreseeable future. The new Chinese leadership team, which took office in 2003, is generally younger, better educated and more strongly committed to continuing reform than those it replaced. Even so, the leadership faces many challenges. Domestically, economic reform has resulted in much regional inequality, growing unemployment and a huge demand for more effective health and social security services<sup>10</sup>. Traditional social structures are also under pressure. Corruption remains endemic. And under the assault of a communications revolution, Chinese citizens are increasingly being exposed to other cultures and political ideas that could well challenge the Communist Party's hold on political authority. Were these pressures to intensify, they could lead to economic dislocation that could slow growth and threaten political disruption. In these circumstances, the key challenge for Beijing is to sustain economic growth, ensuring that the benefits are distributed relatively evenly across the country and in a way that allows the leadership to manage emerging pressures for greater political liberalisation.



Migrant workers rest near an illegal job market in Beijing. China laid off 25.5 million workers from loss-making state owned operations from 1998 to 2001. AP via AAP © 2002 The Associated Press

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...the key challenge for Beijing is to sustain economic growth, ensuring that the benefits are distributed relatively evenly across the country...

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China's economic transformation is already having a significant impact on its international relations. The most important trend is China's challenge to Japan's regional economic leadership. Based on purchasing-power parity figures, many commentators contend that the Chinese economy is already larger than that of Japan and that this transition has already taken place. Other developments seem to confirm this impression. Japan's decade of stalled economic growth, its successive governments' inability to undertake much needed structural economic reforms, and China's apparent success in positioning itself for free trade with ASEAN (before Japan could do so) all reinforce the perception that China is moving ahead.

This, however, is only part of the contemporary story of Japan–China economic rivalry. Japan's economy is mature, developed, very well integrated into the global system, and with a still considerable capacity for innovation and growth. Despite its impressive economic progress, China is a developing state with underdeveloped economic and financial infrastructure that is struggling to manage the pressures of change. Japan is still China's principal source of foreign investment funds, has an export trade in goods and services about 20% larger than China's, and has the capacity to offer substantial economic assistance to ASEAN. The Japanese economy is now also showing signs of a recovery that, if sustained, will underscore Tokyo's economic power. In short, Japan has yet to concede to China the title of regional economic superpower. That said, China's eventual rise to regional economic pre-eminence remains very probable. Its strength and massive potential are already shaping the region's economic future; assuming that the current course of liberalisation and growth is sustained, China will be critically important to the long-term health and stability of the global economy. Its economic power will be the foundation of its plausible claim to be a global power.

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...Japan has yet to concede to China the title of regional economic superpower.

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Against the background of this transition, Northeast Asia—and East Asia more generally—is being drawn into two processes: one tending to regional cooperation, and the other tending to fragmentation.

The first of these trends is characterised by the ASEAN + 3 process. With its conceptual roots in Malaysia's longstanding quest for an East Asian economic caucus, ASEAN + 3 acquired fresh impetus after the 1997 regional financial crisis, bringing the 10 ASEAN states



together with China, Japan and South Korea. The ambitions of this new and potentially very significant regional grouping now run well beyond financial cooperation. As the declarations after the 2003 ASEAN Bali summit make clear, the grouping is meant to evolve eventually into an East Asian Economic Community<sup>11</sup>. In the meantime, it's increasingly a vehicle for extending 'East Asian influence and leadership in regional and international affairs'<sup>12</sup>. There can be little doubt of the considerable regional optimism driving closer economic cooperation. A process of integration that began over a decade ago, nearly derailed by the Asian financial crisis, has now regained impressive momentum and will be one of the defining elements of East Asia's economic and possibly its political future.

The second and simultaneous trend is the enthusiastic rush towards preferential or discriminatory regional and subregional free trade agreements (FTAs). These have proliferated over the past five years and mark a distinct change in policy preference by several key trade players in the region, most notably Japan. Conceived as a means to begin a political rapprochement with South Korea, Tokyo's initial embrace of an FTA quickly established a precedent, proving attractive to other East Asian governments as multilateral trade negotiations stalled and regional institutions such as APEC failed to stimulate growth. With the notable exception of Taiwan, all the states of Northeast Asia now embrace FTA strategies. While trade promotion may be the official rationale for FTAs, especially for China, they are important means of asserting political leadership, as Beijing's FTA overtures towards ASEAN demonstrate.

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Opponents of FTAs argue that their potentially discriminatory, preferential and trade-distorting arrangements may undercut and derail deeper economic integration. But the opposite may be the case. The economic interconnections that are the possible consequences of an interlocking network of FTAs among Northeast Asian states could be the foundation for wider regional cooperation in an East Asian community. Chinese trade policy is already providing a powerful impetus for the development of this community.

Beijing no doubt favours the long-term goal of a regional economic community with China at its centre, as a way to build China's economic, political and strategic position. This could well be East Asia's future. But for the moment, formal institutionalisation remains a distant prospect, in part because of residual concerns about China's growing influence and unresolved questions about the roles of Japan and the US in any such arrangements.

US economic power is an uncertain variable in this unfolding future. Eventually, China may overtake the US as the world's largest economy. A shared priority for economic security and opportunity will be a high policy priority for both states. This may well mean that the economic interdependencies between the US, China and other states of the region will deepen with or without global trade liberalisation, and perhaps be manifested through bilateral FTAs.

The US role becomes far less obvious if East Asian regionalism gains serious momentum. Whereas APEC was conceived partly with the aim of integrating America in to the economic (and arguably strategic) future of the region, the new Asian regionalism is conspicuously Asia-centric. Driven by China's growing strength, there may be little Asian sentiment for offering the US a reserved place in any new, multilateral, regional economic architectures.

