

## **FOREIGN POLICY AND SECURITY**

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While Australia's policy on foreign affairs and national security is always complex and many-faceted, it has come to be dominated by concerns about the rivalry between the political and economic super-powers. The US-China relationship is now at the centre of foreign policy and security considerations. How the relationship is understood has a major bearing on Australian governments' foreign affairs, defence, national security and trade relations decisions. The issue is particularly important at present because the position adopted by the Federal Labor government has crucial implications across all these policy areas.

This article explores how the Australian government's judgements about the perceived US-China conflict have shaped Australia's foreign policy; and it uses this analysis to consider the efficacy and appropriateness of the strategic foreign policy that the Albanese government is now pursuing. It questions the key assumptions that underpin the prevailing inclination to perceive the massive economic growth of China as portending broader Chinese regional strategic ambitions. In particular, it questions the presumption that China should or could be 'contained' by Australia forging stronger defence ties with the USA – most evident in the AUKUS arrangement.

Instead, it emphasises the need to recognise and manage Australia's engagement with the essential economic interdependencies between the Chinese and US economies. A case study of one aspect of Australia's minerals and energy export trade is used to illustrate these interdependencies. Drawing lessons from these observations, the article concludes with some pointers to an alternative approach to foreign policy.

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## **Global interdependence**

As Andrew Carr (2014) has argued, Australia's world market engagement has generated strong national economic growth and high standards of living and enabled the country to achieve 'middle-power' status.<sup>1</sup> There are, of course, major risks associated with this engagement, such as global financial crashes, supply-chain breakdowns, climate change and war. Interdependence always has additional stresses where there are major imbalances between the participants, and particularly when those power imbalances are undergoing substantial change. Change is a key element in the current situation because China's economic expansion during recent decades, strongly supported by Australia's minerals and energy supplies, has overtaken the US. This change has encouraged the fear that China now presents a military, as well as an economic threat. Successive Australian Federal governments have responded to these fears by instituting foreign economic and strategic policies that attempt to 'balance economic and security interests' (Blaxland 2017: 21).

Current 'balancing' policies need to be critically reconsidered as they are unlikely to accomplish the objective of achieving long-term political security and economic stability. This is because they are based on false assumptions about the nature of the 'China threat'. Even more importantly, the focus on China as a military threat distracts from the implications of what is, more fundamentally, an economic symbiosis between the US and China, in which Australia is embedded.

## **Australia's East Asian market engagement**

Australia's engagement with East Asian markets has generated massive wealth, largely through the export of mineral and energy resources. These exports were crucial in supporting the development of the high-performing East Asian industrial economies. The greatest opportunities for Australian minerals and energy exporters, however, arose from the 1980s integration of China and Indochina's communist economies into world markets. Whilst Australia gained substantial economic benefit from resource

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<sup>1</sup> Note the importance of an appreciation that Australia's 'opening up' to global markets has been associated with systemic inequalities, maldistribution of national wealth and environmental destruction.

exports to all East Asian high-performing economies, the China market has been the most significant, with export sales revenue reaching a record \$102.5 billion during the first half of 2023 (Uren 2023).

Concurrently, whilst these record sales have massively advantaged the Australian economy, it seems that Australian strategic policies have been increasingly driven by a belief that Chinese regional economic expansionism threatens Australia's political and economic security.<sup>2</sup> This view was strongly held long before Labor came to office, but the new government did nothing during its first year in office to challenge this belief. Prime Minister Albanese has expressed his concern over 'China's growing assertiveness in our region' (Albanese 2022). This was the stated justification for the government's allocation of \$A368 billion towards a military security partnership between the UK, the USA and Australia – AUKUS.<sup>3</sup> As argued elsewhere, such a strategic foreign policy direction was misguided as it was based on the assumption that China represents a *military* threat to Australia, whereas it represents an *economic* threat to the global political and economic dominance of the USA (Mack 2021).

