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The Australia–China strategic relationship

Late last year, ASPI published a *Policy Analysis* exploring the topic of what sort of great power China will become, and how Australia might approach the issue of a closer strategic partnership with Beijing. It was titled [China: what sort of great power will it be?](#) Subsequently, we hosted an Outreach dialogue on this topic in Brisbane, drawing together a roundtable of informed China experts to discuss the questions:

- what sort of great power would China be?
- what was its role likely to be in Asia?
- and what sort of strategic relationship should Australia aim to build with China?

This *Strategic Policy Forum* aims to explore, in particular, the third of those questions—although the first two questions naturally form an important part of answering the third.

In the *Policy Analysis*, we argued that there were several reasons for Australia to pursue a clearer strategic relationship with China, including maintaining regional stability, attempting in particular to improve regional crisis management, and encouraging the growth of a particular style of Chinese engagement. One of our objectives should be to understand better the sort of strategic commitments that Beijing is prepared to make in Asia. In short, our goal should be to grow a strategic relationship considerably more advanced than the one required merely to nurture and sustain a more positive military-to-military relationship. In an age of Asian dynamism, Australia should aim to help design, construct, and establish a set of ‘grand bargains’, similar to those that helped to bring stability to the Cold War era, by improving understandings between possible adversaries and patterns of cooperation between partners.

Forging a strategic partnership with a great power is always a bold step. For Australia to undertake such a step with China would suggest that Canberran policy-makers were both confident about existing areas of bilateral cooperation and alert to the future management difficulties that such a partnership might entail. Those difficulties are not merely the ones inherent in the bilateral relationship, but also those involved with maintaining our broader portfolio of security interests across the region. We would want our security partnerships with other regional states, for example, to be mutually compatible. And we would want our ANZUS alliance with the Americans to remain unfettered by any new agreement with Beijing.

Under the Howard government, ministers and officials began to consider the security relationships that Australia might build with each of the four great powers (US, Japan, China, and India) of the emerging Asian security environment. The continued strengthening of the ANZUS alliance with Washington, and the negotiation of the Australia–Japan Security Agreement with Tokyo were two products of that effort. But the government lost the 2007 election before giving better definition to the intended shape of the latter two relationships. If Australia wishes to pursue its own closer

security partnership with China, it needs to explore more intensively with China the basis and the limits of that relationship. Doing so will probably involve a degree of realism on both sides about what can be achieved.

We need to keep China's own policy motives in mind: although those motives don't excuse all Chinese actions, they do explain some of them. For example, partly because of its own inclinations, goals, and values, the US—and Australia—could consider China's economic relations with unsavory non-democratic regimes in the Middle East and Africa an indication of normative non-compliance and a certain degree of revisionism. There is a danger we might read too much into Beijing's engagement there, interpreting China's economic micromotives as order-refusing macrobehaviour.

But we also need to keep in mind our own objectives. For Australia, it would be important that any strategic partnership with China

- enhance regional stability
- encourage transparency in Chinese strategic policy
- lower the risk of miscalculation in crises
- draw China into the supply of regional 'public goods'
- encourage the growth of Chinese 'responsibility' for systemic outcomes.

Such a partnership might begin with areas where China is already strong, such as economics, encouraging China to play a greater role in some form of regional economic stabilisation during the current financial crisis. But it would have to grow, relatively quickly, into other areas. It would offer China an opportunity to define its own vision of its role as a responsible regional and global actor. And it would offer Australia—and the region—one more building block in a transformational era.

Dr John Lee

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Bringing China in—one small step at a time

Most Australian regional experts agree that the region is sorely lacking in appropriate ‘security architecture’. Many also believe that Australia is particularly well placed to lead such efforts, given our excellent relationship with the US and Japan, as well as a promising relationship with China. But we need to be mindful of acting in step with our allies in the region—whether it is through bilateral or multilateral processes. If we do not, our efforts are likely to lead to few real security gains. Moreover, we are likely to annoy and even antagonise our Asian friends and US ally.

Let’s face it. Much of the talk about security architecture is about ‘managing’ China’s rise. There has never been a powerful China and Japan, let alone India as well, in our neighbourhood. But it is China which poses the most dilemmas. China is not democratic. Its military capability and how it intends to use it is far from transparent. How the region responds to the rise of these countries—but China especially—will determine how we fare over the next few generations.