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## Chapter 3

# ADVANCING AUSTRALIAN INTERESTS

Australia's relations with the countries of Northeast Asia have been an important part of our foreign relations for over half a century. When Canberra began to expand its diplomatic relations with countries other than Britain, missions to China and Japan were among the first to be established. After World War II, successive Australian governments pursued policies that encouraged strategic and economic engagement with the region. As a consequence, there is now a complex network of political, economic and strategic ties, both governmental and non-governmental, that tie Australia and the countries of Northeast Asia together in mutual interdependent relationships.

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Overall, five Northeast Asian states...rank among Australia's top ten export markets.

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This network of relations has its foundations in deepening economic ties with the region. As the Department of Foreign Affairs and Trade's 2003 White Paper noted, over 40% of Australia's merchandise exports are to this subregion, compared to 12.9% for Europe and 12.8% for the US. In 2002, Japan took about 18.5% of Australia's total exports, nearly double our exports to the US (a distant second). South Korea and China were ranked as Australia's third and fourth largest export markets, respectively, and China is now by far Australia's fastest growing East Asian market. Overall, five Northeast Asian states (Japan, South Korea, China, Taiwan and Hong Kong) rank among Australia's top ten export markets<sup>13</sup>.

Northeast Asia, particularly China and Japan, is also an important source of foreign direct investment in Australia. China especially is

an increasingly important location for Australian offshore investment. Northeast Asia also ranks highly as a source of permanent migrants to Australia, while tourism and educational exchanges have deepened intercultural ties.

As the twenty-first century unfolds, the cumulative impact of these interconnections means that our national interests in Northeast Asia centre on four broad aspirations:

- the region's continued peace and prosperity, based on the development of constructive and stable relationships among neighbouring states, free and open market economies, and stable (preferably liberal democratic) government
- the maintenance of close, cooperative and bilateral political, economic and security relations with the states of the region
- continued US strategic engagement in the region and the maintenance of constructive strategic and economic relations between the US and Northeast Asian governments
- an active and constructive role by regional states in the creation and development of regional and international multilateral organisations.

As this paper makes clear, the challenges for successful policy making and implementation will grow rather than decline over the coming decade.

## The Australia–US alliance in Northeast Asia

With the possible exception of Southeast Asia, nowhere in the world does Australia's alliance with the US more directly affect the character of our relations with local governments than in Northeast Asia. There, the alliance intersects not only with the key national interests of local states, but with wider collective aspirations. North Korea's nuclear program, Japan's progress towards 'normal' statehood, Taiwan's future status, China's rise to regional strategic pre-eminence, the development of missile defence programs, and the growth of Asian economic regionalism, among other matters, all have greater resonance for Australia because of our American alliance. While the salience of these issues will rise and fall over time, it's difficult to see them disappearing altogether from the national policy agenda. Australia's challenge is to be able to manage the impact they have on our interests.

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The US alliance remains a core element of Australia's security, and for the most part it's a strategic asset in Canberra's engagement with the region.

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The US alliance remains a core element of Australia's security, and for the most part it's a strategic asset in Canberra's engagement with the region. Japan and South Korea are long-time US allies, Taiwan's security largely depends on American power and purpose, and Russia, to the extent that its regional presence is a factor, is a US political partner on some key issues. Because of anxiety about Japan's possible future military aspirations, even China and North Korea might not be entirely opposed to the US presence.

Nevertheless, as our earlier analysis underscores, local attitudes towards America's strategic presence in Northeast Asia are not static. The growing strength of the regional economy is shifting the balance of economic power away from American domination towards deeper

interdependence. The US will remain an unchallenged global power, but in Northeast Asia it faces formidable challenges. In this context, Australians need to consider carefully how our own relations with the US affect our engagement with Northeast Asia. Crude formulations on the need to ‘choose’ between Asia and America are profoundly unhelpful. Instead, we need to recognise that the ambivalence that many Australians sometimes feel about American power and global presence is also common in Asia. Our confused fascination with, admiration for and occasional dislike of things American has its analogue in Asian opinion.

Images aside, a key challenge in Australia’s ability to engage Northeast Asia through the nexus of the alliance lies in managing and adjusting to America’s often confusing policy approaches to the region. This is a problem Canberra shares with every other regional capital. Regional policy problems have afflicted many American governments, not least the Clinton Administration. For example, changing characterisations of China as a strategic partner and a strategic adversary, the move away from strategic ambiguity over Taiwan and the shift back again, and oscillating attitudes to North Korea’s threatening behaviour, have all recently highlighted the problem.

Given the nature of US security policy-making, it’s probably unrealistic to expect any dramatic changes, regardless of who wins the 2004 Presidential election. The difficulty is largely a function of a highly disaggregated and pluralist policy-making environment.

### **Northeast Asian regionalism: real or contrived, challenge or opportunity?**

A great deal of Australia’s national wealth, and therefore our economic prosperity, is being generated through engagement with Northeast Asia. The region’s continued strong economic growth is clearly of tremendous importance to Australia’s future. Not only do we have a clear national interest in pursuing policies that sustain and encourage this source of national wealth; we should also be concerned about any emerging dangers, threats and challenges that might undermine it. Security crises, debilitating rivalries, protracted tensions or, most seriously, military conflict can all derail regional economic growth and affect our own economic future. Conversely, a Northeast Asian region in which these rivalries and tensions are contained and eventually overcome is clearly in Australia’s interests.

The development of a stronger sense of Asian regionalism may hold out some hope. As Chapter Two of this study argues, economic growth led by the power of the Chinese economy is integrating all the region’s economies into a deeper interdependence. On the foundation of this integration, Northeast Asian countries have a renewed interest in the more formal structures of economic integration that attracted them before the 1997 financial crisis. APEC seems unable to meet their expectations, so new visions of the region’s future are emerging. A Chinese-led ASEAN economic bloc, a Japan-led ASEAN economic bloc, and ASEAN + 3 are among the main contenders.