There can be no doubt that China's economic rise *does* represent a threat to US economic dominance. China's GDP in PPP-adjusted terms is currently \$US 30.3 trillion, whilst the USA's is \$US 25.5 trillion (Silver 2023). As well as its greater economic might, a further challenge lies in China's vastly expanded regional infrastructure project, the Belt and Road Initiative (BRI), and technology projects such as the Digital Silk Road and Strategic Economic Partnerships (Menadue 2023).

However, the futility of employing a simplistic economic/security 'balancing' strategy is evident in the context of US-China rivalry over economic power. The prime example of this is in the power of trade where China's trade represents a more fundamental threat to the US dominant order (and Australia's role in that order) than its military might. Thus, when criticising the AUKUS agreement to supply Australia with nuclear-powered submarines, Mahbubami considered that China's economic trade

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<sup>2</sup> When looking to the future, a strong majority (75%) of Australians continue to believe it is 'very' or 'somewhat' likely that China will become a military threat to Australia in the next 20 years – unchanged from 2022 (75%) and significantly higher than in 2018 (45%) (Lowy Institute 2023)

<sup>3</sup> The Trilateral Security Partnership Between Australia, U.K. and U.S. (AUKUS) enables 'unconstrained access for all types of US military aircraft and vessels in Australia'. This allows the US to 'rotate through Australia [...] the establishment of facilities to support US high-end warfighting [...] and combined military operations in the region' (Patience 2021).

will be the superior long-run force. He argues that ‘submarines are stealthy, but trade is stealthier. Both generate security – the former by deterrence, the latter by interdependence. But the kind of security created by trade lasts longer’ (2022).

China’s capacity to supersede US economic influence is also clearly evident with its trade and investment with ASEAN countries. As Mahbubami (2022) notes, in 2000, total US trade with ASEAN was US\$135 billion, more than three times China’s trade of US\$40 billion. By 2020, however, China’s trade of US\$685 billion was almost double the US trade of US\$362 billion. It is also evident in China’s infrastructure support for ASEAN countries, with ‘High speed railways [...] being built by China in Indonesia, Laos, Malaysia and Thailand’ (Mahbubami 2022). These examples indicate the profound importance of economic power and its influential role in ensuring regional security. It is inconceivable that Australia’s current strategic foreign policy approach could challenge China’s enormous economic power.

### **Reassessing the perception of US-China tensions**

The difficulties with the ‘balancing’ strategic approach are also evident in relation to Australia’s strategic support for the USA’s ‘de-risking’ agenda.<sup>4</sup> The USA is increasingly attempting to reduce its economic engagement with the Chinese economy. Australia’s support for this ‘de-risking’ strategy means that Australian economic and strategic policy-makers will have to decide: firstly, how to most effectively manage Australia’s engagement with the symbiosis between the US and China’s economies and, secondly, whether it is in Australia’s interests to continue to support the US-led global market liberalisation project.

A powerful symbiosis has developed between the economies of the USA and China. In the early stages of this relationship, China provided cheap labour and manufacturing capabilities, whilst the United States provided technology and capital. It was a symbiosis driven by the massive flow of US financial capital and manufacturing investment into China from the 1980s. Danzig (2020) describes the developing economic relationship as

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<sup>4</sup> ‘De-risking’ is ‘the process of managing the vulnerabilities generated by an interdependent world’: European Commission President, Ursula von der Leyen (Farrell and Newman 2023).

'like conjoined twins whose circulatory systems cannot be separated, the United States and China are tied together'.

In the early development of this symbiosis, the corporate imperative for financial gain outweighed security considerations, as the relationship then was then perceived as representing a low *security risk*. Thus, as Friedman facetiously contends, 'When China sold us "shallow goods," we didn't care whether its government was authoritarian, libertarian or vegetarian' (Friedman 2021). However, US fears have arisen since the PRC regime has achieved success expanding its more strategic sectors of advanced manufacturing.