China’s rising economic clout is naturally exerting a pull in the region and especially on Australia. But the major players in the region have wisely caught on to World Bank President Robert Zoellick’s idea of encouraging China to be a ‘responsible stakeholder’. They are persuading China to keep to its own proclamation of a ‘peaceful rise’. This means that China must be convinced that it has much to gain from peacefully integrating into any evolving political and security order, and much to lose by trying to shake it up or defy it.

This ‘responsible stakeholder’ idea does not offer us a pre-determined strategy in dealing with China and nor should it. It relies on our leaders coming up with an appropriate mix of carrots and sticks as developments occur. China is more integrated into the region economically and increasingly politically than it has ever been. But its foreign policy still shows a side to it that is deeply concerning, for example its cheque-book diplomacy in the Pacific or its support for regimes such as those in Myanmar, North Korea and Iran. China yearns to be the dominant political and naval power in East and Southeast Asia. This means that finding the balance of ‘give and take’ with China in persuading it to be a ‘responsible stakeholder’ is difficult. Give too much and China will feel little pressure to compromise or be more transparent about its intentions and capabilities. Take too much and China will increasingly want to buck the existing system.

The Australian Labor government has a relatively benign view of China’s long-term political and security intentions. In contrast, Japan and India watch the rise of China more warily. Without exception, ASEAN has knocked back every Chinese proposal for greater cooperation on ‘hard’ security matters, preferring instead to sign agreements only on ‘soft’ security arrangements such as those dealing with terrorism and trafficking humans and drugs. ASEAN has even politely knocked back every

Chinese proposal to include ‘hard’ security matters into the agenda of forums that do not include the United States. ASEAN even rejected China’s offer to join the Southeast Asia Nuclear Weapon Free Zone (which the US rejects), the rejection explained by the fact that ASEAN preferred all nuclear powers to join at the same time. This shows a clear reluctance to allow China to out-manoeuvre other major powers on hard security matters. For all the enthusiastic talk about ‘security architecture’ coming out of Australia, many Asian countries prefer the US to continue to take the lead in security matters. For example, Japan, Malaysia, Singapore, Philippines and Thailand have all reinforced and upgraded military ties with the US in the last few years whilst rejecting a greater security role for the Chinese.

Forming a security community that includes China is not just ‘politically impossible’ as former Prime Minister Keating suggests. It is also out of whack with the balance that key Asian states consider appropriate in terms of how much to ‘give’ to China at the present time. Talk about something slightly less—comprehensive security architecture—should proceed cautiously rather than quickly. China wants in and wants an equal say. But there are prudent reasons why this has been denied to the Chinese so far.

For example, Beijing remains ambiguous when it comes to explaining the extent of and reasons behind the rapid buildup of military capacity. Its top foreign policy experts still speak about America as a strategic ‘competitor’ in the longer-term, believing that structural tension is almost inevitable. Its analysts believe that attaining naval parity with the US in the South China Sea is a long-term strategic imperative, and such parity could cause significant tension in the region. Finally, Beijing also speaks about a global ‘liberal order’ that remains inherently ‘hostile’ to authoritarian governments.

Meanwhile, Australia is not influential enough by itself to shape the course of Chinese regional policy. A bilateral strategic partnership is likely to achieve little in terms of coaxing China into becoming a ‘responsible stakeholder’. Moving too quickly on the bilateral security front with China is likely to draw condemnation from major allies with little security gain for ourselves. It will also likely create Chinese expectations that we play the role of a ‘bridge’ between China and the US which is one we cannot fulfill to the satisfaction of either party. Instead, we should primarily encourage great power allies such as the US and Japan to take the lead and allow China a *gradual* role in shaping the security architecture for the region.

If we do this, we are more likely to have our cake and eat it too: enjoy good relations with China and keep our great power alliances on foot just in case.

Dr Andrew Phillips

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Thinking strategically about the dragon, the eagle and the kangaroo

Any hopes Australia might harbour for forging a strategic partnership with China must be informed by a consideration of three questions. Firstly, what would be the purpose of such a partnership? Secondly, what form should it take? And thirdly, how would such a partnership fit within the context of Australia's existing diplomatic commitments, and within our broader vision of our place within the Asia-Pacific region?