Three broad observations can be made. First, while all these developments are rudimentary, they underscore the growing movement for more elaborate forms of regional institutionalism. Second, while these moves are ostensibly founded on shared economic interests, to varying degrees the participating countries expect greater political cooperation as well. Finally, although the trend seems to have widespread support and momentum,

there is some danger that it could be derailed by the current attraction of regional FTAs, which can exclude states from markets and generate tensions and conflict. Our own economic security may not be severely affected by proliferating FTAs in Northeast Asia. As is clear with the FTAs already agreed with Southeast Asian countries, we can play the FTA game too—although the gains would be lower than those from global trade liberalisation.

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Political tensions in Northeast Asia might preclude early progress towards greater regionalism, but the movement may gain strength over time.

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The movement towards regionalism, however, is a far more serious challenge. Any form of economic union that includes Northeast Asian states but excludes Australia would certainly hurt our trade and financial relations with the region. If such a union also evolved into one with a broader charter encompassing political and perhaps security cooperation, it would potentially be even more harmful to our national interests. It's not difficult to conceive ways in which Australia might be affiliated with the various possible Asian regional architectures, but the relationship would only ever be 'second best' and would leave us outside the decision-making processes likely to shape the structures and processes of regional affairs. Political tensions in Northeast Asia might preclude early progress towards greater regionalism, but the movement may gain strength over time.

In these circumstances, Australia must pay greater attention to the dangers inherent in being excluded from developments. It's not merely that the movement itself could be detrimental to us. Rather, it also presents opportunities for expanded regional integration, better prospects for greater prosperity, and greater security. For the moment the dangers of exclusion may be minimal, but they could grow swiftly and become increasingly difficult to forestall.



Prime Minister John Howard and Chinese President Hu Jintao witness the signing of a trade agreement between Australia and China, 24 October 2003. AAP/Alan Porritt © 2003 AAP

## Australia and China: dodging flashpoints

On assuming office in March 1996, the Howard Government experienced visible difficulties in managing Sino–Australian relations. The relationship was plunged into crisis, as a succession of policy decisions seemed to indicate a fundamentally new, hard-line direction for our policy towards China. Twelve months later, however, a more constructive approach began to emerge, leading to a relationship grounded on mutual economic interest.

Reformulated for a new era of cooperation, Sino–Australia relations were to be based on ‘shared interests and mutual respect’. From the Asian financial crisis and the handover of Hong Kong in 1997, through to China’s 2002 accession to the World Trade Organization (WTO) and its helpful role in seeking to resolve the North Korean nuclear crisis, Canberra has viewed Beijing as an increasingly constructive player in regional affairs. The deepening of the bilateral relationship was clearly on display in 2003, when the two countries signed a \$25 billion agreement for the supply of natural gas to Guangdong Province over the next quarter of a century<sup>14</sup>.

Although defined mainly by economic cooperation, the relationship extends to other arenas: the prevention of transnational crime, educational exchanges and tourism. Since October 2003, security issues have been included, with an agreement to pursue low-key defence ties as a way to build confidence through selected training and personnel exchanges. The Chinese even proposed that both countries join other regional actors to form a jointly commanded rapid-reaction force to quell future regional crises. The suggestion appears to reflect something of Beijing’s hope of making at least some diplomatic inroads with its ‘New Security Concept’ as a proposed alternative regional security framework to the American-preferred ‘hub and spokes’ system of bilateral alliances.

Pressing this concept during his address to a joint session of the Australian Parliament in October 2003, Chinese President Hu Jintao noted that it featured ‘mutual trust, mutual benefit, equality and cooperation and strives to resolve disputes peacefully through dialogue and cooperation.’<sup>15</sup>

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...the growing intensity of China’s rivalry with Japan may offer more than a few challenges, particularly as our own security relations with Tokyo seem destined to deepen.

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In his speech, Hu also noted that it was a ‘key component’ of Chinese external relations to ‘consolidate and develop its all-round cooperation with Australia’. That Hu was given the unusual honour of addressing Parliament is a mark of the progress made in relations since 1996. Considerable challenges lie ahead, however. Canberra faces the continuing need to mediate its relations with China through the rather unpredictable prism of the Sino–US relationship. Clearly, Australia has a strong interest in helping to ensure that this remains in good repair. Further into the future, the growing intensity of China’s rivalry with Japan may offer more than a few challenges, particularly as our own security relations with Tokyo seem destined to deepen. Again, the careful balancing of interests and adroit diplomacy will be demanded.



Nor can Canberra afford to ignore the considerable commitment Beijing is now making to expand its presence in multilateral institutions. For all its well-understood shortcomings, multilateralism is a natural strength for a middle power and historically has always been a valuable instrument of Australian foreign policy. We shouldn't neglect opportunities to influence the direction of Chinese international policy through the collective will of regional organisations. In the immediate future, however, the bilateral relationship between Australia and China remains highly contingent on preventing the Taiwan issue from spiralling out of control.

### **Taiwan: a manageable conundrum?**

Australia's deference to the 'one China' policy has been the framework for Australia–Taiwan relations since 1972. Canberra has rarely been inclined to test the limits of that policy by moving too close to Taipei, though on occasions, such as the after 1989 Tiananmen Square massacre, we rebalanced our China priorities somewhat. Given the strength of Australia's current bilateral relationship with China, there is little reason to expect any change in this position. Australia–Taiwan relations will remain focused on economic and cultural relations and limited quasidiplomatic contacts, but the core challenge in the relationship remains negotiating the perilous waters between China and the US over Taiwan's sovereignty.

The Bush Administration's intervention over Taiwan in December 2003 has for the moment eased pressure over the issue. Bush's warning to the Taiwanese President, Chen Shui-bian, to be more cautious about using an anti-China referendum to emphasise greater Taiwanese sovereignty during the island's March 2004 presidential election was welcome in both Beijing and Canberra. By openly chastising the Taiwanese president, Bush was reinforcing the 'one China' principle, to which both Australia and the US adhere. He also quelled, at least for the time being, the nightmare scenario of Sino–US military conflict in the event of a Chinese attack on Taiwan to reunify it with the mainland or to halt a slide to independence.