Thus, the nature of this relationship has changed as strategic concerns have led the two countries to impose various protective barriers. The USA has now moved to 'de-risk' investment from security-related components of the economic relation by imposing trade constraints on China's production of strategically crucial manufactures. The Chinese government has countered by expanding its crucial strategic important sector of rare earth and critical mineral processing and shifting investment into the production of sophisticated communication equipment. This has enabled China to dominate the high-end technology sector, especially through the support for revolutionary technical advances in artificial intelligence, quantum computing and high-end semi-conductors (Heseltine 2023). Chinese corporate success in this sector is alleged to have resulted from a 'relentless focus on acquiring technological intelligence, either overtly or covertly, from the West' (Friedman 2021).

As the USA moves to 'de-risk' from their economic relationship with China, it faces difficulties in extracting its economy from the symbiotic process. US National Security Adviser Jake Sullivan explains these difficulties in the following terms: 'officials cannot easily disentangle trade and commerce from security when US markets are intertwined with those of adversaries, consumer electronics are readily weaponized, and beefed-up graphics chips are the engines of military artificial intelligence' (Farrell and Newman 2023).

Whilst the US administration is aware of the threats to the global economy if the US-China economic interdependence were to be undermined by the 'de-risking' agenda, it has nevertheless introduced a raft of 'protectionist' security policies that could cause such a systemic disruption. These

include the ‘*CHIPS Act*’<sup>5</sup> subsidies and state support for US industry’ semi-conductor capabilities; restrictions on sales of advanced semiconductors; export controls to prevent China’s access to high-end chips; and tariffs on China’s steel and aluminium exports (Emerson 2023).

The *CHIPS Act* has the strategic aim of restricting exports of US and Taiwanese semiconductors, advanced technological components and crucial raw materials - especially from Australia - to China. The Biden Administration is also imposing further restrictions on US companies investing in China’s high-tech sectors. Clearly, the refusal to supply advanced chips to China constrains China’s capacity to achieve its aim of dominant global expertise in the artificial intelligence and advanced military technology spheres.

A further complexity arising from Australia's strategic support for the US ‘de-risking’ strategy concerns the efficacy and future of the Washington Consensus international market liberalisation system.<sup>6</sup> Jake Sullivan argues that this system, whilst engendering structural changes in developed countries’ economies since the mid-1980s, has been unsuccessful in assuring durable economic growth (Farrell and Newman 2023). He contends that these policies have ‘hollowed out US industry, welcomed a rising adversary (China) into free-trade arrangements, and riddled global supply chains with critical security vulnerabilities’. Moreover, he argues that ‘only a considerably reformed economic security state will be suited to a world that is both highly interdependent and filled with security risks’ (Farrell and Newman 2023).

It is absurd to think that Australia’s current strategic foreign policies could contribute to the unravelling of the symbiosis between the two superpowers’ capitalist economies. It is similarly absurd to believe that current policies could address the threats implicit in the tendency towards economic nationalism implicit in a ‘de-linking’ from the highly interdependent international market system. Australian foreign policy makers will have to account for the way that US-Australian ‘de-risking’ programs could threaten the viability of the WTO ‘rules-based’ international economic order.

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<sup>5</sup> *The CHIPS and Science Act* – US federal statute enacted on August 9, 2022.

<sup>6</sup> The term ‘Washington Consensus’ encompasses the ten goals of all neoliberal institutions such as the IMF and World Bank: fiscal discipline, public expenditure priorities, tax reform, financial liberalization, competitive exchange rates, trade liberalization, foreign direct investment, privatisation, deregulation, and property rights.

### **Lithium production and Australian foreign policy**

A case study can be helpful in illuminating how the production of increasingly important minerals intersects with development of the government's strategic foreign policies. As discussed above, Australia's minerals and energy exports have been important in the development of the US-China symbiosis. However, with Australia sharing US concerns about the strategic threats of this economic interrelationship, it has moved to supplement the USA's 'de-risking' policies in its international trade relations. Thus, protective constraints have been imposed on Australia's Rare Earth mineral export sector and may be extended to other sectors as US security intentions dictate.