Turning firstly to the question of purpose, it must be acknowledged that as China's commercial, diplomatic, and military weight waxes relative to other great powers, China will expect those changing power relativities to be reflected in a larger leadership role for Beijing in the management of the international system. It is vital for Australia that China pursues these ambitions peacefully, that it does so whenever possible in consultation with other great powers, and that it seeks to sustain an order that gives adequate voice to middle and small powers. The primary purpose of any Sino-Australian strategic partnership must therefore be to promote the rise of a China that remains enmeshed within the global economy, integrated into existing regional and global institutions, and committed to the non-violent resolution of international disputes.

Australia's ability to influence China's aspirations and actions is necessarily limited by our modest size. This intrinsic limitation notwithstanding, Australia has already been a key partner in China's rise owing to the existence of strong commercial ties between the two countries, which are particularly well-developed in the resource sector. The combination of Chinese energy hunger and Australian resource endowments suggests that Sino-Australian energy cooperation should form the backbone of any strategic partnership between the two countries. The cultivation of such cooperation promises lucrative commercial benefits for Australia. More fundamentally, however, Australia's position as a stable and reliable energy supplier furnishes important opportunities both to moderate any Chinese temptations towards resource mercantilism, and also to assist China in the long-term search for cleaner energy alternatives.

While China's economic ascendancy is to be welcomed, the geopolitical and ecological consequences of its rise must be carefully managed if regional order is to be maintained. Australia's resource endowments and our corresponding status as a partner in China's development position us strategically to influence constructively China's energy policies, and to do so in a manner that is disproportionate to our size as a middle power. Nevertheless, a strategic partnership foregrounding Sino-Australian energy cooperation will yield dividends only if it is complemented by multilateral initiatives (e.g. the APEC Energy Security Initiative) which aim to both contain the threat of resource mercantilism while also mitigating the ecological consequences of the region's rapid industrialisation. Attempts to forge closer cooperation with China are intrinsically worthwhile. However,

their full potential may be realised only if pursued in conjunction with other measures—both bilateral and multilateral—aimed at institutionalising cooperation over competition as the region’s dominant dynamic.

This last observation alludes to a more general truth—the scope and content of any Sino–Australian strategic partnership cannot be assessed in isolation from a consideration of its impact on our other diplomatic relationships. On this point, we must emphatically reject the fatalistic view that Australia will at some point be forced to choose between Beijing and Washington. American unipolarity has served Australia well, but as Asia becomes increasingly multipolar, Australian diplomacy will have to adjust accordingly. In the absence of American unipolarity, a stable great power concert in the Pacific is preferable to either unregulated multipolarity or a bipolar confrontation between China and the United States. From an Australian perspective, the chances of securing this outcome can be best assured by positioning Canberra as an interlocutor between the region’s great powers.

Rather than regarding our future as being overshadowed by an agonising choice between the eagle and the dragon, it is imperative that we leverage off the strengths of our existing relationships even as we forge stronger bonds with ascending powers. The East Asian economic miracle has been doubly facilitated by America’s longstanding support for a liberal trading order, combined with a forward American military presence that has dampened regional security rivalries. As a longstanding US ally and a partner in China’s economic development, Australia is well positioned to remind both parties of the enduring importance of this dual foundation of regional prosperity, and to discourage either American protectionism or Chinese revisionism in so doing. Managing the peaceful transition to a multipolar Asia constitutes one of the great strategic challenges of the coming decades. Only by embracing its dual identity, as both a US ally and a partner in Chinese prosperity, can Australia productively assist in this transition and thereby fulfil its role as a middle power security contributor that can survive and thrive in a world of giants.

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China as an imperial power

Since the first emperor, Qin Shihuang, unified China more than two thousand years ago, China has been the continuously longest, if not the greatest, empire in human history. In spite of the fact that the Great Wall is often interpreted to mean that China, unlike its western counterparts, is an introverted empire, history has shown that when it was strong—such as during the Han, Tang, Yuan and Qing dynasties—China expanded its power. It expanded into the east (Korea and Taiwan), the west (Xinjiang and beyond), the southwest (Tibet), and the south (Indochina). As an imperial power, China is no different from other empires, such as the Roman, Spanish, Russian and British.