Taiwanese President Chen Shui-bian gestures as he thanks his supporters following his election win. AFP/AAP/Johnson Liu © 2004 AFP



There is no guarantee, however, that the Bush administration (still preoccupied with and overstretched militarily in Iraq) or a conservative successor will be inclined to temper Taiwanese nationalism in every situation. If the China–Taiwan confrontation were to explode, the US would almost certainly ask for Australian military support to defend Taiwan. In 1999, Richard Armitage, now the US Deputy Secretary of State, informed a rather surprised group of Australians that the US expected that Australia would respond quickly and favourably to any American request for support over Taiwan. The message was subsequently repeated several times during Armitage visits to Australia, eventually drawing a ‘not helpful’ response from the Australian Government. Even so, Washington’s expectations of Australia seem clear.

So, too, are China’s. In his speech to the joint parliamentary session in October last year, the Chinese president emphasised that China ‘looked to Australia for a constructive role in China’s reunification’<sup>16</sup>. Clearly, military support of the US will not satisfy this expectation.

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Considering Australia’s interests, the best that can be said is that our participation in any conflict would need to be judged on the circumstances at the time.

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It may well be in Australia’s interests to allow our own ‘strategic ambiguity’ over this matter to linger. However, it’s important to note that Australia has no legal obligation to intervene. We have no equivalent of the Taiwan Relations Act that requires the US to intervene if China uses force against the island. Nor do we have any residual international obligation, as might be argued in the case of a North Korean attack against South Korea. Considering Australia’s interests, the best that can be said is that our participation in any conflict would need to be judged on the circumstances at the time. The future health of our alliance with the US would no doubt be one key consideration. Our future relationship with China would be the other.

Given China’s inevitable hostility towards (and retaliation against) any Australian involvement, no Australian government would like to face the prospect of having to intervene. This places a premium on Canberra using as much diplomatic muscle as it can summon to ensure that all parties seek a peaceful resolution of their differences. Even then, an unpleasant prospect looms: that of a US–China conflict over Taiwan which draws in Australia as part of a larger drama that will test or even shape the region’s future strategic balance between Washington and Beijing<sup>17</sup>.

### **Australia and Japan: anchors or partners?**

Although Australia and Japan were partners in the Western alliance during the Cold War, security issues have rarely played a significant role in our bilateral relationship. Since the mid-1960s, the relationship has been defined by growing economic interdependence, and few ties with Asian countries have been more important to us. Like many other relationships around the region, that between Australia and Japan is in transition. The economic core remains, but the two countries’ shared status as US allies, the shifting

foundations of regional security and Japan's movement towards normalisation, have all served to deepen the potential for Australian–Japanese politico-strategic collaboration.

Australia would be in a unique position were this to occur. The legacy of the Pacific war has been so strong in Japan that Tokyo's only significant post-1945 regional security partnership has been with the US. While not forgetting that legacy, Canberra has been encouraging more Japanese engagement in the region's security affairs for well over a decade.

In 1997, new defence guidelines between the US and Japan confirmed the importance of the alliance and expanded its arena of operations. By then, the Australia–Japan security relationship was expanding visibly as well. The 1995 Joint Declaration on the Australia–Japan Partnership called for the two countries to develop their security dialogue through annual politico-military and military–military talks and senior-level visits, and to cultivate exchanges between the Australian Defence Force (ADF) and Japan's Self Defence Force (SDF) about defence education and an upgraded security dialogue. In 1996, Japan was testing rockets at the Woomera range, expanding its participation in such naval manoeuvres as the US Pacific Command's 'Rim of the Pacific' biennial exercise, and working actively with Australia to broaden regional security dialogues in APEC and other multilateral institutions.

Notwithstanding the Howard Government's preference for strengthening the bilateral components of existing regional security mechanisms, events conspired to sustain the momentum of Australia's security cooperation with Japan in multilateral contexts. Japan contributed funds for the military intervention in East Timor in 1999, and deployed around 700 personnel from a Self Defence Force engineering unit to the operation two years later. Australian participation in so-called 'trilateral talks' convened at the senior ministerial level on several occasions throughout 2003 was another multilateral, albeit informal, initiative to compare and coordinate national security postures toward North Korea, the war on terrorism and other critical security issues.

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## Washington still enjoys overwhelming predominance in Japanese defence relations.

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Perhaps the most noteworthy recent initiative was the signing of a bilateral memorandum of understanding (MOU) between the defence ministers of Australia and Japan in late September 2003<sup>18</sup>. This committed both states to accelerate exchanges between defence ministers, defence force chiefs and actual military units (mostly ships and aircraft), and upgraded selected areas of intelligence sharing. We should be careful, however, not to overrate the implications of this arrangement: Washington still enjoys overwhelming predominance in Japanese defence relations. Still, the memorandum reflects the strength of the Australia–Japan relationship and the value Japan places on Australia with which it shares a range of security interests in the Asia–Pacific. It can also be viewed as a reflection of Japanese concern that its own intelligence and logistical capabilities remain problematic: Japan's failure to successfully launch its own intelligence satellites for surveillance of North Korea in December 2003 contrasted markedly with China's triumphant manned space flight earlier in the year.

These initiatives are expanding the Australia–Japan security relationship significantly, but they carry risks for our wider regional security relations. Some regional states remain uneasy about, if not hostile to, any expansion of Japan’s security presence and don’t thank us for encouraging it. In Northeast Asia, South Koreans are especially sensitive about this, but more important is the impact on Sino–Australian relations. In the troubled year of 1996, Australia incurred considerable criticism from China for seeming to line up once again as the ‘southern anchor’ (Japan was the ‘northern anchor’) in a grand American strategy to contain China and resist communist expansion in the Asia–Pacific<sup>19</sup>.