Australia holds a strong bargaining position in the international market for critical minerals such as copper, lithium, nickel and cobalt. These are vital for low-emission technologies such as electric vehicles and clean energy equipment. Australia has 29% of the world's proven lithium reserves; and Australian mines provide more than 50% of the global lithium supplies for re-chargeable battery production (Bartholomeusz 2023).

Whilst Australia holds the greatest supplies of lithium, more than 90% of its exports of this commodity are processed in China (Bartholomeusz 2023). China also dominates the processing of other Australian rare minerals. Resources analyst and director of Climate Energy Finance, Tim Buckley, affirms that 'China is not just the world's No.1 in rare earths processing. In some cases, there is no one else' (Bartholomeusz 2023).

Not surprisingly, the USA is vitally interested in ensuring access to Australia's vast holdings of rare earths and critical minerals – elements such as copper, lithium, nickel and cobalt. Australia's government's participation in the US 'green energy' *Inflation Reduction Act (IRA)* project is a vital part of Australia's strategic alliance with the USA, allowing the Pentagon to control the supply of critical minerals deemed vital for the production of US military goods (Sercombe 2023). The processed commodities are an essential component of electrical conduits, batteries, magnets, and circuitry of electric vehicles, defence applications and modern energy networks.

It is evident that Australia has sought to expand its national security ties by allying with the USA to reduce China's dominance of the critical minerals extracting and processing sector. To this end, the Australian government has increased its financial support for value-adding

investments in Australian critical mineral projects to \$6 billion (Albanese 2023). Whilst Buckley contends that this represents only a fraction of the US 'unprecedented' spending of US \$US1 trillion on the IRA industrial and energy project (2023), Australia's contribution represents a clear commitment to the USA's overall 'China delinking' of strategically important industries from the symbiotic relationship. By the same token, Australian Treasurer, Jim Chalmers, decided to block China's Yuxiao Fund from increasing its investment in Australian rare-earth miner Northern Minerals, stating: 'we'll need to be more assertive about encouraging investment that clearly aligns with our national interest in the longer term' (Bagshaw 2023).

## **Conclusion**

This article has examined the political and economic risks to Australia arising from conflictual relations between the US and China. It points to the flawed nature of Australia's foreign economic and strategic policy approach, contending that this approach is unlikely to succeed in its aim to achieve long-term security and economic stability. The determination to confront the perceived 'China threat' by military means is shown to be misguided and driven by a false notion that China poses a threat to Australia's national security. In practice, China's foreign policy is driven by economic competition with the US as the dominant political and economic hegemon.

The case study of Australia's S and critical mineral exports illustrates the implications of this competition, and the danger to both the USA and to Australia of not recognising the situation of potentially mutual gain from a more globally cooperative stance. It is even more damaging to both national security and international relations that the US-China strategic competitive struggle has translated into an Australian determination to provide essential resources to the USA to support its defence industries.

Australian foreign policy-makers' preoccupation with supporting US strategic ambitions inhibits the adoption of a more beneficial alternative that the Australian government's foreign policy could take – developing a more independent position in relation to the US-China power struggle, asserting Australia's right to national political and economic sovereignty and right to pursue closer political economic ties with other nations in the region. This alternative would recognise that Australia's economic and



security interests are best served by accepting the inevitability of China's rise as a component of the structure and process of the international political and economic order. The need for Australia to supply the resources necessary to power the East Asia developmentalist-state system would then be seen as in the national interest and, more generally, in the interests of peace and stability in the region.

This global political economic perspective, recognising both the importance of economic interdependencies and the rapidly changing power relations, indicates the need for the Albanese government to initiate a major reconsideration of its foreign and security policy. In particular, the commitment to the AUKUS deal, which Labor was originally 'wedged' into supporting because of the wish to prevent defence policy becoming a major issue in the 2022 election, needs to be re-thought. Of course, having already become deeply entrenched in this policy commitment, the political reality is that it cannot be quickly abandoned. However, rather than continuing with its further strengthening, preparations could be made for a feasible exit strategy down the track that is consistent with further changes in international economic relations. That would open up more positive possibilities for the Australian government to develop a more cooperative, regionally-based and independent foreign and security strategy.

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