Even when China was poor and weak, as it was when Mao Zedong won the bitter civil war in 1949, it still invaded Tibet in 1950 and subsequently sent one million troops to Korea to fight the Americans. Similarly, when Deng Xiaoping had barely started his modernisation push in 1979, he dispatched another million troops to teach Vietnam ‘a lesson’.

After a century’s humiliation at the hands of Western imperialism, Mao tried to bring back the glory of the ‘Middle Kingdom’, with Sino-centrist autarky as its main goal. He failed miserably. Deng Xiaoping rejected Marxism-Maoism but retained Leninism and embarked on China’s capitalist journey with great successes.

In spite of many attempts at democratisation, since the May 4 Movement in 1919, China has maintained authoritarian rule, with Confucian ‘great harmony’ as a softening influence to make the Chinese empire less brutal, but also less conducive to democratisation. Deng’s economic modernisation has brought great wealth to the communist regime. It has made Chinese society and culture more diverse, pluralistic, lively and vibrant. It has, however, also made the one party dictatorship of the communist party, more ‘legitimate’, resourceful and capable of maintaining its authoritarian rule. Economic growth, even with an increasing middle class, does not mean China is going to democratise soon.

Thus, China's support of North Korea, Burma, Sudan, Iran and its partnership with Russia and central Asian countries has an ideological *raison d'être* and an empirical design. It is intended to strengthen authoritarian regimes, and to reduce the prospects that China will be seen as a political anomaly.

The Cold War may have ended but, just as Deng said in the aftermath of the collapse of the Soviet Union, a new cold war had already begun. Huntington's 'clashes of civilisations' may not be quite the scenario, though: the ideological clash between democracy and authoritarianism is still the great divide between East and West.

With such authoritarian rule in China held fast, in spite of the impressive display of the 2008 Beijing Olympics, internal power struggles have continued since Maoist times. Those power struggles—without a democratic check of its military might—make imperial China a potential threat. The threat is felt most acutely in relation to Taiwan, a democracy. Only about 10% of Taiwan's 23 million population want to be reunified with China at present. And China is reluctant—at least for the time being—to use the 1,400 missiles it has aimed at Taiwan to force the issue. But future internal power struggles in Beijing, especially ones involving the People's Liberation Army, may at some point trigger such an attack. In such an event, the US and Japan would find it difficult not to be militarily involved. And Australia would be in a strategic dilemma, over whether or not to support its democratic allies.

With increasing Australia–China trade and other contacts, Australia has some leverage to influence China, not only on human rights and Tibet but also on the Taiwan issue. Australia should continue to increase its bilateral as well as multilateral engagement with China to influence it to move toward political liberalisation and to deal with Taiwan, as well as Tibet and other strategic issues in surrounding regions, in peaceful and democratic ways.

In addition, realistically, Australia should reaffirm its own position on the democratic side of history and should form a strategic democratic alliance not only with the US but also with Asian democracies—Japan, India, South Korea, Indonesia and others—to maintain enough of a power balance in the region to deter any possible military adventurism by China's autocratic ruling elite.

China as an empire knows the need for military power, thus its huge annual increases in its defence budget, about 17%, in the last two decades. President Hu Jintao and his

generals are realists and would act with greater caution in the Taiwan Straits as well as other hot spots, if such a strategic democratic alliance, led by the US, were established.

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Tremble and Obey! China and the emerging regional order in the Asia Pacific

In *The Chan's Great Continent China in Western Minds*, the Harvard sinologist, Jonathan Spence, traced the West's endless fascination with 'the phenomenon of China'. This fascination resulted in a variety of attempts to 'sight' China, or situate it within a range of phenomena familiar to the Western mind. From the nineteenth century these sightings constituted the grounds for three broad scenarios concerning China's potential development:

- 1) the decline and stagnation of China;
- 2) the internal disintegration of China;
- 3) and the rise of a monolithic China, as the dragon awakened.