These sensitivities remain. They give us an image problem in China, reinforcing the portrayal of Canberra as a ‘deputy sheriff’ for American interests in the region. It could be argued that our position as a ‘southern anchor’ complementing Japan in the North Pacific leads us naturally into assuming a deputy sheriff profile. If so, Canberra will need to be highly sensitive to Beijing’s suspicion that closer Australian–Japanese security collaboration is being orchestrated by the US and directed against China. This is especially true if as yet low-key trilateral talks between the US, Japan and Australia widen, and come to be viewed by the Chinese as the beginning of an eventual ‘JANZUS’ or Asian NATO-type network<sup>20</sup>. Such concerns may at least partly explain Hu Jintao’s reiteration of China’s proposed regional collective security plan during his visit to Australia last year, only a month after the signing of the Australia–Japan defence memorandum.

### **Australia and Korea: commitment on a tightrope?**

Although Australia’s participation in the Korean War laid the foundations for a security relationship with Seoul in the 1950s, security has remained an underdeveloped part of the two countries’ ties. As with Japan, until recently the economic connection was more important. This will not change soon: economic relations seem set to grow even stronger as South Korea’s recovery from the Asian financial crisis continues to gain momentum. Meanwhile, however, the nuclear crisis on the Korean peninsula and shifts in South Korea’s own strategic posture suggest that there will be opportunities for a stronger security partnership in the future.

South Korea’s security dilemmas are not only readily understood by Australian defence planners, but they evoke a strong measure of sympathy. Not surprisingly, the danger from North Korea overwhelmingly drives this interest, and in recent years Canberra’s involvement in efforts to resolve the Korean nuclear crisis has intensified. Australian policy makers rightly see significant national interests at risk should the situation on the peninsula deteriorate into conflict, and have sought to play a constructive diplomatic role in resolving the issue. Steering a course between Washington’s hard line and the more cautious approach of its Asian allies, we’ve been highly critical of Pyongyang’s actions, taken a prominent role in developing the Proliferation Security Initiative strategy, and collaborated with the US on theatre missile defence development.

At the same time, Australian policy makers strongly believe that a maximum diplomatic effort is needed to solve the problem, and that little will be gained from isolating the North from the international community. Accordingly, Canberra has looked for ways to engage Pyongyang since resuming diplomatic ties in May 2000 (the US and Japan do not have official relations with the North). Australia has also extended substantial humanitarian assistance to the North. Since 1996–97, we have contributed around \$43.5 million in food aid (wheat, sugar and vitamins), medical supplies and agricultural rehabilitation<sup>21</sup>.

As a small and non-threatening Western power on the margins of Asia, Australia can play a useful role in Korea, but not without policy risks. One relates to US expectations of Australia in the event of conflict. In contrast to our position on Taiwan, we arguably have residual defence obligations in Korea as a consequence of our participation in the Korean War. As a signatory to the declaration made by the UN force contributors at the time of the armistice agreement on 27 July 1953, we're committed to respond to any resumption of hostilities on the peninsula. It's hard to see any future Australian government ignoring the imperative to contribute major force components to any US-led coalition formed to deal with such an event. Doing so would damage our standing in the international community and our ANZUS alliance relations, and also undermine Australia–Japan relations.

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It's hard to see any future Australian government ignoring the imperative to contribute major force components to any US-led coalition formed to deal with such an event.

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What kind of contribution might Australia make? A major military contingency in Asia would call for a more substantial response than we've made to recent coalition operations such as in Iraq and Afghanistan. South Korea and the US both have large, heavy land forces available, and would probably look to Australia more for special forces, air and naval contributions. F-18 and F-111 strike aircraft, and refuelling, early warning aircraft and maritime surveillance aircraft, along with submarines and mine-hunters, would probably be the highest priorities.

Nevertheless, China's likely response to any Australian commitment complicates the policy equation. Beijing remains North Korea's closest ally and, while it is thought to be uneasy about Pyongyang's belligerent postures, it will probably be a reliable North Korean ally if the North's existence is threatened by allied military force. Precisely how Beijing might deliver its support would depend on the situation, but any serious security deterioration that saw the protagonists beginning to line up against each other would spill over and jeopardise our own relations with China<sup>22</sup>.

Australian policy planners face a further difficulty in applying the 'Korean equation' to their overall alliance policy calculations. Although our economic and political relations with Seoul are expanding, evidence is mounting that South Korean ties with the US are becoming increasingly strained. This can be attributed, in part, to the marked deterioration of US–North Korean relations during the current Bush presidency, and the resentment of many younger South Koreans over his characterisation of a Korean polity as an 'axis of evil'. These South Koreans not only have no memory of the American role during the Korean War, but they have a growing self-confidence about the peninsula's ability to make its own way successfully in a post–Cold War world. Resentment over US forces, viewed by many of this generation as occupiers rather than protectors, has intensified. So have apprehensions that the Bush doctrine of 'pre-emption' might well be tested against North Korea in the near term.

These factors combined in late 2002 to deliver the South Korean presidency to a new personality, Roh Moo Hyun. Roh ran largely on a platform of 'balancing' the American relationship with a more independent South Korean strategic posture. His election



A protester shouts slogans in front of a soiled US flag during an anti-US demonstration in Seoul, 14 June 2003. AFP/AAP/Choi Jae-Ku © 2003 AFP

underscores a visible shift taking place in South Koreans' perceptions of their place and role in Northeast Asian affairs. The power of this movement is such that it's easy to foresee the emergence of a South Korea whose defence ties to the US have been dismantled, or substantially modified, and that seeks to play a more independent role in regional affairs.

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[Roh's] election underscores a visible shift taking place in South Koreans' perceptions of their place and role in Northeast Asian affairs.

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While speculative scenarios for Korean unification have long been a feature of the strategic futures industry, this prospect is now plausible enough to justify more serious consideration. Australia should certainly be paying greater attention to the possibility, and considering the opportunities and challenges it might present.

## Conclusion

Australia's Cold War defence strategy was oriented to forward defence. Our later strategy of strategic denial understandably prioritised Southeast Asia and the Asia-Pacific region as our most immediate concerns. Recent events have transformed this legacy, bringing Northeast Asia to the fore as a place of critical significance to Australia's geostrategic and economic destiny. It's a stark reality that China is increasingly in a position to leverage our status in Asian security and development politics. At the same time, Japan is becoming a 'normal' state that will likely regard the US and Australia as its only two real strategic collaborators in a region that hasn't forgotten or forgiven World War II. While the reunification of the Korean

peninsula seems to remain well in the future, a strategic landscape very different from that of the past half-century is emerging. These developments are occurring amid broader historical changes to international security in the aftermath of September 11 and under the impact of intensifying globalisation.

The way Australian policy makers respond to these dynamics will be critically important to our future economic prosperity and strategic security. If Australia resigns itself to the idea that the forces shaping Northeast Asia's security environment are beyond its influence, it will be making a profoundly counterproductive, self-fulfilling prophecy. A better approach would be to pursue a deliberate and cohesive goal of engagement, geared towards merging Australian interests and policies with the forces of change reshaping the region.

The final chapter of this study offers several proposals that might facilitate this process.

### POLICY RECOMMENDATIONS

Northeast Asia's importance to the world economy and international security is uncontested, but it's also a subregion undergoing a historic transition. Growing prosperity and strong economic growth led by the booming Chinese economy are the most visible signs of this process, but acute changes are also taking place in the regional security environment. The extent of these changes and their likely impact on our own future prosperity and security are not well understood publicly. Although Australia has a long tradition of engagement with the region, is a valued economic partner in its growing prosperity, and is respected for its capacity and willingness to contribute to regional security, Canberra's relations with the countries of Southeast Asia get more attention. One of the broad conclusions of this study is that this is an undesirable distortion of national priorities, given the changes taking place in Northeast Asia and their likely impact on our future.

Five key factors in Australia's evolving relations with key Northeast Asian players have emerged:

- China's rising economic strength and growing strategic engagement with the region
- the movement towards 'normalisation' in Japan
- the shifting power structures and strategic allegiances on the Korean peninsula
- the strengthening of the nexus between economic and security issues
- a tendency towards diplomatic balancing instead of hegemonic competition, as the US restructures its strategic presence.

Australia needs to develop policy responses to these trends that are more clearly reflective of our national interests. Our current security debate is mainly about how extensively Canberra should complement Washington's main strategic priority, namely the global war on terrorism in the aftermath of September 11.

Disturbingly absent from active consideration is how we could most effectively engage East Asia's most formidable powers to take advantage of opportunities and help them meet the challenges shaping their future.

## **Rising China: economically strong, strategically powerful**

The challenge for Australia in managing its relations with China is to protect our interests and tune our behaviour to Chinese sensitivities without simultaneously raising American suspicions that we're merely a fair-weather friend. Accordingly, we need to build relations with China more by dealing with it as a great power in its own right. We must avoid viewing China either solely as a convenient commercial cornucopia or, conversely, as a potential spoiler of Australian–American security relations.

To strike a more acceptable policy balance, Australian governments should find areas of more effective policy accommodation with China. Clearly, policies must benefit mutual Sino–Australian interests, but not to the extent that Australia is left as a mere supplicant to Chinese will. Neither should we succumb to possible future American initiatives to build a new wall of containment against rising Chinese power in the region. Within the broad context of these objectives, the policy ideas below might be considered.

### **Recommendations**

- Deepen the bilateral security dialogue with all elements of China's political and security elites, engaging China on issues of mutual interest in the region, including its New Security Concept, US strategic policy and possible areas of mutual cooperation.
- Acknowledge China's commitment to regional multilateral diplomacy and explore opportunities to cooperate on regional security issues of mutual interest, especially on counter-terrorism and asymmetrical threats.
- At the same time, maintain effective security communications with Taiwan as long as that island is willing to observe and respect Australia's 'one China' posture. Consideration should be given to widening a 'second track' process for regular dialogue and to expand political exchanges as a clear sign that Australia's will support a Taiwanese desire to negotiate a peaceful resolution of its differences with China. Possible Chinese indignation at these moves can be addressed during the course of bilateral discussions with Australia.

## **An Australia–Japan security conundrum?**

Australia and Japan have moved dramatically beyond the foundations of their post World War II bilateral relationship. Rather than relating to each other as dependent US allies within the 'San Francisco System', each country has become a more self-confident regional security actor in its own right. We now have a burgeoning bilateral security partnership that could deepen as Japan's moves towards normalisation. The danger in taking advantage of this opportunity, however, is the adverse reaction it might evoke in the region, especially from China. This risk is manageable, provided the relationship develops cautiously and transparently. The following policy initiatives might be considered.



## Recommendations

- Maintain and consolidate existing security and political dialogues with Japan. Aim to develop a closer security partnership, covering issues such as Japan's role in international peacekeeping and alleviating regional anxieties over theatre missile defence.
- Use the Proliferation Security Initiative and the September 2003 Australia–Japan memorandum of understanding as foundations for generating other low-key and strictly defensively oriented military cooperation. Relevant areas are coastal and maritime patrolling in response to terrorism and to piracy of commercial shipping in Southeast Asia, technology cooperation on unmanned surveillance aircraft and long-range surveillance systems, and the upgrading of intelligence exchanges as Japan establishes a more independent national intelligence capability.