Since China opened to the global economy in 1978, it is scenario 3 that has particularly influenced speculation about it and the wider region's future. It is premised upon China's growing economic power and assumes this intimates inexorable expansionism. Let us explore the regional implications of scenario 3, before briefly examining potential alternatives.

Regional consequences of China's rise

It was in response to the perceived humiliation of the 1997 Asian Financial Crisis (AFC) that the ten states that formed the Association of South East Asian Nations (ASEAN), together with China's fourth-generation leaders, began to consider ways to establish regional structures to avoid the impact of future economic and financial shocks. Much rhetoric and some financial effort went into this felt need for a more integrated and economically resilient East Asian region.

The key actor in this East Asian regional drama, moreover, is China and the role it wants to play. China, unlike its Northeast Asian rival for regional influence, Japan, played the Asian financial crisis well. It was the momentum of Chinese growth and its attractiveness to foreign direct investment in its miracle decade 1997–2007, that revived the stagnant hi-tech economies of Northeast Asia and, to a lesser extent, the resource-based ones of Southeast Asia.

The political manifestation of this economic power assumed the form of the grouping of ASEAN plus three (APT—the 10 ASEAN countries plus China, South Korea and Japan) that emerged as a regional forum after 1997. In 2006, this grouping, together with an invited group of countries outside the APT, including Australia, mutated into an embryonic East Asian Community.

Significantly, it is the 'ASEAN Way' of consensus rather than the rule-based forms of Western provenance that govern the nascent grouping. Indeed, signing ASEAN's Treaty of Amity and Cooperation, that emphasises the 'sovereignty, equality and territorial integrity' of member states constitutes its entry price.

The ASEAN Way moreover, serves China's regional ambitions. China's fourth-generation leaders feel comfortable with the non-binding nature of the ASEAN Way. From the perspective of China's leadership, the emphasis on non-interference and internal resilience, the Taiwan issue notwithstanding, dovetails with China's five principles of peaceful coexistence first articulated by Zhou Enlai in 1953 which also emphasised respect for territorial integrity. It is also attractive because the less developed Southeast Asian states, Cambodia, Laos and Myanmar, already acknowledge an almost tributary relationship with China, whilst Malaysia, Singapore, Thailand and, increasingly, South Korea treat China deferentially.

Via the East Asian summit mechanism, therefore, China can visualise the region assuming the preordained harmonious order rudely interrupted by a century and a half of Western barbarism. This order requires China—as the moral, and economic centre of a web of tributary and civilizational relations—embracing the adjacent and Confucianised countries of Japan, Korea and Indochina and extending its influence into contemporary Southeast Asia where states like Thailand, Singapore, Malaysia and Indonesia already possess a large population of Chinese 'sojourners'. This region might plausibly include Australia, whose trading relationship with China has blossomed in the last decade, provided its statesmen perform the required rites. A Sinocentric East Asian community would be harmonious, but not a particularly egalitarian or democratic arrangement.

Alternative scenarios

The 'China rise' scenario necessarily assumes the waning of Western and particularly US influence in East Asia. It also presumes what Kishore Mahbubani maintained would be an East Asian hemisphere decoupled politically and economically from Western influence. The current financial crisis has exposed the limitations of this scenario. Rather than decoupling, the US recession of 2008 revealed the reliance of Chinese export growth upon US consumption. According to the World Bank, 40% of China's GDP is export dependent. In this imbalanced global economy, it is the export-dependent countries that are increasingly exposed to the attrition of demand. Collapsing Chinese growth has massive implications both for internal stability and regional growth. China's weakness would primarily have implications for domestic harmony. It would, however, afford opportunities to shape the region in ways that limit China's potential for hegemony.

Interestingly, ever since China showed interest in an enhanced ASEAN Way as a basis of regional order, Japan, the current Taiwanese leadership, and Indonesia have all demonstrated concern at this prospect. Japan, in particular, has lost out badly in terms of soft-power influence in the region since 1997, and has largely chased events since.

Meanwhile, the ASEAN states, despite their extension into an APT, are much weaker economically and more politically divided than they were in 1997. Indeed, despite their official consensus, ASEAN members are drawn increasingly into competing Chinese and Japanese spheres of influence. Consequently, while the majority of ASEAN states tacitly or actively acknowledge Chinese suzerainty, others like the Philippines and Indonesia are highly suspicious of China's economic and political motives and—like Japan—actively seek an Australian presence in regional forums to balance China's growing influence.