## The Korean peninsula: adjusting to strategic change

The Korean peninsula is not only one of Northeast Asia's most volatile flashpoints; it's also the scene of significant strategic transitions. The near future will involve management of the current North Korean nuclear crisis, the playing out of South Korea's increasing disenchantment with its American alliance, and wrestling with various formulas for eventual Korean reunification.

Australia has played a highly constructive role in our relations with the two Koreas in recent years. Our financial guarantees to Seoul during the Asian financial crisis and our diplomacy to engage the North about its nuclear aspirations both illustrate this role. We'll continue to have economic opportunities on the Korean peninsula and, as a respected 'middle power', we can continue to play a constructive part in its unfolding political future. Of all the countries in the region, South Korea is closest to Australia in economic and political power; a united Korea would be, too. Ongoing Australian–Korean interaction may give us opportunities for greater diplomatic cooperation, now and in the future.

## Recommendations

- Australia should continue to play an active diplomatic role in attempting to resolve the current nuclear crisis on the Korean peninsula.
- We should deepen political and security dialogues with South Korea, specifically about alliance cooperation and responses to asymmetrical regional threats and challenges.
- If the need arises, we should favourably consider deploying Australian personnel to Korea to help monitor North Korea's weapons of mass destruction (WMD) disarmament.
- Australia should be cautious in any consideration of a 'pre-commitment' of its force contingents to any American-led military intervention on the Korean peninsula. Any deployment of this kind needs to be considered primarily in the context of Australia's obligations to defend the Korean armistice.

## Economics and security: a stronger nexus?

The Howard Government has emphasised bilateralism in its international relations, but the exclusive nature of this emphasis has often been overstated. Australia remains actively engaged in many multilateral organisations in the Asia–Pacific and has often used them effectively to pursue our foreign, trade and security interests. The South Pacific Forum in relation to the Solomon Islands initiative and APEC in relation to East Timor are good

examples. These and other Australian policy initiatives by successive postwar governments underscore the reality that we have always been an effective multilateral actor, and that this form of international engagement is a useful way to advance our interests.

This report has argued that regionalism, and therefore multilateral institution building, are once again on the East Asian policy agenda. Given the divided interests of Northeast Asian states, regionalism clearly faces many perils before it has any prospect of maturing into a viable movement for new organisations, but the promise of multilateralism in the region is nevertheless intensifying. Australia's problem is that a more exclusionary type of multilateralism has emerged since the Asian financial crisis. This trend has caused us to mainly take the bilateral route in our regional relations, especially in trade negotiations. Australia has been an unwilling outsider in the ASEAN + 3 initiative, ASEM (Asia–Europe Meeting) and the ASEAN free trade initiative. ASEAN's recent indication that it wants to draw us into discussions about a possible FTA is a welcome new opportunity to re-engage with the emerging regional multilateral dynamic. It will be important to make the most of this opening.

### Recommendations

- Australia should continue actively to engage regional institutions on matters of mutual interest and recognise them as forums for the effective pursuit of policy interests.
- It should continue to encourage Northeast Asian states to recognise Australia as a valuable partner in the emerging regional institutions. To this end it should acknowledge the potential importance of the new multilateralism that is emerging in Northeast Asia and seek ways to encourage its evolution consistent with Australia's national interests.

## Whither the hegemon? Australia–US security relations in Asia

This paper has argued that Australia's security alliance with the US is an asset in our engagement with Northeast Asia, but that Australia's image as an American 'deputy sheriff' is unhelpful and undeserved. The interests of the two allies may well be consonant and complementary across much of Northeast Asia, but they are not identical. The challenge for Australia is to relate to Northeast Asia in a way that advances our own distinctive national interests and yet serves the wider interests of the alliance. This is certainly not a matter of having to 'choose' between Asia and the US. Instead, it requires us to develop a set of strategic priorities that accommodates the interests of a regional middle power to the global imperatives of a hegemonic superpower. Our recent diplomacy during the North Korean nuclear crisis shows how we might achieve such a balance.

### Recommendations

- Work with Washington to revive the momentum of the Sino–American 'strategic engagement' that became a hallmark in US–China bilateral relations during 1998–1999. The Bush Administration has modified its initially hawkish stance towards Beijing, replacing it with a far more pragmatic outlook that stresses the pursuit of mutual Chinese and American interests in Northeast Asia and globally. We should support the new outlook by encouraging the Bush Administration, or its successor, to approach Asian security problems through diplomacy rather than confrontation and to support Northeast Asian states' enhanced standing in various international forums and regimes.

- Work with the US to develop a clearer understanding of Australian strategic responsibilities in the event of future crises or conflicts in the sub-region, especially in relation to Taiwan. While recognising that any such crises might demand the commitment of Australian forces, Canberra should also develop strategic plans on other ways to serve the alliance in the event of conflict, including the possibility, of temporarily assisting the US to supplement or replace its offshore forces normally operating in East Asia's littorals and in the wider Western Pacific.

## Policy development

An Australia seen as strategically self-confident and diplomatically independent will be more likely to play an important and positive role in maintaining a stable and peaceful Northeast Asia. The benefits of success and the price of failure in this enterprise are clear. It's also self-evident that we must have a well-developed capability to formulate and implement our own foreign and security policies. Overall, the country is well served by its international policy makers within government, and by the periodic contributions that outsiders are able to make to policy debates.

Nevertheless, the transitions taking place in Northeast Asia are so profound and so important to our future that a clear understanding of their implications is a national necessity. Australia generally has very able regional analysts, both within and outside government, and in recent years there has been a much-needed expansion of these resources through the creation of several independent think tanks. But the Australian government requires its own highly developed capability for comprehensive long-term policy assessment, a policy resource where the understandable inclination to focus on immediate and pressing items on the policy agenda is of less priority and importance. Indeed, the engendering of the comprehensive and cohesive Northeast Asian policy that is desirable for Australia's future may serve as a catalyst for the Australian government to enhance mechanisms for long-range policy planning and analysis.

## Recommendations

- Review the capacity of government agencies to provide long-term strategic analysis and develop a capacity to address any identified deficiencies along the lines of the U.S. Department of State's former Policy Planning Bureau or the US Department of Defense' Office of Net Assessments.
- Build on the Howard Government's important reforms to the apparatus of national security policy-making and move towards the creation of a national security agency with broad responsibilities for policy coordination.

## Notes

- 1 A good discussion of China's recent diplomacy appears in Evan S. Medeiros and M. Taylor Fravel, 'China's New Diplomacy', *Foreign Affairs*, 82, no. 6 (November/December 2003), pp. 22–35.
- 2 'Full Text of Hu Jintao's speech at BFA annual conference 2004', *People's Daily*, April 24, 2004 at [http://englishpeopledaily.com.cn/200404/24/eng20040424\\_141419.shtml](http://englishpeopledaily.com.cn/200404/24/eng20040424_141419.shtml).
- 3 Debate over the extent of the North Korean admission continued long after the disclosure. See Hamish McDonald, 'Slip of the tongue or did they admit having the bomb?' *Sydney Morning Herald*, November 19, 2002.
- 4 Further reflections on the Korean Peninsula can be found in the ASPI Report: *Danger and Opportunity. Australia and the North Korean Crisis* (Canberra: July 2003).
- 5 See testimony of U.S. Deputy Assistant Secretary of State Schriver's remarks to the U.S.-China Security and Economic Review Commission, 'U.S. Commitment to "Status Quo" in Taiwan Strait Area Assessed', 6 February, 2004, *Washington File*, U.S. Department of State, International Information Program.
- 6 Thomas J. Christensen, 'China' in Richard Ellings and Aaron Friedberg, eds. *Strategic Asia 2002–2003* (Seattle, Washington: The National Bureau of Research, 21002), p. 61.
- 7 'Wolfowitz Says Four Factors Guide U.S. Military Transformation' *Washington File*, 18 June 2003.
- 8 International Monetary Fund, *World Economic Outlook Database*, September 2003 at <http://www.imf.org/external/pubs/ft/weo/2003/02/>.
- 9 Drysdale, 'Regional Cooperation in East Asia and FTA Strategies'. Paper prepared for IIPS Conference, Tokyo, December 2003. The analysis in this section of the report draws on other material contained in Professor Drysdale's paper.

- 10 David Hale and Lyric Hughes Hale, 'China Takes Off', *Foreign Affairs* 82, no. 6 (November/December 2003), pp. 36–52.
- 11 See, for example, 'Joint Declaration on the Promotion of Tripartite Cooperation among the People's Republic of China, Japan, and the Republic of Korea, Bali, Indonesia, October 7, 2003' at <http://www.aseansec.org/15284.htm>.
- 12 Drysdale, *op. cit.*
- 13 Department of Foreign Affairs and Trade, *Advancing the National Interest* (Canberra: Commonwealth of Australia, 2003), pp. 72, 143. Also see Department of the Parliamentary Library, *Research Note* 23, no. 3 (February 2003).
- 14 See Prime Minister of Australia, *Media Releases*, 24 October, 2003 at [http://www.pm.gov.au/news/media\\_releases/media\\_Release555.html](http://www.pm.gov.au/news/media_releases/media_Release555.html).
- 15 'Full Text: Hu's Speech', *Sydney Morning Herald*, October 24, 2003 at <http://www.smh.com.au/articles/2003/10/24/1066631618612.html>.
- 16 *Ibid.*
- 17 See Hugh White, 'Australian defence policy and the possibility of war', *The Australian Journal of International Affairs*, 56, no. 2 (July 2002), p. 260
- 18 Shane Green, 'Australia backs a tougher Japan' *The Age*, September 30, 2003.
- 19 Mohan Malik, 'Australia and China: Divergence and Convergence of Interests' in James Cotton and John Ravenhill, eds., *The National Interest in a Global Era* (Melbourne: Oxford University Press in Association with the Australian Institute of International Affairs, 2001), p. 118.
- 20 This was proposed during the 2000 U.S. presidential campaign by Robert D. Blackwill, an important foreign policy adviser of candidate George W. Bush. See his 'An Action Agenda to Strengthen America's Alliances in the Asia-Pacific Region', in Blackwill and Paul Dibb, eds., *America's Asian Alliances* (Cambridge, MA and London: the MIT Press, 2000), especially pp. 124–126. The 'JANZUS' issue is covered by William T. Tow and Rod Lyon, 'Everyone Loses in Ill-timed "JANZUS Talks"', *The Age*, August 2, 2001.
- 21 Australian Department of Foreign Affairs and Trade 'Democratic People's Republic of Korea—Country Brief', April 2004 at [http://www.dfat.gov.au/geo/dprk/dprk\\_brief.html#bil](http://www.dfat.gov.au/geo/dprk/dprk_brief.html#bil).
- 22 This point is noted by James Cotton in 'Northeast Asian Frictions and Flashpoints: Taiwan, Korea and the Australian interest'. Paper presented at a Workshop on 'Northeast Asian Security: Policy: Challenges for Australia', Customs House, Brisbane, 17–18 October 2003. Text is author's (Tow's) hands.

## Acronyms and abbreviations

ADF	Australian Defence Force
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEM	Asia–Europe Meeting
ANZUS	Australia, New Zealand and the United States
FTA	free trade agreement
GDP	gross domestic product
LDP	Liberal Democratic Party
MOU	memorandum of understanding
NATO	North Atlantic Treaty Organisation
PRC	People’s Republic of China
PSI	Proliferation Security Initiative
SDF	Japan Self Defence Force
UN	United Nations
US	United States
WMD	weapons of mass destruction
WTO	World Trade Organization

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