The current crisis and the revelation of China's economic dependence and internal weakness, therefore offers opportunities for both balancing and shaping China's role in the evolving concert of East Asia.

Finally, whatever scenario or combination of scenarios transpires, Australia will play a significantly more engaged role in this Asian concert. For a long time 'an odd man in', Australia has emerged as a significant regional economic and political player. However, because both Australian Liberal and Labor parties tend to view Asia as a monolith, this has meant that regional policy has lacked the necessary nuance to promote the complex balancing of interests that must occur to avoid East Asia's future becoming Europe's early-twentieth-century past.

Dr Mark McGovern

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From economic saviour to sinner

The speed with which China has gone from economic saviour to sinner in Australian media reports is both alarming and symptomatic of these sub-prime times. The early hype cast China in an impossible role, that of a benevolent dynamo in a perpetual wealth machine. A year ago our growth was ensured, or so public proclamations went. Then, our 'closeness' with China was our escape card from crisis—now, it is our ticket to recession. Today, it seems, we're 'buggered' (to use the words of Chris Richardson of Access Economics), and China's unanticipated slowdown is 'the cause'. The shallowness evident in such public discussions, not only of China–Australia relations but also of economics, is amazing.

The roots of the current, still-developing global crisis stretch back some decades. Foundational weaknesses were identified over a century ago, including in the original works of Leon Walras whose theories have helped drive policy globally. Australia's meltdown possibilities were detailed by Peter Brain a decade ago. The systemic weaknesses of globalisation identified in the 1990s were not addressed. Krugman argued in 1996 that competitiveness had become a dangerous obsession and then documented 'The Great Unravelling' in 2003. Myopia, immediate fascinations and inertia ruled. Populations were seduced by a false dawn, to use the analogy of John Gray, a dawn made ever more glorious by spin, naive modelling and denial of problems.

New millennium finance and pallid policies saw increasingly unbalanced international trade and investment flows with rapidly polarising current account positions. External deficits in the USA, Spain, UK, Italy, Australia and elsewhere were financed by surplus nations such as China, Japan, the major oil exporters, other Asian nations and even Russia. The Australian private sector, notably banking and finance, accumulated growing external obligations. Funds so raised were, for many, borrowings on the never-ever: prices and asset values would never ever fall.

China boomed but as a surplus nation was able to self-fund most activities. In contrast to India, inappropriately large investments were made in manufacturing and export-oriented sectors. Building the 2008 Olympics added to the pressures on the economy, and some global markets.

Markets supposed efficient were to deliver development. Australian policy makers were particularly hands off while those in China were much more likely to see the corporation as an extension of the state and markets as needing directions. This marked difference in perspectives was very apparent in price negotiations for iron ore and coal and also in attitudes toward investment. Australian preferences are not to intervene in price setting but to regulate some foreign direct investment.

Currency realignments that might have helped rectify imbalances did not occur with the US currency maintaining an economically unwarranted premium over the Chinese. Millennial booms are now giving way to what may be the first synchronised global recession.

There is much talk of potential societal threats from displaced migrant workers in China, a potential that may be exacerbated by the single child policy. But there might be a more important problem,

one common to many nations: falling asset values impoverish the investing classes and wreak havoc with household, business and government finances.

We are at one of those junctures where what happens next matters.

Current crises pose many and diverse problems. Surplus nations once funded the activities of others. This will become increasingly difficult, particularly as surpluses shrink or if rectification of imbalances is sought. The estimated 80% fall in China's current account surplus last year signals major problems. It is unclear whence US President Obama plans to source funds for his envisaged trillion dollar public sector deficits, but whatever the means used the impacts will be both global and differentiated.

Accumulated Chinese holdings of US Treasury bonds currently total around a trillion dollars. With appreciation of the Chinese yuan these become relatively less valuable. The Chinese currency will need to appreciate, and has for some time. The double problem for China is that not only does this make exports less competitive but also overseas investments and reserves fall in value. Western investments in China would appreciate.

Asia (particularly the North) has been a surplus region while Europe and its offshoots (USA, Australia and co) are deficit regions. While demographics and local conditions complicate things, there is a financial fault line under the economies of both East and West. Mutually acceptable adjustments will be more difficult if things are cast in terms of zero-sum games or other inappropriate formulations.

Yet the new US government talks of 'smart power' without asking how it will be funded. The UK is progressively nationalising its financial system and aiding sterling while the EU ponders unity and the euro amid disparate stresses. Japan stalls yet again, seemingly unable to recapture good years let alone the wonder years.

At home the Australian government and many of its corporations play catch up, with little evidence of any considered endgame in sight. The risk of turning a balance of payments imbalance and modest financial system crises into a default crisis seems unappreciated. The Australian and UK governments started from markedly different positions, something their policies barely recognise as both PMs Rudd and Brown fascinate about constructing new world orders.

Meanwhile, China contemplates these interesting times. Both problems and opportunities will be apparent but how these might be resolved beyond strong fiscal stimulus remains to be seen. Critical for this command economy is how to move beyond a manufacturing economy with excessive overseas market dependence. Historically, political reform has been integral to successful transitions if the economy is to be properly refashioned to allow the next stage of development.

As bubbles inflate we claim credit for our success and rising wealth. As they deflate we are prone to blame others. Such conveniences pose considerable risks. They can also hinder true rectification of imbalances and problem solutions.

The development of mature relationships not just with China but with other nations demands that we move beyond current superficialities. Proper appreciation of economic situations and prospects needs to be built. Adequate ideas need to be in play as part of more mature dialogues. Sub-prime situations need to be addressed not only in finance and economics but also in public and commercial dialogues.

The substance of agreements and actions needs attention and reinvigoration. We risk much if we remain simply superficial.

Dr Rod Lyon

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A rejoinder

The range of the responses to the first paper of this forum *The Australia–China strategic relationship* highlights an important point: a more substantial Australia–China strategic partnership would have to be carefully designed, and might well be constrained by the lack of more substantial ballast in our ties with Beijing.

At the risk of over-simplifying the well-thought-out positions of the forum participants, let me say the responses include two which warn of the need to make any such arrangement fit with the broader regional security architecture (Lee and Phillips); two which sound a note of caution about China's continuing imperial vision (Chiou, and Jones); and one which points to the political and social challenges of the Australia–China economic relationship—currently the central pillar of the broader relationship (McGovern). All of those are good reasons for Australia to have a measured appreciation of what it would like to do with China.

But I think they are not reasons that automatically disqualify the growth of strategic cooperation in specific fields and for particular purposes. True strategic closeness is the product of sustained cooperation, sustained cooperation is the product of shared interests, and shared interests are the product of similar worldviews. Working backwards along that chain—and starting with the similar worldviews—it is clear that a strategic partnership between Australia and China would be particularly constrained by any fresh lurch towards a revisionist China. In that event, our shared interests would decline abruptly, and cooperation and closeness would diminish. That Asia, an Asia of blocs and revisionism and intense strategic competition, can't be ruled out. It might even be an Asia that begins to emerge if global economic difficulties accelerate and great-power tensions grow. But that's not the Asia that exists now.

I think it is wrong to believe that our strategic partners can only be Western countries who share our values. Indeed, the whole shape of the current security environment calls on us to do more with partners beyond our traditional allies: with moderate Muslim countries, with rising, influential great powers, and even with non-state actors who might be well-positioned to help deliver strategic outcomes that we favour. The cosy era when we could cooperate mainly with Western allies—because the dominant strategic contest in the world was an East–West one—is long gone. Other Western countries make no bones about finding strategic partners where they can when needs must, and neither should we.

In our original [*Policy Analysis*](#), we argued that Australia should bargain for what it wanted in growing a strategic relationship with China. Given the global economic difficulties are probably a two-to-five year problem, but the reshaping of the Asian security landscape is a long-term event, I still think that's the best way to proceed. Getting policy makers to focus on that longer-term picture during a period of short-term economic turbulence might be the real challenge. But the strategic logic for doing so is compelling. Australia must now find its place in 21st century Asia, not the 20th century Cold War.